



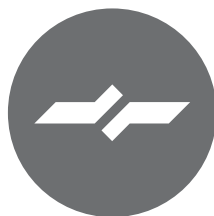
Investing in Development -
Strengthening our Business

2018
ANNUAL REPORT

2018

ANNUAL REPORT

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I. ABOUT SLOVENSKE ŽELEZNICE

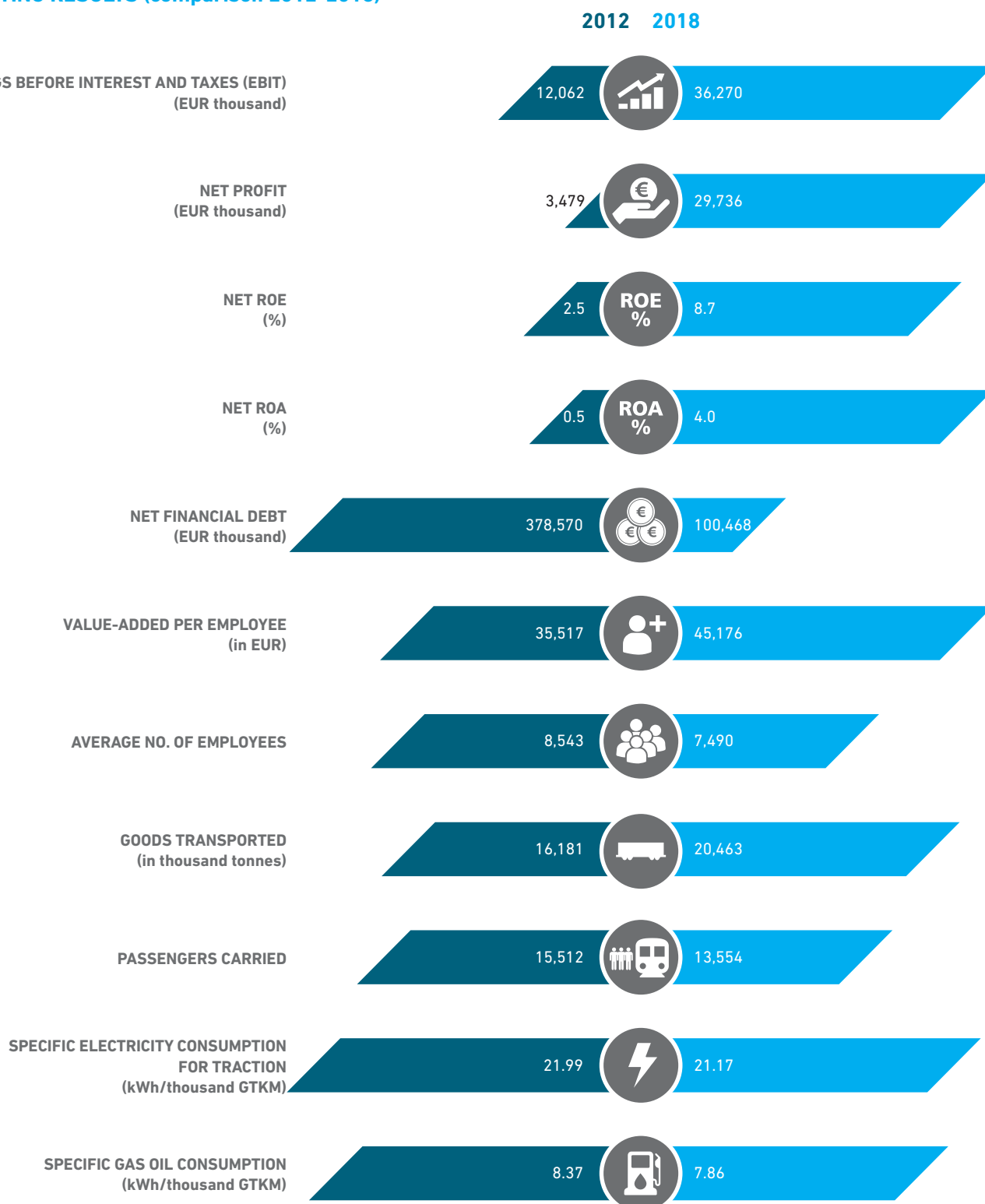


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INVESTING IN
DEVELOPMENT.
NEW ROLLING
STOCK FOR A
MODERN MOBILITY
EXPERIENCE.

> KEY PERFORMANCE INDICATORS OF THE SLOVENSKE ŽELEZNICE GROUP FOR 2018

OPERATING RESULTS (comparison 2012-2018)



SIGNIFICANT EVENTS IN 2018

January

The Forum Train Europe (FTE) conference on 2018–2019 timetabling in international transport was held in Ljubljana.



The evaluation 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 held between the directors of SŽ-Tovorni promet, d. o. o., HŽ Cargo d. o. o., Serbia Cargo, Belgrade, Željeznice Republike Srpske, a. d., Makedonski železnici transport, a. d., Skopje, Macedonia and AD Montecargo. The managing directors of railway freight operators signed a memorandum of understanding. Under that memorandum, they agreed that they will strive to work together for the development of new, high-quality services for customers, which will have a positive effect on the development of the region, and for a shift from road to rail.

Remzija Cinac resigned from the position 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, provides customers reliable rail transport 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 position 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 (ZZelP-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 councils of companies linked through capital investments and the Works Council of Slovenske železnice, d. o. o. adopted a resolution appointing Zlatko Ratej to the position 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 position 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.

May

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 2017.®

The Supervisory Board of Slovenske železnice, d. o. o. appointed Zlatko Ratej as new member of the audit committee.

Gorazd Podbevšek was appointed representative of SŽ-Potniški promet, d. o. o. with special power-of-attorney on 22 May 2018.

A project was launched to introduce an integrated business information system in the transport and logistics activity. The aim of the project is to improve operations through the comprehensive management of transport processes using upgraded information support.

A project was also launched in passenger transport to introduce Zlatka, an annual pass for passengers over the age of 65. The pass grants unlimited journeys on second-class trains operating on the Slovenian railway network at a very affordable price.



June

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 2017, adopted a resolution on the use of distributable profit as at 31 December 2017, conferred official approval on the members of the Management Board and Supervisory Board of Slovenske železnice, d. o. o., and approved amendments to and the final version of the new Articles of Association of Slovenske železnice, d. o. o.

Additional trains were introduced between Maribor and Pliberk in the Koroška region to promote a tourism link along the Drava cycling route and ensure a safe and sustainable means of travel for commuters.

A new range of travel services on Saturdays, Sundays and holidays was launched on 1 June: the IZLETka pass, which facilitates three days of unlimited travel, in second class, on all trains throughout Slovenia.



In line with the growing use of public rail transport, we reduced the price for general annual season passes on 1 June.



July

The Slovenian government and SŽ-Infrastruktura, d. o. o. concluded Annex 5 to the Agreement on the provision of services by the manager of the public rail infrastructure for the period 2016–2020 for the financing of additional replacements in the scope of maintenance of the PRI carried out in the period 1 June 2018 to 31 December 2018.

The Slovenian government and SŽ-Potniški promet, d. o. o. concluded Annex 2 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 2018 to 31 December 2018.

The Supervisory Board of Slovenske železnice, d. o. o. was briefed on the Strategic Development Plan of SŽ-Potniški promet, d. o. o. until 2031.

The passenger timetable was amended on 19 July due to the start of construction on the Celje–Rimske Toplice line.



SŽ-Tovorni promet, d. o. o. received twenty modern Sg-grrs wagons with forty containers for the transport of bulk cargo.



August

An agreement was signed on the re-establishment of a direct link between Slovenia and Italy on the Ljubljana–Trieste–Trieste airport–Udine line (and back), in cooperation with the public transport operators on both sides of the border, and SŽ-Potniški promet and Trenitalia.



We re-secured the transport of grains from Hungary to Italy on the Dobova border–Sežana border line. We began running the first heavy freight trains with grains from Serbia, with a maximum gross weight of 2,200 tonnes, on the Dobova border–Sežana border line. The previous maximum gross weight of freight trains from Serbia was 1,600 tonnes.



We added to the range of passenger transport services the option of instalment payments for all purchases exceeding EUR 60 for payments made using cards issued by NLB.

September

The inaugural train to Trieste left the Ljubljana train station on 9 September. Contributing significantly to the realisation of the new link between Ljubljana, Trieste, the Trieste airport and Udine were the provincial government of Friuli Venezia Giulia and the Ministry of Infrastructure

of the Republic of Slovenia, with the support of the European Commissioner for Mobility and Transport.



Available to passengers since Monday, 10 September 2018 is the new Šmihel station in Novo Mesto, which is in the direct vicinity of the Novo Mesto School Centre and facilitates access to trains by students and local residents.



We received the last 20 units of 100 freight wagons with the innovative RockTainer system. These are universal wagons that with various upgrades facilitate the transport of different types of freight.



The first re-powered diesel shunting locomotive was tested. In total, there will be twelve type 642/643 re-powered diesel shunting locomotives.



We attended the International Trade Fair in Celje. We presented the activities of the SŽ-Express profit centre at the Slovenske Železnice Group's joint exhibition stall between 11 and 16 September.



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 2019, including a forecast of operations for the period 2020-2021.

Regular liquidation proceedings against Ferit, s.r.l., Trieste, which is 80% owned by Fersped, d. o. o., were completed in October 2018.

The International Union of Railways (UIC) and Slovenske železnice hosted security experts during the World Security Congress held in Bled from 16 to 18 October 2018. That congress was attended by more than 100 experts from 23 countries.



November

On 14 November, Slovenske železnice hosted the international conference entitled Challenges in the Future Development of the Combined Transport of Goods in Slovenia. That conference was attended by transport experts, representatives of the ministries of four countries (Slovenia, Austria, Germany and Switzerland), representatives of rail transport operators, the Chamber of Commerce and Industry of Slovenia, the Public Agency for Rail Transport and other organisations closely linked to intermodal transport and logistics. Also present at the conference was the Director of SŽ-Tovorni promet, Melita Rozman Dacar.

The ISO 9001 quality management system was recertified in accordance with the ISO 9001:2015 standard. The validity of that certificate was extended until 22 January 2022.

We achieved 2nd place in a competition for best annual report for 2017 amongst large companies that are not deemed public-interest entities according to the ZGD.

December

The Management Board of Slovenski državni holding, d. d., as the founder and sole partner of Slovenske železnice, d. o. o., adopted a decision on the recapitalisation of Slovenske železnice, d. o. o. in the amount of EUR 154.3 million. Funds were earmarked for an increase in the share capital of SŽ-Potniški promet, d. o. o. and for the settlement of liabilities in connection with the purchase of passenger transport rolling stock.

We began selling tickets online. The purchase of one-way and round-trip tickets was possible during the first phase.

The first part of the 2018/2019 timetable entered into force on 9 December.

Extensive construction works aimed at the renovation of the left track of the Rimske Toplice–Celje line and the renovation of the Celje and Laško train stations were completed.



Works were completed in the first of four phases of the upgrading of a section on the single-track line between Pesnica–Šentilj and the national border.



Construction works to upgrade the Grosuplje–Kočevje line on the section between Ribnica and Kočevje were completed.



Two new stations were built (Lavrica and Ljubljana–Dolgi most), resulting in improved access to public rail transport by passengers in that area.





Works were completed in the first of four phases of the upgrading of a 15.5-kilometre section on the single-track Pesnica–Šentilj-national border line.

A total of 244 new, free-of-charge parking places for bicycles were arranged at three locations in the vicinity of the Ljubljana train station.



On 31 December 2018, Matjaž Hribar resigned from his position of employee representative on the Supervisory Board of SŽ-Infrastruktura, d. o. o.

SIGNIFICANT EVENTS AFTER THE END OF THE 2018 FINANCIAL YEAR

January

The share capital of Slovenske železnice, d. o. o. was increased and new Articles of Association of the aforementioned company were adopted.

The Forum Train Europe (FTE) conference on the 2018-2019 timetabling in international transport was held in Ljubljana.



We presented the Group at the largest youth fair in Slovenia, *Arena mladih*, and at the Natour Alpe Adria trade fair, the largest tourism event in Slovenia.

On 9 January 2019, Silvo Berdajs was appointed employee representative on the Supervisory Board of SŽ-Infrastruktura, d. o. o.

At its session of 29 January 2019, the Works Council of SŽ-ŽGP, d. d. was briefed on the resignation of Stanislav Debeljak from his position as employee representative on the Supervisory Board of SŽ-ŽGP, d. d.

On 29 January 2019, the members of the Works Council of SŽ-ŽGP, d. d. appointed Silvo Berdajs to serve as new member of the Supervisory Board and audit committee of SŽ-ŽGP, d. d. As such, he will represent the interests of employees.

February

The share capital of SŽ-Potniški promet, d. o. o. was increased and new Articles of Association of the aforementioned company were adopted.

Slovenske železnice was recognised by Superbrands Slovenia. Representatives of SŽ-Potniški promet, d. o. o. received that recognition, which is presented to the best brands on local markets.



On Thursday, 14 February 2019, SŽ-Potniški promet, d. o. o. and the Trieste-based bus company Trieste Trasporti signed an agreement on the sale of an integrated ticket on the Ljubljana-Trieste line. The ticket is valid for trains from Ljubljana to Opicina and for buses from Opicina to Trieste.



March

Annex 6 to the Agreement on the provision of services by the manager of the public rail infrastructure for the period from 1 January 2016 to 31 December 2020 was signed on 14 March 2019. The annex defined the value and scope of services planned for 2019.

Representatives of SŽ-Tovorni promet attended the international Transport and Logistics of South East Europe and the Danube Region conference held in Belgrade on 27 March. The conference was attended by more than 400 participants from South East Europe, other European countries, Turkey, Russia, China and other countries. The Company received the 2019 Brand Leader award. The award has been presented for ten years to companies and individuals whose work has contributed to the development of the region.



SŽ-ŽGP, d. o. o., Belgrade (in liquidation) was deleted from the companies register on 8 March 2019.

> STATEMENT OF THE DIRECTOR GENERAL

Dear Owners, Colleagues, Users and Business Partners,

Slovenske železnice improved its core financial indicators for the sixth year in a row. I mention financial indicators because development is not possible without the accumulation of positive results. Revenues of EUR 561.9 million and a profit of EUR 29 million provide us significant momentum for future years. We raised our operating profit from EUR 12 million six years ago to EUR 36 million. We recorded a significant increase in value-added per employee, of more than EUR 11 thousand, and increased the volume of freight transported on the existing railway infrastructure by more than four million tonnes in just six years.

Notwithstanding the above-described achievements, I am aware, as Director General, that financial indicators do not tell the whole story. The Group's positive business results do not mean a great deal to passengers whose mobility is hindered by delays and life-expired rolling stock or to business partners whom we are unable to ensure the requisite quality of services due to bottlenecks in the railway infrastructure. It is evident from the report for 2018 that the development of rolling stock and the associated infrastructure has been the focus of our attention for several years.

Primarily due to the accelerated upgrading of the rail infrastructure, we are still unable to completely avoid delays. It is precisely on account of that renovation, however, that we will improve non-financial indicators in the coming years. Above all, those indicators reflect the satisfaction of our users.

Please allow me to point out below the Group's achievements, although we are aware that there are opportunities we have yet to seize. We have identified the most significant opportunities for development in the mobility of the population, where our aim is to be the driving force in the development of public transportation in Slovenia.

<PASSENGER TRANSPORT / MOBILITY>

Within the mobility pillar, we drafted the Strategic Development Plan of SŽ-Potniški promet, d. o. o. until 2031. The key objective of our strategy is to become the central pillar of integrated public transport in Slovenia, with a



majority share of the intercity public transport market, and thus contribute to a more environmentally sustainable transport sector. Our aim is to offer competitive public passenger rail transport by providing comprehensive travel services from the passenger's home to their final destination, with safe, reliable and comfortable means of transport, and through the use of other forms of integrated public transport in Slovenia and Europe. The comprehensive upgrading of passenger transport rolling stock, the renovation of stations and stops, and the digitalisation of operations are crucial for the achievement of the Group's strategic objectives.

The highlight of the year in passenger transport was undoubtedly the signing of an agreement on the purchase of 26 new passenger trains. An agreement on the purchase of an additional 26 passenger wagons will be signed in May 2019. The first modern train will be tested on Slovenian tracks as early as 2019. We have begun developing several new services, such as 'From home to your destination with SŽ', where using an effective P + R system we will facilitate transport, not only between stations, but wherever passengers wish to go. Another such service is the E-Mobile service, where passengers will be able to rent electric vehicles at railway stations and use them to

At Slovenske železnice, safety is number 1 priority.

continue to their destinations. We were successful in the Ljubljana Passenger Centre project, which will combine the infrastructure of all types of passenger terminals to create a multimodal passenger terminal. The project will include the necessary infrastructure for transport by train, bus, taxi and bicycle, and for short-term car rental. Implementation of the project will begin in 2020.

<FREIGHT TRANSPORT / LOGISTICS>

The year 2018 was extraordinarily successful for the Group in all respects. Despite major infrastructure-related disruptions due to the urgent modernisation of the railway network in Slovenia, we maintained an enviably high share of transported freight (more than 20.4 million tonnes). We expanded average transport routes and focused even more on international markets. In doing so, we did not neglect our domestic business partners, and recorded an increase in the volume of freight transported in Slovenia, as well.

We set ourselves several objectives in the strategic plan, including the development of comprehensive transport and logistics services and the upgrading of rolling stock. Through the cycle of investments in rolling stock, which we began last year, we will reduce costs significantly over several years and facilitate continued growth in revenues and profitability in the future.

We are planning cooperation with a strategic partner in this segment. The selection of the optimal partner, who would assume a 49% ownership stake and significantly increase the value of the Company, is a complex process. We have therefore postponed the decision in this regard until 2019. Similar to a financial investment, it is important with respect to a strategic partnership that we enter new markets with that partner and that we are fully harmonised in strategic and operational terms. Notwithstanding capital and strategic links, we are building and developing our own network of logistics and forwarding services. We thus offer a comprehensive web of high-quality services on international markets through three companies: SŽ-Tovorni promet, Fersped and VV-LOG. We will further enhance our logistics activities in the future through the acquisition of small and medium-sized logistics companies in South East Europe.

<INFRASTRUCTURE>

A modern railway infrastructure is crucial for the development and growth of Slovenske Železnice Group companies. We therefore have a special responsibility to act as a good manager, and continuously improve, upgrade and organise the infrastructure. In good cooperation with the state, as investor and owner of the infrastructure, we performed works on six major and more than ten smaller construction sites. Prior to the end of the year, there were more than 400 workers and more than 100 machines working on a daily basis on the main track between Zidani Most, Celje and Maribor in the direction of Austria.

Extensive renovations and modernisations have been carried out on the railway network in recent years. The objectives are to increase load-bearing capacity and throughput, and to introduce standards that apply to European transport corridors. Despite the disruptions that arise due to those works, they are crucial for the Group's development. According to the development plans of the Group and state for the railway infrastructure, we can expect significant improvements in travel times, reliability and the punctuality of trains over the next ten years. We bear a great deal of responsibility during track work to ensure that all operators are able to bypass construction sites safely and rapidly.

As a priority in the transport sector, we dedicate a great deal of attention to safety. Institutional cooperation at the national and supranational levels and preventive measures are extremely important for ensuring safety in railway transport. The level of railway safety in Slovenia and Europe is improving. Nevertheless, railway transport operators and managers must continue to be very active in education and training and in raising public awareness, and must constantly ensure the safety of all parties involved in transport.

<ENVIRONMENT / IMPACT ON SOCIETY>

We strive for sustainable development, with a strong emphasis on preserving the natural environment. Thus, despite the known environmentally friendly aspects of railway transport, we dedicate an increasing amount of

attention to reducing the negative impacts of our work on the environment. Because more than 13 million passengers chose to travel by train instead of car in 2018, there were more than nine thousand fewer vehicles on the road every day, and fewer CO₂ emissions were released into the atmosphere. In addition, the increased volume of freight transported by rail reduces the burden on roads and the environment due to road freight transport. We will continue to build on our vision of a low-carbon society in the future. We are committed to the active protection of the environment in all areas of our work, and therefore strive to ensure that the railway will truly become the means of transport of the future.

<DIGITALISATION>

We focused on digitalisation and the upgrading of the information system in 2018. Both of those activities are key building blocks in the Group's development. We are planning the rapid transformation of Slovenske Železnice Group companies through the use of modern digital technologies. We are working diligently at multiple levels in all key elements of our system, in the digitalisation of transport and logistics work and passenger transport, and in

the management of the public rail infrastructure. We are committed to contemporary logistics, and therefore strive continuously for improvement and development.

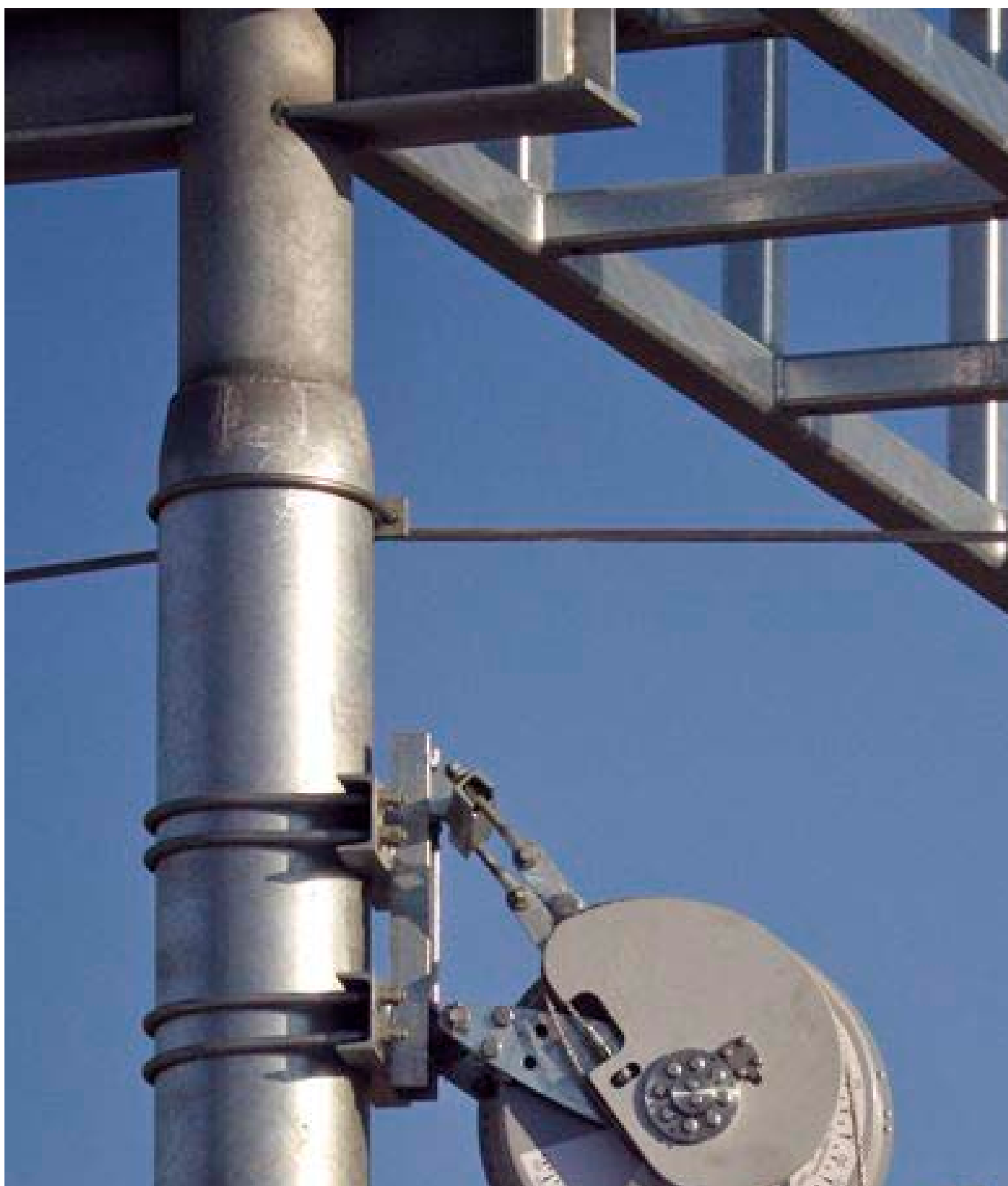
<EMPLOYEES>

We significantly increased our productivity over the last year, and thus improved value-added per employee. We did this with strong expert teams of employees and many new co-workers. A great deal of emphasis is placed on education and training. We are aware that the challenges that await us in the coming years can only be overcome with highly qualified and motivated employees.

I am most proud of Slovenske železnice's employees, who have helped build the strong core required to give back to our passengers, business partners and society as a whole, and to offer high-quality services in line with the expectations of our customers.

Dušan Mes
Director General of Slovenske železnice





> 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 2018. The members of the Management Board ensure to the best of their knowledge that the annual report and all the constituent parts thereof were compiled in accordance with the Companies Act and the International Financial Reporting Standards as adopted by the EU.

The Management Board 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 2018.

The Management Board is also responsible for ensuring that accounting is conducted correctly and that appropriate measures are taken to protect 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 recognise the importance of non-financial reporting indicators by including that information in a more transparent manner in the system of key success factors of Slovenske 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 maintaining the value of the Slovenske Železnice Group's assets.

The Management Board of Slovenske železnice, d. o. o. approved the financial statements on 19 April 2019.

Dušan Mes
Director General



Tomaž Krašković
Member of the Management Board



Nina Avbelj Lekić
Workers' Director



Tomaž Kraškovic



Dušan Mes



Nina Avbelj Lekić



> 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 are appointed and recalled in accordance with the Workers' Participation in Management Act.

The composition of the Supervisory Board was as follows: Bojan Brank (Chairman), Aleksander Nagode, Mitja Križaj and Jože Oberstar, who were all appointed by the founder, and Silvo Berdajs (until 11 April 2018), Jože Pavšek and Zlatko Ratej (from 24 April 2018), who were appointed by the Works Council.

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

The work of the Supervisory Board and its committees was professional and focused on the effective performance of their positions. 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 2018.

The Supervisory Board held a total of twelve sessions in 2018, nine of which were regular sessions (from the 28th to the 36th session) and three correspondence sessions (from the 5th to the 7th correspondence session). The Supervisory Board held no extraordinary sessions in 2018.

Sessions were held at the Company's registered office. All members of the Supervisory Board attended all of the sessions held in 2018, except for the 35th regular session from which the Chairman of the Supervisory Board Bojan Brank and member of the Supervisory Board Mitja Križaj were justifiably absent.

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

MOST IMPORTANT TOPICS OF SUPERVISORY BOARD SESSIONS IN 2018

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, and in accordance with its powers, gave its approval to investment agreements and agreements to secure funding.

The Supervisory Board approved the proposed changes 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 between SŽ-Potniški promet, d. o. o. and the Slovenian government, and the agreement on the assignment of claims for consideration based on the aforementioned agreement. It also approved the agreement on the procurement of new rolling stock for rail passenger transport and Annex 1 to that agreement. The Supervisory Board was briefed on the Strategic Development Plan of SŽ-Potniški promet, d. o. o. until 2031.

It approved the implementation of an integrated business information system for the transport and logistics activity, an agreement on the purchase of 30 used wagons, an agreement on the leasing of 60 containers, the signing of an agreement on the installation of GSM-R devices in the rolling stock of SŽ-Potniški promet, d. o. o. and the rolling

stock of SŽ-Tovorni promet, d. o. o., and the signing of an agreement on the set-up and warranty maintenance of the infrastructure for a data communications and computer system on trains (Wi-Fi project).

At its session held on 21 March 2019, 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 (February 2018).

It was briefed on status reports for the business process re-engineering project (measures to improve the effectiveness and competitiveness of Slovenske Železnice Group companies), and on status reports in connection with Slovenske železnice's digitalisation programmes. It was also briefed on the draft of the Slovenske Železnice Group's real estate management strategy, and on the report on the sale of the obsolete assets of the Slovenske Železnice Group.

The Supervisory Board was actively included in the preparation of a response to the draft audit report of the Court of Audit of the Republic of Slovenia: Operational efficiency of Slovenske železnice with respect to mutual transactions between Slovenske Železnice Group companies (in 2013 and 2014). It regularly monitored the implementation of corrective measures and the drafting of a response report.

At its 30th session of 22 May 2018, the Supervisory Board of Slovenske železnice, d. o. o. approved the audited annual report of Slovenske železnice, d. o. o. and of the Slovenske Železnice Group for 2017,⁹ and proposed to the founder of Slovenske železnice, d. o. o. that the Management Board's proposal regarding the use of distributable profit be approved. It was briefed 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, on the report for the audit committee on the audit of the financial statements for 2017, and on the letter to the Management Board regarding the audit of the financial statements for 2017. It was also briefed on the timetable for the conclusion of

the 2018 financial year, and the compilation of financial reports for Slovenske Železnice Group companies.

At its session of 17 October 2018, 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 2019, including a forecast of operations for the period 2020–2021, which was sent to Slovenski državni holding, d. d. with adopted resolutions. It also approved cash-pooling agreements for 2019 that Slovenske železnice, d. o. o. concluded with subsidiaries.

At its session of 7 December 2018, the Supervisory Board of Slovenske železnice, d. o. o. issued a positive opinion regarding the resolutions proposed to Slovenski državni holding, d. d. by the Management Board of Slovenske železnice, d. o. o. regarding the increase in the share capital of Slovenske železnice, d. o. o. through a cash contribution in the amount of EUR 154.3 million. The Supervisory Board approved the increase in the share capital of SŽ-Potniški promet, d. o. o.

Based on information regarding the current events at Slovenske železnice, monthly reports on 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 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 discussed a detailed analysis of the operations of SŽ-Tovorni promet, d. o. o. and a comparative analysis of the operating conditions of national railway companies in Europe.

The Supervisory Board was briefed on the corporate integrity report of the Slovenske Železnice Group for 2017 and on the draft work plan in the area of corporate integrity for 2018. It was briefed on reports on transactions with suppliers who generated more than 50% of their revenues

with Slovenske Železnice Group companies, and on the review of suppliers from which Slovenske Železnice Group companies hire labour or purchase services that in terms of content may be deemed the hiring of labour. It was also briefed on measures in connection with the hiring of labour through an intermediary and the management of tax risks, and in connection with equality between employees.

Furthermore, it was briefed on the review of changes to received and filed lawsuits, and on the report on agreements published on the websites of Slovenske Železnice Group companies pursuant to the 11th paragraph of Article 10a of the Public Information Access Act.

The work of the Supervisory Board was effectively complemented, in terms of content, by the conclusions and proposals made by its committees. The Supervisory Board discussed, *inter alia*, materials relating to the work of the Internal Audit Department, compliance and risk management, regarding which the audit committee took a position before they were submitted to the Supervisory Board. Other 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. Silvo Berdajs resigned from his position as member of the Supervisory Board of Slovenske železnice, d. o. o. on 11 April 2018. On 24 April 2018, Zlatko Ratej was appointed to the position of member of the Supervisory Board of Slovenske železnice, as an employee representative. On 22 May 2018, Mr Ratej was appointed member of the audit committee of Slovenske železnice's Supervisory Board.

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 2018, particularly in the area of financial reporting, internal auditing and the risk management and corporate integrity system. Through the recommendations that followed from its findings, the audit committee provided advice and proposed specific solutions to resolve individual issues.

The audit committee met at seven sessions and three correspondence sessions in 2018, at which it:

- > communicated actively with the representatives of the audit firm Deloitte Revizija, d. o. o. with respect to areas and the progress of the external audit of financial statements, monitored the independence of the external auditor and discussed the auditor's letter to the Management Board;
- > reviewed the agreement with the external auditor Deloitte Revizija, d. o. o. on the auditing of the financial statements of the controlling company and the consolidated financial statements for 2019;
- > oversaw the conclusion of agreements with audit firms, and the type and scope of non-audit services provided, in accordance with the Guidelines for ensuring the independence of the external auditor;
- > discussed the response report to the audit report of the Court of Audit, and the report on the implementation of recommendations in connection with the audit report of the Court of Audit;
- > approved the revised work plan of the Internal Audit Department for 2018, discussed the register of internal and external audit recommendations, and was briefed on the report on the external assessment of the quality of internal auditing, reports on the work of the Internal Audit Department and on summaries of the Internal Audit Department's final reports on regular and extraordinary internal audits;
- > was briefed on financial reporting procedures and system, and on implemented internal controls;
- > was briefed on information regarding the operations of Slovenske železnice for the 2017 and 2018 reporting periods, and on the audited and unaudited financial statements of the controlling company and Group;

- > was briefed on risk management procedures, and discussed periodic risk management reports and issued recommendations;
- > discussed the methodology for classifying financial assets for donations and sponsorships, the real estate management strategy, and the valuation of the Slovenske Železnice Group's investment property;
- > was briefed on public information and on associated reports on the agreements published on the websites of Group companies;
- > was briefed on reports regarding received and filed lawsuits;
- > discussed progress reports on the upgrading of the business information system (BIS), progress reports on strategic projects, reports on corporate integrity within the Slovenske Železnice Group, and reports on financial risks within the Slovenske Železnice Group; and
- > performed a self-assessment of its work.

WORK OF THE SUPERVISORY BOARD'S HR COMMITTEE

A new human resources committee was established on 31 March 2016 comprising chair Jože Oberstar and two members, Bojan Brank and Jože Pavšek. The HR committee met at seven ordinary sessions and one correspondence session in 2018.

The most significant matters discussed by the HR committee related to the powers of the Supervisory Board to appoint members of the Management Board of Slovenske železnice, d. o. o., to issue approvals of the appointment and dismissal of the management board members of subsidiaries, to propose that the Supervisory Board set the basis for the payment of wages under individual employment contracts and to approve performance criteria for setting the variable element of remuneration for 2018.

In accordance with the aforementioned, the HR committee also discussed the following matters: the appointment of Nina Avbelj Lekić to the position of Workers' Director of Slovenske železnice, d. o. o., the appointment of Remzija Cinac to the position of Workers' Director of SŽ-Potniški promet, d. o. o., the appointment of Vesna

Ritlop to the position of Workers' Director of SŽ-ŽIP, storitve, d. o. o., the appointment of Dragan Grujić to the position of Director of SI-Cargo Logistic, d. o. o. and the appointment of Matjaž Kranjc to the position of Director of SŽ-Infrastruktura, d. o. o.

The committee discussed materials in connection with the setting of the bases for the payment of wages under individual employment contracts, materials regarding the definition of performance criteria for setting the variable element of remuneration for 2018, and materials in connection with the determination of the fulfilment of conditions for the payment of the variable element of remuneration to members of Slovenske železnice, d. o. o.'s Management Board.

APPROVAL OF THE ANNUAL REPORT AND THE PROPOSED USE OF DISTRIBUTABLE PROFIT FOR 2018

The certified audit firm Deloitte Revizija, d. o. o., Dunajska cesta 165, 1000 Ljubljana, which audited the financial statements and disclosures for 2018 for Slovenske železnice, d. o. o., subsidiaries and the Slovenske Železnice Group, reported its findings and the progress of the audit for 2018.

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 2018 at its session of 20 May 2019, and submitted them to the audit committee and Supervisory Board for review and verification on 20 May 2019 in accordance with paragraph 3 of Article 272 of the ZGD-1, together with the independent auditor's report. The Supervisory Board and its audit committee discussed the audited annual report of Slovenske železnice, d. o. o. and the consolidated annual report of the Slovenske Železnice Group for 2018 at their sessions held on 20 May 2019. The certified auditors thus reported to both the Supervisory Board and the audit committee.

It is evident from the auditor's opinion that 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 2018, 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 2018, the Supervisory Board found that the audited annual report and the consolidated annual report for the 2018 financial year were compiled in a clear and transparent manner, and in accordance with the provisions of the Companies Act based on the findings presented by the audit committee. The business report is in line with the audited financial statements. After the final verification of the audited annual report, the Supervisory Board of Slovenske železnice, d. o. o. had no comments regarding the report and adopted a favourable position on the auditor's report.

In addition to the annual report, the Supervisory Board also verified and approved the proposed use of distributable profit, which amounted to EUR 16,259,100 as at 31 December 2018.

Based on its review of the annual report and the proposed use of distributable profit for 2018, 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 2018, in accordance with the provisions of Article 282 of the ZGD-1 and the Articles of Association of Slovenske železnice, d. o. o.

Ljubljana, 20 May 2019

Bojan Brank
Chairman of the Supervisory Board

> GENERAL INFORMATION

General information regarding the controlling company as at 31 March 2019

Company name:®

Slovenske železnice,
d. o. o.

Address:®

Kolodvorska ulica 11
1000 Ljubljana
Slovenia

Tel:

+386 (0)1 291 40 00

Email:

info@slo-zeleznice.si

Website:

www.slo-zeleznice.si

MANAGEMENT BOARD:®

Director General:

Dušan Mes

Member of the Management Board:

Tomaž Kraškovič

Workers' Director:

Nina Avbelj Lekić



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 certificate:

ISO 9001:2015, January 2019

Environmental certificate:

ISO 14001:2015, January 2018

Registration number:

10537000

Company registration number:

5142733000

VAT ID number:

SI 18190995

Contact for information regarding the annual report:®

Slovenske železnice, d. o. o.,
Kolodvorska ulica 11,
1000 Ljubljana
Central Corporate Office
for Marketing and Public
Relations



GENERAL INFORMATION REGARDING SUBSIDIARIES AS AT 31 MARCH 2019

	SŽ–Tovorni promet, d. o. o.	Fersped, d. o. o.	VV-LOG, d. o. o.	SŽ–Potniški promet, d. o. o.
Address	Kolodvorska ulica 11 1000 Ljubljana	Parmova ulica 37 1000 Ljubljana	Ankaranska cesta 5 B 6000 Koper - Capodistria	Kolodvorska ulica 11 1000 Ljubljana
Core activity	49.200 Freight rail transport	52.290 Other transportation support activities	52.290 Other transportation support activities	49.100 Rail passenger transport
Registration number	/	10125000	10812500	/
Company registration number	6017231000	5069084000	2361191000	6017274000
VAT ID number	SI84667044	SI76557995	SI97246239	SI89393686
Senior management	Melita Rozman Dacar Drago Savič (Workers' Director)	Jožef Petrovič	Dean Peršič Danijel Tomljanović	Boštjan Koren Remzija Cinac (Workers' Director) Gorazd Podbevšek (representative with special power-of-attorney)
Supervisory Board	/	/	/	/
General Meeting	Slovenske železnice, d. o. o. as founder	Slovenske železnice, d. o. o. as founder	Fersped, d. o. o. as founder	Slovenske železnice, d. o. o. as founder

SŽ-VIT, d. o. o.	SŽ-Infrastruktura, d. o. o.	SŽ-ŽGP Ljubljana, d. d.	SŽ-ŽIP, storitve, d. o. o.	Prometni institut Ljubljana, d. o. o.	SŽ-Železniška tiskarna Ljubljana, d. d.
Zaloška cesta 217 1000 Ljubljana	Kolodvorska ulica 11 1000 Ljubljana	Ob zeleni jami 2 1000 Ljubljana	Kolodvorska ulica 11 1000 Ljubljana	Kolodvorska ulica 11 1000 Ljubljana	Hladilniška pot 28 1000 Ljubljana
33.170 Repair and maintenance of other transport equipment	68.320 Management of real estate on a fee or contract basis	42.120 Construction of railways and underground railways	80.100 Private security activities	72.200 Research and experimental development on social sciences and humanities	18.120 Other printing
12596100	/	10011300	12501700	11645100	10004600
5865824000	6017177000	5143004000	5824290000	5674522000	5142881000
SI99181762	SI94995737	SI46621474	SI61613223	SI34722645	SI41764544
Dušan Žičkar Zdravko Skrbiš (Workers' Director)	Matjaž Kranjc Matjaž Skutnik (Workers' Director)	Tine Svoljšak Pavel Piškur (Workers' Director)	Vojka Martinčič Vesna Ritlop (Workers' Director)	Peter Verlič	Janez Brezovar
/	Darja Kocjan Matej Čepeljnik Silvo Berdajs	Gorazd Podbevšek Dušan Mes Silvo Berdajs	/	/	Boštjan Koren Martina Resnik Miran Parkelj
Slovenske železnice, d. o. o. as founder	Slovenske železnice, d. o. o. as founder	General meeting of shareholders	Slovenske železnice, d. o. o. as founder	Slovenske železnice, d. o. o. as founder	General meeting of shareholders



> BUSINESS MODEL AND DEVELOPMENT POLICIES[🌐]

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 strategic plan defines 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 both 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 borrowing means that the purchase of new rolling stock requires recapitalisation or the entry of a strategic partner in the ownership structure. Without the latter, the funds required for 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 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 monitoring 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 systemic measures and a set 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 monitoring 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. Making changes to the strategic plan, if required, is done through the same procedure as the adoption of the basic plan.

Vision

To become an important regional operator and provider of comprehensive logistics services in Central and

South-East Europe, and a key 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, traffic control, 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, combined transport), logistics (freight forwarding, freight terminals and distribution);

Passenger transport: rail passenger transport, bus transport;

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

Management of PRI (public rail infrastructure) / IPT (integrated public transport):

Maintenance of infrastructure, rail transport management, IPT 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 comprises Slovenia and key markets in freight and passenger transport in Central and South-East Europe, we will:

- > achieve growth in the volume of freight transport on the following European corridors: Mediterranean RFC 6, the Baltic–Adriatic RFC 5, Alpine–Western Balkan (RFC 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 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 diversification of operations: upgrading of rolling stock, development of international, regional and local lines with optimal combination of rail and bus transport, the renovation and upgrading of stations, additional services for passengers such as the single

The Strategic Business Plan of the Slovenske železnice Group for the period 2016-2020 comprises a number of systemic measures to achieve the planned targets.

ticket, comprehensive IPT, wireless network on trains, stations and stops, a new ticketing system, and strong sales orientation (marketing of advertising space, sales of other services).

Traction and 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 traffic control 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 employment programmes for workers with disabilities and other services, and the expansion of research and development activities.

IMPLEMENTATION OF SYSTEMIC MEASURES

A list of systemic and internal measures, which represent fundamental mechanisms for the achievement of objectives, was adopted based on the strategic policies and objectives set out in the Slovenske Železnice Group's Strategic Business Plan for the period 2016–2020. Systemic measures are primarily linked to coordinated measures with the Republic of Slovenia as the sole partner 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 maintaining and upgrading the rail infrastructure and traffic control 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 Business Plan of the Slovenske Železnice Group for the period 2016–2020.

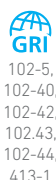
The Company's Management Board verifies the aforementioned list of systemic and internal measures, and assesses the implementation thereof based on interim monthly and quarterly reports on the operations of the Slovenske Železnice Group, and supplements that list with new measures during the drafting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

Type of measure	Indicative implementation deadline	Implementation by the end of March 2019
The conclusion of a long-term agreement with the government to secure stable funding for the PSO in rail passenger transport, including the funding of development investments in the upgrading of rolling stock.	2016/2017	<p>In the previous period until 2017, there was no systemic solution for the financing of the public service obligation in the transport of passengers by rail that included development funds for the upgrading of rolling stock and other necessary investments in passenger transport by rail. Existing rolling stock is therefore obsolete and no longer facilitates the provision of high-quality services. Due to frequent breakdowns, the availability of existing rolling stock is exceptionally low, while operating costs are high.</p> <p>In March 2017, 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 agreement sets the amount of funds for the financing of liabilities arising from the public service obligation, which provides for the necessary financial resources for the first lot of purchases of rolling stock. 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 define and regulate in more detail the free disposition of funds in connection with the discharge of the PSO for the upgrading and modernisation of rolling stock.</p> <p>In July 2018, the Slovenian government and SŽ-Potniški promet, d. o. o. concluded Annex 2 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 2018 to 31 December 2018.</p>
Development of a harmonised model and bases for the establishment of a strategic partnership in freight transport and the diversification of operations through corporate M&As.	2017-2019	<p>Following the acceptance of two binding bids in January 2018 for the entry of a strategic partner in the ownership structure of SŽ-Tovorni promet, d. o. o. and Fersped, d. o. o., the evaluation of bids and additional interviews and explanatory meetings were organised in 2018 with the aim of improving bids. A decision regarding the aforementioned strategic partnership in freight transport will be made in 2019.</p> <p>We acquired the forwarding company VV-LOG, d. o. o. in 2017. Discussions were held in 2018 with certain potential partners for cooperation on the markets of Italy, Croatia and Serbia, in particular where SŽ-Tovorni promet cannot on its own prepare appropriate offers due to high market entry barriers or due to limited capacities. Those discussions continue.</p>
The Slovenian Government must ensure the proper maintenance and upgrading of the infrastructure, which is a prerequisite for ensuring its throughput capacity.	2016-2018	<p>In July 2018, the Slovenian government and SŽ-Infrastruktura, d. o. o. concluded Annex 5 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 2018 to 31 December 2018.</p> <p>Investments in the public rail infrastructure that are already in progress and planned projects point to a surge in investments in the maintenance and upgrading of the public rail infrastructure, and to the achievement of objectives for ensuring the increased throughput capacity thereof. The upgrading of missing sections on the Zidani Most–Šentilj line is in progress to achieve a D4 load capacity (22.5 tonne axle loads). The project must be completed during the second half of 2020, as that line will be put into operation with the aforementioned load for the 2021 timetable. Works were completed in 2018 on the left track of the Rimske Toplice–Celje line, while the Celje and Laško stations were renovated. The upgrading of the single-track Pesnica–Šentilj line was completed (the renovation of the Pesnica and Šentilj stations is in the final phase), as was construction work on the Ribnica–Kočevje section.</p> <p>The siding track at the Koper freight station was completed. The relevant operating permit will be obtained following the installation of ETCS on the aforementioned section. A hot axle box detector was installed and put into use on the Divača–Koper section.</p> <p>The project to equip stations in the Ljubljana region was completed, while two new stations (Dolgi Most and Lavrica) were built and the Šmihel station in Novo Mesto has already been put into use.</p>

IMPLEMENTATION OF KEY INTERNAL MEASURES

Type of strategic project	Indicative deadline	Implementation by the end of March 2019
Business process re-engineering programme of Slovenske Železnice Group companies	2016-2021	<p>We continued with the optimisation of selected processes at Slovenske Železnice Group companies in 2018.</p> <p>In terms of the infrastructure, we are implementing a project to optimise the Construction Department and the Electricity and Signalling, Safety and Telecommunication Devices Department. The merging of maintenance locations in the construction sector is in its final phase, with the number of locations to be cut in half. We are also optimising field work in the electricity sector, where we have already eliminated the majority of work sites.</p> <p>The optimisation of processes in the freight transport sector is in progress with the aim of adapting services to the needs of the market, primarily in less profitable activities where we have introduced changes to the timetable and in the way services are provided, through the reorganisation of the work of shunting teams and train crews. We are thus improving efficiency and reducing costs. We are also introducing new services and helping customers optimise their procurement costs. We provided customers reliable services by adjusting the length of trains to specific track sections. To that end, we established several hubs (Celje, Jesenice and Zalog) where we couple or uncouple wagons from trains. This allowed our customers to plan transport via longer and heavier trains, taking into account capacity constraints.</p> <p>Preconditions for the smooth functioning of passenger and freight transport include support and operational activities that ensure the availability of rolling stock and train drivers. For that purpose, we introduced work outside of normal working hours in maintenance workshops for certain operations, and began modernising equipment. By optimising the assignment of train drivers, we reduced the need for additional hiring (i.e. due to retirement and increased transport volumes). Using new shift assignment software, which we began purchasing in 2018, we will further reduce labour costs.</p>
Group of project programmes aimed at the computerisation and digitalisation of the Slovenske Železnice Group	2017-2022	<p>In 2018, we continued with the intensive upgrading of the business information system of the Slovenske Železnice Group and other digitalisation programmes based on Slovenske Železnice's digitalisation strategy adopted in September 2017. Activities include: digitalisation of the transport and logistics activity (transport information system, or TIS), the passenger transport 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. See the section Digitalisation for more information.</p>
Investments in the upgrading of freight transport rolling stock	2016-2020	<p>We partially upgraded the wagon fleet in 2018 with 80 new wagons for the transport of bulk cargo. Twenty wagons were delivered the previous year. A public tender was prepared and completed in 2018, with an agreement on the purchase of four diesel shunting locomotives signed in February 2019, which are expected to be delivered in 2020. Planned during the second phase of the purchase of rolling stock is the purchase of new tractive vehicles – electric locomotives and other wagons, for which project and investment documentation will be drawn up during the first half of 2019.</p>
Investments in the upgrading of passenger transport rolling stock	2016-2031	<p>Following the receipt of consent from SDH, d. d., SŽ-Potniški promet, d. o. o. signed an agreement on the purchase of 26 new passenger trains with Stadler on 17 April 2018. The first phase of the investment (purchases in the period 2019–2021) is being financed with funds from the long-term agreement on the discharge of the public service obligation. In accordance with the supplier agreement, the option for the second lot of the investment in the modernisation of passenger transport rolling stock will be exercised. The lot comprises the purchase of 26 new passenger trains (delivery in the period 2022–2023), which will be financed by funds from recapitalisation. Investment documentation is being drawn up for the project to purchase passenger wagons.</p>

Type of strategic project	Indicative deadline	Implementation by the end of March 2019
Programme of integrated public transport projects	2015-2018	<p>The first phase to establish integrated public transport in Slovenia was completed with the introduction of the subsidised IPT pass for secondary school and university students for the 2016/2017 school year. The pass was successfully used again in 2018. The introduction of a single ticket and thus the IPT system in Slovenia led to the technical standardisation of the electronic ticketing system at 35 operators and integration into a uniform information system. The information system of the operator of the IPT provides users all information regarding the IPT system, and regarding products and tariffs, as well as a tool for route planning using the information portal for passengers and information regarding timetables.</p> <p>In the future, the IPT system will be expanded to other products that can be used by passengers not included in the subsidised ticket system. The single ticket will thus be made available to all users of public transport services. We see an opportunity to promote the use of public rail transport in the expansion of the IPT system to a new circle of users.</p>
Emonika project	2016-2022	<p>The project originally comprised a public-private partnership for the construction of the public rail and bus passenger centre, and a private retail-office element. The halting of the project by the private investor was followed by a successful court-brokered settlement and the transfer, at the end of 2018, of the superficies required for the construction of the train and bus stations to Slovenske železnice, d. o. o. in exchange for a 3% participating interest in Emonika companies. The public element of the project has thus been separated from the private element, meaning the government can begin the construction of the PRI independently and, Slovenske železnice, d. o. o. can begin the construction of the bus station and potentially the business office complex (BOC project). At the beginning of 2019, the BOC and Emonika projects were combined into the Ljubljana Passenger Centre project, with the bus station, accompanying parking places and business office complex.</p>
Relocation of activities – Moste Terminal	2016-2019	<p>Buildings were rehabilitated in 2017 in connection with the relocation of freight transport activities, while an amended detailed municipal spatial plan (OPPN) was adopted in 2018 for the area in question for the construction of the Ljubljana–Moste logistics terminal. The preparation of a tender for the arrangement of tracks and track devices, which was unsuccessful several times in 2018, continued. An annex to the purchase and sales agreement was concluded with the buyer of the land in order to extend the final deadline for the vacation of the area until the end of 2019. Work aimed at the relocation of activities from the aforementioned location could thus continue at the beginning of 2019.</p>
Business office complex	2016-2022	<p>A search for potential locations was carried out in 2017 and 2018. A location was selected in March 2019 at the new bus station in the area covered by the Emonika project. For this reason, the decision was made to merge the Ljubljana Passenger Centre project with the Emonika project, and to rename the new joint programme of projects Ljubljana Passenger Centre with bus station, accompanying parking spaces and business office complex (LPC project programme).</p>
Programme of ERTMS projects	2013-2025	<p>Infrastructure:</p> <ul style="list-style-type: none"> – GSM-R: project was 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. The fitting of the Pragersko–Šentilj and Zidani Most–Dobrova corridors is underway. <p>Equipping of vehicles:</p> <ul style="list-style-type: none"> – GSM-R cab radio: a tender for the implementation of GSM-R devices was successfully completed in 2018. An agreement was signed with the selected bidder and installation is proceeding according to plans. – 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 project continues in 2019 with the drafting of the pre-investment plan (PIP), which is in the final phase.



KEY STAKEHOLDERS

Slovenske železnice's core activity relates to an extremely broad range of stakeholders. Logistics and mobility 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 many local communities. Through questions about safety, the

environment, mobility and Slovenia's development potential, the entire activity affects the functioning of many stakeholder groups, both institutional and civil. Slovenske železnice maintains and develops constructive relations with all groups. All Group companies participated in the preparation of the stakeholder map, and used a guided questionnaire to define their own stakeholders. The questionnaire was then supplemented and categorised at the Slovenske Železnice Group level.

Stakeholder map and stakeholder engagement



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, the wage system and remuneration for performance, relations between employees, work-life balance, education and additional training, and occupational health and safety.	Personal contact, email, participation in management (workers' directors, Works Council, trade unions, employee representatives on the Supervisory Board), measurement of the organisational climate, the Nova progá internal newsletter, internal events, announcements on the intranet and bulletin boards.	Active daily engagement with 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 progá internal newsletter, announcements on the intranet and bulletin boards.	Active daily engagement with trade unions. The objective is to build a culture of mutual trust, respect and cooperation, and to ensure social dialogue.
Customers/users	Provision of services in accordance with contractual provisions, tariffs and regulations – reliability and accuracy. Customer satisfaction, resolution of complaints and claims for damages, notification regarding anticipated and unanticipated traffic disruptions 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 fair treatment.
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 throughout the contract term.
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 European transport policy and events in railway transport, the 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 equal 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 adopted in May 2017 and the Recommendations and Expectations of Slovenski državni holding adopted in March 2018 applied to the Company from 1 January to 31 December 2018.

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 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 capital assets of the state®

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.

Point 3.6:

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.

Supervisory Board®

Point 6.1:

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 regulations and the Articles of Association.

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 representatives with special power-of-attorney falls within the powers of the founder in accordance with the Companies Act.

Point 6.4:

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. The aforementioned body, however, is not balanced in terms of representation by gender and international composition. Diverse composition in terms of gender was taken into account by the Supervisory Board in the composition of the audit committee, which includes an external female member.

Point 6.4.1:

The Supervisory Board has not drawn up a competence profile for its members, and does not have a nomination committee.

Points 6.7 and 6.8:

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 met at seven ordinary and three correspondence sessions in 2018 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 efficiency and professionalism of the audit committee's work.

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 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 positions 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 does not currently have individual development plans for every employee. However, new information support will help us gradually implement a new HR process, i.e. the management of employee development plans in which the career path of a specific employee and their critical abilities will be defined.

Transparency of operations and reporting®

Point 8.2:

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 8.5:

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. With the specific deviations that are set out below, Slovenske železnice, d. o. o. adheres to the Recommendations and Expectations of Slovenski državni holding, which were adopted in March 2018 and published on the website of Slovenski državni holding, d. d.®

Point 3.7:

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 3.11:

The Company has not set the maximum amount for a specific sponsorship agreement, but does set an annual amount earmarked for sponsorship activities. In addition to the annual amount earmarked for donation activities, the Company has set the maximum amount for a specific

donation agreement, which may be higher in exceptional cases when donations are made to entities that perform an activity that is of special importance to railway safety, such as firefighter associations that perform activities in the direct vicinity of the railway infrastructure.

Point 5:

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



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. The system 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 assurances 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 positive results, 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 that it has a transparent organisational structure;
- > 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 at any time without explanation.

The Company has a Supervisory Board comprising six members. Four members are appointed and dismissed by the founder, i.e. Slovenski državni holding. Two members are appointed and dismissed in accordance with the Worker Participation in Management Act (Official Gazette of the Republic of Slovenia, Nos 42/07 – official consolidated text 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[®]



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 Company's Supervisory Board, 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.

Composition of the Supervisory Board and its committees during the 2018 financial year

Name and surname	Position	Qualification	First appointment to position	Completion of position /term of office	Shareholder/employee representative ¹⁾
Bojan Brank	Chairman	Degree in general management from London City University	11 September 2015	11 September 2019	S
Aleksander Nagode	Deputy Chairman	Master's of science	11 September 2015	11 September 2019	S
Jože Oberstar	Member	Bachelor's degree in law	22 March 2016	11 September 2019	S
Mitja Križaj	Member	Bachelor's degree in economics	11 September 2015	11 September 2019	S
Silvo Berdajs	Member	Secondary vocational education	11 September 2015	11 April 2018	E
Jože Pavšek	Member	Primary school education	11 September 2015	11 September 2019	E
Zlatko Ratej	Member	Secondary vocational education	24 April 2018	11 September 2019	E
Barbara Nose	External member of the audit committee	Specialised auditing	19 October 2015	11 September 2019	S

¹⁾ S – shareholder representative; E – employee representative.



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.

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,

Participation in Supervisory Board sessions with respect to total number	Independence in accordance with Article 23 of the Code	Existence of conflicts of interest during the financial year ²⁾	Membership in supervisory bodies of other companies	Membership on committees	Chair/member	Participation in committee sessions with respect to total number
11/12	YES	NO	/	HR committee	Member	8/9
12/12	YES	YES	/	Audit committee	Member	10/10
12/12	YES	NO	/	HR committee	Chair	9/9
11/12	YES	NO	SIJ, d. d., DUTB, d. d.	Audit committee	Chair	10/10
2/12	YES	NO	SŽ-ŽGP Ljubljana, d. d., and SŽ-Infrastruktura, d. o. o.	Audit committee	Member	3/10
12/12	YES	NO	/	HR committee	Member	9/9
10/12	YES	NO	/	Audit committee	Member	4/10
/	YES			Audit committee	Member	10/10

²⁾ 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.

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 16 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 2018.

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 Zlatko Ratej (members), and Barbara Nose (external member). The Supervisory Board's audit committee met at seven regular and three correspondence sessions in 2018, 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 eight regular sessions and one correspondence session in 2018. The most important matters that it discussed related to the Supervisory Board's powers to approve the appointment of directors at subsidiaries.

Costs in connection with the work of the Supervisory Board

Costs in connection with the work of Slovenske železnice, d. o. o.'s Supervisory Board (the costs of legal opinions, education and training, liability insurance for Supervisory Board members and the hiring of an expert) amounted to EUR 22,737 in 2018 (2017: EUR 40,851). The remuneration of Supervisory Board members is disclosed in point 2.3.3 of the consolidated financial report.

Management Board

In accordance with the applicable Articles of Association of Slovenske železnice, d. o. o., the Company's operations are managed by its Management Board comprising the Director General, 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 2018 financial year

Name and surname	Position (President, member)	Qualification	Work area as member of the Management Board	First appointment to position	Completion of position/term of office	Membership in supervisory bodies of unaffiliated companies
Dušan Mes	Director General	Master's of science/ bachelor's of science	Director	22 March 2012	23 March 2020	/
Tomaž Krašković	Member of the Management Board (Director)	Master's of science	Finance, accounting and controlling, IT, compliance and risk management	1 April 2016	1 April 2020	/
Albert Pavlič	Workers' Director	Higher technical education	HR and social issues	1 September 2002	5 March 2018	/
Nina Avbelj Lekić	Workers' Director	Bachelor's degree in law	HR and social issues	21 March 2018	21 March 2022	/

The management staff and Management Board manage the Company's operations at their own risk. The management staff and Management Board manage the transactions of Slovenske železnice, d. o. o. and make all decisions that are not the responsibility of the Supervisory Board and the founder, 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 play key roles in the governance of subsidiaries.

In addition to Slovenske železnice, d. o. o. the Slovenske Železnice Group comprises the following direct 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, traffic control, 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.



Based on the corrective measure imposed by the Court of Audit on 31 December 2011, 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) 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 governed by 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; and
- > the appointment of an auditor.

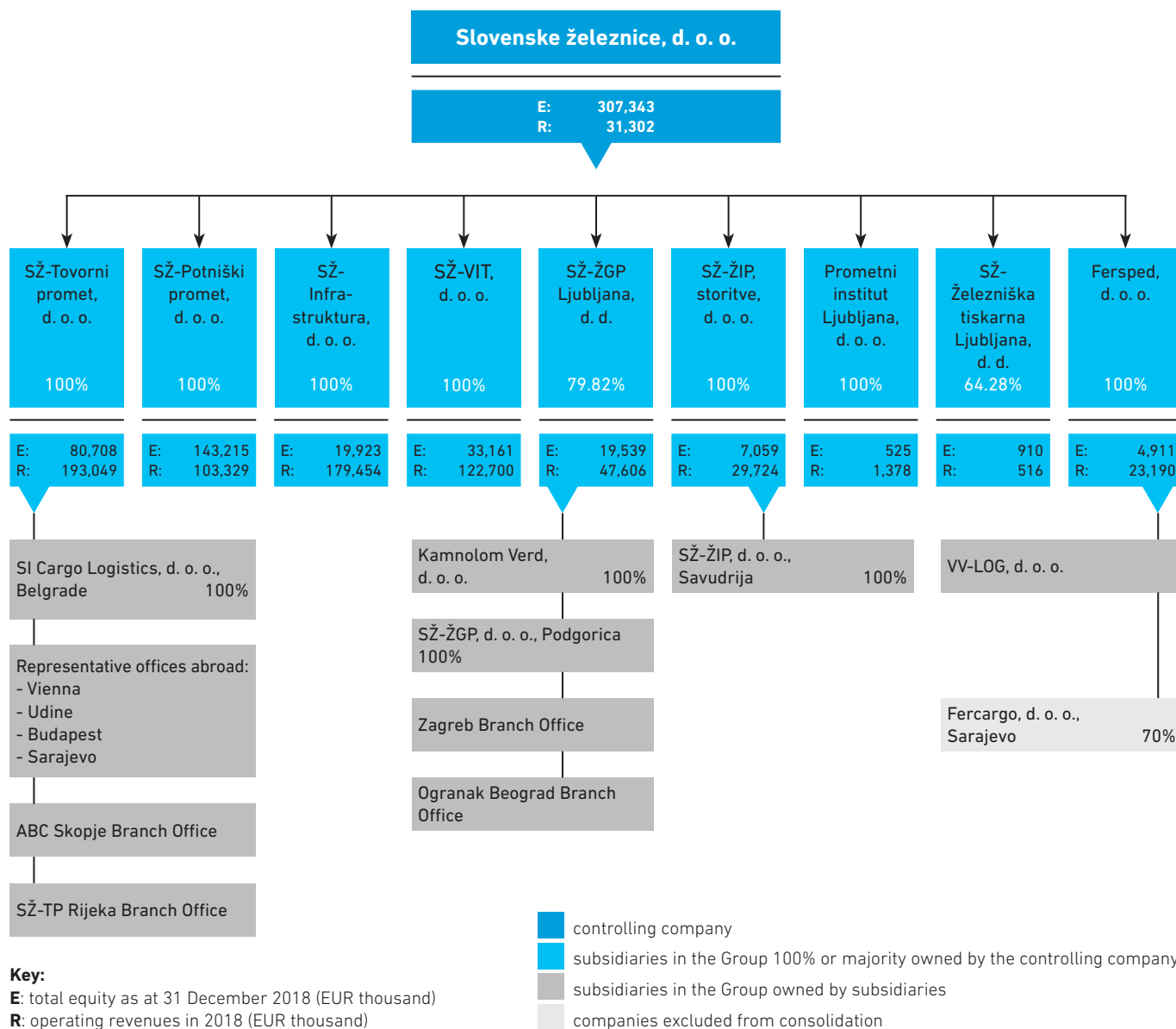
Control agreements

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 grant 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 articles of association and control agreements, and by separate service level agreements (SLA).

appointed to positions on management and supervisory bodies meet all requirements prescribed by the law or internal regulations.

7. Description of the diversity policy[®]

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

8. Description of the corporate integrity system

The Slovenske Železnice Group's corporate integrity system follows the recommendations and guidelines of the Corporate Governance Code for Companies with Capital Assets of the State (SDH, 2017) and the Slovenian Sovereign Holding Company Act (ZSDH-1), as well as the

guidelines of the Organisation for Economic Cooperation and Development (OECD).

The system of corporate integrity within the Slovenske Železnice Group is built on three pillars and a system of anonymous reporting, as follows:

- > compliance as it relates to operations encompasses the operations of the Company in accordance with the law. Compliance can be defined in broader terms as business conduct that, in addition to internal acts, includes all relevant business norms, standards and rules set out in the law;
- > compliance as it relates to governance, which means ensuring the highest standards of operations in the identification and prevention of conflicts of interest and ethical work, compliance with internal rules and rules of procedure, the implementation of the business strategy, the identification of missing or unimplemented internal control mechanisms in business processes, and ensuring the segregation of responsibilities and powers in all business processes. Compliance as it relates to governance thus provides for a structure and relations between stakeholders (e.g. the Management Board, shareholders and the Supervisory Board), and the development of a system through which the objectives of companies and the methods for achieving those objectives are formulated. It differs from management, which relates to the operational level and/or the commercial-executive element;
- > compliance as it relates to operations is inherently linked to the management and assessment of risks, with systematic and independent control over the effectiveness of the implementation of measures. Risk management at individual companies is more than just a function or inventory of risks and the establishment of a control environment; it is also the internal organisational culture of promoting lawful and ethical conduct, which includes the capacities and practices that companies include in the selection, approval and implementation of their business strategies; and
- > the establishment and functioning of a system for reporting suspected breaches of corporate integrity that ensures anonymity and the protection of whistleblowers.

The description of the implementation and achievement of the appropriate level of corporate integrity is based on the Rules of Procedure of the Central Corporate Office for Compliance and Risk Management (2017), which apply to the entire Slovenske Železnice Group.

The work of the aforementioned corporate office is carried out independently and impartially, with efforts to improve the efficiency of the functioning of control mechanisms, the prevention of corruption and integrity.

The compliance function is recognised as a key function in the governance system and is a part of the Company's internal controls.

The corporate office handled ad-hoc matters that the Company's Management Board identified as relevant or that were the subject of anonymous reports of suspected breaches of corporate integrity. There was a total of 43 reports issued, including 24 ordinary reports and 19 reports issued upon request.

Nearly half of all reports related to compliance in connection with the management of business processes, and the implementation of instructions and rules, followed by risk management and the compliance of operations with laws and regulations.

At the Slovenske Železnice Group level, the corporate office handled an additional 55 reports of suspected breaches of corporate integrity (compared with 16 a year earlier), which are becoming increasingly complex in terms of content.

Two new sets of rules were adopted by the Slovenske Železnice Group in 2018 in the area of corporate integrity: the Rules on the Protection of Personal Data and the Rules on the Receipt of Gifts. Two professional training events were organised in June and December.

Internal Audit Department (IAD)[®]

The Internal Audit Department of Slovenske železnice, d. o. o. conducts internal auditing for the entire Slovenske Železnice Group. It 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.

The mission of the IAD is to strengthen and protect the values of the Slovenske Železnice Group by issuing objective assurances based on a risk assessment, and through the provision of consultancy services and an in-depth understanding of the operations of the Slovenske Železnice Group.

The primary objective of the IAD is to conduct internal auditing within the Slovenske Železnice Group, independently and impartially. In performing its tasks in accordance with the relevant standards, the IAD pursues the following objectives, which are broken down into five categories:

- > the achievement of the Slovenske Železnice Group's strategic objectives;
- > the reliability and integrity of accounting and executive information, and of financial and business reporting;
- > the success and effectiveness of organisational units, processes, functions and projects;
- > the protection of assets; and
- > compliance with the law and other external and internal regulations, guidelines, procedures and agreements.

The IAD performed its work in 2018 in accordance with its adopted work plan and revised work plan for 2018.

Through a combination of internal and external resources, a total of twelve audits were conducted in 2018, while five internal audits continued into 2019. 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 the IAD's work plan.

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

An external assessment of the IAD's work was carried out by an independent external assessor in 2017. The 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.

Dušan Mes
Director General



Tomaž Kraškovc
Member of the Management Board



Nina Avbelj Lekić
Workers' Director



> 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 2018 includes disclosures of non-financial and diversity information, which 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 strives for the most comprehensive reporting to its stakeholders. We therefore supplemented certain sections of this report with non-financial information, where this was possible. We will further improve reporting on the generation of value and the link between financial and non-financial information regarding operations in the future.

The following sections of the annual report for 2018 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.

In 2019, we will sign a commitment to respect human rights, and strive to implement all of the measures set out in the National Action Plan on Business and Human Rights of the Republic of Slovenia within five years, specifically measures regarding the respect of human rights throughout the entire business process and those regarding the prevention of potential negative impacts on human rights.

The Company has in place a system for the regular verification of and reporting on the existence of conflicts of interest, and a register of statements of disclosure and the avoidance of conflicts of interest. All executive and management staff are required to submit and continuously update their statements.

The GRI Standards, which represent an international framework for sustainability reporting, 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 Standards framework is evident in the table that references clearly marked content areas from the annual report.

Dušan Mes
Director General



Tomaž Kraškovc
Member of the Management Board



Nina Avbelj Lekić
Workers' Director





II. BUSINESS REPORT



“

MORE
RELIABILITY.
NEW FREIGHT
WAGONS
FOR BETTER
SERVICES.

> OPERATING ENVIRONMENT[®]

Economic growth (real growth in gross domestic product or GDP) remained high in Slovenia in 2018, although it was slightly lower than the previous year. Annual economic growth reached 4.5% (compared with 4.9% in 2017), 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 0.9% (Italy) to 2.7% (Austria).

Growth in exports, which reached its highest level of the last ten years in 2017, slowed in 2018, but remains relatively high. The trend of slowing growth will continue in the period 2019–2020 due to lower growth in foreign demand, pressures on competitiveness in connection with labour costs and the absence of one-off factors. Growth in private consumption continued in the context of further favourable developments on the labour market and accelerated growth in wages and social transfers. High growth will continue until the end of 2019 and then slow slightly due to slowing growth in disposable income. The scope of investments was down slightly, but remains at a high level on account of continuing growth in construction investments and growth in investments in machinery and equipment. Investments in housing and civil engineering works were up in line with growth in the real estate market. Growth in total investments was down slightly in 2018, with lower growth rates also expected in 2019 and 2020. Government consumption slowed slightly, with a gradual decline continuing in 2019 and 2020.

Growth in value-added was recorded in all sectors in 2018 although that growth was more moderate than in 2017. Contributing most to slowing growth (2018: 3.4%; 2017: 4.5%) was the slowing of activities in export-oriented activities and in activities that are linked to international trade, while growth in other service sectors was similar to the level recorded last year. Growth in value-added in the construction sector strengthened. 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. More moderate growth, to which all sectors will contribute equally, is expected over the next two years. Growth in value-added will ease due to slowing economic activity

in Slovenia's main trading partners and the pressures of rising labour costs on export competitiveness. Also contributing to that slowdown will be lower growth in service sectors linked to international merchandise trade and public services. Construction activity is expected to slow, but will remain relatively high.

The IMAD's Spring Forecast of Economic Trends for 2019 envisages the slowing of economic growth in Slovenia. Economic growth in Slovenia is expected to reach 3.4% in 2019, and 3.1% and 2.8% in the next two years, which is above the euro area average, where economic growth in the period 2020–2021 is expected to fluctuate between 1.3% and 1.4% according to the forecasts of international institutions. More moderate economic growth is also expected to continue on the majority of our export markets in the Western Balkans (including Croatia). However, international institutions are warning of a deterioration in the economic climate and increased risks in connection with the realisation of forecasts. 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. The gradual slowing of economic growth is also expected in 2019 in certain euro area countries under the influence of certain one-off factors.

Inflation was up relative to 2017 to stand at 1.7% in 2018 (average for the year) or 1.4% (in year-on-year terms from December to December; 2017: average for the year of 1.4% and 1.7% in year-on-year terms from December to December 2017). Inflation is expected to rise moderately over the next two years (2019: average for the year of 1.6% and 2.2% in year-on-year terms from December to December 2019; 2020: average for the year of 1.9% and 2.2% in year-on-year terms from December to December 2020) due to rising prices of services and non-energy goods.

The macroeconomic trends described above will affect the competitive position of individual activities within the Slovenske Železnice Group. More detailed information regarding the immediate environment (e.g. the competition and sectoral trends) linked to a specific activity is presented in the section Analysis by activity.



> PERFORMANCE ANALYSIS[®]



The wider environment in which the Slovenske Železnice Group operates includes the international community. Slovenske železnice cooperates regularly in different areas of railway transport with international railway organisations and associations, European railway operators and companies that perform scientific and research and development work. More details can be found in the section Participation in the international environment.

The key performance indicators of the Slovenske železnice Group have been improving since 2012. EBIT generated in 2018 in the amount of EUR 36.270 thousand was up by EUR 24.208 thousand relative to 2012, while EBITDA and value-added per employee were up by EUR 21.511 thousand and EUR 11.659 respectively. The number of employees was down by 739 at the end of 2018.

ROE, as one of the indicators set out in the Criteria for monitoring the performance of companies with capital assets of the state (SDH), amounted to 8.7% in 2018, which is an increase of 6.2 percentage points relative to 2012. In that respect, financial liabilities were down by 66.4%, from EUR 380.299 thousand to EUR 127.735 thousand (excluding funds earmarked for recapitalisation in the amount of EUR 154.255 thousand as at 31 December 2018), while the net financial debt to EBITDA ratio fell from 7.3 to 1.4 during the same period.



	Unit	2012	2017	2018
Financial indicators				
EBIT – operating profit or loss	EUR thousand	12,062	30,941	36,270
EBITDA	EUR thousand	52,133	65,754	73,644
Net profit or loss	EUR thousand	3,479	30,644	29,736
Operating efficiency	ratio	1.027	1.064	1.069
EBIT margin	%	2.7	6.0	6.5
Proportion of operating revenues accounted for by revenues under contracts with the Slovenian Government	%	36.4	34.7	32.0
Return on equity (ROE)	%	2.5	9.6	8.7
Return on assets (ROA)	%	0.5	5.4	4.0
Financial liabilities/equity	ratio	2.673	0.375	0.792
Value-added per employee	EUR	33,517	42,134	45,176
Net financial debt/EBITDA	ratio	7.3	1.4	1.4
Leverage (assets/equity)	ratio	4.5	1.7	2.5
Labour costs as a proportion of operating revenues	%	50.1	46.7	46.1
Non-financial indicators				
No. of employees as at 31 December		8,279	7,416	7,540
Average no. of employees		8,543	7,403	7,490
No. of extraordinary events		46	21	36
Renovation and upgrading of lines	in km	18.65	22.93	50.082
Freight transport delays	min./100 km	49.1	110.8	122.1
Passenger transport delays	min./100 km	2.0	4.0	4.5
Volume sold				
Goods transported	(in thousand tonnes)	16,181	20,960	20,463
Net tonne kilometres	(in million NTKM)	3,538	5,079	4,966
Passengers carried	in thousand	15,512	13,422	13,554
Passenger kilometres	(in million PKM)	742	650	656
Specific energy consumption for traction	(kWh/thousand GTKM)	21.99	21.29	21.17
Specific gas oil consumption	(kg/thousand GTKM)	8.37	7.16	7.86

Note:

The shaded indicators are from the Criteria for monitoring the performance of companies with capital assets of the state (SDH).

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

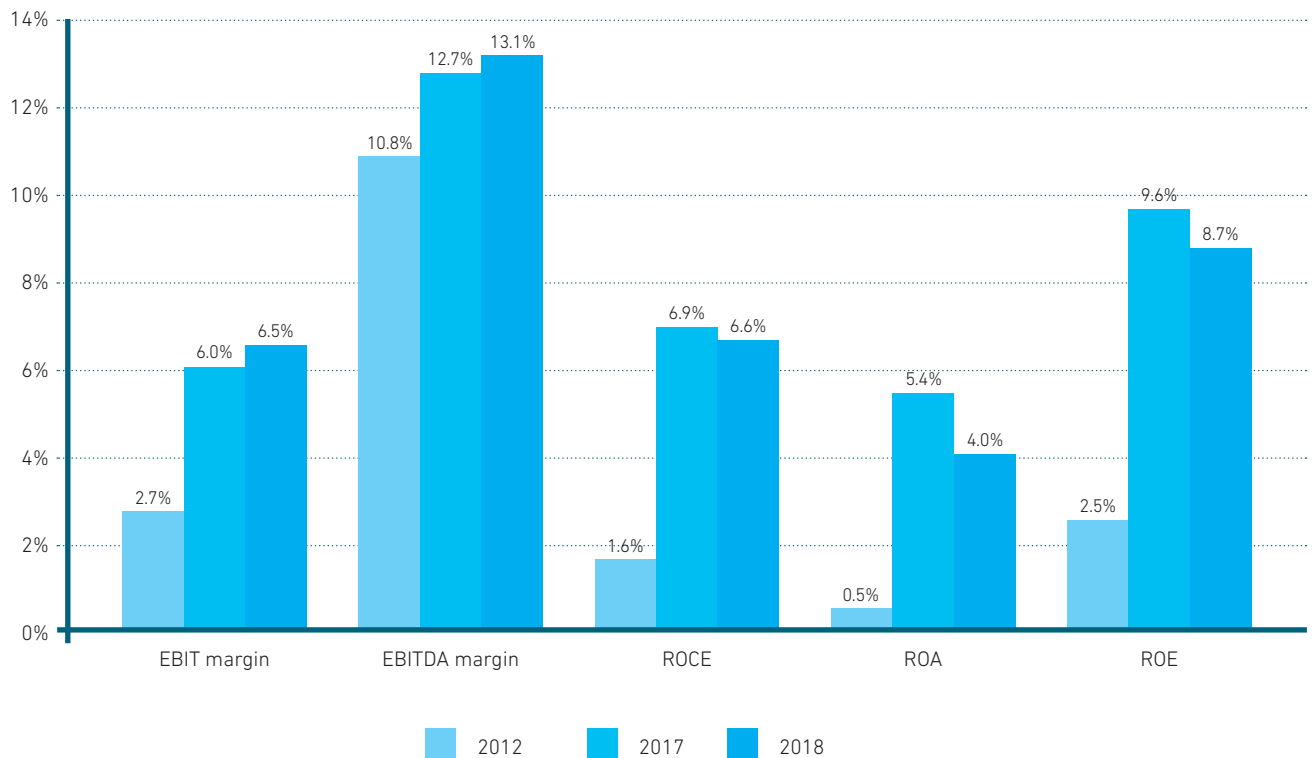
ROA = net profit or loss/average assets

Net financial debt = financial liabilities – cash and cash equivalents



In 2018 the Slovenske Železnice Group generated EUR 561,945 thousand in operating revenues and achieved an EBITDA of EUR 73,644 thousand.

Performance indicators – Slovenske Železnice Group



A detailed commentary regarding performance in 2018 is provided in the sections Performance analysis and Operating results by activity.

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

Items from the statement of profit or loss EUR thousand	Slovenske Železnice Group			Slovenske železnice, d. o. o.		
	2018	2017	Index	2018	2017	Index
Operating revenues	561,945	517,380	108.6	31,302	27,744	112.8
Transport revenues	187,614	192,191	97.6			
Revenues under contracts with the Slovenian Government	180,018	179,666	100.2			
Other operating revenues	194,313	145,523	133.5	31,302	27,744	112.8
Operating expenses	525,675	486,439	108.1	27,250	26,868	101.4
EBITDA	73,644	65,754	112.0	5,501	1,999	275.2
Earnings before interest and taxes (EBIT)	36,270	30,941	117.2	4,052	876	462.6
Pre-tax profit or loss (EBT)	31,403	29,798	105.4	20,964	5,519	379.9
Net profit or loss (E)	29,736	30,644	97.0	20,967	5,913	354.6

Statement of financial position items EUR thousand	31 December 2018	31 December 2017	Index	31 December 2018	31 December 2017	Index
Assets	895,349	574,927	155.7	759,531	516,020	147.2
Equity	356,024	330,333	107.8	307,343	289,420	106.2
Financial liabilities	281,990	124,037	227.3	437,339	208,712	209.5
non-current financial liabilities	42,663	111,393	38.3	80,469	109,672	73.4
current financial liabilities	239,327	12,644		356,870	99,040	360.3
Net financial debt	100,468	89,527	112.2	140,732	51,566	272.9
Current operating receivables	132,638	127,636	103.9	4,102	8,109	50.6
Current operating liabilities	91,726	87,069	105.3	7,595	9,557	79.5
Investments	58,202	38,291	152.0	12,567	3,950	318.2

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 561,945 thousand in operating revenues in 2018 and EUR 525,675

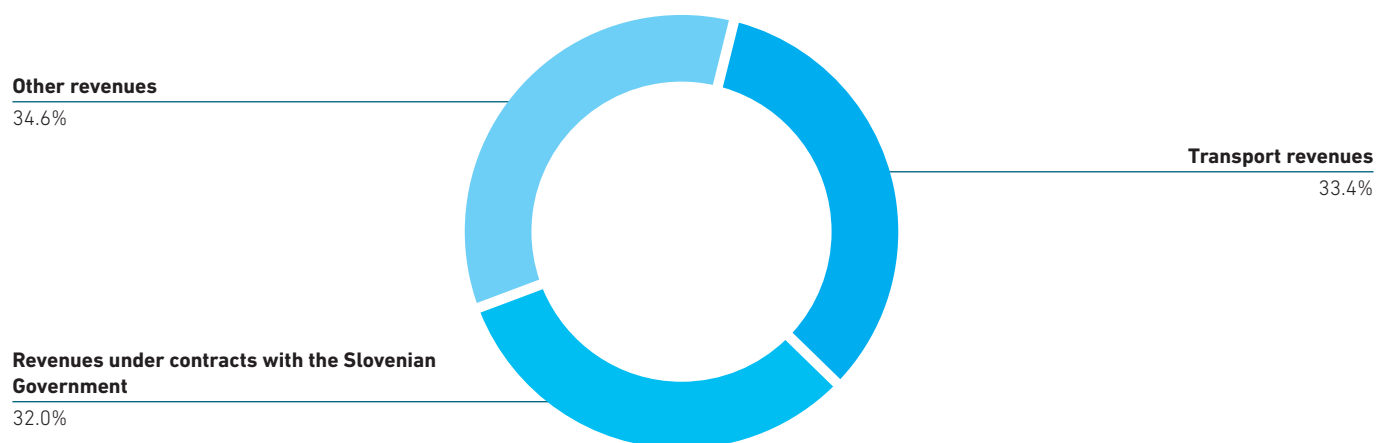
thousand in operating expenses. Net profit for the accounting period amounted to EUR 29,736 thousand. This figure comprised an operating profit of EUR 36,270 thousand, a negative net financial result of EUR 4,867 thousand, current tax of EUR 1,602 thousand and deferred taxes in the amount of EUR 65 thousand.



Profit or loss

EUR thousand	Slovenske Železnice Group			Slovenske železnice, d. o. o.		
	2018	2017	Index	2018	2017	Index
Operating revenues	561,945	517,380	108.6	31,302	27,744	112.8
Operating expenses	525,675	486,439	108.1	27,250	26,868	101.4
Operating profit or loss	36,270	30,941	117.2	4,052	876	462.6
Finance income	2,560	3,769	67.9	24,122	12,450	193.8
Finance costs	7,427	4,912	151.2	7,210	7,807	92.4
Net finance income/costs	-4,867	-1,143	425.8	16,912	4,643	364.2
Pre-tax profit or loss	31,403	29,798	105.4	20,964	5,519	379.9
Current tax	1,602	0		0	0	
Deferred taxes	65	-846		-3	-394	0.8
Net profit or loss for the accounting period	29,736	30,644	97.0	20,967	5,913	354.6

ANALYSIS OF REVENUES



The operating revenues of the Slovenske Železnice Group were up by 8.6% relative to the previous year and amounted to EUR 561,945 thousand (in 2017: EUR

517,380 thousand). The highest growth in revenues was recorded in the management of the PRI due to the increased scope of PRI maintenance.

Operating revenues by strategic activity EUR thousand		2018	2017	Index
Logistics and mobility	SŽ-Tovorni Promet Group	193,120	190,733	101.3
	Fersped, d. o. o.	23,190	18,651	124.3
	VV-LOG, d. o. o. ¹⁾	3,910	3,074	127.2
	SŽ-Potniški promet, d. o. o.	103,329	104,974	98.4
	SŽ-Vleka in tehnika, d. o. o.	122,700	117,423	104.5
PRI management	SŽ-Infrastruktura, d. o. o.	179,454	145,266	123.5
Construction	SŽ-Železniško Gradbeno Podjetje Group	49,919	39,527	126.3
Support activities	Support activities	63,079	58,348	108.1
	Consolidation	-176,756	-157,542	112.2
Slovenske Železnice Group		561,945	517,380	108.6

¹⁾ VV-LOG, d. o. o. was not included in the statement of profit or loss of the Slovenske Železnice Group in 2017. Data for 2017 are also disclosed for reasons of comparability.

The highest proportion of the Slovenske Železnice Group's revenues was generated in the logistics and mobility sector (60.4% of unconsolidated revenues), with SŽ-VIT, d. o. o. providing the majority of services for Group companies. The management of the PRI generated 24.3%

of total unconsolidated revenues, while the construction activity generated 6.8% of those revenues. Support activities primarily provide their services for Slovenske Železnice Group companies.

Logistics and mobility

SŽ-Tovorni Promet Group

EUR thousand	2018	2017	Index
Goods transported (in thousand tonnes)	20,463	20,960	97.6
Operating revenues	193,120	190,733	101.3
transport revenues	160,702	163,817	98.1
on the domestic market	7,466	7,097	105.2
on the foreign market	153,236	156,720	97.8
other operating revenues	32,418	26,916	120.4

The volume of freight transported was down 2.4% relative to the previous year, when an above-average number of transport transactions was recorded due to positive one-off events, while operating revenues were up by 1.3%. Transport revenues were up by 5.2% on the domestic market and down by 2.2% on the foreign market, while other operating revenues were up by 20.4%. Growth in transport revenues on the domestic market was the result of an increase in the transport of cement and scrap iron, while the drop on the foreign market was driven by a decrease in the transport of agricultural products and wood, which was partly offset by the transport of iron, steel and scrap iron, paper exports and sand.

Fersped, d. o. o.

EUR thousand	2018	2017	Index
Operating revenues	23,190	18,651	124.3
on the domestic market	8,394	7,623	110.1
on the foreign market	14,720	10,815	136.1
other operating revenues	76	213	35.7

Fersped generates the majority of its revenues through rail, road and maritime transport, and through storage services. These activities combined account for more than 90% of total revenues. Revenues were up by 36.1% on the foreign market and by 10.1% on the domestic market as the result of the company's focus on foreign markets.



VV-LOG, d. o. o.

EUR thousand	2018	2017	Index
Operating revenues	3,910	3,074	127.2
on the domestic market	2,785	1,933	144.1
on the foreign market	1,121	1,076	104.2
other operating revenues	4	65	6.2

VV-LOG, d. o. o. generates revenues through the organisation of standard transport, combined transport, warehousing and additional logistics services. It generated 71.2% of its revenues on the domestic market and 28.7% of revenues on the foreign market. The company generates the majority of revenues on the foreign market in the EU and only a small proportion outside of the EU.

SŽ-Potniški promet, d. o. o.

EUR thousand	2018	2017	Index
Passengers carried (in thousand)	13,554	13,422	101.0
Operating revenues	103,329	104,974	98.4
contracts with the Slovenian Government	56,695	65,521	86.5
transport revenues	33,228	34,371	96.7
other operating revenues	13,406	5,082	263.8

The operating revenues generated by SŽ-Potniški promet, d. o. o. were down by 1.6% relative to the previous year. Revenues under the agreement with the Slovenian government were down (an adjustment for insufficient compensation paid under the PSO in 2015 and 2016 affected the level of revenues in 2017). Transport revenues were down on both the domestic and foreign markets. The decrease in the number of passengers carried was primarily the result of track closures that in turn were the result of maintenance and investment works on the PRI.

SŽ-VIT, d. o. o.

EUR thousand	2018	2017	Index
Operating revenues	122,700	117,423	104.5
revenues on the domestic market	104,723	105,999	98.8
revenues on the foreign market	9,948	9,738	102.2
other operating revenues	8,029	1,686	476.2

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 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	2018	2017	Index
Operating revenues	179,454	145,266	123.5
contracts with the Slovenian Government	123,323	113,951	108.2
other operating revenues	56,131	31,315	179.2

Management of the PRI includes the maintenance of the public rail infrastructure and the management of railway traffic. Revenues were up by 23.5% in 2018 primarily due to higher revenues from PRI maintenance and higher revenues from the coverage of the calculated costs of operators on account of the implementation of investment works on the PRI.

Construction

SŽ-ŽGP Group

EUR thousand	2018	2017	Index
Operating revenues	49,919	39,527	126.3
on the domestic market	49,439	37,315	132.5
on the foreign market	207	1,411	14.7
other operating revenues	273	801	34.1

The SŽ-ŽGP Group recorded a 26.3% increase in operating revenues in 2018 relative to the previous year. Despite the increase in revenues, planned targets were not achieved due to delays in the implementation of projects and the loss of certain major projects.

ANALYSIS OF EXPENSES

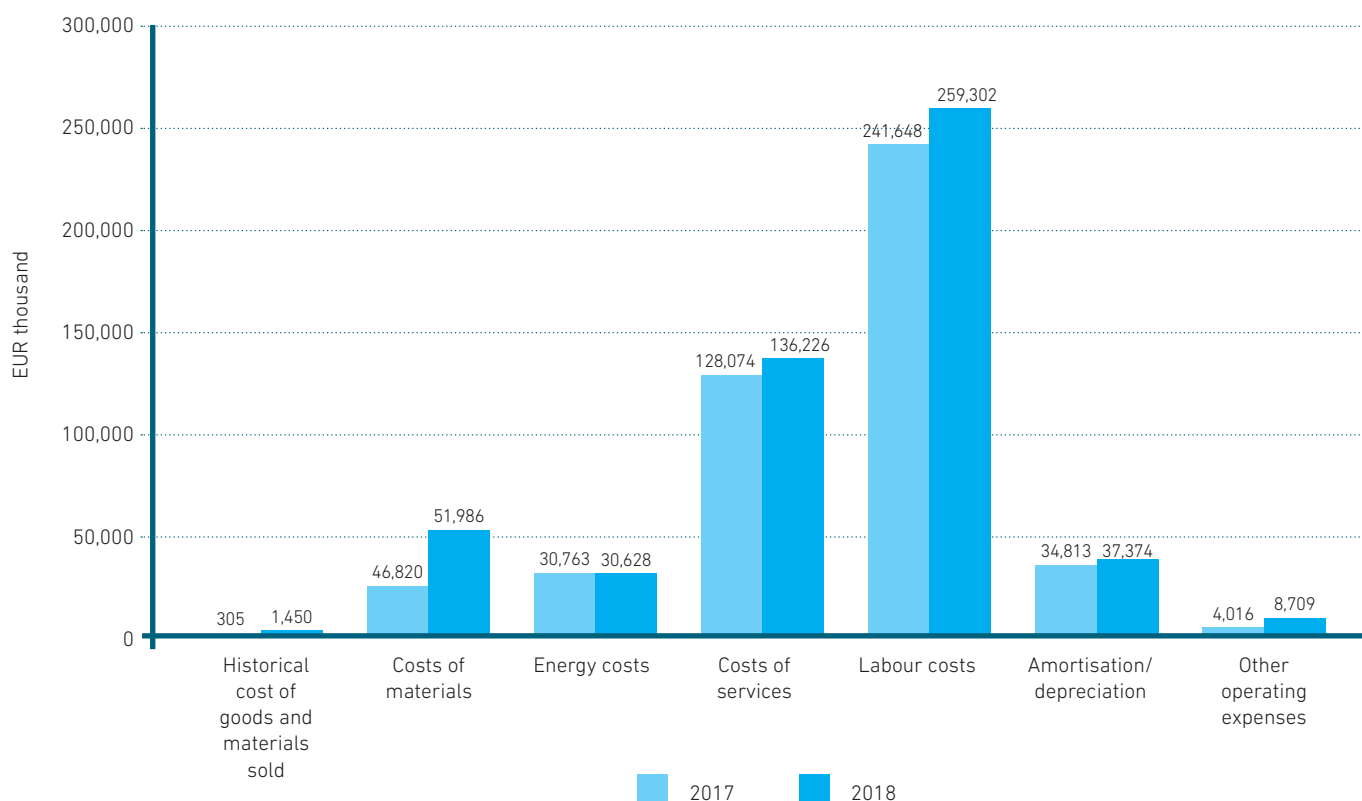
Operating expenses were up by 8.1% relative to 2017, which is 0.5 percentage points less than the growth recorded in revenues. Labour costs as a proportion of operating revenues totalled 46.1%, a decrease of 0.6 percentage points relative to the previous year.

The costs of services were up on the previous year, primarily due to the increased scope of works in PRI maintenance and the logistics activity, and to a lesser extent due to an increase in construction works.

The costs of materials were up mainly due to the increase in the scope of construction works.

Net finance income/costs were negative in the amount of EUR 4,867 thousand. Finance income primarily comprised 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
102-2,
102-4,
102-6,
102-7

> ANALYSIS BY ACTIVITY[®]

FREIGHT TRANSPORT

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

EUR thousand	2018	2017	Index
Operating revenues	193,120	190,733	101.3
Operating expenses	182,844	180,992	101.0
EBIT	10,276	9,741	105.5
EBIT margin, in %	5.3	5.1	103.9
EBITDA	26,384	25,488	103.5
EBT	8,757	11,608	75.4
ROE, in %	11.4	18.2	62.6
ROA, in %	3.8	5.4	70.4

Despite a 1.9% decrease in transport revenues, total operating revenues were up by 1.3% relative to the previous year due to an increase in other operating revenues. Pre-tax operating profit was down by 24.6% relative to 2017, primarily due to negative net exchange rate differences in amount of EUR 3,535 thousand in connection with a EUROFIMA loan.

GRI
102-15

Competitive position of freight transport[®]

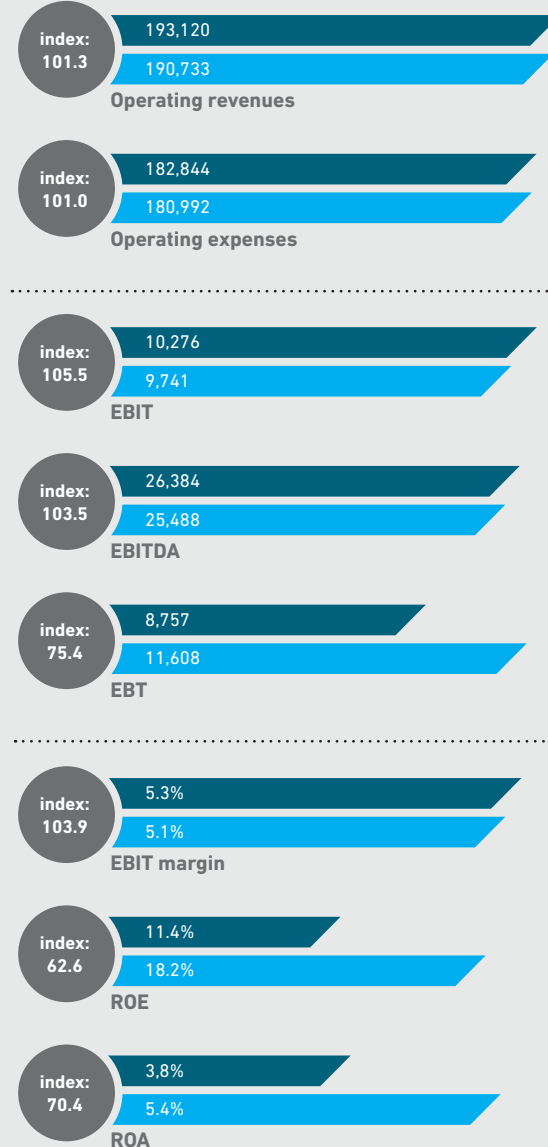
SŽ-Tovorni promet is geographically positioned at the crossroads of the former V and X corridors. The EU introduced Rail Freight Corridors (RFC) that only apply to rail freight transport and pass through the territories of EU member states. Two RFCs run through Slovenia, i.e. RFC 6 (Mediterranean) that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

South-East Europe is linked with North Europe by RFC 7 (Orient/East-Med), 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



OPERATING RESULTS OF THE SŽ-TOVORNI PROMET GROUP



EUR thousand 2018 2017

Tailor-made routes allow us to offer heavy haul train services to our business partners.

from RFC 7 and from roads to the railway, which definitely means a more environmentally friendly transport system.

Because Slovenia's position is geographically competitive, it is becoming increasingly interesting for other operators, as well. 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 entry of four private operators is expected in 2019. This represents a major challenge for SŽ-Tovorni promet.

The response to tightening competition between railway operators lies in the intensification of the marketing activities of SŽ-Tovorni promet, primarily on key markets in the region. Added value from the company's appropriate positioning on the European transport market is also expected from the conclusion of a strategic partnership. The response to tightening competition in other forms of transport lies in the continuous modernisation of the rail infrastructure, the construction of a second track between Koper and Divača, and the elimination of bottlenecks in the railway network.

The total volume of freight transported in Slovenia amounted to 109 thousand tonnes in 2018, a decrease of 0.9% relative to the previous year. A similar decrease was recorded in road transport (estimate for the fourth quarter), while the volume of railway transport was down by 0.8% relative to 2017. The ratio of railway transport to road transport was unchanged from the previous year, such that the proportion of the Slovenian transport market accounted for by railway transport was 21.5% in 2018, while road transport accounted for 78.5%. The proportion of railway transport accounted for by SŽ-Tovorni promet was 87.4% in 2018 (a decrease of 1.2 percentage points), while the volume of transport was down by 2.2%. The proportion accounted for by other railway operators was 12.6% in 2018, an increase of 1.2 percentage points relative to 2017.

Development of activities and results in 2018

We achieved encouraging results with extremely limited capacities, despite difficult conditions due to frequent infrastructure disruptions and increasingly stiff competition.

The SŽ-Tovorni Promet Group transported 20.5 million tonnes of freight and travelled 4,966 million net tonne-kilometres in 2018. The volume of freight transported was down by 2.4% relative to 2017, when an above-average number of transport transactions was recorded due to positive one-off events (e.g. large number of transport transactions involving agricultural products due to a good harvest), while the amount of work performed was down by 2.2%.

The length of the average transport route increased by 0.2% relative to the previous year, from 242.6 kilometres to 243.0 kilometres in 2018. This shows that we have taken a further step forward with respect to the management of longer transport routes.

The reduced availability of the public rail infrastructure due to frequent 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.

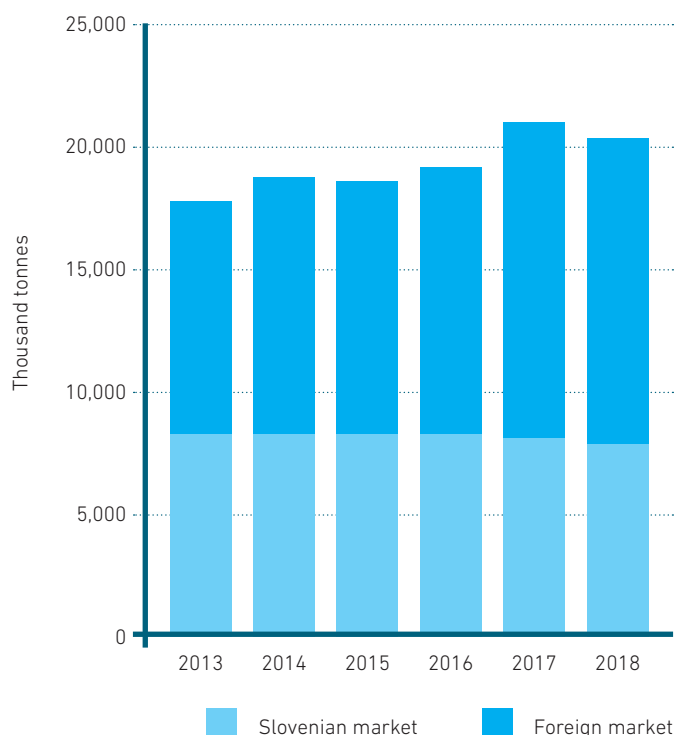
Our services are continuously adapted to the expectations of customers, to whom we provide higher-quality logistics services. We provided customers reliable services by adjusting the length of trains to specific track sections. We arranged a hub in Celje where we couple or uncouple wagons from trains. The Ljubljana-Zalog station is used for the same purposes, as required. This allowed our customers to plan transport via longer trains, regardless of limited infrastructure capacities and restrictions on many track sections. By adapting production activities, we also provided customers transport via heavier trains and thus helped them optimise their production and purchasing activities. We provided them alternative transport routes in order to meet their needs and improve our service. We continuously optimised our work processes with the aim of improving quality and efficiency.

SŽ-Tovorni Promet Group	2018	2017	Index
Goods transported (in thousand tonnes)	20,462.7	20,960.4	97.6
Wagon consignments	20,436.2	20,933.8	97.6
Inland transport	1,248.0	1,206.4	103.4
International transport	19,188.2	19,727.4	97.3
Small consignments	26.5	26.6	99.6

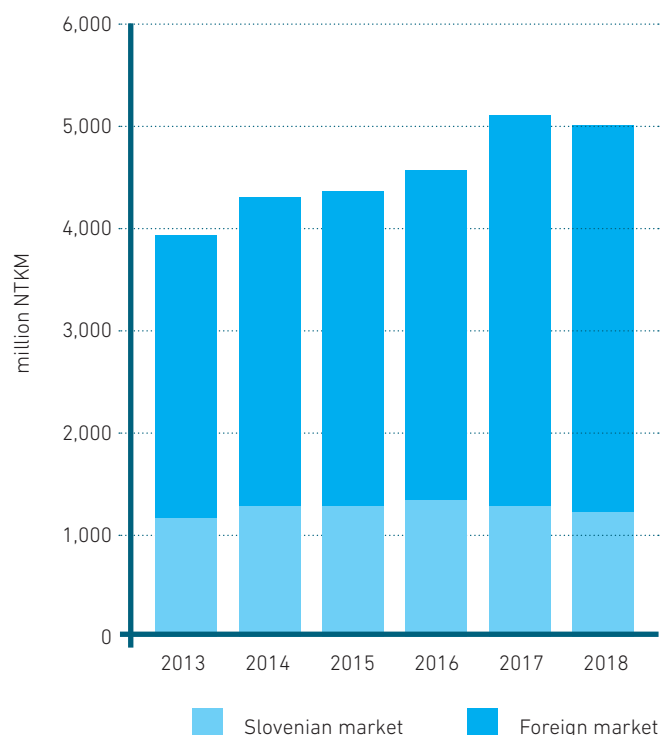
Includes non-consolidated quantities.



Goods transported



Volume sold



With regard to wagon consignments, the domestic transport of sand, scrap iron, cement and construction materials was up relative to the previous year, while the international transport of agricultural products, logs, scrap iron, ore, containers, RoLa and empty private wagons was down.

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 0.8 percentage points relative to the previous year and amounted to 37.9% (38.7% a year earlier).

Wagon consignments

Transport mode (thousand tonnes)	2018	2017	Index
Conventional transport	15,115.0	15,851.9	95.4
Multimodal transport	5,281.6	5,010.1	105.4
SI Cargo (transport through Slovenia)	39.6	71.8	55.2
Total wagon consignments	20,436.2	20,933.8	97.6

Includes non-consolidated quantities.

Volume sold (million NTKM)	2018	2017	Index
Volume sold on SŽ lines	4,843.6	4,992.0	97.0
Volume sold abroad	122.4	87.2	140.4
Total	4,966.0	5,079.2	97.8

We transport wagon consignments in the form of the conventional transport of wagon consignments and in intermodal transport units (ITU) in combined transport. 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 and recognition of the SŽ-Tovorni Promet Group. We also provide transport services in Austria and Croatia through our own haulage. We increased both the length of our transport routes on those two markets and our competitiveness through long-haul freight management.

Conventional transport of wagon consignments

The conventional transport of wagon consignments accounted for 68% of wagon consignments transported on Slovenske železnice lines. That proportion was down by 8% relative to 2017 when it was 76%. 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 98.5% of goods are carried in combined transport using full trains, the majority of which are so-called shuttle trains where wagons are not switched except for traffic-technical reasons. Transport is primarily carried out on lines to and from the Port of Koper towards Hungary, Slovakia and the Czech Republic, and on the Ljubljana KT–Germany line. The remaining goods are transported using individual wagons, primarily to the Balkan countries (Serbia, Croatia and Bosnia and Herzegovina). We concluded new agreements in 2018 with new shuttle train operators and for the transport of individual shipments. Viewed

globally, we recorded a 4.4% increase in goods carried in combined transport and a 7.9% increase in revenues relative to the previous year. We recorded a decline in RoLa (imports and exports) and in the KOMAR product intended for the Slovenian market. The quality of that product deteriorated due to frequent infrastructure works, which was reflected in part in the volume of goods transported.

SI-Cargo Logistics

The increase in transport to and from Serbia, and to countries in transit through Slovenia continued in 2018, while the volume of freight bypassing Slovenia was down. We recorded a 36% increase relative to 2017 in goods transported on routes between Serbia and Slovenia, and through Serbia and Slovenia. 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.

SŽ-Express – small consignments

The SŽ-Express profit centre offers two products: the domestic and international distribution of small consignments, and forwarding together with warehousing-customs services. We will achieve improved cost-efficiency through the more rational organisation of work at the Nova Gorica logistics centre. Activities were also carried out to include an external contractor in the work of the SŽ-Express profit centre. The plan is for the external contractor to take over the production activity of the cost centre, which will retain the sales and marketing activity.





Significant limitations and opportunities®

We encountered several infrastructure limitations in 2018. In addition to planned and unplanned track and line closures, major construction works were carried out on the Zidani Most–Celje–Pragersko line, which required the continuous closure of one track on the two-track line, while a more significant disruption in freight train traffic was the result of maintenance on the Divača–Koper line, with full closures that lasted several days. The full closure of the Maribor border crossing also had a significant impact on work. 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.

Analysis of customer satisfaction

In February 2018, the SŽ-Express profit centre 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. Included in the survey were 36 customers that account for 30% of total transport revenues.

We continuously measured the satisfaction of our customers in our everyday work with them. All key customers have assigned account managers in the Sales, Marketing and Sales Support Department and in the Production Department. Through daily communication with customers, the employees of those two departments verify customers' satisfaction with services and adopt the necessary operational measures to improve those services.

In the majority of cases, negative responses to the quality of our services relate to frequent infrastructure disruptions in the Slovenian rail network and in the networks of neighbouring countries (longer closures due to maintenance and construction works, and a number of unplanned, but shorter closures due to malfunctions in the public rail infrastructure). Such disruptions result in longer transport times and failure to meet agreed delivery schedules. 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 the most significant negative effect on the quality of our services.

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 take over 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 high-quality 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. Our objective is direct access to end-customers, which would reduce dependence on other railway operators and forwarding companies. We will expand our 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.

The volume of freight on the Slovenian market is limited. We are therefore expanding our activities to key markets in the region. We function as an operator in Croatia and



Austria. We are developing our transport services on the two aforementioned markets in line with technical and personnel capacities, and with regard to market interest.

Crucial will be the continuation of activities to enter the Italian and Serbian markets, either independently or with a strategic partner. 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-management side. We performed an in-depth review of production processes in 2018 with an external consultancy company, and drafted measures to optimise those processes. Based on an analysis of financial and physical data, and field inspections of

all key production sites, a range of measures was drawn up to optimise the transport of individual wagon consignments. Those measures are already being implemented. Also drawn up were proposed measures to optimise the state and further development of rolling stock. We began implementing certain measures back in 2018, while others will be implemented in the coming years. The implementation of certain measures depends on measures at other Slovenske Železnice Group companies.

Work efficiency will be further improved through the introduction of new information technologies. A project was launched in 2018 to introduce a business information system for the transport and logistics activity. Also in progress are the introduction of an electronic consignment note and work to introduce technical specifications for the interoperability of freight transport applications.



FERSPED

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

EUR thousand	2018	2017	Index
Operating revenues	23,190	18,651	124.3
Operating expenses	22,229	18,303	121.5
EBIT	961	348	276.1
EBIT margin, in %	4.1	1.9	215.8
EBITDA	1,127	485	232.4
EBT	1,764	429	411.2
ROE, in %	47.3	15.9	297.5
ROA, in %	16.0	4.8	333.3

Net profit comprises an operating profit of EUR 961 thousand and finance income of EUR 803 thousand.

The EBIT margin more than doubled in the context of an increase in revenues and the simultaneous optimisation of operations, resulting in a reduction in fixed costs.

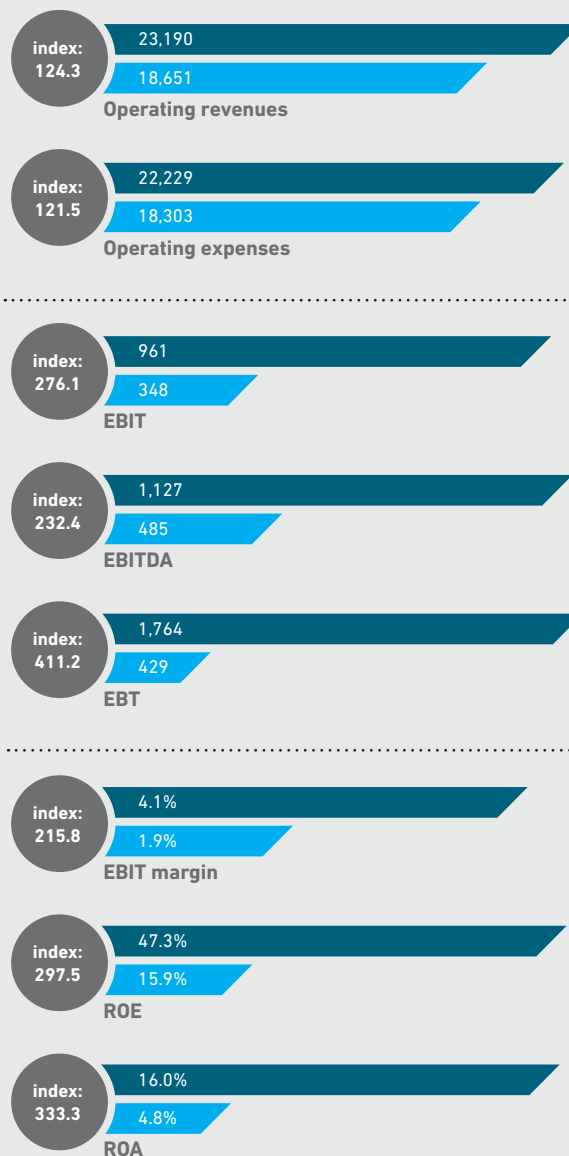
Competitive position®



Growing global trade is bringing change to the flow of goods model. The logistics process is thus becoming an important process for every manufacturing company and is resulting in the establishment of new, complex business relationships. On the other hand, logistics companies are striving for global links with other logistics companies and thus expanding their activities to new markets. Globalisation, the free flow of goods, the networking of commercial and logistics stakeholders and, last but not least, new information technologies are shortening delivery times and expanding geographical coverage.

Fersped is adapting to changes on the logistics market. The company's main activity is the organisation of comprehensive and global logistics services in road, rail, maritime and air transport, and transshipment warehousing and customs clearance services. Its position on the market depends on global trends and is exposed to aggressive competition in the form of local service providers and global players, such as global networks of logistics companies, major shipping companies and railway operators. The prices of logistics services are falling due to increasing competition.

OPERATING RESULTS OF FERSPED



EUR thousand 2018 2017

Fersped plays an important role in transshipment and the organisation of transport through the Port of Koper.

Fersped plays an important role in transshipment 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, which it intends to expand further in 2019. In addition to transshipment 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. Freight is intended primarily for hinterland countries, Poland, the Czech Republic, Switzerland, Germany and Italy.

There is a notable increase in competition from foreign and private railway operators that provide competitive railway transport services.

Development of activities and results

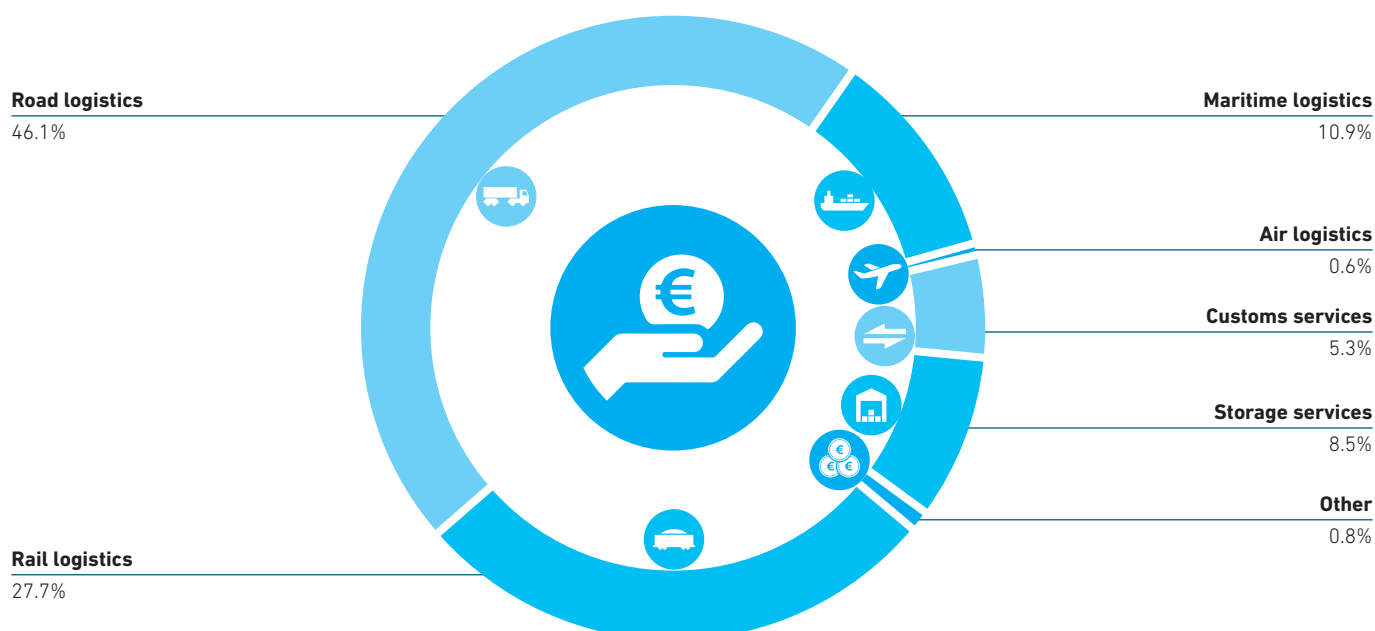
Revenues by activity

Activity EUR thousand	2018	2017	Index
Rail logistics	6,414	6,357	100.9
Road logistics	10,657	6,830	156.0
Maritime logistics	2,517	2,385	105.5
Air logistics	144	206	69.9
Customs services	1,224	945	129.5
Storage services	1,976	1,599	123.6
Other	258	329	78.4
Total	23,190	18,651	123.9

Land transport logistics

Activity EUR thousand	2018	2017	Index
Rail logistics	6,414	6,357	100.9
Road logistics	10,657	6,830	156.0

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





The land transport product, which accounts for 74% of total revenues, combines two segments: rail and road logistics. Revenues in this product segment were up by 29% relative to the previous year, primarily due to growth in road logistics.

Rail logistics

The proportion of revenues accounted for by rail logistics was up by almost 1 percentage point in 2018 relative to the previous year. The aforementioned segment accounts for 28% of total revenues. Growth, which was lower than planned, is a reflection of dependence on the throughput capacity of the PRI on the Slovenian rail network, and a lack of specific types of wagons, particularly wagons for the transport of wood, cement and coal. Also continuing is the closure of stations for the receipt and dispatch of wagon consignments, which the national railway administrations of neighbouring countries define in their strategies.

Due to limitations in the transport of specific wagon consignments, we transport the majority of freight using full trains, while the ten largest customers account for 90% of annual turnover.

The largest rail logistics transactions in 2018 were as follows:

- > the organisation of the transport of coal – 330 thousand tonnes, an increase of 4% relative to the previous year;
- > cement logistics – 141.7 thousand tonnes, an increase of 34% relative to the previous year;
- > the organisation of the transport of scrap iron – 38.2 thousand tonnes, an increase of 50% relative to the previous year; and
- > the organisation of the transport of wood – 12.8 thousand tonnes, a decrease of 48% relative to the previous year due to uncompetitive rail prices for Eas wagons from Slovenske železnice stations, and the shift of freight to trucks.

Road logistics

The highest growth in revenues was recorded by the road logistics segment, where revenues totalled EUR 10.7 million and were 56% higher than the previous

year. The road logistics segment accounts for 46% of total revenues.

There is a strict pricing policy in this segment primarily due to a rise in the purchase prices of transporters (tolls, fuel, etc.) and an increased number of full loads where revenues are higher but margins are lower.

We provide an average of 750–800 road transport services a month, which translates to around 9,000 a year. The highest growth in transport was recorded from our warehouse in Koper. We organise transport to all European countries, most notably Poland, Hungary and Romania, while we also cover Turkey and Italy with our own groupage services. We transport all types of goods – conventional transport, refrigerated transport, specialised transport and the transport of hazardous materials (ADR). In terms of categories of goods, the majority is accounted for by consumer goods, followed by various technological equipment, machine parts, sheet metal, pipes and other iron products, car parts, medical equipment and materials.

The procurement function is organised by geographical regions (countries). For transport services that are not provided by contract, procurement is carried out through an exchange portal, where both offers and inquiries are collected.

Maritime logistics

Activity EUR thousand	2018	2017	Index
Maritime logistics	2,517	2,385	105.5

Revenues generated by maritime transport were up by 5.5% relative to the previous year, and account for 11% of total revenues. The majority of goods are transported by container, where we provide the additional logistics services of transport, transshipment, customs clearance and delivery. More than 7,500 containers were handled in 2018, the majority in Koper.

We are 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.

Fluctuating prices affect our operations in the maritime transport segment, where cooperation with players on the market is constantly changing. It is difficult for us to compete with shipping companies and their global partners who offer customers comprehensive solutions in the global servicing of supply chains.

Air logistics and terminal services

Activity EUR thousand	2018	2017	Index
Air logistics	144	206	69.9
Customs services	1,224	945	129.5
Terminal services	1,976	1,599	123.6

Air logistics

The revenues generated by the air logistics segment were down by nearly 30% in 2018, but it should be noted that this segment enjoys positive synergistic effects with customs clearance, warehousing and road transport services. The revenues generated by the air logistics segment account for 1% of total revenues. The drop in transactions in this segment is primarily the result of declining export services that we provide by contract to a global logistics company.

With regard to imports, we are amongst the top six forwarding companies in terms of the volume of goods transported at the Ljubljana Airport. Volumes were up by 217%, with the majority of goods originating from India and China. These are primarily pharmaceutical products.

The development of air transport will be based on close cooperation and the development of an internal global partnership network. Only by working together can we compete with multinationals. The company's strategy is a presence on foreign markets, in part through membership in various forwarding networks, and thus improved recognisability in the air logistics segment.

Customs services

Customs services were the second-fastest growing activity in 2018. They account for 5% of total revenues. This activity also includes tax representation services that are provided primarily for business partners that operate via the Port of Koper.

We were recertified as an Authorised Economic Operator (AEO) in 2018 and included in the contact group for customs services. The company ensures that employees are regularly trained in customs work. Such training prevents or reduces the possibility of operational errors and helps eliminate work-related cases of non-compliance. Appropriately qualified employees represent a market opportunity given the continuous increase in demand.

Terminal services

Revenues from terminal services were up by 23.6% relative to 2017, and accounted for 8% of total revenues.

Terminal services do not comprise traditional warehousing but involve so-called stuffing and stripping services. The majority of those services involve loading and unloading containers at our transshipment warehouses in Koper and Nova Gorica.

We loaded and unloaded an average of 280 containers and 320 trucks a month. The majority of goods were accounted for by LCD screens, electronics, large and small household appliances, paper, pipes for gas pipelines and plastic granulate. Demand for warehousing and handling service continues to rise, while there is a lack of warehousing capacities. The increase in terminal service has a positive impact on other support services for goods (customs clearance, and road and railway transport).

Fersped has identified terminal services as a strategic development project. The priority is the upgrading of existing or introduction of new information technologies, followed by the expansion of capacities in Koper and the leasing of a customs warehouse in Maribor.



Significant limitations and opportunities®

Our efforts in 2018 focused primarily on increasing sales of services with a greater synergistic effect and higher value-added. Here we see a major opportunity in our presence in the direct vicinity of the Port of Koper, which means an entry not only for Slovenia, but primarily for transport to the hinterland countries of Europe.

Despite our awareness of the limitations in rail logistics (the rail infrastructure, the availability of various types of wagons, etc.), our aim is to maintain the level of revenues in that segment.

We are aware that the rapid development of information technology is resulting in the transformation of logistics processes, a trend that we have been attempting to follow in recent years. The priority strategic project is the upgrading of information technology to support logistics processes.

VV-LOG

Breakdown of the operating results of VV-LOG, d. o. o.

EUR thousand	2018	2017	Index
Operating revenues	3,910	3,074	127.2
Operating expenses	3,141	2,383	131.8
EBIT	769	691	111.3
EBIT margin, in %	19.7	22.5	87.6
EBITDA	784	711	110.3
EBT	773	691	111.9
ROE, in %	64.1	75.4	85.0
ROA, in %	36.5	39.3	92.9

Competitive position®

VV-LOG, d. o. o. provides customs services (import, export and transit services), organises transport services and other logistics services, such as the organisation of LCL and FCL maritime transport, and warehousing services.

The company's long-term objective is to develop a sustainable and sounder network of customers in the area of customs services that generate higher value-added in terms of revenues. In addition to customs services, operations also focus on road transport and other transport services, as the latter were previously provided as ancillary services to offered logistics services and were not one of the main products sold by the company. The company's short-term objectives are to achieve synergistic effects in the areas of customs, warehousing and transport services, to introduce an effective sales and marketing policy, and increased inclusion on the European market.

Customs services

The strength of VV-LOG in terms of customs services is its extensive knowledge of customs legislation and changes to procedures that are planned in the period 2019–2021. In the area of customs services, the company strives to improve comprehensive forwarding services and thus increase the number of transactions in all areas, and to actively attract new customers.



Organisation of transport services

Road transport accounts for the highest proportion of operating revenues. The majority of transactions in this segment are accounted for by the transport of cars and associated spare parts. The company increased the volume of road transport in 2018 and adopted a strategic policy to increase sales of products with higher value-added.

The objective is to maintain the current structure of customers and provide them professional support in logistics services. Expected growth is in line with the growth of existing partners where, given current trends, no significant increase is expected. A stagnation or decrease in transactions is possible in the car transport segment, as current trends in the automotive industry are negative.

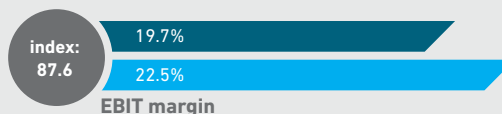
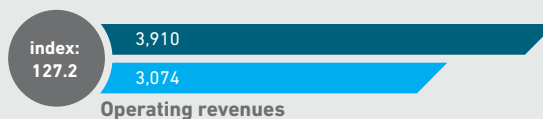
Other

The category 'Other' includes agency services and the handling of fuels. Agency services represent an element of the provision of comprehensive logistics services to regular customers with whom the company transacts in other product categories and which only accounted for a small portion of revenues in 2018. Because value-added and expected demand are minimal, no increase in revenues is expected in this segment.

The volume of handled fuel products was down in 2018. An increase in revenues is planned in 2019, primarily due to biofuels and a potential increase in the transactions of customers who are entering our market. An increase in revenues from fuels is planned, although value-added in this segment is relatively low due to the associated costs.



OPERATING RESULTS OF VV-LOG, D. O. O.



EUR thousand

2018

2017

PASSENGER TRANSPORT

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

EUR thousand	2018	2017	Index
Operating revenues	103,329	104,974	98.4
Operating expenses	92,117	88,614	104.0
EBIT	11,212	16,360	68.5
EBIT margin, in %	10.9	15.6	69.9
EBITDA	23,786	27,360	86.9
EBT	10,886	16,715	65.1
ROE, in %	6.8	11.8	57.6
ROA, in %	4.2	10.4	40.4

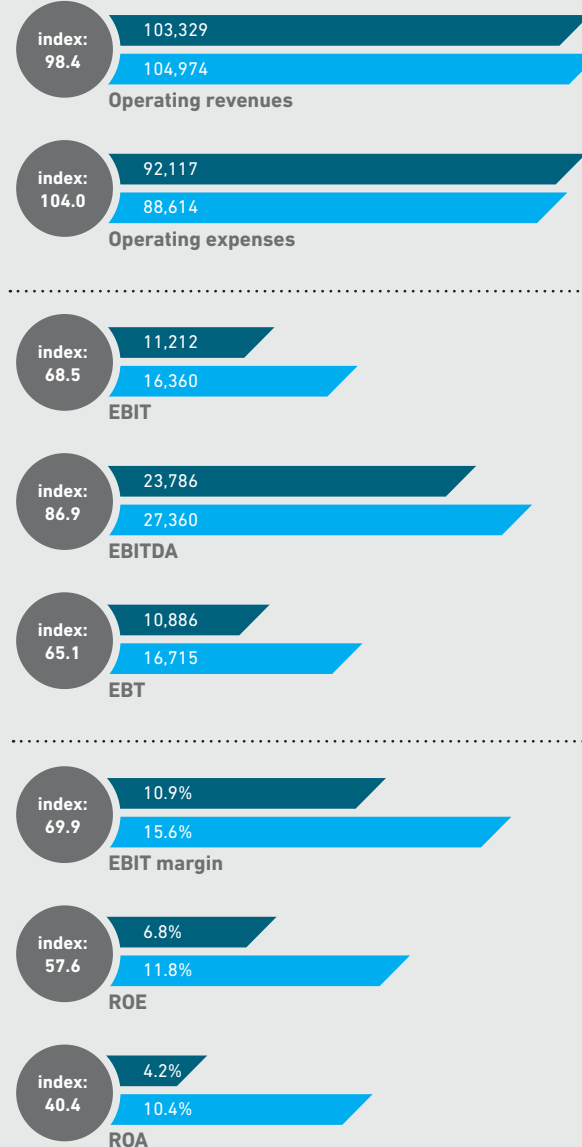
Primarily lower revenues under the contract signed with the Slovenian government (compensation for the discharge of the PSO) contributed to the deterioration in key performance indicators relative to 2017. Expenses were up by 4% primarily due to the costs of maintaining rolling stock, alternative transport by bus, the leasing of locomotives, the cleaning of rolling stock, amortisation and depreciation, and increased costs due to additional traction work as the result of traffic disruptions. A negative net financing result also led to a decrease in net operating 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 2017/2018 timetable period, valid from 10 December 2017 to 8 December 2018, covered 590 train routes, including 497 routes in inland rail transport and 93 routes in the territory of Slovenia in cross-border regional rail transport with Austria, Hungary, Croatia and Italy.



OPERATING RESULTS OF SŽ-POTNIŠKI PROMET, d. o. o.



EUR thousand 2018 2017

Competitive position®

Railway passenger transport is operated by SŽ-Potniški promet, d. o. o. on the public 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 operators in international transport. The proportion of the public operator market accounted for by railway transport stood at 27.7% (measured in PKM) in 2018 and was up slightly relative to 2017, primarily due to significantly fewer passenger kilometres in scheduled public road 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 IPT passes 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 2017. There were 541 registered cars¹⁾ per 1,000 inhabitants in 2017, which is more than one-fifth higher than fifteen years ago.

We are attempting to urge passengers to use 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. The proportion of work performed accounted for by international transport is rising, as more than one-fifth of passenger kilometres were recorded in international transport in 2018. 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. The biggest competitors in terms of international railway transport are low-cost airlines and low-cost bus operators.

¹⁾ Source: SORS; data for 2019 not yet available

Development of activities and results in 2018

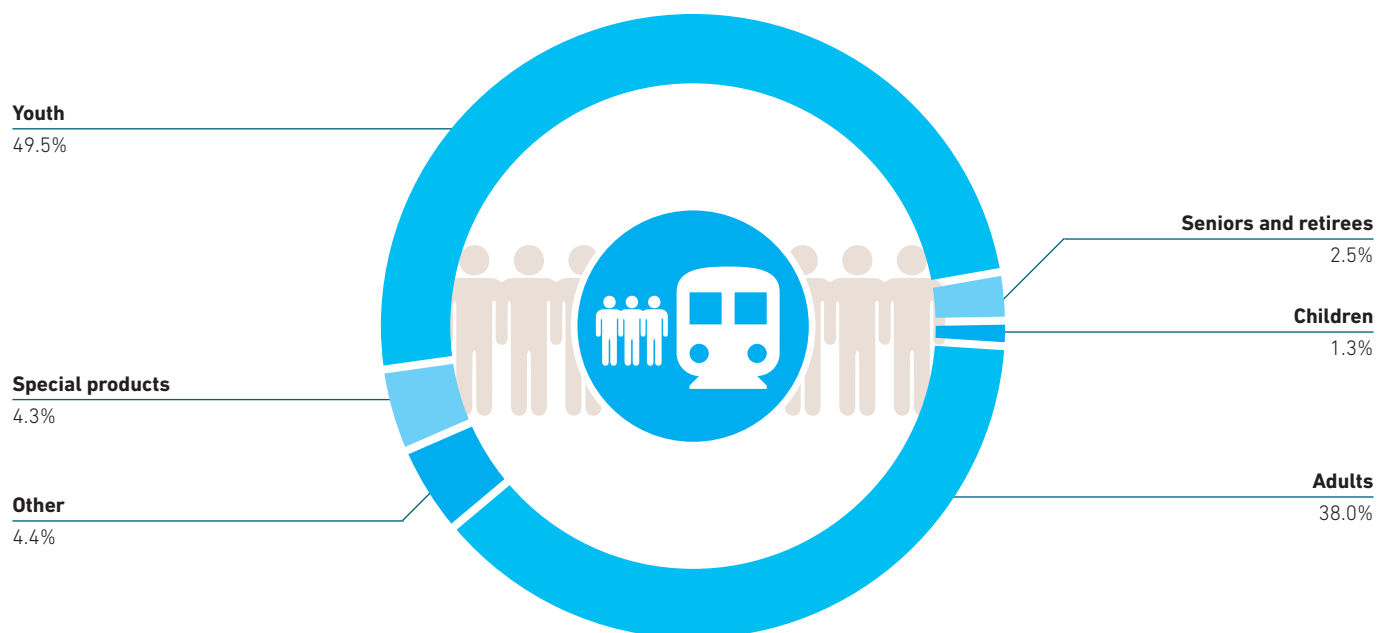
The number of passengers carried was up by 1.0% relative to 2017, while there was a 0.9% increase in passenger kilometres.

	2018	2017	Index
Number of passengers carried (thousand)	13,554.4	13,421.6	101.0
PSO	12,984.1	12,844.8	101.1
other activities	570.3	576.8	98.9
- inland transport	12,677.4	12,591.7	100.7
- international transport	877.0	829.9	105.7
Passenger kilometres (million)	655.9	650.1	100.9
PSO	645.9	639.5	101.0
other activities	10.0	10.6	94.3
- inland transport	523.7	524.9	99.8
- international transport	132.2	125.2	105.6
Train kilometres (thousand)	9,985.3	10,283.5	97.1
PSO	9,943.9	10,241.4	97.1
other activities	41.4	42.1	98.3
- inland transport	7,934.8	8,190.9	96.9
- international transport	2,050.5	2,092.6	98.0
Average distance travelled (km)	48.4	48.4	100.0
- inland transport	41.3	41.7	99.0
- international transport	150.7	150.9	99.9

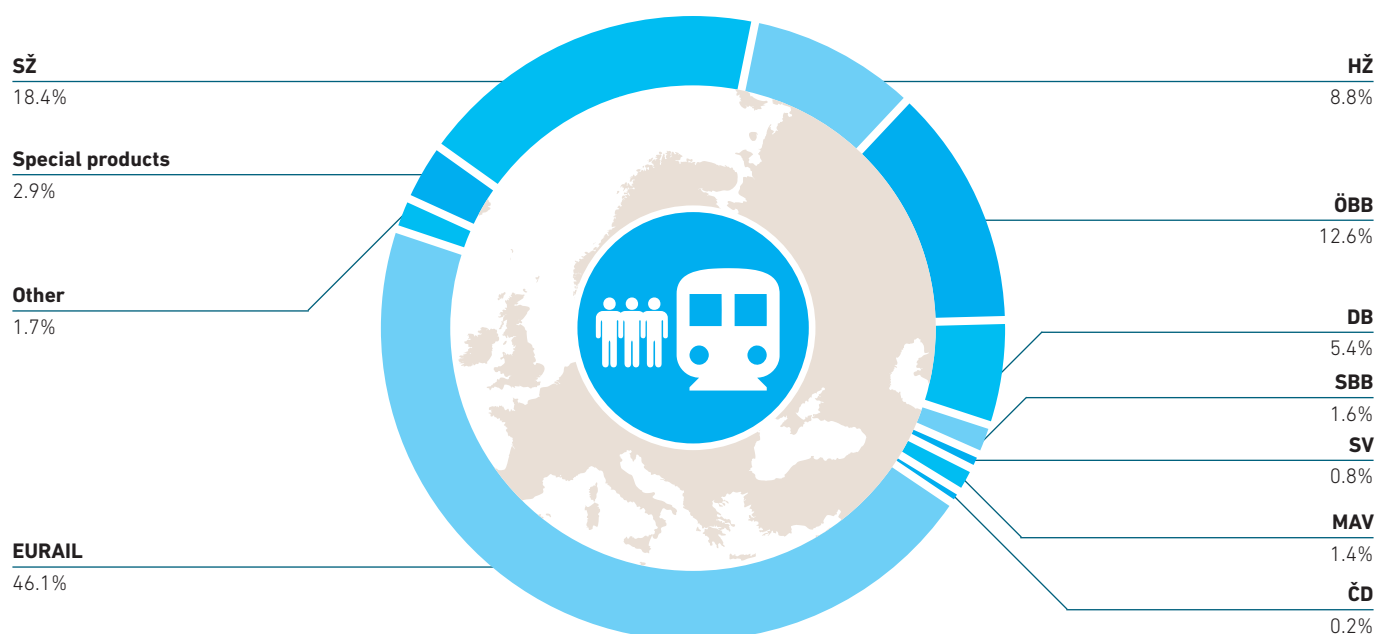
Passengers carried in inland passenger transport accounted for 93.5% of total passengers carried, with the majority relating to the public service obligation governed by the relevant agreement with the Ministry of Infrastructure. Almost one half of all passengers carried are secondary-school and college students with subsidised passes, who use the train daily.

A total of 13.0 million passengers were carried under 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 for a total of 9,943.9 thousand 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 2018 due to alternative transport at the request of the PRI manager, the closure of lines due to investment and maintenance works, and extraordinary events.

Passengers carried



Proportion of passengers carried by operator



A total of 93.4% 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 (6.6% of passengers carried) were Slovenia (dispatch of passengers from Slovenia) and Austria (ÖBB), followed by Croatia (HŽ), Germany (DB), Switzerland (SBB) and Hungary (MAV).

The most significant proportion of passengers in inland transport are youths and adults, who account for 87.5% 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 contracting authority, i.e. the Ministry of Infrastructure. The highest proportion of passengers carried comprises youths with seasonal rail passes (48.9% 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), Switzerland (SBB) and Hungary (MAV). Because Eurail assumed 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 2018 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 a limited number of low-price fares starting at EUR 19 for certain trains and times to Belgrade, Budapest, Vienna, Graz, Salzburg, Zurich, Munich, Frankfurt and Pula were particularly notable.

New developments – new Zlatka and IZLETka passes, and re-introduction of direct trains between Slovenia and Italy

Direct trains began running again on 9 September 2018 between Ljubljana and Trieste, with continuing service to

the Trieste airport and Udine. The aforementioned link is the fruit of cooperation between SŽ-Potniški promet and Trenitalia, while also contributing significantly to that effort were the provincial government of Friuli Venezia Giulia and the Ministry of Infrastructure of the Republic of Slovenia, with the support of the European Commission.

We developed two new offers for passengers in inland transport: the *IZLETka* pass for unlimited travel in Slovenia on weekends and holidays, and an annual flat-rate pass for unlimited travel throughout Slovenia for seniors (aged 65 years and older).

Presentation of services at trade fairs

We attended the most prominent trade fairs, where we presented our current range of services and benefits to passengers. Those trade fairs included the International Trade Fair in Celje, the international Natour Alpe Adria trade fair, the Third Age Festival, the All-Slovenian Trade Fair, the Student Arena and the Children's Bazaar.

A wider range of services during the extended summer tourist season

Special trains ran between Ljubljana and Pula during the May Day holiday and the summer season. We added extra wagons on Saturdays on the Koroška line for the transport of bicycles. In the scope of the summer timetable, additional 'beach' trains ran to Koper, while a night train ran between Ljubljana and Maribor.

In international traffic, a special night train ran between Budapest and Koper from 24 June to 2 September, while a night train with a sleeper carriage ran between Ljubljana and Belgrade from 27 June to 17 September. Two pairs of trains travelled daily to Opatija and Rijeka, while travel between Vienna and Rijeka was possible without transfers from 2 June to 9 September. Regional trains travelled the Ljubljana–Divača–Buzet–Pazin–Kanfanar–Pula line daily. In addition to regional means of transport, the international Istra train ran on Saturdays, Sundays and holidays from 21 April to 17 June 2018 and every day from 23 June to 23 September.

To 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 mode 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. Through two-way communication via the channels of an organiser and our own channels, the 'Take a Train to Events' campaign is heard nationally, which contributes significantly to the popularity of transport by train. These are the reasons that the visitors to and organisers of events are showing increasing interest in this form of cooperation, with two-way communication and transport to events.



Trains with a rich animation programme

High-profile events that were organised in 2018 in the scope of various animation programmes and that contributed to the development of Slovenian tourism and the range of services of SŽ-Potniški promet included:

- > rides with Pippi Longstocking to the Pippi Longstocking festival in Velenje;



- > rides to the Chocolate Festival with the Chocolate Queen;



- > rides to the Chocolate and Wine Festival in Podčetrtek with Little Lion and Aqualuna Girl;



- > rides with elves from the Bled Land of Folk Lore to the Bled Winter Fairy-Tale Land;



- > rides to the Medvode Festival with a mermaid;



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



- > rides to Bled on the fairy-tale train with Kosobrin and Zofka the Witch;



- > rides on Slovenian rails with Santa Claus and the heritage train; and



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



Travel by train to major festivals

In cooperation with major festivals in Slovenia, we organised and promoted train rides to festival events again in 2018. 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 which hosts world-famous artists and throngs of visitors every year. Presentations were made in the scope of individual events about train trips to Brestanica and to the Rajhenburg Castle, and about packages for travelling by train to Ljubljana Festival events.



Fairy-tale train rides in December

As is now traditional, we organised several train rides in December 2018 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 sporting events

We continued train rides in 2018 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 2018 in the scope of the transport of athletes and fans to sporting events included:

- > The Slovenian Olympic torch, which travelled all across Slovenia by train to cities and towns with a rich Olympic tradition prior to the Winter Olympic Games in South Korea, ended its journey on 29 January 2018. Tomaž Razingar, a former Olympian and captain of the Slovenian national hockey team, travelled by train with the torch to Ljubljana.



- > On 17 September, we attended Slovenian Basketball Day in Stožice. At our exhibition stall, we presented visitors our wide-ranging portfolio of products and services, and showed them the extraordinary reception of basketball players a year earlier in Ljubljana, to which we transported enthusiastic fans free-of-charge.
- > On 12 January, the Slovenian handball team travelled by train to the European championships in Zagreb. The team was accompanied by several members of the press, who reported on the journey. A few days later, we transported a large number of fans by train to games in Zagreb.



- > On 28 September, in cooperation with the Slovenian Olympic Committee, we transported a large number of passengers, primarily children, to the Olympic Festival in Ljubljana, where the Slovenian Olympic Committee's mascot Foksi was waiting.



- > SŽ-Potniški promet, d. o. o. served as the official operator for the European youth handball championship in Celje.

Promoting group travel by train

Similar to previous years, we organised a number of field trip programmes in 2018, which we offered 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. We provide passengers links to all destinations in Slovenia and Europe: trains from Slovenia run every day directly, without transfers, to Zagreb, Belgrade, Graz, Vienna, Zurich, Munich, Salzburg, Villach, Innsbruck, Trieste, Trieste airport, Udine, Rijeka and Opatija, and to Pula during the summer.

Significant limitations and opportunities®

Prices and tariffs

The prices for inland passenger transport, which are state-controlled, did not rise in 2018. Prices for international travel were raised on certain lines, but not significantly. The majority remained low-price offers. Passengers were able to apply various discounts to inland and international travel, while many special offers were organised.

New rolling stock will notably improve our services.

Rolling stock

An agreement was signed with Stadler in April 2018 on the purchase of new trains as follows: 10 single-deck, multi-system electric trains, 10 double-deck, single-system electric trains and five diesel passenger trains with a total value of EUR 169 million, excluding VAT. In addition, the preparation of documentation for the second round of purchases of new trains began.



The oldest trains in the rolling stock fleet will be replaced by the new trains. The latter will facilitate a significant improvement in the quality of our services, as they will be more comfortable and less full at peak travel times, while connections between destinations will be more frequent.



We also see opportunities to increase the number of passengers in the modernisation of rolling stock and in the development of an additional range of services on modern trains.

The first of twelve series 312 electric motor units (EMU) with newly installed retractable stairs was put into

service in December. Retractable stairs make it easier for passengers to board and detrain at stations where the gap between the platform and train is too large. Following a six-month test period, we are planning the installation of retractable stairs on other units in the same series.

An agreement was signed in October 2018 for the purchase of data communication and computer system for 32 series 312 and series 310 passenger EMUs. This includes the establishment of a central communication hub for Slovenske železnice (Slovenske železnice data centre), which is required to coordinate the functioning of the integrated communication system on trains and a test laboratory to test and demonstrate the functioning of technical solutions. The communications link of all trains, including new trains that will be equipped with a Wi-Fi system to the communication hub, will facilitate access to information that is provided by the existing multimedia web portal. The project will be completed by the end of 2019.

Ticketing

In 2018, we continued with the upgrading of the ticketing system and the development of an information system for the sale of railway tickets with a consortium of companies (Imovation, d. o. o., Margenta R&D, d. o. o. and Supra informatika, d. o. o.). The upgrading of the ticketing system includes a comprehensive software solution for the implementation and maintenance of that system, comprising system and application software for the sale of tickets via mobile terminals and fixed points of sale, and system integration and hardware.



At the end of November 2018, we began selling tickets online (standard one-way and round-trip tickets in the first phase). Later, it will be possible to purchase all types of tickets online. At the beginning of 2019, it was also possible to purchase tickets using mobile phones with Android and iOS operating systems. The upgrading of the ticketing system will be completed in the summer of 2019, when our services will be of a significantly higher quality and more passenger-friendly.

The renovation of the public rail infrastructure and the construction of new stations will contribute significantly to the accessibility of trains by the largest possible number of persons and an increase in the number of passengers. To that end, two new stations (Dolgi most and Lavrica) were built in December 2018.



The Passenger Transport Strategy until 2031 was released in 2018 and defines strategic development projects and activities that in the coming years will affect the provision of high-quality services in rail passenger transport, and thus the realisation of the vision and strategic objectives of Slovenske železnice as operator and Slovenia as part of the European transport services market. In conjunction with the upgrading of the ticketing system, and the introduction of new sales channels and the modernisation of passenger transport rolling stock, additional services will be developed in the future, such as the introduction of vehicle sharing and other tourism products that will be developed in cooperation with foreign railway operators and other external contractors from Slovenia and abroad. Through a range of new services, we will transform rail passenger transport into an integrated transport service – from home to destination – with the introduction of 'Park and Ride with Slovenian railways', and

the introduction of charging stations for electric vehicles, bicycles and scooters. We will thus further expand and improve the range of services for our customers.

The IPT system, which allows passengers to use various types of transport and includes the use of both intracity and intercity public transport, began operating in 2016 with the introduction of subsidised passes for students. In the future, the IPT system will be expanded to other products intended for passengers not included in the subsidised ticket system. The single ticket will thus be made available to all users of public transport services. We see an opportunity to promote the use of public rail transport in the expansion of the IPT system to a new circle of users.

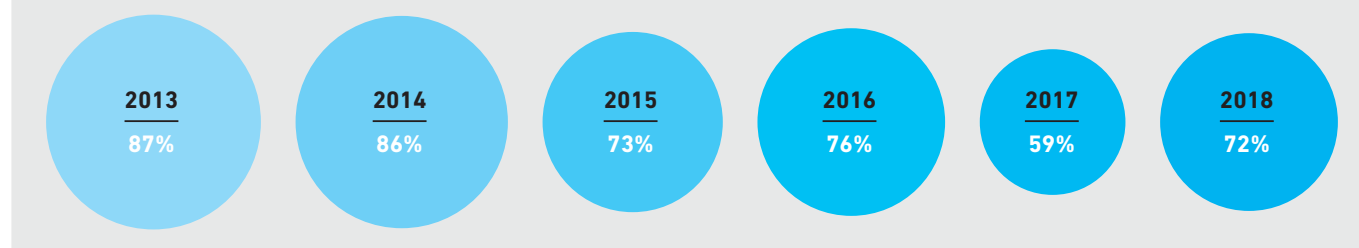


In the scope of the European CONNECT2CE project, Inter-reg Central Europe is developing an integrated cross-border ticket for trains and buses between Ljubljana and Trieste. The objective of the IN2STEMPO project, in which Slovenske železnice is a participant, is to improve access to trains through the use of new ticketing technologies, with the aim of ensuring the faster boarding of trains and the optimisation of work at stops.





Percentage of scores of at least good



Limitations and opportunities regarding the quality of services

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 passengers. We have organised an online survey for the last four years, with the aim of verifying passenger satisfaction with our services. The most recent survey was published on Slovenske železnice's website from 30 November 2018 to 20 January 2019. We analysed 619 correctly completed surveys submitted by ticketed passengers.

Answers indicated that the majority or 30% of respondents travel by train several times a week and that nearly as many travel by train daily. In terms of purpose, 40% of respondents take the train in their free time for excursions, travel, visiting others, to go shopping, etc., while nearly a third travel to and from work by train. The proportion of passengers accounted for by students was down, at 24.2%. The majority or 53% of respondents use a one-way or round-trip ticket and 14.2% use a standard seasonal pass, while only a fifth use a subsidised IPT pass. The respondents' age structure indicates that the majority (42.5%) are aged 31 to 50, while slightly more than 50% are men and the Central Slovenia region is the most represented in terms of the population.

A total of 72% of respondents rated our services as good, very good and excellent in 2018. Presented in the table below are percentages of the highest scores in previous years:

	2013	2014	2015	2016	2017	2018
Passenger transport	87	86	73	76	59	72

User satisfaction improved relative to 2017, as indicated by the higher average score, which was 3.20 in 2018. All elements of the quality of transport services received the highest scores, while the quality of staff stands out in terms of the highest scores. Passengers gave train speeds and services at stations the lowest scores. Those who have never travelled by train or do so very rarely stated that they would take the train if they were faster and more frequent.

The most important elements of train travel to respondents are the timetable, punctuality and train speed.

TRACTION AND TECHNICAL SERVICES

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

EUR thousand	2018	2017	Index
Operating revenues	122,700	117,423	104.5
Operating expenses	122,455	116,494	105.1
EBIT	245	929	26.4
EBIT margin, in %	0.2	0.8	25.0
EBITDA	2,413	2,993	80.6
EBT	20	722	2.8
ROE, in %	0.1	1.3	7.7
ROA, in %	0.0	0.6	0.0

Operating revenues were up relative to the previous year due to the increased scope of traction services on account of track closures that arise as the result of investment works on the rail network. The primary objective of Traction and Technical Services, which generates 89.2% 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 2018

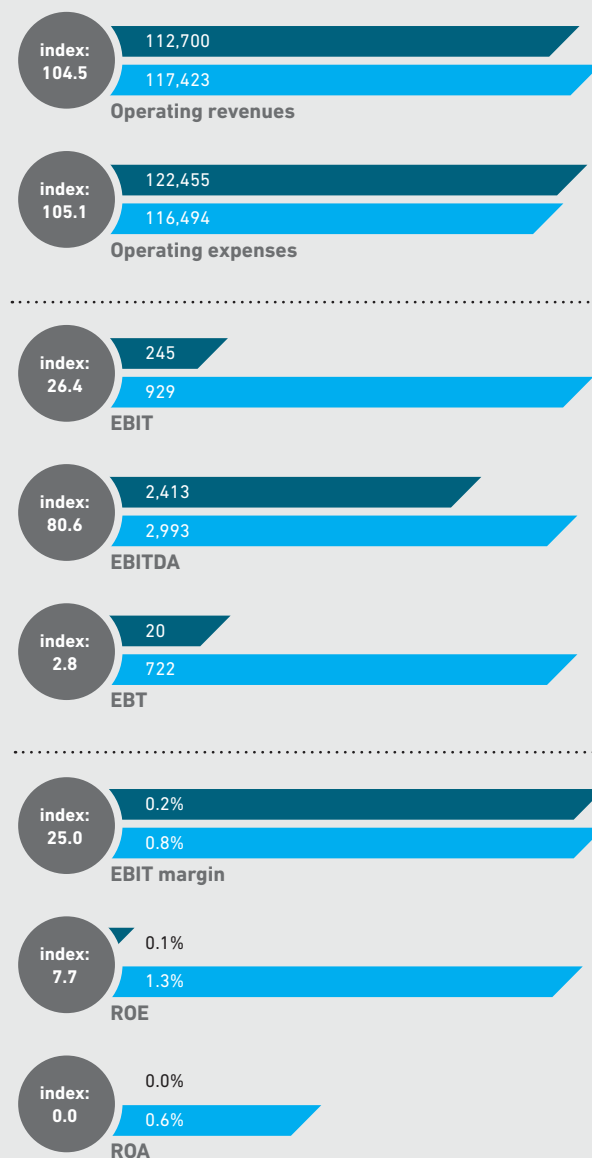
Maintenance activities

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 (79.2%). The largest customers for maintenance services for rolling stock in the Slovenske Železnice Group were SŽ-Tovorni promet, d. o. o. (47.8%) and SŽ-Potniški promet, d. o. o. (47.2%).

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 2018. The proportion of sales accounted for by customers outside the Slovenske Železnice Group, who are the owners or lessees of rolling stock, was 21.0%. Of the aforementioned customers, more than 78.5% of sales were realised



OPERATING RESULTS OF SŽ-VIT, d. o. o.



EUR thousand 2018 2017



abroad, the majority on Western European markets. Revenues were up by 3.4% relative to the previous year. Similar to recent years, the main product for customers outside the Slovenske Železnice Group in 2018 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 58.4% and SŽ-Potniški promet, d. o. o. accounting for 41.6%). 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 (work of locomotives) and lubricated kilometres (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 8.0% to 6.9%. The ratio between the work performed by electric and diesel locomotives changed because less work was performed on the Pragersko–Hodoš line with diesel locomotives.

Wagon technical services (WTS)

Wagon Technical Services is one of the rail activities in which we participate directly in the provision of rail

transport. The primary tasks of WTS are monitoring the technical status and equipment of tractive vehicles, and monitoring their functioning in trains, while the main purpose of WTS is to ensure the safe, reliable, high-quality and environmentally-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 for the needs of operators in the Slovenske Železnice Group (SŽ-Tovorni promet, d. o. o. accounting for 80.3% and SŽ-Potniški promet, d. o. o. accounting for 19.7%).

Significant limitations and opportunities[®]

SŽ-Vleka in tehnika, d. o. o. faces limitations in the performance of its activities due to obsolescent technologies, complex work processes, the 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	2018	2017	Index
Operating revenues	179,454	145,266	123.5
Operating expenses	175,533	143,578	122.3
EBIT	3,921	1,688	232.3
EBIT margin, in %	2.2	1.2	183.3
EBITDA	6,294	3,794	165.9
EBT	3,606	1,552	232.3
ROE, in %	16.9	9.5	177.9
ROA, in %	4.1	2.8	146.4

EBIT more than doubled relative to 2017, with both operating revenues and operating expenses up due to the increased scope of maintenance works on the public rail infrastructure.

Pursuant to the Railway Safety Act (ZZelP), SŽ-Infrastruktura, d. o. o. serves as the manager of the public rail infrastructure and is responsible for the maintenance, modernisation and functioning (new term for traffic management according to the law) of the public rail infrastructure, and for assisting in the development of 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.

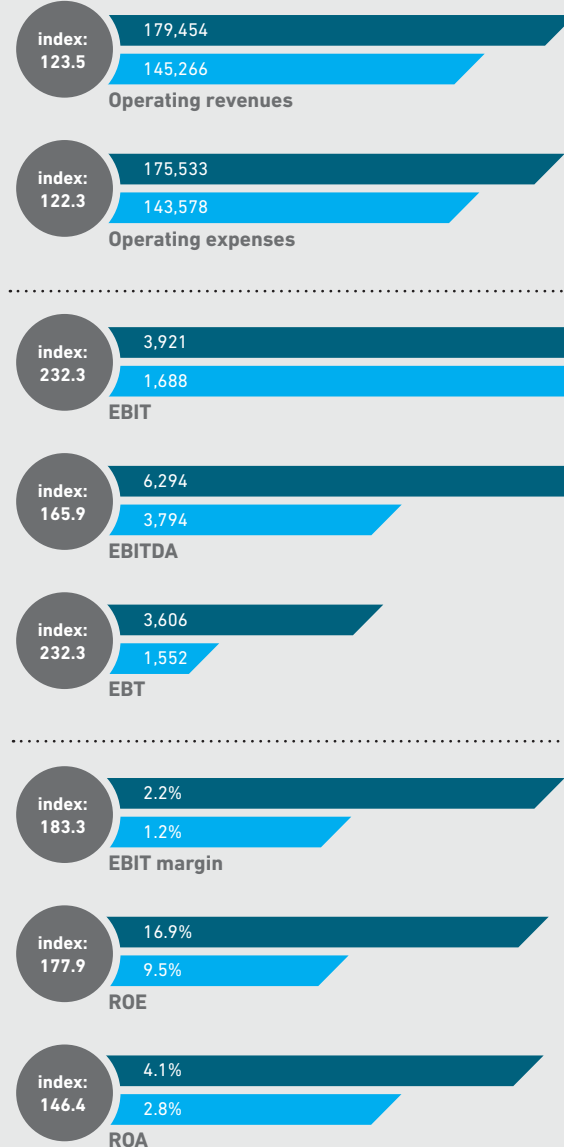
Pursuant to the Railway Transport Act and the Maintenance of Separate Accounts for Different Activities Act, separate accounting records are kept for PSO activities and other activities, where all revenues and expenses are consistently allocated to individual activities in accordance with the Criteria 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[®]

The development of a sustainable transport system is the first precondition for the development of a modern society.



OPERATING RESULTS OF SŽ-INFRASTRUKTURA, d. o. o.



EUR thousand 2018 2017



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, interoperable, safe, competitive, intermodal and environmentally-friendly railway network that encourages and facilitates the competitiveness of rail freight and passenger transport, and supports the sustainable and environmentally-friendly development of transport by redirecting the transport of freight and passengers from road to rail.

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 transport services, as clock-face timetabling and the resulting 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, which is being rectified, some cargo is already being redirected to routes that bypass 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 ensured on a particular section of the line between Zidani Most and Šentilj. 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 in certain connections in the Republic of Croatia towards Hungary. In its strategy, the Republic of Slovenia emphasised the urgency of the upgrading and renovation of the lines in priority rail freight corridors RFC 5, RFC6, RFC 10 and RFC 11, thereby ensuring Slovenia's long-term competitive strength.

Investments in the PRI are being made at an accelerated pace, while current and planned investments in the coming years will allow the Republic of Slovenia to provide a high-capacity, interoperable, safe, competitive, intermodal and environmentally-friendly railway network.

Upgrades and modernisation activities in the PRI in 2018: 44.74 km

- > of which an increase in track load class: 44.74 km
- > of which additional electrification activities: 0 km

Maintenance/renovation works in the PRI in 2018: 5,342 km

- > of which an increase in track load class: 0 km
- > of which additional electrification activities: 0 km

The upgrading of missing sections on the Zidani Most–Šentilj line is in progress to achieve a D4 track load class (load of 22.5 t/axle). The project must be completed during the second half of 2020, as that line will be put into operation with the aforementioned load for the 2021 timetable. Works were completed in 2018 on the left track of the Rimske Toplice–Celje line, while the Celje and Laško stations were upgraded. The upgrading of the single-track Pesnica–Šentilj line was completed (the upgrading of the Pesnica and Šentilj stations is in the final phase), as was construction work on the Ribnica–Kočevje section.

The siding track at the Koper freight station was built. The relevant operating permit will be obtained following the installation of ETCS on the aforementioned section. A hot axle box detector was installed and put into use on the Divača–Koper section.

The project to equip stations in the Ljubljana region was completed, while two new stations (Dolgi Most and Lavrica) were built and the Šmihel station in Novo Mesto has already been put into use.

Projects that were launched in 2018 and continue are as follows:

- > the installation of new signalling and safety devices on the Zidani Most–Šentilj section;
- > the introduction of remote traffic control on the Ljubljana–Zalog–Šentilj section;
- > the upgrading of four sections on the Ljubljana–Sežana section is in the design stage;
- > the construction of anti-noise barriers on the Divača–Koper section, which will also serve as fire protection barriers;
- > the Ljubljanska cesta underpass at the Maribor–Studenčič station; a contractor has been selected for the underpass in Štore; and

- > the upgrading of the Poljčane–Slovenska Bistrica line, which includes the upgrading of two stations (Poljčane and Slovenska Bistrica), the upgrading of the Poljčane–Slovenska Bistrica section, the construction of a new underpass in Poljčane and the construction of a new overpass in Sp. Brežnica.

Development of activities and results in 2018

PRI maintenance work

In 2018, we carried out scheduled maintenance works, maintained the required normal operating capacity of the track superstructure and substructure elements and safety signalling, telecommunications and electricity devices 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.

Six decisions by various inspectorates were submitted for implementation in 2018. Of that total, two were deferred for implementation from 2017. A total of six decisions were implemented in 2018. A total of 60 decisions are currently in the process of implementation.

The regular maintenance of signalling and safety systems and devices in 2018 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 signalling. Worn equipment was replaced in the scope of maintenance.

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



Increased investment in the rail infrastructure will contribute to the construction of a modern, interoperable, safe and low-carbon intermodal network.

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 2018, 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 which 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.

Major works in the scope of maintenance and replacements were as follows:

- > arrangement of the railway superstructure on the Prešnica–Koper freight station section (Črnotiče–Hrastovlje section, from km 11+932 to km 13+978);
- > the partial renovation of the superstructure on the left and right tracks from km 567+800 to km 569+500 on line no. 50 Ljubljana–Sežana (Ljubljana–Brezovica), and partial renovation of the right track between the Preserje and Borovnica stations from km 581+000 to km 586+000;
- > complete rehabilitation of the superstructure on line no. 62 Prešnica–Koper (section C2), and renovation of the superstructure on tracks 3 and 4 at the Logatec station on line no. 50 Ljubljana–Sežana–national border;
- > installation of rock-fall protection (RFP) systems for the protection of slopes against falling materials and rocks on the G10 national border–Dobova–Ljubljana line (Zagorje–Sava section, from km 520+025 to km 524+400 in the total length of 640 m) and on the R70 Jesenice–Sežana line (Grahovo–Most na Soči section, at km 54+305/395 in the length of 90 m);
- > fire protection of lines in the form of shotcrete, the stabilisation of slopes with IB0 anchors in a length of 270 m, and the controlled burning of vegetation in the total length of 900 metres (11,100 m²) on rail line G62 at the Prešnica–Koper line junction;
- > a project implementation plan received in 2018 is currently being reviewed and is intended for the arrangement of areas for the charging of electric bicycles, the hiring of bicycles and the construction of bicycle stands with the aim of ensuring increased access to the public rail infrastructure and improving the competitiveness of rail transport services. The project envisages the new arrangement of bicycle stands at train stations/stops throughout the entire Slovenian railway network. The implementation plan envisages the arrangement of bicycle stands at 220 locations (stations and stops). Stands to accommodate 8,570 bicycles will be ensured by the project. The plan envisages the set-up of 4,285 (857 self-contained structures) high bicycle stands, of which 1,650 will be covered and 2,635 will be uncovered;
- > the replacement of mechanical barriers with automated barriers at the Šoštanj station and the rearrangement of signalling and safety devices at the same station;
- > the replacement of worn-out PIS (passenger information systems) with the installation of a dynamic timetable (display of the actual timetable with a link to an electronic chart and signalling and safety device telegrams) – G50: Ljubljana–Sežana, and Borovnica, Logatec, Rakek and Pivka stations;

- > installation of a video surveillance system at the Dobova train station;
- > renovation of overhead lines – G64: Pivka–Ilirska Bistrica; and
- > extension of the electrification of track 5 at the Murska Sobota train station.

Maintenance of stations and stops

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

Volume sold

	2018		2017	
	Hours	Structure	Hours	Structure
Number of maintenance hours				
- PRI maintenance work	1,500,636	89.9	1,546,060	93.3
- replacements in the scope of PRI maintenance work	29,370	1.8	12,942	0.8
- other activities	137,467	8.3	98,180	5.9
Total	1,667,473	100.0	1,657,182	100.0
Number of hours worked by department				
- track maintenance	863,094	51.8	888,533	53.6
- maintenance of SS and TC devices	540,789	32.4	514,045	31.0
- electrical system maintenance	263,590	15.8	254,604	15.4
Total	1,667,473	100.0	1,657,182	100.0

Breakdown of costs by maintenance activity

EUR thousand	2018	2017	Index
Public service obligation	88,221	81,153	108.7
Track maintenance	49,881	48,917	102.0
Maintenance of SS and TC devices	25,805	20,929	123.3
Maintenance of overhead lines and electrical system structures	12,525	11,307	110.9
Housing and buildings without the status of PRI	479	440	108.9
PRI management	1,300	1,142	113.8
Total	90,000	82,735	108.8

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 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 of 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 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 2018 primarily in the following areas:

- > the completion of construction works on track superstructure buildings, overhead lines and signalling, safety and telecommunication devices, as part of the construction of a 1.2 km track on the Divača–Koper line to serve the function of main track at the Koper freight station in the scope of the project to eliminate bottlenecks on the Divača–Koper line and the Hrasovlje TPS;
- > the continuation 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;
- > continuation and completion of the physical implementation of field work in the project to modernise the Kočevje line (2nd phase/2nd stage) and the start of works on the project to modernise the Kočevje line (2nd phase/3rd stage);
- > the continuation of works in the implementation of remote traffic control on PRI lines for the national border–Dobova–Zidani Most–Ljubljana and Zidani Most–Šentilj–national border sections;
- > the continuation of works as engineer for the agreement on the provision of engineering services in the upgrading of a section of the Poljčane–Slovenska Bistrica line; and
- > the continuation of work on the project to build an ERTMS/ETCS on the national border–Dobova–Zidani Most and Pragersko–Maribor lines.

Traffic management

In terms of traffic management activities (the term 'Traffic management' was changed to 'Functioning of the PRI' in accordance with amendments to the Railway Transport Act, effective 16 June 2018), all tasks deriving from the

public service obligation of traffic management and the tasks directly associated with that obligation were performed, and included:

- > the allocation of train paths;
- > the setting of operating fees;
- > the charging and collection of infrastructure charges;
- > the management of train traffic and ensuring the functioning of the PRI;
- > the drafting, adoption, entry into force and publication of the network timetable;
- > the performance of the technological work process 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;
- > the 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;
- > the 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;
- > the notification of the safety authority and inspectorate responsible for railway traffic in the Republic of Slovenia of infringements of the provisions of regulations governing railway safety;
- > the drafting and publication of the network programme;
- > ensuring the efficiency of international train paths;
- > ensuring the competitiveness of international freight transport; and
- > ensuring a regime of efficiency.

We ensured the safety and regulation of railway traffic in accordance with the network timetable, managed train traffic and coordinated technological work processes with operators, and participated in investigations of extraordinary events. Work 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. In international terms, we participated in the working bodies of competitive rail freight corridors (RFC 5, RFC 6 and RFC 11) and in the establishment of the new RFC 11, and in the updating of manuals for the operators and managers of border lines.

Scope of traffic control services

On the basis of the adopted and approved 2017/2018 network timetable, the traffic control activity included the coordination, management and regulation of train traffic at service points, and the security of train and shunting paths and level crossings.

Provision of services in connection with the PSO of traffic control:

Traffic control	Number of training hours		
	2018	2017	Index
Traffic control and coordination from TMC	2,376	2,886	82.3
Local traffic management at stations	17,994	21,870	82.3
Securing of train paths	1,856	2,608	71.2
Securing of level crossings	152	288	52.8
Total	22,378	27,652	80.9

Traffic control	Occupancy of service points – number of hours		
	2018	2017	Index
Traffic control and coordination from TMC	122,499	121,671	100.7
Local traffic management at stations	866,915	881,935	98.3
Securing of train paths	182,674	184,003	99.3
Securing of level crossings	19,107	25,301	75.5
Total	1,191,195	1,212,910	98.2

operations (which is improving with the introduction of a new information system for managing line equipment), and limited funds for the renovation and investment maintenance of the railway infrastructure.

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 will 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.

Efforts 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. We will complete the project to modernise the information system, and introduce contemporary software solutions for the management of assets, work, services, contracts and material operations.

Significant limitations and opportunities®

Significant limitations in the management of the PRI primarily include the low level of mechanisation in maintenance work and the low level of computerisation of



CONSTRUCTION

Breakdown of the operating results of the SŽ-ŽGP Group

EUR thousand	2018	2017	Index
Operating revenues	49,919	39,527	126.3
Operating expenses	47,502	39,224	121.1
EBIT	2,417	303	797.7
EBIT margin, in %	4.8	0.8	600.0
EBITDA	4,257	2,050	207.7
EBT	2,364	307	770.0
ROE, in %	9.7	1.1	881.8
ROA, in %	5.3	0.7	757.1

Growth in operating revenues, primarily due to the completion of projects according to plan, exceeded growth in operating expenses by 5.2 percentage points, resulting in a 4-percentage point increase in the EBIT margin. Despite a negative net financial result, pre-tax profit was up by EUR 2,057 thousand relative to 2017.



Competitive position®

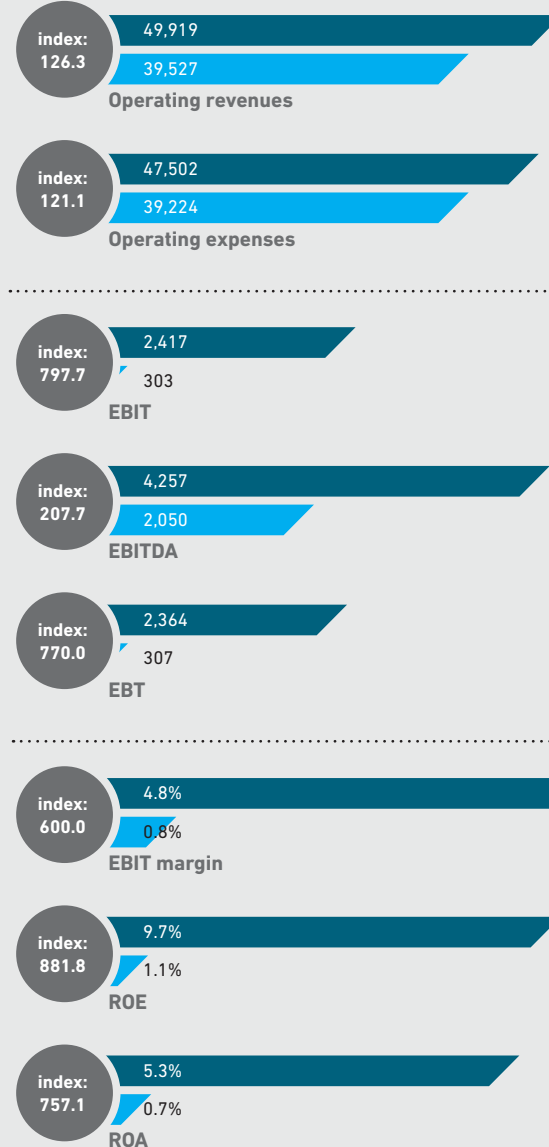
The planned investment cycle continues in Slovenia, primarily in the area of the rail infrastructure, which is supported by the second financial perspective for the period 2014–2020.

While government investments recorded nominal growth the previous year, the rate of growth strengthened further in 2018. According to economic forecasts (IMAD and Bank of Slovenia), the faster disbursement of EU funds and major government investment projects are also expected to contribute to growth. Real growth in government investments of 7% to 8% annually is expected until 2021, while growth is also expected in private investments.

A study of the development of traffic commissioned by the European Commission for South-East 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. Those countries will finance their



OPERATING RESULTS OF THE SŽ-ŽGP GROUP



EUR thousand 2018 2017

plans from the state budget and EU funds, and through public-private partnerships and long-term loans from international institutions.

Conditions on the construction market have changed due to rising demand. Construction companies have a sufficient number of orders and the prices of construction services have adjusted accordingly. The value of construction works performed in 2018 was up by 19.9% relative to 2017; growth was 2.2 percentage points higher than the previous year.

Competition between domestic and local construction companies for work on the rail infrastructure has increased further recently. As a rule, SŽ-ŽGP's competitors are local construction (engineering) companies and large foreign companies in conjunction with local engineering companies that do not have the necessary human resource potential and appropriate machinery, but secure those resources via subcontracting relationships, as the foreign companies rely on the fact that local companies will perform certain works after securing a transaction.

Sufficient demand for projects/work is expected in the coming years for the SŽ-ŽGP Group and SŽ-ŽGP Ljubljana, d. d., which is the only company in Slovenia that is qualified to build the superstructure on the rail infrastructure. Questions remain, however, regarding the price and scope of transactions that will be secured. All of this increases the market and operational risks to which the SŽ-ŽGP Group is exposed.

Development of activities and results in 2018

We were very successful in securing new transactions in 2018, and this is expected to continue. At the moment, transactions secured for the 2019 financial year have already reached 80% of the planned number. The majority of transactions were secured via government tenders that are financed through European funds in the second financial perspective. Contributing most to the planned revenues of SŽ-ŽGP Group companies in 2019 will be planned investments in the public rail infrastructure in Slovenia and the wider region, primarily in the countries of the Western Balkans.

Taking into account the planned increase in the scope of transactions, operational efficiency will also be higher, not only due to a lower proportion of fixed operating costs, but also due to the planned increase in labour productivity, the improved organisation of work and technological equipment, and the constant monitoring of the implementation of works by individual project.

We began the technological modernisation of our equipment, in part back in 2018, and intend to continue the planned investment cycle in the period 2019–2021 with the same or increased intensity. During the 2019 financial year, we will make urgently needed new investments of more than EUR 3.0 million in the modernisation of rail track machinery, construction machinery, rolling stock and construction equipment. With regard to human resources, we began filling staffing gaps in different areas in 2018. Similar activities will be necessary in the coming years. We must constantly organise the necessary upskilling, training and planned education to ensure the requisite competences of our employees.

Significant limitations and opportunities®

The risks in connection with our forecasts and assessment of future operations are as follows:

- > risks associated with uncertainty in securing transactions on the domestic and foreign markets due to the competition;
- > risks associated with achieving established objectives and the business plan due to delays in tenders for planned major projects, which has happened in the past and could result in a drop in planned turnover in a specific financial year;
- > risks associated with the failure to secure the appropriate PRI maintenance works within the Slovenske Železnice Group; and
- > risks associated with employees, should we fail to find high-quality solutions to fill gaps in this area in a timely manner.

Also representing significant limitations in forecasts are continuous fluctuation in the scope of investments in the rail infrastructure, the qualifications required to operate on foreign markets, and the associated drop in prices



and deteriorating commercial and financial position of the company.

Opportunities lie in expansion to foreign markets and the complementary activity of sidings, expansion to the areas

of overhead lines and signalling and safety devices 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

Breakdown of the operating results of support activities

EUR thousand	SŽ, d. o. o.		SŽ-ŽIP Group		Prometni institut, d. o. o.		Železniška tiskarna, d. d.	
	2018	2017	2018	2017	2018	2017	2018	2017
Operating revenues	31,302	27,744	29,883	28,545	1,378	1,548	516	511
Operating expenses	27,250	26,868	29,829	28,379	1,076	1,222	506	607
EBIT	4,052	876	54	166	302	326	10	-96
EBIT margin, in %	12.9	3.2	0.2	0.6	21.9	21.1	1.9	-18.8
EBITDA	5,501	1,999	688	960	319	389	41	-65
EBT	20,964	5,519	4	121	302	325	12	-93
ROE, in %	7.0	2.1	0.1	1.9	45.5	52.9	1.2	-9.9
ROA, in %	3.3	1.1	0.0	0.8	25.4	26.9	1.0	-8.4

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 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.

Development of activities and results in 2018

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 up by EUR 3,558 thousand relative to 2017. Operating revenues were up by EUR 1,406 thousand excluding the effect of one-off events in both comparative years (2018: revenues in connection with business effects, i.e. returned superficies on land for the Emonika project in the amount of EUR 7,563 thousand; 2017: EUR 2,622 thousand in revenues based on the harmonisation agreement with the Ministry of Infrastructure regarding the land register status of certain buildings and land in Ljubljana, and EUR 2,789 thousand in revenues from reimbursed costs in connection with activities to draft 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 and the purchase of rolling stock for SŽ-Potniški promet, d. o. o., and the reimbursement of costs from activities in connection with the refinancing of SŽ-Potniški promet, d. o. o.'s debt based on signed agreements).

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 due to reduced physical capacities are no longer able to carry out their basic duties, i.e. who due to their reduced physical capacities cannot be reassigned to other jobs at Slovenske Železnice Group companies without adequate training. The company manages buildings, takes care of the cleaning of exterior and interior spaces and the rolling stock of Slovenske železnice, manages and maintains holiday units in Croatia, provides building security, etc.

Prometni institut Ljubljana, d. o. o. carries out research and development in the area of transport technology for Slovenske Železnice Group companies. 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, primarily for the needs of SŽ-Potniški promet, d. o. o.

Significant limitations and opportunities®

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.

Work is being carried out simultaneously in the development of staff, the optimisation of centralised business function processes, the upgrading of the business information system and other projects aimed at the implementation of the digitalisation programme 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 for specific activities, and on the efficient management of real estate.



> ANALYSIS OF FINANCIAL POSITION[®]

ASSETS, EQUITY AND LIABILITIES

The total assets of the Slovenske Železnice Group amounted to EUR 895,349 thousand at the end of December 2018, an increase of 55.7% relative to the previous year. Assets were up based on the agreement on the assignment of claims for consideration concluded between Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. and two banks in the amount of EUR

131,739 thousand, and based on the resolution of SDH on the recapitalisation of the Company in the amount of EUR 154,255 thousand, all to finance the modernisation of passenger transport rolling stock. Explanations in this regard are also provided in the section Implementation of key internal measures – Investments in the upgrading of passenger transport rolling stock, and in individual balance-sheet items presented below and in the financial report.

Assets (EUR thousand)	2018	2017	Difference	Index
ASSETS	895,349	574,927	320,422	155.7
Non-current assets	487,927	378,011	109,916	129.1
IA, PPE and IP	368,070	347,634	20,436	105.9
Investments	15,328	16,640	-1,312	92.1
Non-current receivables	104,529	13,737	90,792	760.9
Current assets	407,422	196,916	210,506	206.9
Assets held for sale	117	52	65	225.0
Inventories	32,873	33,894	-1,021	97.0
Current financial receivables	60,272	824	59,448	
Current operating receivables	132,638	127,636	5,002	103.9
Cash and cash equivalents	181,522	34,510	147,012	

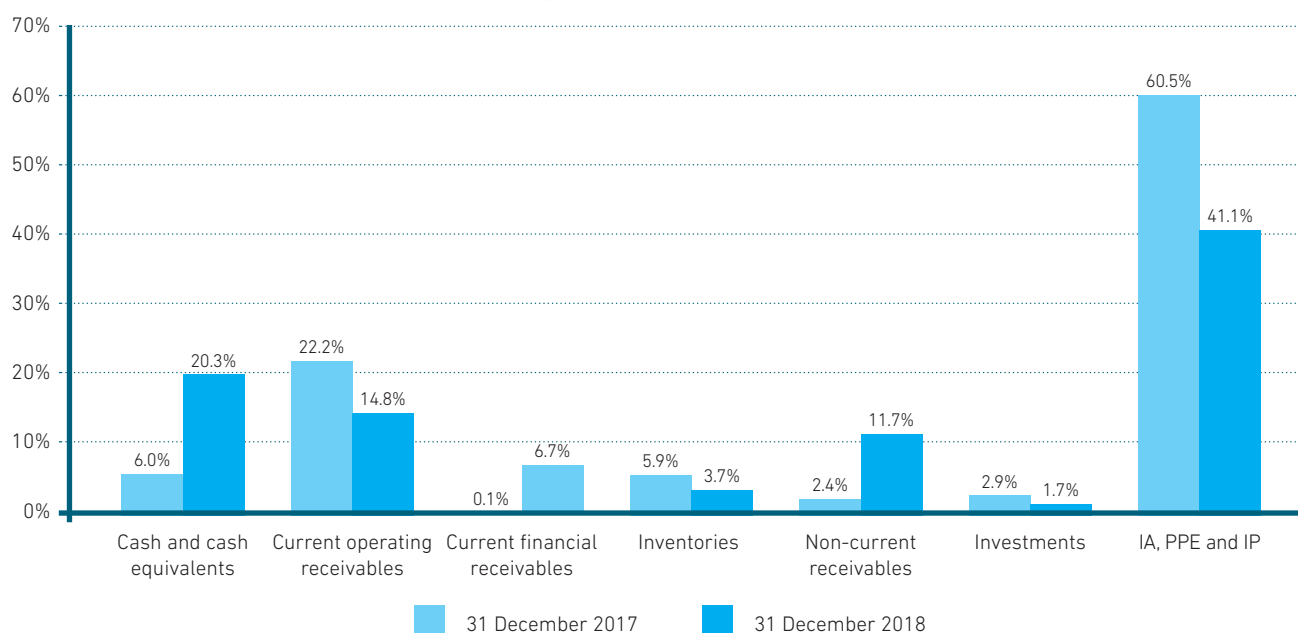
Note:

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.

Composition of assets



Property, plant and equipment in the amount of EUR 307,434 thousand accounts for the largest proportion of non-current assets (63.0%). Rolling stock accounts for EUR 202,610 thousand of the aforementioned amount. Property, plant and equipment was up by 3.9% or EUR 11,478 thousand relative to the previous year.

Non-current receivables account for more than one-fifth of total non-current assets. Non-current financial receivables amounted to EUR 43,325 thousand. EUR 40,220 thousand of that amount was under the agreement on the assignment of claims for consideration and remained following the payment of EUR 35,679 thousand in 2018, and the transfer of receivables in the amount of EUR 55,317 thousand to current receivables that fall due for payment in May 2019. Trade payables to the suppliers of

passenger transport rolling stock include a 30% advance in the amount of EUR 50,998 thousand.

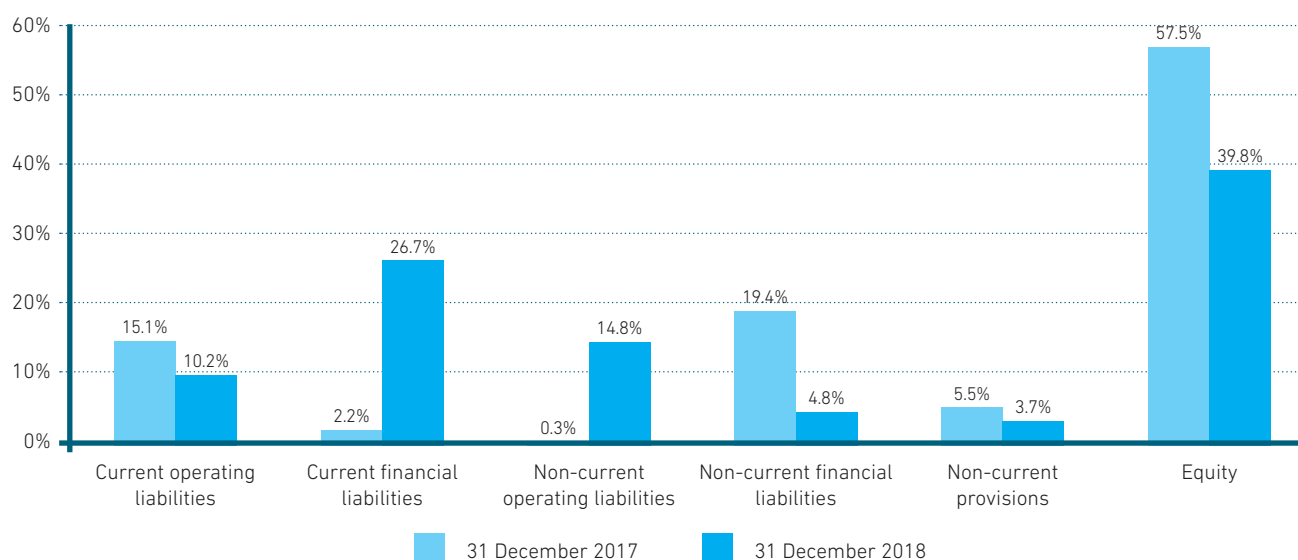
A total of 32.6% of current assets were accounted for by current operating receivables, which were up by EUR 5,002 thousand, primarily due to an increase in current accrued income by EUR 21,005 thousand (the majority from traffic disruptions), while domestic and foreign trade receivables and receivables for corporate income tax were down by EUR 14,596 thousand and EUR 462 thousand respectively.

Cash and cash equivalents, which account for 44.6% of current assets, were up by EUR 147,012 thousand, primarily on account of funds received for the recapitalisation of Slovenske železnice, d. o. o., while inventories accounted for 8.1% of current assets.

Equity and liabilities (EUR thousand)	2018	2017	Difference	Index
EQUITY AND LIABILITIES	895,349	574,927	320,422	155.7
Equity	356,024	330,333	25,691	107.8
Non-current liabilities	208,272	144,881	63,391	143.8
Non-current provisions	33,111	31,805	1,306	104.1
Non-current financial liabilities	42,663	111,393	-68,730	38.3
Non-current operating liabilities	132,498	1,683	130,815	
Current liabilities	331,053	99,713	231,340	332.0
Current financial liabilities	239,327	12,644	226,683	
Current operating liabilities	91,726	87,069	4,657	105.3

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

Composition of equity and liabilities





The level of equity was affected primarily by the operating results achieved during the financial year (EUR 29,736 thousand), the payment of a share in profits for 2017 (EUR 3,000 thousand) and an actuarial loss from the calculation of provisions for termination benefits at retirement (EUR 632 thousand).

Non-current and current financial liabilities (excluding current financial liabilities from paid-up capital until entry in the companies register in the amount of EUR 154,255 thousand) amounted to EUR 127,735 thousand, an increase of EUR 3,698 thousand, primarily as the result of raised loans (EUR 14,701 thousand), loan repayments (EUR 11,518 thousand), foreign exchange losses (EUR 1,060 thousand), decreases in the fair value of derivatives (EUR 551 thousand) and major liabilities for interest (EUR 6 thousand).

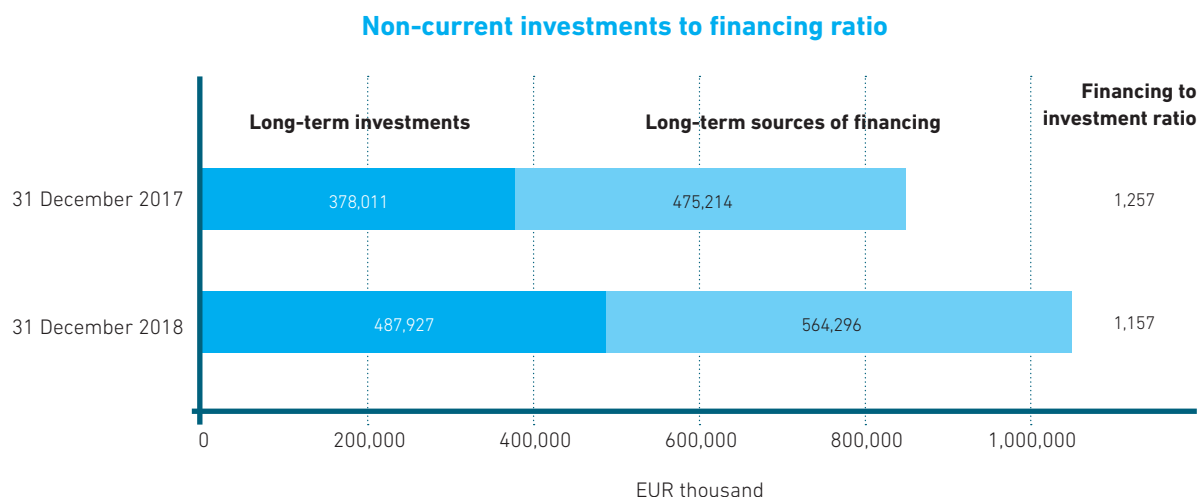
Within non-current operating receivables, other non-current operating receivables were up by EUR 130,815 thousand, and primarily comprise liabilities to the government based on the agreement on the assignment of claims for consideration between Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. and two banks in the amount of EUR 131,739 thousand.

Current operating liabilities were up by 5.3% or EUR 4,657 thousand. According to the situation at the end of the year, more than one-third of current operating liabilities was accounted for by trade payables (EUR 32,687 thousand), one quarter by liabilities to employees (EUR 23,721 thousand) and more than one sixth by accrued costs and deferred income (EUR 17,055 thousand), the majority of which were accrued costs (unused leave).

FINANCING OF NON-CURRENT INVESTMENTS

EUR thousand	2018	2017	Difference	Index
Current assets	407,422	196,916	210,506	206.9
Current liabilities	331,053	99,713	231,340	332.0
Working capital	76,369	97,203	-20,834	78.6

The debt ratio expressed as the ratio of net debt to material assets stood at 11.2% at the end of 2018, and was down on the figure at the end of 2017 (13.4%).



The debt ratio expressed as the ratio of net debt to material assets stood at 11.2% at the end of 2018, and was down on the figure at the end of 2017 (13.4%).

Working capital amounted to EUR 76,369 thousand at the end of 2018 and was down by EUR 20,834 thousand relative to the end of 2017 due to an increase in the value of fixed assets and equity by the respective amounts of EUR 20,436 thousand and EUR 25,691, and a decrease in net non-current liabilities by EUR 26,089. The results of financing are also expressed by the ratio of current assets to current liabilities, which amounted to 1.231 at the end of 2018, compared to 1.975 at the end of 2017.

Cash flows

The Slovenske Železnice Group generated a positive cash flow from operating activities in the amount of EUR 62,944 thousand in 2018, which was positively affected by net profit (EUR 29,736 thousand) and an adjustment (EUR 36,649 thousand), primarily due to amortisation/depreciation, and negatively by changes in net working capital in the amount of EUR 3,442 thousand (of which EUR 6,633 thousand was accounted for by an increase in operating receivables and EUR 3,573 thousand by an increase in operating liabilities).

Cash flow from investing activities was negative at EUR 65,278 thousand due to outflows from investing activities of EUR 114,612 thousand (most of which was accounted for by acquisitions of property, plant and equipment) and inflows from investing activities of EUR 49,334 thousand (most of which was accounted for by the disposal of financial assets).

Cash flow from financing activities was positive in the amount of EUR 149,348 thousand due to inflows from financing activities in the amount of EUR 418,806 thousand (inflows from the increase in financial liabilities for recapitalisation in the amount of EUR 154,256 thousand and inflows from the increase in other financial liabilities in the amount of EUR 264,550 thousand) and outflows from financing activities in the amount of EUR 269,457 thousand (the payment of financial liabilities in the amount of EUR 262,824 thousand and the payment of dividends and shares in profits for EUR 3,000 thousand).

The balance of cash and cash equivalents rose from EUR 34,510 thousand to EUR 181,522 thousand on account of recapitalisation through a cash contribution.



> PROFIT AND LOSS BY INDIVIDUAL COMPANY/ACTIVITY[®]

EUR thousand	Slovenske Železnice Group			SŽ-Tovorni promet Group		
	2018	2017	Index	2018	2017	Index
Operating revenues	561,945	517,380	108.6	193,120	190,733	101.3
Net sales revenue	422,888	397,100	106.5	178,061	182,132	97.8
- Revenues on the domestic market	235,316	209,196	112.5	18,919	18,973	99.7
: Transport revenues on the domestic market	32,895	33,822	97.3	7,466	7,097	105.2
: Other revenues on the domestic market	79,098	61,423	128.8	11,453	11,876	96.4
: Contracts with the Slovenian Government	123,323	113,951	108.2	0	0	
- Revenues on the foreign market	187,572	187,904	99.8	159,142	163,159	97.5
: Transport revenues on the foreign market	154,719	158,369	97.7	153,236	156,720	97.8
: Other revenues on the foreign market	32,853	29,535	111.2	5,906	6,439	91.7
Changes in values of inventories of finished goods and work in progress	-67	30		0	0	
Capitalised own products and services	36,262	32,448	111.8	121	0	
Other operating revenue	102,862	87,802	117.2	14,938	8,601	173.7
of which: contracts with the Slovenian Government	56,695	65,715	86.3	0	0	
Operating expenses	525,675	486,439	108.1	182,844	180,992	101.0
Historical cost of goods and materials sold	1,450	305	475.4	37	28	132.1
Costs of materials	51,986	46,820	111.0	2,692	3,306	81.4
Energy costs	30,628	30,763	99.6	15,395	15,994	96.3
Costs of services	136,226	128,074	106.4	101,235	106,402	95.1
Labour costs	259,302	241,648	107.3	41,142	38,696	106.3
Amortisation/depreciation	37,374	34,813	107.4	16,108	15,747	102.3
Other operating expenses	8,709	4,016	216.9	6,235	819	761.3
Operating profit or loss (EBIT)	36,270	30,941	117.2	10,276	9,741	105.5
Finance income	2,560	3,769	67.9	384	3,104	12.4
Finance costs	7,427	4,912	151.2	1,903	1,237	153.8
Net finance income/costs	-4,867	-1,143	425.8	-1,519	1,867	
Pre-tax profit or loss	31,403	29,798	105.4	8,757	11,608	75.4
Current tax	1,602	301	532.2	7	9	77.8
Deferred taxes	65	-1,147		-10	-472	2.1
Corporate income tax	1,667	-846		-3	-463	0.6
Net profit or loss	29,736	30,644	97.0	8,760	12,071	72.6



Fersped, d. o. o.		
2018	2017	Index
23,190	18,651	124.3
23,114	18,438	125.4
8,394	7,623	110.1
0	0	
8,394	7,623	110.1
0	0	
14,720	10,815	136.1
0	0	
14,720	10,815	136.1
0	0	
0	0	
76	213	35.7
0	0	
22,229	18,303	121.5
0	0	
38	47	80.9
65	46	141.3
19,297	15,794	122.2
2,186	2,115	103.4
166	137	121.2
477	164	290.9
961	348	276.1
832	98	849.0
29	17	170.6
803	81	991.4
1,764	429	411.2
125	23	543.5
-241	-45	535.6
-116	-22	527.3
1,880	451	416.9

VV-LOG, d. o. o.		
2018	2017	Index
3,910	3,074	127.2
3,906	3,009	129.8
2,785	1,933	144.1
0	0	
2,785	1,933	144.1
0	0	
1,121	1,076	104.2
0	0	
1,121	1,076	104.2
0	0	
0	0	
4	65	6.2
0	0	
3,141	2,383	131.8
239	646	37.0
7	10	70.0
9	8	112.5
2,114	1,094	193.2
737	576	128.0
15	20	75.0
20	29	69.0
769	691	111.3
5	0	
1	0	
4	0	
773	691	111.9
151	136	111.0
-4	0	
147	136	108.1
626	555	112.8

SŽ-Potniški promet, d. o. o.		
2018	2017	Index
103,329	104,974	98.4
36,196	37,405	96.8
29,772	30,562	97.4
27,565	28,456	96.9
2,207	2,106	104.8
0	0	
6,424	6,843	93.9
5,663	5,915	95.7
761	928	82.0
0	0	
371	0	
66,762	67,569	98.8
56,695	65,521	86.5
92,117	88,614	104.0
8	6	133.3
2,287	1,965	116.4
6,986	6,932	100.8
49,195	50,084	98.2
18,461	18,349	100.6
12,574	11,000	114.3
2,606	278	937.4
11,212	16,360	68.5
237	390	60.8
563	35	
-326	355	
10,886	16,715	65.1
951	87	
-4	-249	1.6
947	-162	
9,939	16,877	58.9



EUR thousand	SŽ-Potniški promet, d. o. o. PSO			SŽ-Potniški promet, d. o. o. Other activities		
	2018	2017	Index	2018	2017	Index
Operating revenues	101,395	103,492	98.0	2,242	1,977	113.4
Net sales revenue	34,589	35,968	96.2	1,915	1,932	99.1
- Revenues on the domestic market	28,397	29,371	96.7	1,683	1,686	99.8
: Transport revenues on the domestic market	27,187	28,080	96.8	378	376	100.5
: Other revenues on the domestic market	1,210	1,291	93.7	1,305	1,310	99.6
: Contracts with the Slovenian Government	0	0		0	0	
- Revenues on the foreign market	6,192	6,597	93.9	232	246	94.3
: Transport revenues on the foreign market	5,431	5,669	95.8	232	246	94.3
: Other revenues on the foreign market	761	928	82.0	0	0	
Changes in values of inventories of finished goods and work in progress	0	0		0	0	
Capitalised own products and services	371	0		0	0	
Other operating revenue	66,435	67,524	98.4	327	45	726.7
of which: contracts with the Slovenian Government	56,695	65,521	86.5	0	0	
Operating expenses	90,159	87,198	103.4	2,266	1,911	118.6
Historical cost of goods and materials sold	8	6	133.3	0	0	
Costs of materials	2,285	1,962	116.5	11	11	100.0
Energy costs	6,916	6,858	100.8	95	95	100.0
Costs of services	47,451	48,785	97.3	1,806	1,574	114.7
Labour costs	18,461	18,351	100.6	140	136	102.9
Amortisation/depreciation	12,564	10,965	114.6	63	87	72.4
Other operating expenses	2,474	271	912.9	151	8	
Operating profit or loss (EBIT)	11,236	16,294	69.0	-24	66	
Finance income	237	389	60.9	2	2	100.0
Finance costs	562	36		3	0	
Net finance income/costs	-325	353		-1	2	
Pre-tax profit or loss	10,911	16,647	65.5	-25	68	
Current tax	951	87		0	0	
Deferred taxes	-4	-248	1.6	0	-1	0.0
Corporate income tax	947	-161		0	-1	0.0
Net profit of loss	9,964	16,808	59.3	-25	69	



SŽ-Vleka in tehnika, d. o. o.		
2018	2017	Index
122,700	117,423	104.5
114,671	115,737	99.1
104,723	105,999	98.8
0	0	
104,723	105,999	98.8
0	0	
9,948	9,738	102.2
0	0	
9,948	9,738	102.2
34	10	340.0
70	58	120.7
7,925	1,618	489.8
0	0	
122,455	116,494	105.1
75	83	90.4
21,121	19,672	107.4
1,485	1,446	102.7
19,523	20,769	94.0
77,092	70,977	108.6
2,168	2,064	105.0
991	1,483	66.8
245	929	26.4
7	13	53.8
232	220	105.5
-225	-207	108.7
20	722	2.8
0	0	
0	288	0.0
0	288	0.0
20	434	4.6

SŽ-Infrastruktura, d. o. o.		
2018	2017	Index
179,454	145,266	123.5
153,092	139,418	109.8
153,092	139,418	109.8
0	0	
29,769	25,467	116.9
123,323	113,951	108.2
0	0	
0	0	
0	0	
0	0	
0	0	
26,362	5,848	450.8
0	0	
175,533	143,578	122.3
1	0	
10,435	11,181	93.3
18,230	18,696	97.5
43,555	36,178	120.4
74,953	69,869	107.3
2,373	2,106	112.7
25,986	5,548	468.4
3,921	1,688	232.3
35	60	58.3
350	196	178.6
-315	-136	231.6
3,606	1,552	232.3
0	0	
350	-281	
350	-281	
3,256	1,833	177.6

PRI maintenance		
2018	2017	Index
141,366	109,391	129.2
115,464	103,885	111.1
115,464	103,885	111.1
0	0	
28,141	23,934	117.6
87,323	79,951	109.2
0	0	
0	0	
0	0	
0	0	
0	0	
25,902	5,506	470.4
0	0	
135,935	106,592	127.5
1	0	
10,172	10,876	93.5
17,895	18,337	97.6
40,081	32,397	123.7
39,982	37,607	106.3
2,177	1,972	110.4
25,627	5,403	474.3
5,431	2,799	194.0
35	59	59.3
277	121	228.9
-242	-62	390.3
5,189	2,737	189.6
0	0	
350	-281	
350	-281	
4,839	3,018	160.3



EUR thousand	Traffic management			SŽ-Infrastruktura, d. o. o. PSO - PRI maintenance		
	2018	2017	Index	2018	2017	Index
Operating revenues	38,868	36,405	106.8	87,841	81,167	108.2
Net sales revenue	38,408	36,061	106.5	87,318	80,801	108.1
- Revenues on the domestic market	38,408	36,061	106.5	87,318	80,801	108.1
: Transport revenues on the domestic market	0	0		0	0	
: Other revenues on the domestic market	2,408	2,061	116.8	2,399	2,656	90.3
: Contracts with the Slovenian Government	36,000	34,000	105.9	84,919	78,145	108.7
- Revenues on the foreign market	0	0		0	0	
: Transport revenues on the foreign market	0	0		0	0	
: Other revenues on the foreign market	0	0		0	0	
Changes in values of inventories of finished goods and work in progress	0	0		0	0	
Capitalised own products and services	0	0		0	0	
Other operating revenue	460	344	133.7	523	366	142.9
of which: contracts with the Slovenian Government	0	0		0	0	
Operating expenses	40,378	37,516	107.6	88,221	81,153	108.7
Historical cost of goods and materials sold	0	0		1	0	
Costs of materials	264	306	86.3	9,879	10,481	94.3
Energy costs	334	358	93.3	2,988	2,857	104.6
Costs of services	4,254	4,309	98.7	35,929	29,546	121.6
Labour costs	34,971	32,262	108.4	36,620	35,896	102.0
Amortisation/depreciation	196	134	146.3	2,021	1,782	113.4
Other operating expenses	359	147	244.2	783	591	132.5
Operating profit or loss (EBIT)	-1,510	-1,111	135.9	-380	14	
Finance income	0	0		34	59	57.6
Finance costs	72	74	97.3	276	121	228.1
Net finance income/costs	-72	-74	97.3	-242	-62	390.3
Pre-tax profit or loss	-1,582	-1,185	133.5	-622	-48	
Current tax	0	0		0	0	
Deferred taxes	0	0		0	0	
Corporate income tax	0	0		0	0	
Net profit of loss	-1,582	-1,185	133.5	-622	-48	



SŽ-Infrastruktura, d. o. o. PSO – Traffic management		
2018	2017	Index
36,000	34,000	105.9
36,000	34,000	105.9
36,000	34,000	105.9
0	0	
0	0	
36,000	34,000	105.9
0	0	
0	0	
0	0	
0	0	
0	0	
0	0	
0	0	
37,938	35,453	107.0
0	0	
253	294	86.1
317	341	93.0
4,014	4,088	98.2
32,853	30,468	107.8
187	129	145.0
314	133	236.1
-1,938	-1,453	133.4
0	0	
72	74	97.3
-72	-74	97.3
-2,010	-1,527	131.6
0	0	
0	0	
0	0	
-2,010	-1,527	131.6

SŽ-Infrastruktura, d. o. o. Housing and buildings		
2018	2017	Index
408	404	101.0
408	404	101.0
408	404	101.0
0	0	
0	0	
408	404	101.0
0	0	
0	0	
0	0	
0	0	
0	0	
0	0	
0	0	
479	440	108.9
0	0	
27	25	108.0
9	10	90.0
301	284	106.0
137	116	118.1
2	3	66.7
3	2	150.0
-71	-36	197.2
0	0	
0	0	
0	0	
-71	-36	197.2
0	0	
0	0	
0	0	
-71	-36	197.2

SŽ-Infrastruktura, d. o. o. PRI management		
2018	2017	Index
1,996	1,402	142.4
1,996	1,402	142.4
1,996	1,402	142.4
0	0	
0	0	
1,996	1,402	142.4
0	0	
0	0	
0	0	
0	0	
0	0	
1,300	1,142	113.8
0	0	
0	0	
0	0	
1,300	1,142	113.8
0	0	
0	0	
0	0	
696	260	267.7
0	0	
0	0	
0	0	
696	260	267.7
0	0	
41	-26	
41	-26	
655	286	229.0



EUR thousand	SŽ-Infrastruktura, d. o. o. Other activities – PRI maintenance			SŽ-Infrastruktura, d. o. o. Other activities – traffic management		
	2018	2017	Index	2018	2017	Index
Operating revenues	51,121	26,418	193.5	2,868	2,405	119.3
Net sales revenue	25,742	21,278	121.0	2,408	2,061	116.8
- Revenues on the domestic market	25,742	21,278	121.0	2,408	2,061	116.8
: Transport revenues on the domestic market	0	0		0	0	
: Other revenues on the domestic market	25,742	21,278	121.0	2,408	2,061	116.8
: Contracts with the Slovenian Government	0	0		0	0	
- Revenues on the foreign market	0	0		0	0	
: Transport revenues on the foreign market	0	0		0	0	
: Other revenues on the foreign market	0	0		0	0	
Changes in values of inventories of finished goods and work in progress	0	0		0	0	
Capitalised own products and services	0	0		0	0	
Other operating revenue	25,379	5,140	493.8	460	344	133.7
of which: contracts with the Slovenian Government	0	0		0	0	
Operating expenses	45,935	23,857	192.5	2,440	2,063	118.3
Historical cost of goods and materials sold	0	0		0	0	
Costs of materials	266	370	71.9	11	12	91.7
Energy costs	14,898	15,470	96.3	18	17	105.9
Costs of services	2,551	1,425	179.0	240	221	108.6
Labour costs	3,225	1,595	202.2	2,118	1,794	118.1
Amortisation/depreciation	154	187	82.4	9	5	180.0
Other operating expenses	24,841	4,810	516.4	44	14	314.3
Operating profit or loss (EBIT)	5,186	2,561	202.5	428	342	125.1
Finance income	1	0		0	0	
Finance costs	1	0		0	0	
Net finance income/costs	0	0		0	0	
Pre-tax profit or loss	5,186	2,561	202.5	428	342	125.1
Current tax	0	0		0	0	
Deferred taxes	309	-255		0	0	
Corporate income tax	309	-255		0	0	
Net profit of loss	4,877	2,816	173.2	428	342	125.1



SŽ-Železniško gradbeno podjetje Group		
2018	2017	Index
49,919	39,527	126.3
49,646	38,726	128.2
49,439	37,315	132.5
0	0	
49,439	37,315	132.5
0	0	
207	1,411	14.7
0	0	
207	1,411	14.7
-161	-24	670.8
63	58	108.6
371	767	48.4
0	0	
47,502	39,224	121.1
1,023	75	1,364.0
14,514	9,676	150.0
1,086	894	121.5
18,096	17,672	102.4
9,249	8,576	107.8
1,840	1,747	105.3
1,694	584	290.1
2,417	303	797.7
90	123	73.2
143	119	120.2
-53	4	
2,364	307	770.0
308	72	427.8
-23	-4	575.0
285	68	419.1
2,079	239	869.9

SŽ-ŽIP Group		
2018	2017	Index
29,883	28,545	104.7
23,477	22,527	104.2
23,309	20,488	113.8
0	0	
23,309	20,488	113.8
0	0	
168	2,039	8.2
0	0	
168	2,039	8.2
51	26	
66	8	825.0
6,289	5,984	105.1
0	0	
29,829	28,379	105.1
73	113	64.6
1,452	1,276	113.8
474	515	92.0
9,741	9,836	99.0
17,120	15,597	109.8
634	794	79.8
335	248	135.1
54	166	32.5
9	13	69.2
59	58	101.7
-50	-45	111.1
4	121	3.3
0	0	
0	0	
0	0	
4	121	3.3

Prometni institut, d. o. o.		
2018	2017	Index
1,378	1,548	89.0
1,026	1,287	79.7
969	1,193	81.2
0	0	
969	1,193	81.2
0	0	
57	94	60.6
0	0	
57	94	60.6
0	0	
0	0	
352	261	134.9
0	0	
1,076	1,222	88.1
0	0	
2	16	12.5
4	4	100.0
296	369	80.2
744	750	99.2
17	63	27.0
13	20	65.0
302	326	92.6
2	1	200.0
2	2	100.0
0	-1	0.0
302	325	92.9
59	54	109.3
0	9	0.0
59	63	93.7
243	262	92.7



EUR thousand	SŽ-Železniška tiskarna, d. d.			Slovenske železnice, d. o. o.		
	2018	2017	Index	2018	2017	Index
Operating revenues	516	511	101.0	31,302	27,744	112.8
Net sales revenue	491	482	101.9	20,366	22,869	89.1
- Revenues on the domestic market	491	482	101.9	20,276	22,779	89.0
: Transport revenues on the domestic market	0	0		0	0	
: Other revenues on the domestic market	491	482	101.9	20,276	22,779	89.0
: Contracts with the Slovenian Government	0	0		0	0	
- Revenues on the foreign market	0	0		90	90	100.0
: Transport revenues on the foreign market	0	0		0	0	
: Other revenues on the foreign market	0	0		90	90	100.0
Changes in values of inventories of finished goods and work in progress	9	18	50.0	0	0	
Capitalised own products and services	0	0		1,373	321	427.7
Other operating revenue	16	11	145.5	9,563	4,554	210.0
of which: contracts with the Slovenian Government	0	0		0	0	
Operating expenses	506	607	83.4	27,250	26,868	101.4
Historical cost of goods and materials sold	0	0		0	0	
Costs of materials	56	49	114.3	153	149	102.7
Energy costs	9	8	112.5	169	175	96.6
Costs of services	118	111	106.3	6,608	5,980	110.5
Labour costs	289	405	71.4	17,475	16,468	106.1
Amortisation/depreciation	31	31	100.0	1,449	1,123	129.0
Other operating expenses	3	3	100.0	1,396	2,973	47.0
Operating profit or loss (EBIT)	10	-96		4,052	876	462.6
Finance income	3	4	75.0	24,122	12,450	193.8
Finance costs	1	1	100.0	7,210	7,807	92.4
Net finance income/costs	2	3	66.7	16,912	4,643	364.2
Pre-tax profit or loss	12	-93		20,964	5,519	379.9
Current tax	0	0		0	0	
Deferred taxes	1	2	50.0	-3	-394	0.8
Corporate income tax	1	2	50.0	-3	-394	0.8
Net profit or loss	11	-95		20,967	5,913	354.6

“

CONTRIBUTING
TO SUSTAINABLE
MOBILITY.
PROMOTING
INTEGRATED
PUBLIC
TRANSPORT.



> COLLECTION OF STATEMENTS OF FINANCIAL POSITION OF GROUP COMPANIES AS AT 31 DECEMBER 2018

ITEM				
EUR thousand	SŽ Group	SŽ-TP Group	Fersped	VV-LOG
ASSETS	895,349	240,237	12,208	1,595
A. Non-current assets	487,927	139,408	6,066	36
Intangible assets	14,310	90	189	6
Property, plant and equipment	307,434	131,620	1,578	26
Investment property	46,326	2,723	170	0
Investments in subsidiaries	0	0	3,003	0
Investments in joint ventures	0	0	0	0
Investments in associates	13,234	0	374	0
Other financial assets	2,094	0	1	0
Financial receivables	43,325	28	30	0
Non-current operating receivables	54,691	4,466	29	0
Deferred tax assets	4,339	482	689	4
Other non-current assets	2,174	0	4	0
B. Current assets	407,422	100,828	6,142	1,559
Assets held for sale	117	1	0	0
Inventories	32,873	1,153	0	0
Financial assets	0	0	0	0
Financial receivables	60,271	47,681	0	736
Trade receivables	51,804	28,852	5,493	774
Other operating receivables	80,800	20,523	546	28
Receivables for corporate income tax	34	34	0	0
Cash and cash equivalents	181,522	2,584	103	21
EQUITY AND LIABILITIES	895,349	240,237	12,208	1,595
A. Equity	356,024	80,894	4,911	939
Called-up capital	205,274	36,861	3,139	11
Share premium account	45,002	4,720	0	0
Legal reserves	2,918	3,686	90	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	38,275	0	0	0
Fair value reserves	-2,985	-380	-27	0
Retained earnings	62,666	36,008	1,710	927
1. Retained earnings from previous years	45,035	27,247	0	302
2. Retained earnings from the financial year	17,631	8,760	1,710	626
Translation differences	1	0	0	0
Non-controlling interest	4,873	0	0	0
B. Non-current liabilities	208,272	44,937	867	55
Provisions for jubilee benefits and termination benefits	30,507	4,524	256	55
Other provisions	640	50	0	0
Non-current deferred income	1,963	11	0	0
Financial liabilities	42,663	40,249	15	0
Non-current operating liabilities	132,498	103	595	0
Deferred tax liabilities	0	0	0	0
C. Current liabilities	331,054	114,405	6,430	600
Financial liabilities	239,327	83,734	338	0
Trade payables	32,687	16,695	4,947	427
Other operating liabilities	57,786	13,976	1,040	146
Liabilities for corporate income tax	1,253	0	104	27



GROUP COMPANIES							
SŽ-PP	SŽ-VIT	SŽ-INF	ŽGP Lj Group	ŽIP Lj Group	PI Lj	ŽT Lj	SŽ, d. o. o.
298,738	75,244	87,794	40,114	15,763	922	1,031	759,531
185,060	30,264	13,721	15,036	10,409	164	490	438,686
188	309	183	194	34	2	0	9,547
85,727	29,191	11,873	13,554	10,107	59	421	15,607
5,543	724	0	402	0	86	65	47,260
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	2,091
40,220	0	0	644	0	0	0	82,873
51,600	35	233	1	268	5	0	3,812
254	0	1,432	239	0	11	3	1,225
1,529	3	0	1	0	1	0	637
113,678	44,980	74,072	25,078	5,354	758	541	320,845
0	4	0	0	0	0	0	112
1,088	18,457	6,265	5,702	346	0	63	1
0	0	0	0	0	0	0	0
60,192	0	9,105	0	0	179	300	160,377
6,082	18,499	9,379	9,191	4,476	205	147	3,073
43,857	7,968	38,481	1,141	424	346	3	1,029
0	0	0	1	0	0	0	0
2,458	52	10,842	9,044	108	27	29	156,253
298,738	75,244	87,794	40,114	15,763	922	1,031	759,531
143,215	33,161	19,923	22,535	7,056	525	910	307,343
131,684	26,068	15,828	3,152	6,073	162	265	205,274
0	6,608	0	0	0	112	498	45,002
2,246	804	1,583	315	1,209	16	59	2,918
0	0	0	0	0	0	95	0
0	0	0	0	0	0	-48	0
0	0	0	3,913	240	0	0	38,275
-194	-788	-738	-19	-449	-8	-2	-386
9,479	468	3,250	15,174	-17	243	43	16,259
37	449	0	13,094	-21	0	31	6,300
9,442	19	3,250	2,079	4	243	11	9,959
0	0	0	0	1	0	0	0
0	0	0	0	0	0	0	0
134,065	8,820	9,750	3,741	4,414	96	33	87,723
2,162	8,602	9,230	799	2,581	86	33	2,179
136	0	60	394	0	0	0	0
1	42	17	120	1,771	0	0	3
0	8	0	2,363	28	0	0	80,470
131,766	168	443	64	34	10	0	5,071
0	0	0	0	0	0	0	0
21,458	33,264	58,121	13,838	4,293	301	88	364,465
1	14,025	3	2,629	76	0	0	356,870
13,493	5,610	11,888	7,721	1,644	42	24	4,510
7,093	13,630	46,230	3,247	2,573	250	64	3,085
871	0	0	241	0	9	0	0



> 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 many 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.

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 7,540 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.

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 2018

Slovenske Železnice Group companies continued personnel restructuring activities in 2018 with the aim of improving operational efficiency. The number of Group employees was up by 1.7%, which is reasonable given the protracted personnel restructuring process and reduction in the number of employees. The following companies hired the most new employees: SŽ-Vleka in tehnika (mainly contracted agency workers), SŽ-Infrastruktura, SŽ-Tovorni promet and SŽ-ŽGP. Given the specific nature of work, the majority (or 57%) of newly hired workers in 2018 were 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 24.4% of management positions within the Group are held by women. In terms of personnel restructuring, we pay particular attention to various measures for improving the skills, mental and physical capacities and satisfaction of employees. Professional training (training of railway workers) was attended by 4,925 employees, while functional training was attended by 5,202 employees in 2018. We are making improvements in occupational safety, which can be seen in the falling number of workplace injuries, the number of which was down by 45 in 2018 relative to the previous year.

We continuously improve safety measures with the aim of ensuring the safety of the railway and its surroundings. We systematically monitor the number of accidents, incidents and other events in railway transport, and adopt the appropriate measures to reduce the number thereof. We recorded a total 36 accidents in 2018: two accidents were railway-related, while the causes of 34 incidents were non-railway-related. The Group was not responsible for any fatalities in 2018.

In cooperation with the wider environment, we continued to improve the safety of all participants in railway transport in 2018. We organised a campaign to raise awareness about the safe crossing of railway tracks in conjunction with European Mobility Week. We continued with regular

projects that strengthen cultural heritage, and that promote sports and a healthy lifestyle. Through measures to improve and integrate mobility, we also strengthen the range of tourism services in cities and towns throughout Slovenia.



SŽ-VIT, d. o. o., SŽ-ŽIP, storitve, d. o. o. and SŽ-ŽGP Ljubljana, d. d. received the ISO 14001 environmental management certificate in 2018, while all Group companies received the SIST EN ISO 50001:2011 energy management system certificate. In the area of environmental protection, we continued with measures to reduce our direct and indirect burden on the environment. The modernisation of passenger rolling stock will bring improvements, as new trains will be less of a burden on the environment. New locomotives with modern engines that use less fuel and produce fewer emissions will also be introduced in the freight transport segment.



EMPLOYEES[®]

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 employees as a factor in risk management, and provides opportunities for the advancement of employees.



Restructuring of personnel in 2018[®]

In 2018, Slovenske Železnice Group companies continued their personnel restructuring activities in connection with the optimisation of work processes. The proportion of employee departures in 2018 was down relative to 2017. A total of 206 employees left the Group in 2018, a decrease of more than 30% relative to employee departures in 2017.

The Slovenske Železnice Group hired 310 new employees in 2018, the majority at SŽ-Vleka in tehnika, d. o. o. (maintenance personnel who previously performed work via agencies), SŽ-Infrastruktura, d. o. o., SŽ-Tovorni promet, d. o. o. and SŽ-ŽGP, d. d.

The number of Slovenske Železnice Group employees at the end of 2018 was up by 1.7% relative to 2017, which is reasonable given the protracted personnel restructuring process and reduction in the number of employees. A total of 92% of newly hired employees filled positions that require education levels I to V, as appropriate candidates to fill those jobs from existing employees cannot be found.

We continued the following forms of staff restructuring activities in connection with the optimisation of work processes:

- > we optimised certain work processes so that we provided the same or a higher level of services with fewer employees;
- > we provided employees with possibilities for vertical advancement and fulfilment of new professional ambitions through internal employee mobility;
- > we organised an increased number of 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;
- > we outsourced 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
- > we hired workers at SŽ-Vleka in tehnika, 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 145 workers hired through agencies performed work at the end of 2018 (which translates to a monthly average of 190 employees), while the associated annual costs amounted to EUR 5,068 thousand.



These measures allowed us to improve the structure of employees in the Slovenske Železnice Group, and had a positive impact on employee demographics in specific positions (lower average age and an improved level

of mental and physical capacities, which is particularly important for operations staff and other key operational positions).

GRI
102-8,
401-2,
405-1,
405-2

Structure of employees[®]

> by individual Slovenske Železnice Group company

Company	2018	2017	Index
SŽ-Tovorni Promet Group	1,202	1,230	97.7
Fersped, d. o. o.	65	59	110.2
VV-LOG, d. o. o.	20	0	-
SŽ-Potniški promet, d. o. o.	570	610	93.4
SŽ-Vleka in tehnika, d. o. o.	2,028	1,923	105.5
SŽ-Infrastruktura, d. o. o.	2,191	2,154	101.7
SŽ-ŽGP Group	290	265	109.4
SŽ-ŽIP Group	693	694	99.9
Prometni institut Ljubljana, d. o. o.	15	16	93.8
SŽ-Železniška tiskarna Ljubljana, d. d.	10	13	76.9
Slovenske železnice, d. o. o.	456	452	100.9
Total	7,540	7,416	101.7

The total number of employees in the Slovenske Železnice Group was 7,540 at the end of 2018, which is 124 employees more than at the end of 2017.

> 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
SŽ-Tovorni Promet Group	1,202	29	68	98	98	151	214	292	218	34
Fersped, d. o. o.	65	1	2	4	5	11	13	10	16	3
VV-LOG, d. o. o.	20	1	5	5	1	6	1		1	
SŽ-Potniški promet, d. o. o.	570	8	18	59	40	50	116	150	112	17
SŽ-Vleka in tehnika, d. o. o.	2,028	36	75	175	193	213	440	548	313	35
SŽ-Infrastruktura, d. o. o.	2,191	39	65	143	167	224	441	579	454	79
SŽ-ŽGP Group	290	7	10	56	50	40	38	35	45	9
SŽ-ŽIP Group	693	6	17	24	36	55	93	200	208	54
Prometni institut Ljubljana, d. o. o.	15			2	5	2	2	1	2	1
SŽ-Železniška tiskarna Ljubljana, d. d.	10				1		3	3	3	
Slovenske železnice, d. o. o.	456	2	14	17	43	41	62	111	129	37
Total	7,540	129	274	583	639	793	1,423	1,929	1,501	269

The average age of employees in the Slovenske Železnice Group was 47.1 years as at the end of December 2018.

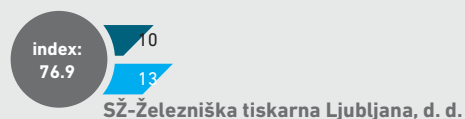
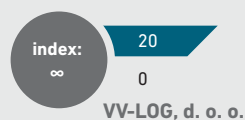
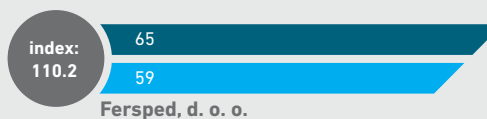
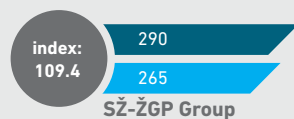
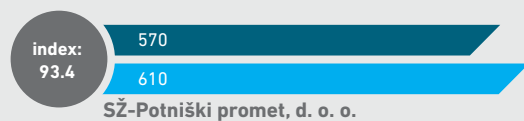
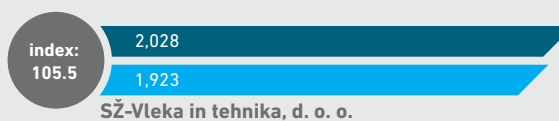
primarily comprised younger workers (57% of newly hired workers were less than 34 years old).

Given that we primarily employ workers in production activities that require the appropriate medical fitness and good mental and physical condition, new hires in 2018

With regard to the age structure of management staff, we find that the proportion of older management staff is rising in specific age groups. The majority of management



STRUCTURE OF EMPLOYEES BY INDIVIDUAL SLOVENSKE ŽELEZNICE GROUP COMPANY





staff, both men and women, fall into the age category of 50 to 59 years. That finding is comparable with the age structure all employees.

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

> By gender (as at 31 December)

Company	Men	%	Women	%
SŽ-Tovorni Promet Group	1,005	83.6%	197	16.4%
Fersped, d. o. o.	33	50.8%	32	49.2%
VV-LOG, d. o. o.	13	65.0%	7	35.0%
SŽ-Potniški promet, d. o. o.	371	65.1%	199	34.9%
SŽ-Vleka in tehnika, d. o. o.	1,940	95.7%	88	4.3%
SŽ-Infrastruktura, d. o. o.	2,002	91.4%	189	8.6%
SŽ-ŽGP Group	271	93.4%	19	6.6%
SŽ-ŽIP Group	423	61.0%	270	39.0%
Prometni institut Ljubljana, d. o. o.	7	46.7%	8	53.3%
SŽ-Železniška tiskarna Ljubljana, d. d.	5	50.0%	5	50.0%
Slovenske železnice, d. o. o.	164	36.0%	292	64.0%
Total	6,234	82.7%	1,306	17.3%

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 Prometni institut Ljubljana, d. o. o. Nevertheless, we find that the proportion of women in management positions in the Slovenske Železnice Group is 24.4% (38.5% 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.

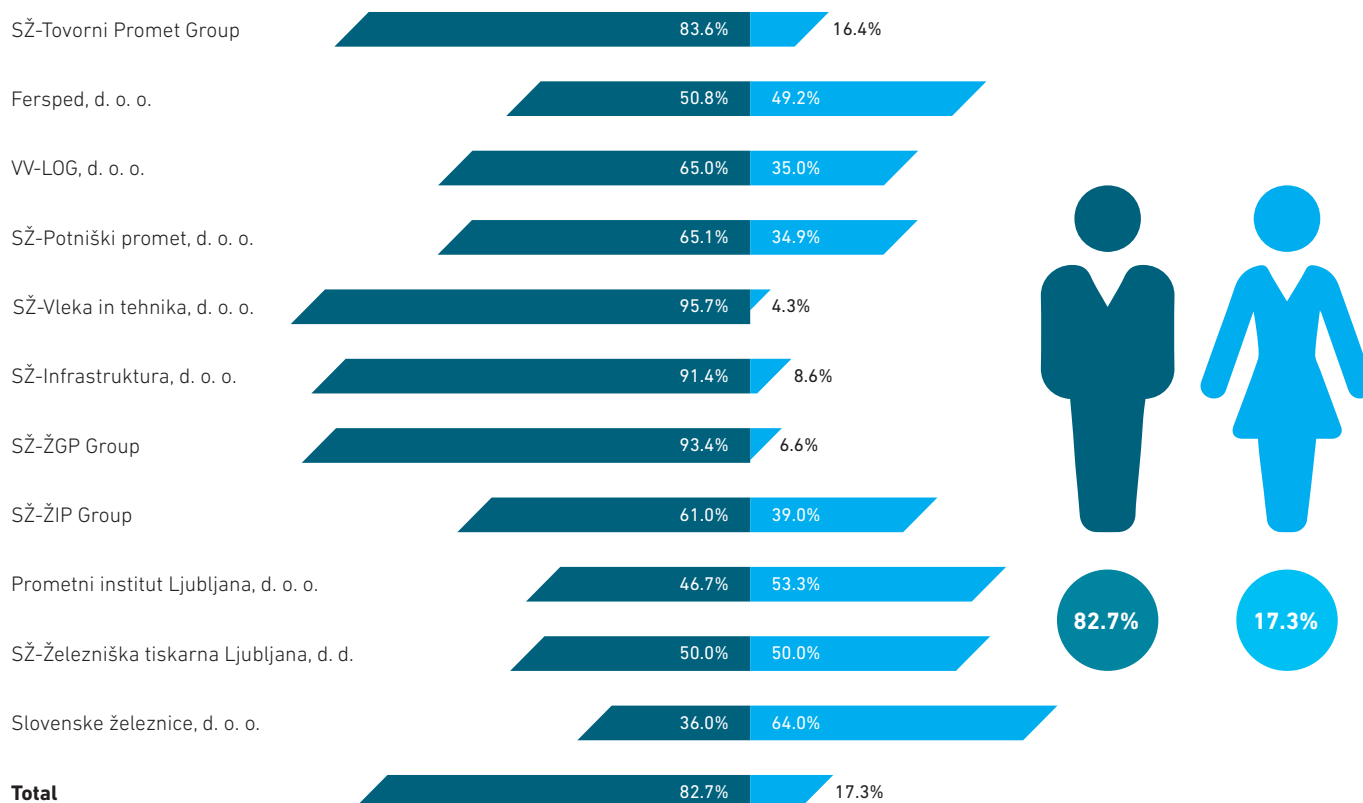
> By education level

Company	Total	I	II	III	IV	V	VI	VII	VIII	IX
SŽ-Tovorni Promet Group	1,202	231	2	58	418	324	78	85	6	
Fersped, d. o. o.	65	1			2	22	11	27	2	
VV-LOG, d. o. o.	20				1	12	1	6		
SŽ-Potniški promet, d. o. o.	570	29		8	185	249	45	48	6	
SŽ-Vleka in tehnika, d. o. o.	2,028	62	73	54	805	828	104	92	10	
SŽ-Infrastruktura, d. o. o.	2,191	343	9	65	513	875	190	172	24	
SŽ-ŽGP Group	290	29	1	2	132	82	20	23	1	
SŽ-ŽIP Group	693	327	8	29	174	109	23	20	3	
Prometni institut Ljubljana, d. o. o.	15						1	6	5	3
SŽ-Železniška tiskarna Ljubljana, d. d.	10	3			5	1	1			
Slovenske železnice, d. o. o.	456	7			22	151	61	176	38	1
Total	7,540	1,032	93	216	2,257	2,653	535	655	95	4

The Slovenske Železnice Group hired 310 new employees in 2018, the majority at SŽ-Vleka in tehnika, d. o. o. (maintenance personnel who previously performed work via

agencies), SŽ-Infrastruktura, d. o. o., SŽ-Tovorni promet, d. o. o. and SŽ-ŽGP, d. d. A total of 92% of newly hired employees filled positions that require education levels I to V.

Structure of employees by gender (as at 31 December)



Concern for employees

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

- > organised forms of obtaining additional professional knowledge, through functional education and mentorship (particular attention is paid to the area of work transformation and computerisation);
- > 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.

The Group resolves cases involving lawsuits and requests for the rectification of breaches in accordance with the applicable labour laws. A total of 54 labour-related legal proceedings were in progress in 2018, 19 of which were completed. Eight requests for the protection of rights were filed and resolved.

Training and education®

A total of 10,127 training events were organised within the Slovenske Železnice Group in 2018.

In 2018, Slovenske železnice, d. o. o. extended its status of training facility and testing facility for railway operations staff and industrial track operations staff, and its status of training centre for train and rail vehicle drivers and testing centre for train and rail vehicle drivers. A total of 132 candidates took part in professional training for 10 operations positions in 2018, while 262 railway operations

workers took part in training to acquire the next certificate. A total of 4,296 railway operations workers took part in professional training, while 70 sat for regular and special assessments of their professional qualifications pursuant to the law and implementing regulations.

Employee training	Professional training	Functional training
SŽ-Tovorni promet, d. o. o.	911	918
Fersped, d. o. o.	0	8
SŽ-Potniški promet, d. o. o.	386	445
SŽ-VIT, d. o. o.	1,496	1466
SŽ-Infrastruktura, d. o. o.	2,033	827
SŽ-ŽGP, d. d.	99	133
SŽ-ŽIP, storitve, d. o. o.	0	775
Prometni institut Ljubljana, d. o. o.	0	11
SŽ-Železniška tiskarna, d. d.	0	1
Slovenske železnice, d. o. o.	0	618
Total	4,925	5,202

A total 4,925 employees were included in professional training for railway operations workers. Training comprises courses for obtaining professional qualifications, periodic additional training and training to acquire initial and subsequent certificates. 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 238,022 hours were earmarked for the theoretical and practical training of railway operations staff.

A total of 5,202 employees were included in functional training in the areas of occupational safety, the safe use and maintenance of devices, maintaining and acquiring various qualifications and licences, computer and language courses, and participation at seminars and conferences with the aim of monitoring the latest developments. We earmarked 20,671 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 are used for that purpose.

Mentorship

Mentorship as a means of transferring knowledge and experience is provided for railway operations staff in the form of practical training. A total of 427 practical training courses were held in 2018.

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. We work with employee representatives, representatives of trade unions and works councils, 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).

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 councils of companies linked through capital investments, the Slovenske Železnice Group adopted a common health promotion programme, through which we accomplished the following:

Physical activities:

- > the organisation of a two-day preventive health retreat for employees at the Vitalis sports centre;



- > the organisation of a six-day preventive health retreat at a thermal spa;
- > the trial implementation of active breaks during work;
- > the implementation of the 1,000 rail workers above 1,000 metres project (Slavnik, Mrzlica, Vogar and the Maribor mountain lodge);



- > the participation of a team of Slovenske železnice runners in the Ljubljana, Kras and Istria marathons, and in the Three Hearts Marathon in Radenci,
- > participation in employee sports games in Nova Gorica with a futsal team in the scope of the European Week of Sports;



- > the organisation of Nordic walking courses for employees in Ljubljana and Postojna; and
- > a hike along Cankar's path in Ljubljana.

Food:

- > Lectures were organised on various eating practices and the biggest mistakes made in short-term diets.

Research, education and counselling:

- > the publication of health notices on the intranet;
- > the notification of employees regarding the testing of physical capacities with a two-mile walking test organised by health centres throughout Slovenia;
- > flu vaccinations;
- > the research of health-related habits in the workplace for train drivers and wagon inspectors at SŽ-VIT, d. o. o., Center Divača;
- > psychosocial assistance for employees;
- > counselling for illness-related addictions;
- > education for a healthy life;
- > participation in the 'Safe Work in the Sun' project;
- > 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;
- > a two-day professional training event for the providers of psychological aid in Podčetrtek; and
- > workshops on communication and the resolution of conflicts.

The Slovenske Železnice Group began offering psychological first aid in 2018 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 2018 in the form of relief talks. We began training an additional eleven-member team in 2018 for the provision of psychological first aid.

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 725 disabled persons and eight workers with physical impairments.



The number of working days lost due to workplace injuries has been falling since 2012.

We installed a defibrillator in the administrative building located at Kolodvorska ulica 11 in Ljubljana and trained employees on its use.



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, other sports and cultural events, etc.), and are directly involved in sports, cultural and artistic associations whose work is 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 operates in a socially responsible manner with regard to recruitment. To that end we cooperate with a number of 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 76 secondary-school and college students in 2018, primarily in the following study programmes and areas: logistics, mechatronics, electrical engineering, computer science and economics.

In view of the number of applications for employment we received in 2018, we believe that the companies in the Slovenske Železnice Group are a desirable employer on the Slovenian labour market, primarily due to:

- > job stability and security (almost 98% of all employees have concluded permanent employment contracts);



Workplace injuries[®]

The Slovenske Železnice Group recorded 128 workplace injuries in 2018, which is 45 fewer than in 2017 when 173 injuries occurred. A comparison of workplace injuries since 2012 indicates a trend of decline.

There were no fatalities or serious injuries in 2018.

The Slovenske Železnice Group recorded 3,609 lost working days in 2018 due to workplace injuries, a decrease of 966 relative to 2017 when 4,575 working days were lost.

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

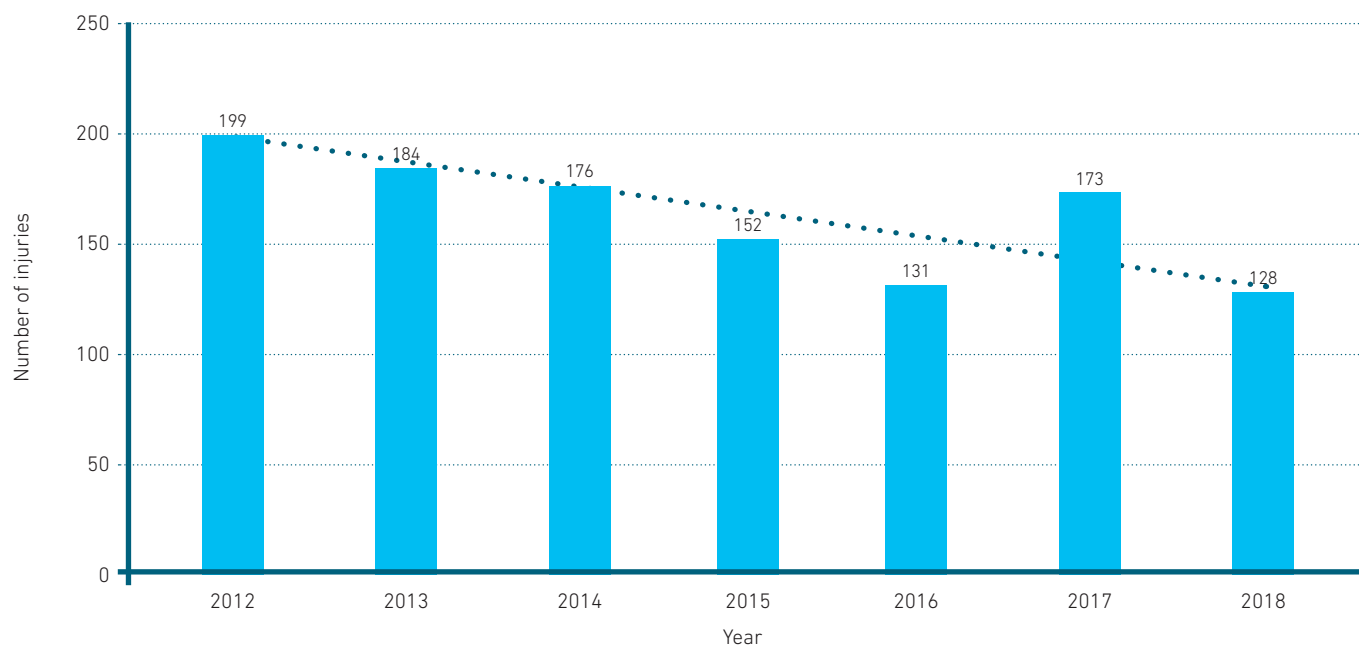
Ensuring the quality use of leisure time

The Slovenske Železnice Group facilitates the quality use of leisure time for its employees. SŽ-ŽIP manages a

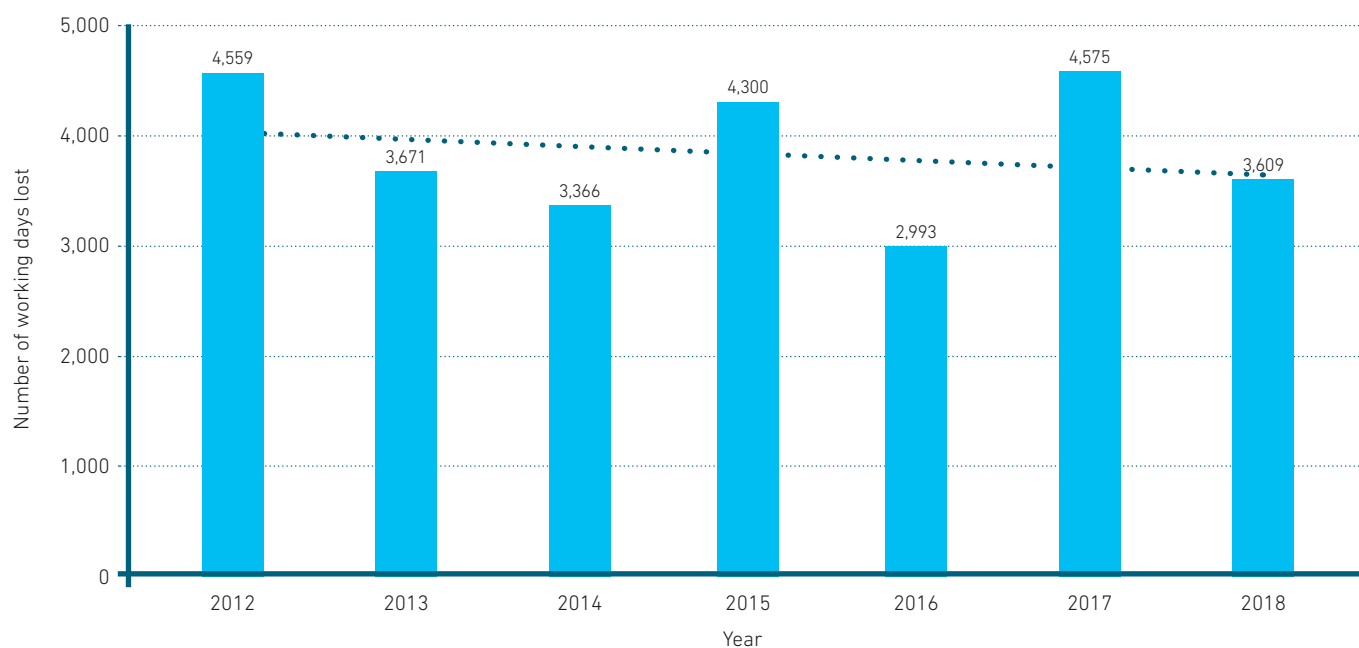




Number of workplace injuries – Slovenske Železnice Group



Number of working days lost – Slovenske Železnice Group



- > 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 compared with the previous period.

A total of 36 accidents occurred within the Slovenske Železnice Group in 2018, which is 15 more than in 2017. The causes of two accidents were railway-related, while the causes of 34 incidents were non-railway-related.

The total number of extraordinary events excluding incidents in 2018 was 71.4% higher than in 2017. The number of incidents and other events that affect traffic safety was down by 12.7%. 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	2014	2015	2016	2017	2018
Serious accidents	1	0	0	0	0
Accidents	9	7	13	5	3
Accidents at level crossings	21	16	24	14	29
Natural disasters	8	0	1	0	1
Other accidents	0	5	1	2	3
Incidents	798	689	537 ¹⁾	691 ¹⁾	603 ¹⁾

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

Two events occurred due to subjective causes, one due to *force majeure* and 33 due to the incorrect actions of third parties.

There were five fatalities in serious accidents and other accidents (same as in 2017), while 10 people were injured (six more than in 2017). All events occurred at level crossings. The Company was not responsible for any fatalities in 2018, but was responsible for one injury.

A total of 28 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 cause of one of these accidents was railway-related.

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 (the same as in 2017).

There were no events in 2018 in which workers at SŽ-Infrastruktura, d. o. o. were injured or killed.

Damage for which the Company was liable occurred on 20 September 2018, when freight train no. 93724 derailed at the Sežana station due to broken track at switch point 49. Locomotive no. 363-031 derailed in the incident, resulting in material damage to the locomotive, superstructure, and signalling and safety equipment. Material damage was incurred in the amount of EUR 107.3 thousand.

Shunting locomotive no. 642-187 derailed at the Koper station on 15 June, causing serious damage to the superstructure. Four wagons were completely destroyed and two others damaged in the incident. The event was the result of the improper work of the signalman at the Koper station. Material damage was incurred in the amount of EUR 93 thousand.

Train no. 93600 and train no. 42021 collided at switch point no. 149 AB/CD at the Ljubljana station on 19 July. The incident was the result of the improper work of the signalman and the drivers of both trains (misunderstanding). Material damage was incurred in the amount of EUR 89 thousand.

A non-railway-related accident occurred on 10 March, in which a 15-tonne rock fell on the track between the Zagorje and Sava stations due to the erosion of the slope, causing serious damage to the superstructure and overhead lines. Material damage was incurred in the amount of EUR 512 thousand. Traffic on the track was interrupted for 710 minutes.

Material damage in the amount of EUR 20 thousand occurred on 24 May as the result of *force majeure* in the form of a severe storm that flooded the entire Prevalje station.

Material damage in the amount of EUR 16.5 thousand was incurred at the Domžale station due to a lightning strike to a device at the NPr 14.3 level crossing.



ENGAGEMENT WITH THE WIDER ENVIRONMENT

We ensure the safety of all traffic participants

The safety of all traffic participants is Slovenske železnice's top priority. We represent the largest logistics and transport system in Slovenia, and are well aware of our responsibility to society and the environment in which we operate. Not only do we play an important role in the mobility of the population and travel habits of ten thousand travellers on a daily basis, our work also contributes to the unimpeded functioning of the economy. Slovenske železnice's indirect impact on the social environment has expanded well outside of Slovenia's borders in recent years, as we are active in international organisations, in the bodies of key European transport corridors and in other international associations.



We work closely with other traffic safety organisations to ensure safety more effectively, and regularly organise preventive campaigns and training, alone and in cooperation with others. We have strengthened institutional cooperation with the police in recent years, raised the level of traffic safety and achieved major successes in the railway sector. Special attention was dedicated to the

safe crossing of railroad tracks in 2018 during mobility week. In cooperation with the world-famous Dunking Devils, we recorded a video in which we emphasised the major importance of traffic safety.

Due to the many dangers faced by first responders to potential railway accidents, we regularly organise drills and theoretical lectures. Participating and receiving training in rescue drills for which Slovenske železnice provides the necessary area, subjects and technical support are professional and volunteer fire brigades, emergency medical teams, police units and even a helicopter unit from the Slovenian army last year. We place a great deal of emphasis on employee training as the basis for an effective response to unpredictable conditions in accidents. The railway employees of four Slovenske železnice Group companies (SŽ-Infrastruktura, SŽ-Tovorni promet, SŽ-Potniški promet and SŽ-VIT) and members of the psychological first aid team participate in rescue drills.

The latter comprise volunteers (railway employees) who provide psychological first aid to co-workers under mental pressure in highly stressful situations, such as railway accidents. We thus help prevent the development of post-traumatic stress disorders. Slovenske železnice organised several preventive campaigns last year, in which we raised awareness regarding the proper crossing of tracks, and the Safe Way to School campaign, which we implemented in the fall in conjunction with the police.

In addition to direct cooperation with safety organisations and protection and security organisations, Slovenske železnice regularly finances and otherwise supports the functioning of many volunteer associations, such as firefighting associations, from all over Slovenia. We provide them assistance in the purchase of equipment, in the implementation of their projects and in training activities.

Proud sponsors of Slovenian sport

Companies of the Slovenske železnice Group support various sports associations in different disciplines. We have strengthened our activities in the promotion of Slovenian sports in recent years, and began supporting major sports associations and clubs. Railway management staff have assumed positions at certain sports clubs,

such as the SŽ-Olimpija Hockey Club, and thus facilitated their development. In this way, we have directly helped both clubs and a broad network of volunteers and professional athletes continue cultivating professional sports and developing youth prospects.



Slovenske železnice is a major sponsor of the Slovenian Olympic Team. Together with the subsidiary Fersped, we provided equipment logistics for Slovenian Olympians. We also transported equipment for Slovenia House, where athletes and other representatives promoted Slovenia and Slovenian products at the Winter Olympics in Pyeongchang, South Korea. We also provide free transport for Slovenian national teams, basketball players, handball players, hockey players, etc. to games and practice sessions abroad and in Slovenia. We are aware that supporting sports indirectly improves the health of society as a whole and mitigates the negative effect of contemporary life. We dedicated a great deal of attention to all fans who proudly support our athletes. We provided them free transport to games, receptions and other events.



The Olympic torch travelled by train through Slovenia. Prior to the Winter Olympics in Pyeongchang, South Korea, Slovenian athletes visited the home towns of those who have achieved the greatest Olympic successes for Slovenia.



Promoting a healthy lifestyle

Concern for health, the promotion of sports and the socialising of employees in leisure-time activities are very important to Slovenske železnice and are actively supported by Group companies. In cooperation with the Railway Workers Sport Club, we organised free training for runners who participated in the Ljubljana Marathon. We formed a team of runners who regularly participate in major running events in Slovenia. In April, a large number ran in Istria and Ljubljana marathons, and in many other events. Slovenske železnice provided transport services, equipment, food and drinks at events.



We organised the 1,000 rail workers above 1,000 metres event for employees and railway enthusiasts, during which we promoted the use of public transport in connection with recreational activities. In May, railway workers, retirees, Slovenske železnice's scholarship holders, members of railway sports and cultural clubs and family members made their way by train into the mountain or on foot from railway stations to the mountain lodges on Kum, Maribor Pohorje, Slavník and Vogar.

We participated in the European Week of Sport with our own promotion of occupational health week from 24 to 28 September. The kick-off of the Week of Sport included the 2018 Corporate Games, which were attended by a team of futsal players from Slovenske železnice. By achieving an excellent second place, the team earned an invitation to the Europe Corporate Games 2019 from the Slovenian Olympic Committee – Association of Sports Federations. The purpose of health week is to encourage employees to learn about a healthy lifestyle with the aim of improving their health, well-being and performance in the workplace.

During health promotion week, Slovenske železnice organised the following events for employees at different locations:

- > Nordic walking courses in Postojna and Ljubljana,
- > a lecture about the spine and active break periods in Postojna,
- > the demonstration of physical exercises in the workplace in Ljubljana,
- > a lecture on different eating habits and the biggest mistakes of most short-term dieting in Postojna and Ljubljana,
- > the demonstration of relaxation exercises in Ljubljana and Maribor,
- > a biotherapy programme according to the method of Zdenko Domančič in Maribor, and
- > a hike along Cankar's path in Ljubljana.

We were also actively involved in the promotion of the main theme of the 2018 Mobility Week and thus promoted the overlapping and supplementation of various forms of transport. Together with municipalities and other organisations, we promoted the use of trains as the most environmentally friendly form of public transport, and raised the awareness of all participants about traffic safety.

Preserving Slovenia's rich cultural heritage

Slovenske železnice 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. We provide financial and other support to associations and independent artists, while several cultural associations function under the auspices of the Slovenske Železnice Group. The largest amongst them are the Tine Rožanc Railway Cultural Association and the Slovenian Railways Brass Band. Slovenske železnice has been the largest donator and sponsor of the aforementioned associations for several years. Together they promote the use of trains and spread Slovenia's rich cultural heritage across the world. 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 Slovenske železnice's positive image and are also cultural ambassadors.





Members of associations supported by Slovenske železnice regularly create independent projects, attend events organised by Group companies, and present Slovenia and its railway system at the state and international levels.

We ensure a link between cultural and technical heritage by intertwining unique events at the Slovenske železnice Rail Museum. The latter has been organising gatherings of railway enthusiasts for several years, from April to October. An increasing number of visitors attend the gatherings held at the museum. Museum employees organise workshops, entertainment and games for children, and professional tours of the museum's marvellous collections. In 2018, we completed a train track around the museum for children that covers more than 500 metres.

Connecting people and bringing joy to their lives

The traditional Santa Claus train travelled around Slovenia in December. Again last year, the majority of journeys organised for the general public were sold out in record time, in just a few hours after tickets went on sale. We organised rides with the Santa Claus train for all children of railway employees up to seven years of age. On that train, more than 1,500 children of railway employees met Santa Claus, who wished them happy holidays and gave them gifts. Around 12,000 children, with their parents and guardians, rode the Santa Claus train last year.



It has also become a tradition at Slovenske železnice for several rides on the Santa Claus train to be set aside for

charitable purposes. We also participated in the Chain of Good People project in 2018, and together with the Moste-Polje chapter of the Friends of Youth Association, the programme Svet and POP TV, we organised an unforgettable ride for children on the heritage train to the Postojna Cave. SŽ-Express employees delivered more than 10,000 gifts to children throughout Slovenia in the scope of the Santa Claus for a Day project, in which volunteers brought joy to children in need.

Together with the Ljubljana Moste-Polje chapter of the Friends of Youth Association, we joined a long-term project at the end of the year, this time the Chain of Good People project. The project was conceived with the wish that several organisations would join forces to help Slovenian families in financial distress. Slovenske železnice participated by providing direct financial assistance, and we took around 240 families to the Postojna Cave on the heritage train.

In cooperation with the Friends of Youth Association and the Slovenian Philharmonic Orchestra, we organised a special musical fairy tale at the end of December for children up to ten years of age. Combining fine stories with music, the musicians of the Slovenian Philharmonic Orchestra presented different instruments and played the best-known classic melodies. Santa Claus paid a visit to the children and gave them gifts.

ENVIRONMENTAL RESPONSIBILITY[®]



In accordance with the valid Code of Ethics of the Slovenske Železnice Group, the environmental policy of the Slovenske Železnice Group and in the spirit of sustainable development and social responsibility, Slovenske železnice, d. o. o.'s Management Board undertook to adhere to the highest environmental protection standards applicable in Slovenia and the EU. The main objectives of environmental protection are to reduce the direct and indirect environmental burden caused by the activities of Slovenske Železnice Group companies, to prevent environmental pollution, to ensure the efficient consumption of energy and management of all other sources that are relevant in terms of environmental protection.

Identified environmental impacts at Slovenske Železnice Group companies

Environmental aspect	SŽ, d.o.o.	SŽ-Infrastruktura, d. o. o.	SŽ-Tovorni promet, d. o. o.	SŽ-Potniški promet, d. o. o.	SŽ-VIT, d. o. o.	SŽ-ŽIP, d. o. o.	SŽ-ŽGP Ljubljana, d. d.
Electricity	•	•	•	•	•	•	•
Heating oil	•	•	•	-	•	•	•
Motor fuel	•	•	•	•	•	•	•
Natural gas	-	•	•	•	•	•	•
Coal	-	-	-	-	•	-	-
Liquified petroleum gas	-	•	-	-	•	-	•
Thermal energy from the district heating system	•	•	•	•	•	-	-
Water for sanitary purposes	•	•	•	•	•	•	•
Emissions into the atmosphere from heating devices	•	•	•	•	•	•	•
Emissions into the atmosphere from other devices	-	-	-	-	•	-	-
Light pollution	-	•	•	-	•	•	•
Noise	-	•	•	-	•	•	•
Municipal waste water	•	•	•	•	•	•	•
Industrial waste water	-	-	-	-	•	•	-
Storm water drainage	-	•	•	-	•	•	-
Non-hazardous waste	•	•	•	•	•	•	•
Hazardous waste	-	•	-	-	•	•	•
Electromagnetic radiation	-	•	-	-	•	-	-
Stray currents	-	•	-	-	-	-	-
Invasive non-native plant species	-	•	•	-	-	-	-
Emission of dust particles from construction sites (PM10)	-	-	-	-	-	-	•
Antifreeze fluids	-	•	-	-	•	•	•
Lubricants	-	•	-	-	•	•	•
Asbestos (tightly bound – roof tiles)	•	•	•	•	•	•	•
Ozone-depleting substances and fluorinated greenhouse gases	•	•	-	•	•	•	•
Polychlorinated biphenyls (PCBs) in construction materials	•	•	•	•	•	•	•
Paints, varnishes, solvents (volatile organic compounds – VOCs)	-	•	-	-	•	-	-
Chemicals	-	-	-	-	•	-	-
Plant protection products (PPP)	-	•	-	-	-	-	•
Detergents	-	-	-	-	-	•	-
Old pollution	•	•	-	-	-	-	-
Polluted track beds	-	•	-	-	-	-	-
Transport of hazardous material	-	-	•	-	-	-	-

The Slovenske Železnice Group even includes environmental aspects in planning, and research and development activities by respecting sustainable environmental

solutions. It thus contributes to the orderliness and security of the wider social environment, not only today, but in the future, as well.



Energy and environmental management certificates issued to Slovenske železnice Group mark a commitment on the part of its senior management to systematically reduce negative impacts on the environment.

Certification of the environmental management system was carried out in 2018 at Slovenske Železnice Group subsidiaries²⁾ according to SIST EN ISO 14001:2015 (hereinafter: ISO 14001). Through the certificates that they have obtained, Slovenske Železnice Group companies assure the public that they appropriately manage the environmental impacts generated by their activities.

Two projects were successfully completed at the Slovenske Železnice Group level in 2018 and will contribute significantly to improving environmental and energy efficiency in the future. They were:

- > the initial receipt of the environmental management system certificate in accordance with ISO 14001 at the subsidiaries SŽ-VIT, d. o. o., SŽ-ŽIP, storitve, d. o. o. and SŽ-ŽGP Ljubljana, d. d.;
- > the receipt of the energy management certificate in accordance with SIST EN ISO 50001:2011 by all Slovenske Železnice Group subsidiaries deemed large companies in accordance with valid regulations.

With those certificates, the senior management of Slovenske Železnice Group companies actively commit themselves to the systematic reduction and management of negative impacts on the environment that are the result of the increasingly burdened rail infrastructure and due to different processes that are crucial for the unimpeded and safe provision of railway transport services. In this way, Slovenske Železnice Group companies will improve energy management and efficiency, mitigate the risk of accidents that could have negative impacts on the environment and raise the importance of sustainable development.

At companies that have an established environmental management system, 20 internal assessments were conducted in 2018 in accordance with ISO 14001, where the main emphasis was on verifying the implementation of the requirements of the environmental management system in practice.

There were 23 minor fires along the railroad track in 2018. Local fire brigades were called for assistance in

those cases. There were no extraordinary events (accidents or incidents) that were in any way associated with the generation of harmful impacts on the environment.

In the performance of their activities, and in their work and technical processes, Slovenske Železnice Group companies pay special attention in connection with environment protection to ensure:

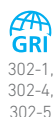
- > the management and maintenance of devices that are a source of industrial waste water that is discharged into the public sewerage system;
- > the management of small and medium-sized heating devices that are a source of emissions into the atmosphere;
- > the management of emissions of volatile organic substances into the atmosphere that arise in the surface treatment and coating of railway vehicles and wagons;
- > the use of plant protection products (pesticides) controlling vegetation on the rail infrastructure;
- > the warehousing and use of hazardous substances and the transport of hazardous materials;
- > the management and maintenance of devices that are a source of light pollution and electromagnetic radiation;
- > the management and maintenance of devices that contain fluorinated greenhouse gases and ozone-depleting substances; and
- > the management of sources of noise (the railroad track, station areas, areas where goods are transported, production areas and construction sites).

Noise

Amongst the main environmental issues faced by the operator of the public rail infrastructure (PRI) is the noise generated by rail traffic in some of the most heavily trafficked rail sections within the City of Ljubljana and on the Ljubljana–Kranj section. Two of the main reasons for the increased number of complaints due to noise generated by rail traffic in the aforementioned areas are the closure of traffic in urban centres and the redirection of road traffic onto thoroughfares that run adjacent to the city centre. A total of 24 complaints were filed with various Slovenske Železnice Group companies in 2018 due to noise generated by rail traffic. Slovenske Železnice Group companies

²⁾ SŽ-Infrastruktura, d. o. o., SŽ-Potniški promet, d. o. o., SŽ-Tovorni promet, d. o. o., SŽ-VIT, d. o. o., SŽ-ŽIP, d. o. o. and SŽ-ŽGP Ljubljana, d. d.

handle complaints relating to environmental protection and adopt the appropriate measures. If noise is the result of the operation of several noise sources (road and rail), the complainants are sent appropriate referrals. New rail vehicles, the purchase of which begins in 2019, will be considerably less noisy due to new EU technical requirements aimed at reducing the noise generated by rail vehicles. We thus anticipate fewer complaints due to noise.



Energy efficiency®

Both operators and the provider of traction services, which are part of the Slovenske Železnice Group, actively strive to improve the energy efficiency of railway transport and thus reduce environmental impacts. It is encouraging that the scope of train traction services was up by 19.6% in 2018 relative to 2012, while the quantity of energy consumed in traction was up by just 5.3% during the same period and CO₂ emissions were up by 10.3% (equivalent to around 11,706 tonnes of CO₂ emissions).

The volume of train traction services (passenger and freight transport combined) provided in 2018 was down by 3.2% relative to 2017, while total energy consumption in railway transport was down by 4.2% as a result (electricity consumption was down by 2.1% and D2

consumption was down by 8.1%) and the overall carbon footprint in railway transport was down by 3.4% (a decrease in CO₂ emissions by around 4,400 tonnes). 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.

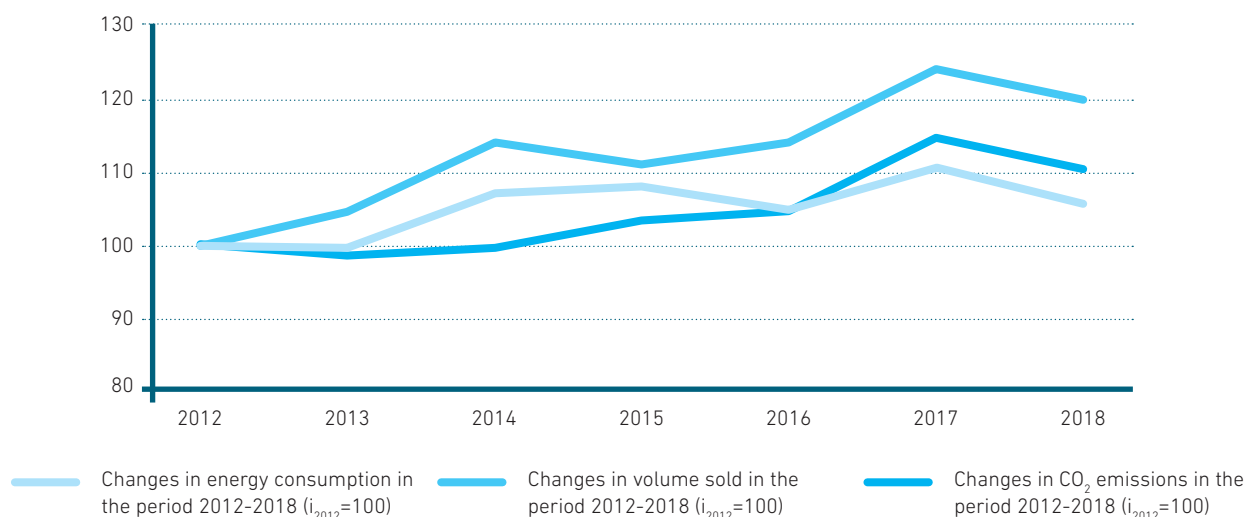
There was a 0.9% increase in passenger kilometres in rail passenger transport in 2018 relative to 2017, while electricity consumption was up by 2.1% and the carbon footprint per passenger kilometre was up by 3.2% (an increase in CO₂ emissions by around 1,100 tonnes). The new passenger trains that will be gradually included in rolling stock until 2023 will reduce the consumption of energy and thus the carbon footprint in rail passenger transport.

There was a 2.2% decrease in net tonne-kilometres in rail freight transport in 2018 relative to the previous year, while energy consumption was down by 7% and the carbon footprint per NTKM was down by 5.8% (a decrease in CO₂ emissions by around 5,500 tonnes). New locomotives that will be included in freight transport rolling stock are equipped with modern motors and meet European standards that will ensure a reduction in fuel consumption and fewer emissions.

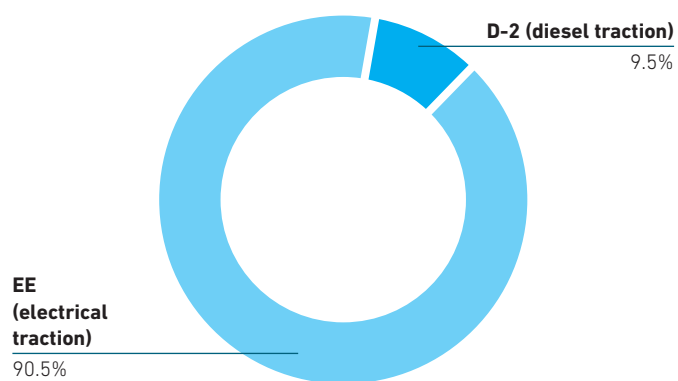
Framework environmental targets	2018	Index 2018/2017	Index 2018/2012
1. Increasing the energy efficiency of rail transport			
a. Total energy consumption in rail transport (kWh thousand)	278,752	95.7	105.4 ↗
a.1 Total electricity consumption in rail transport (kWh thousand)	179,955	98.0	123.0 ↗
a.2 Total consumption of D2 in rail transport (kWh thousand)	98,797	91.9	95.0 ↗
b. Specific electricity consumption for traction per unit of work performed (passenger and freight transport; kWh/thousand GTKM)	21.17	108.6	86.1 ↗
c. Specific consumption of D2 for traction per unit of DMU work performed (passenger transport; kg/thousand GTKM)	10.71	100.6	107.3 ↘
d. Specific consumption of D2 for traction per unit of diesel locomotive work performed (freight transport; kg/thousand GTKM)	5.96	98.4	82.3 ↗
e. Total train traction (thousand GTKM)	9,389,209	96.8	119.7 ↗
f. Passenger transport (in million PKM)	655.9	100.9	88.4 ↘
g. Freight transport (GTMK million)	4,966	97.8	140.4 ↗
2. Reduction of greenhouse gas emissions generated by rail transport			
a. Total CO ₂ emissions (thousand kg)	125,354	96.6	110.3 ↘
b. CO ₂ emissions/passenger km (kg/PKM)	0,055	102.3	121.2 ↘
c. CO ₂ emissions/NTKM (kg/NTKM)	0,018	95.7	60.6 ↗



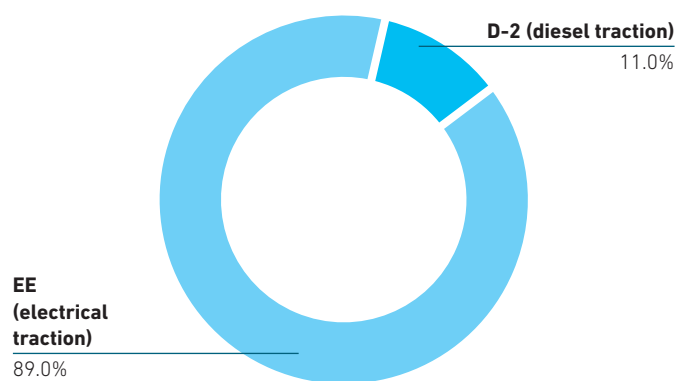
Change in energy consumption, scope of traction and CO₂ emissions in the period 2012–2018 [$i_{2012}=100$]



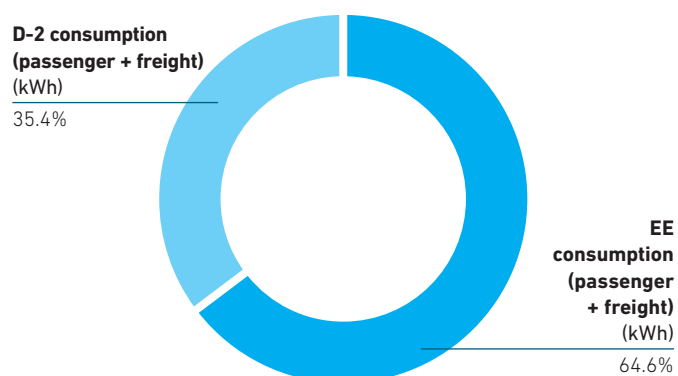
Actual traction in rail transport in 2018



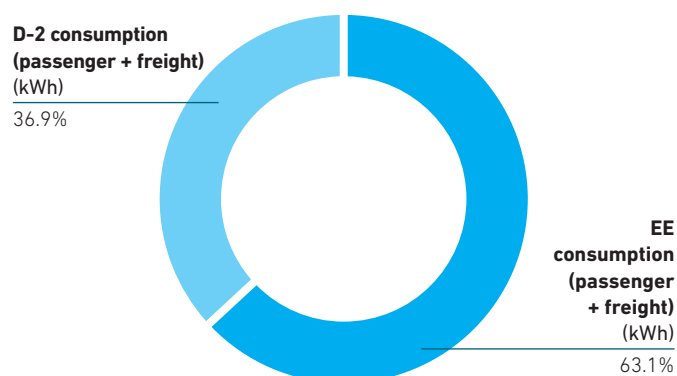
Actual traction in rail transport in 2017



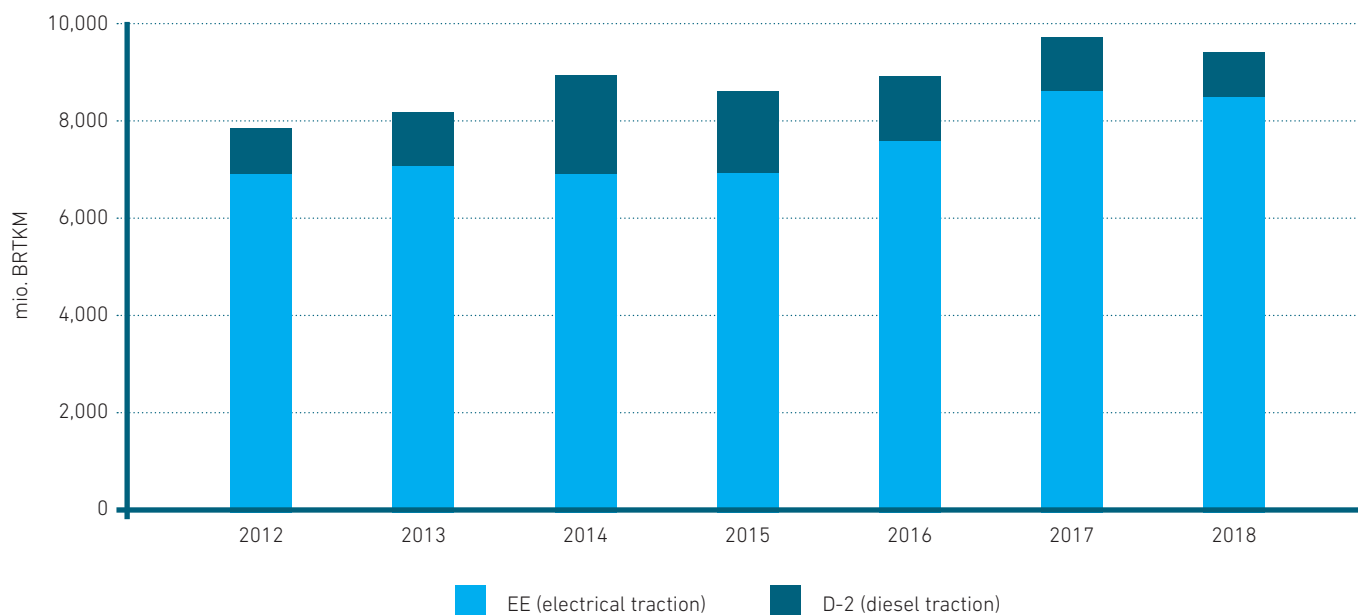
Breakdown of energy consumption in rail transport in 2018



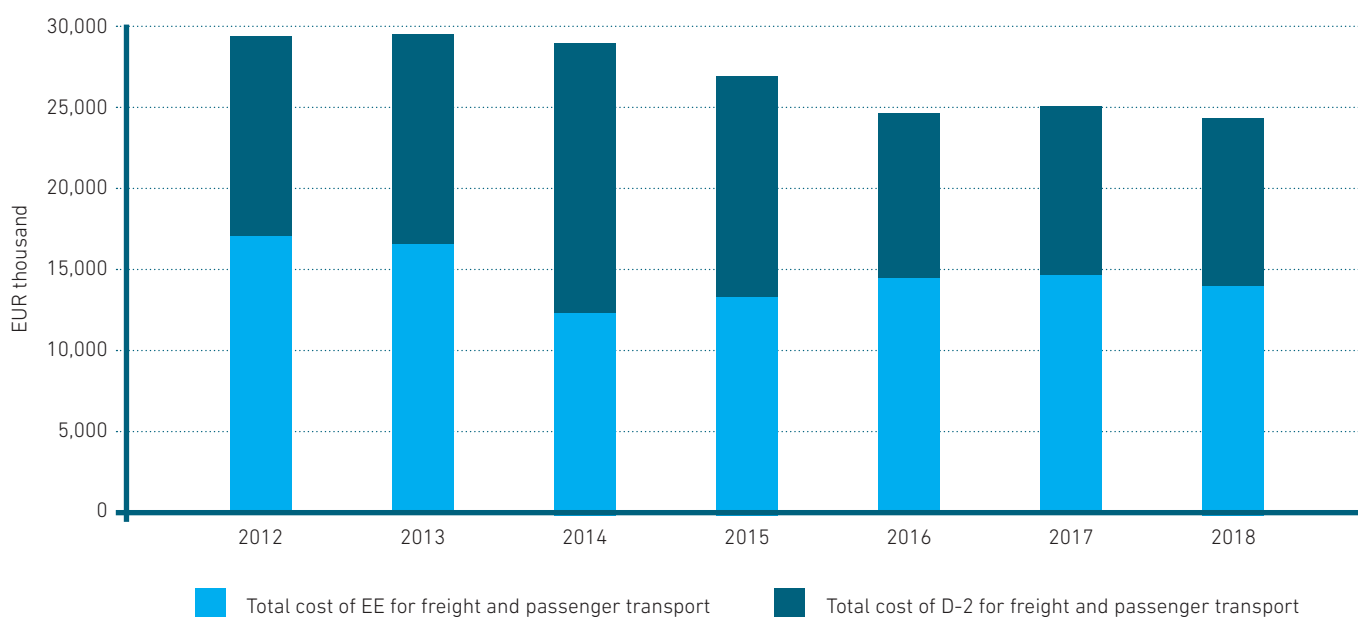
Breakdown of energy consumption in rail transport in 2017

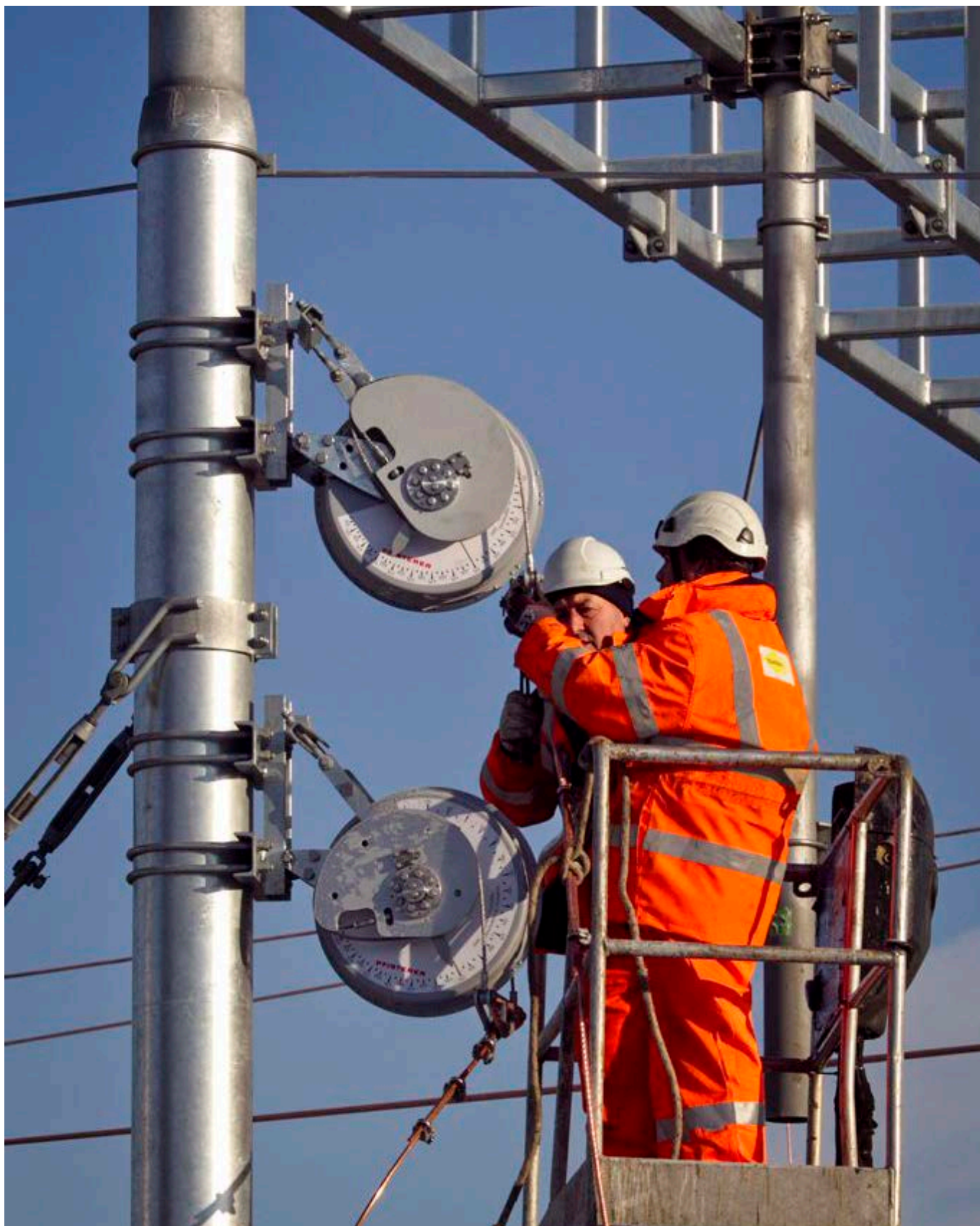


Volume of work performed in rail transport in the period 2012 to 2018



Changes in energy costs in rail transport in the period 2012 to 2018





> DISCLOSURES BY KEY ACTIVITY

QUALITY MANAGEMENT SYSTEM

A number of activities were carried out in 2018 for the development and upgrading of the quality management systems and processes of 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 carried out all planned internal assessments in accordance with ISO 9001:2015, drafted annual reports and performed management reviews at Group companies. The 8th recertification assessment was carried out from 26 to 28 November 2018. We successfully passed that assessment, as no cases of non-compliance were identified at companies. We received a new ISO 9001:2015 certificate with a validity until 22 January 2022, under the condition that the organisation continuously ensure the satisfactory functioning of the quality management system.

We carried out all planned internal assessments in accordance with ISO 9001:2015, drafted annual reports and performed management reviews at Group companies.





OBJECTIVES

ACHIEVED IN 2018

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

ISO 9001:2015 internal assessments

A total of 34 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 62 observations were made and 35 recommendations were issued.

Company	Number of cases of non-compliance identified	Number of observations made	Number of recommendations issued
SŽ, d. o. o.	0	14	0
SŽ-Infrastruktura, d. o. o.	0	23	3
SŽ-Tovorni promet, d. o. o.	0	7	5
SŽ-Potniški promet, d. o. o.	0	7	6
Prometni institut Ljubljana, d. o. o.	0	6	2
Fersped, d. o. o.	0	0	3
Total	0	62	35

ISO 9001:2015 external assessment

The 8th recertification assessment of the quality management system according to ISO 9001:2015 was carried out from 26 to 28 November 2018. External assessors did not identify any cases of non-compliance, but made 33 observations and issued 23 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 recommendations issued
SŽ, d. o. o.	0	6	0
SŽ-Infrastruktura, d. o. o.	0	5	15
SŽ-Tovorni promet, d. o. o.	0	6	4
SŽ-Potniški promet, d. o. o.	0	7	2
Prometni institut Ljubljana, d. o. o.	0	3	1
Fersped, d. o. o.	0	6	1
Total	0	33	23

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

A total of 10,127 employees attended training events within the Slovenske Železnice Group in 2018. Professional training was attended by 4,925 employees, while functional training was attended by 5,202 employees.

Details regarding employee training and education during 2018 are given in the section Employees.



OBJECTIVES	ACHIEVED IN 2018
Continue the trend of improving traffic safety	There were 15 more accidents in 2018 than the previous year. In terms of cause, there were two fewer railway-related accidents and 16 more non-railway accidents. The biggest impact was seen in a significant increase in accidents at level crossings.
Achieve a score of good (3) or higher for 85% of services (services are rated on a scale of 1–5) at SŽ-Infrastruktura and SŽ-Potniški promet, and 65% at SŽ-Tovorni promet.	The satisfaction and assessments of users are presented in Performance analysis by individual area in the sections Passenger transport and Freight transport.

Professional training was attended by 4,925 employees, while functional training was attended by 5,202 employees.



OBJECTIVES

ACHIEVED IN 2018

Reducing grievances, complaints and claims for damages

Passenger transport

	2014	2015	2016	2017	2018
Grievances	386	441	403	504	654
Compliments	210	192	236	261	318
Complaints	1,500	1,597	1,072	807	690
Claims for damages	22	56	17	23	58

The target number of grievances was exceeded by 30% due to an increase in the number of train-related grievances, primarily due to delays on account of extensive construction works, insufficient capacities and technical deficiencies. There were also several grievances in connection with the timetable and the website. Grievances about the latter also relate to online ticket sales.

The target number of compliments was exceeded by more than 27% due to an increase in the number of compliments relating to trains (punctuality and presentation), and compliments relating to staff on trains (helpfulness and proper handling) and staff at stations (helpfulness and friendliness). There were also several compliments in connection with stations (appearance, orderliness and cleanliness).

The number of complaints was significantly lower than expected in 2018, 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 over-night accommodations or transport by taxi in such cases.

**OBJECTIVES****ACHIEVED IN 2018****Reducing grievances, complaints and claims for damages****Freight transport**

	2014	2015	2016	2017	2018
Grievances	10	11	23	9	6
Comments on the state of affairs	948	694	922	485	507
Complaints (number per charged consignments in %)	1.27	1.17	0.89	1.00	1.63
Complaints (value of entries over complaints in %)	0.55	0.44	0.27	0.56	0.23
Claims for damages (number)	104	39	49	186	167
Claims for damages (value over transport revenues in %)	0,094	0,013	0,024	0.01	0,017

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

The number of CIT20 formal reports was up (index 2018/2017 = 104.5).

The majority of CIT20 formal reports were the result of damage to freight (wet paper, scratched cars, etc.) and missing seals.

We received and handled 167 claims for damages in 2018 (from users and foreign railway operators):

- > 82 claims from users of transport services; and
- > 85 claims from foreign railway operators (for the joint and several coverage of damages).

Reduction of train delays**Passenger transport**

	2014	2015	2016	2017	2018
Passenger train delays (min./100 km)	4.7	4.4	2.3	4.0	4.5

Average delays amounted to 4.5 min/100 km in 2018 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)

	2014	2015	2016	2017	2018
Freight train delays (min./100 km)	122.1	103.3	84.0	110.7	121.6

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 dispatch of trains at border stations with foreign railway operators, and extraordinary events that were the result of weather conditions and natural causes.



INVESTMENTS

The Slovenske Železnice Group's total investments in fixed assets amounted to EUR 58,202 thousand in 2018, which was 79.7% of the annual investment plan. Investments were up by 52.1% in 2018 relative to 2017.

Investments by the Slovenske Železnice Group in 2018

EUR thousand	2018	2017	Index
SŽ-Tovorni promet, d. o. o.	22,427	13,355	167.9
Fersped, d. o. o.	129	66	195.5
VV-LOG, d. o. o.	13		
SŽ-Potniški promet, d. o. o.	14,596	12,718	114.8
SŽ-Vleka in tehnika, d. o. o.	1,726	1,555	111.0
SŽ-Infrastruktura, d. o. o.	3,010	5,324	56.5
SŽ-ŽGP Group	2,929	672	435.9
SŽ-ŽIP, storitve, d. o. o.	730	645	113.2
Prometni institut Ljubljana, d. o. o.	47	5	
SŽ-Železniška tiskarna, d. d.	28	0	
SŽ, d. o. o.	12,567	3,950	318.2
Total	58,202	38,291	152.1

Investments by the Slovenske Železnice Group in 2018 by purpose

EUR thousand	2018	Structure	2017	Index
Rolling stock	38,019	65.3	28,818	131.9
Construction machinery	511	0.9	62	824.2
Road vehicles	1,587	2.7	1,058	150.0
Information technology	6,260	10.8	2,837	220.7
Property	9,486	16.3	3,456	274.5
Production equipment	1,687	2.9	1,297	130.1
Communications equipment	121	0.2	215	56.3
Other	531	0.9	549	96.7
Total	58,202	100.0	38,291	152.0

Note:

The value of investments included in the item Investment property includes intangible assets in the amount of EUR 7,563 thousand (superficies on land for the Emonika project).



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MODERNISING
INFORMATION
TECHNOLOGY.
IMPROVING
INFRASTRUCTURE.





Investments by purpose in 2018

Investments EUR thousand	SŽ Group	Tovorni promet	Fersped	VV-LOG
A. ROLLING STOCK	38,019	21,996	0	0
1. Tractive vehicles	20,018	7,848	0	0
1.1 New acquisitions	867	154	0	0
1.2 Overhauls	13,628	3,974	0	0
1.3 Modifications	5,523	3,720	0	0
2. Unpowered rolling stock	15,989	14,148	0	0
2.1 New acquisitions	9,626	9,118	0	0
2.2 Overhauls	6,363	5,030	0	0
2.3 Modifications	0	0	0	0
3. Specific-purpose rail vehicles	2,012	0	0	0
3.1 New acquisitions	265	0	0	0
3.2 Overhauls	1,747	0	0	0
3.3 Modifications	0	0	0	0
B. CONSTRUCTION MACHINERY	511	26	0	0
1. Heavy machinery	485	0	0	0
2. Light machinery	26	26	0	0
C. ROAD VEHICLES	1,587	86	30	0
1. Passenger transport vehicles	0	0	0	
2. Goods vehicles	690	0	0	
3. Transport vehicles	170	0	0	
4. Cars	727	86	30	
D. INFORMATION TECHNOLOGY	6,260	135	33	9
E. PROPERTY	9,486	143	11	1
1. Holiday capacities	571	0	5	
2. Housing	1	0	0	
3. Investment maintenance (buildings)	630	100	0	
4. Maintenance of tracks and switch points	32	0	0	
5. Facilities for commercial activity	286	0	0	
6. Land	7,645	0	0	
7. Equipment	321	43	6	1
8. Miscellaneous	0	0	0	
F. PRODUCTION EQUIPMENT	1,687	0	53	
G. COMMUNICATIONS EQUIPMENT	121	15	1	3
H. OTHER	531	26	1	
TOTAL	58,202	22,427	129	13



Potniški promet	VIT	Infrastruktura	ŽGP Group	ŽIP	Prometni institut	SŽ-Tiskarna	SŽ, d. o. o.
13,161	0	1,526	1,336	0	0	0	0
12,170	0	0	0	0	0	0	0
713	0	0	0	0	0	0	0
9,654	0	0	0	0	0	0	0
1,803	0	0	0	0	0	0	0
991	0	0	850	0	0	0	0
106	0	0	402	0	0	0	0
885	0	0	448	0	0	0	0
0	0	0	0	0	0	0	0
0	0	1,526	486	0	0	0	0
0	0	15	250	0	0	0	0
0	0	1,511	236	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	485	0	0	0	0
0	0	0	485	0	0	0	0
0	0	0	0	0	0	0	0
45	157	550	501	159	22	0	37
0	0	0	0	0	0	0	0
0	0	185	417	88	0	0	0
0	39	0	72	59	0	0	0
45	118	365	12	12	22	0	37
1,349	242	324	40	51	17	5	4,055
31	519	42	176	346	6	5	8,206
0	24	0	14	0	4	5	519
0	0	0	0	0	0	0	1
0	85	0	161	261	0	0	23
0	32	0	0	0	0	0	0
0	219	0	0	8	0	0	59
0	82	0	0	0	0	0	7,563
31	77	42	1	77	2	0	41
0	0	0	0	0	0	0	0
0	742	459	252	163	0	17	1
10	4	13	11	11	2	1	50
0	62	96	128	0	0	0	218
14,596	1,726	3,010	2,929	730	47	28	12,567



A total of 65.3% of all investments (or EUR 38,019 thousand) in 2018 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.

A total of EUR 21,738 thousand (2% more than the planned amount) was earmarked for periodic maintenance, EUR 13,628 thousand for the periodic maintenance of tractive vehicles, EUR 6,363 thousand for the periodic maintenance of unpowered rolling stock and EUR 1,747 thousand for the periodic maintenance of specific-purpose rail vehicles.

New purchases of rolling stock amounted to EUR 10,758 thousand and were realised in the amount of 59.3% of planned funds. The majority of funds were earmarked for the purchase of 80 Sggrs wagons for SŽ-Tovorni promet.

Major investments were also made in the upgrading of the business information system and other digitalisation programmes, and in real estate where superficies on land for the Emonika project totalled EUR 7.6 million.

established itself as a well-known and respected voice that represents the interests of the railway sector at the EU level. It provides its members access to many working groups that formulate the sector's positions in various areas, notifies them about legislative proceedings at the EU level and analyses those proceedings, and makes it possible for them to contribute to the standardisation and regulation of the railway sector.

Policy agenda of the CER for the period 2019–2024

The CER and its members dedicated a great deal of time and attention in 2018 to the drafting of its policy agenda for the period 2019–2024 entitled 'Ever better railways for an ever closer Union'. It is a programme that at the beginning of the new legislative period will be presented to the new College of Commissioners of the European Commission, the new composition of the European Parliament and other policymakers. The document addresses previous achievements, the development of European railways and traffic policy, and defines policy priority tasks that must be the focus of the work of institutional and non-institutional stakeholders in the EU to ensure that railway traffic becomes the backbone of increasingly sustainable European mobility. In addition to the relevant laws affecting the railway sector, also of importance for the latter's progress is the commitment of railway operators to continuous improvement. The document defines five sectoral commitments or priority tasks: digitalisation, a focus on customers, carbon-free railway traffic by 2050, the search for new potential sources of financing in addition to public sources, the exploitation of new market opportunities.

Multiannual Financial Framework and Connecting Europe Facility (CEF)

In June 2018, the European Commission presented a draft of the Connecting Europe Facility as part of the next Multiannual Financial Framework for the period 2021–2027. The CEF is extremely important for the railway sector, as it provides a great deal of support to the European rail system, funds for studies and work in connection with new lines and the upgrading of existing lines, funds for the ERTMS, measures to reduce noise and the improvement of access to rail services for persons with limited



PARTICIPATION IN THE INTERNATIONAL ENVIRONMENT

Slovenske železnice is actively included in the international environment. The Company cooperates regularly in different areas of railway transport with international railway organisations and associations, European railway operators and companies that perform scientific and research and development work. Such cooperation contributes to an improved commercial and regulatory environment for European railway companies, and to the general progress and improved efficiency of the Single European Railway Area.

Community of European Railways and Infrastructure Companies (CER)

30 years of the CER

The Community of European Railway and Infrastructure Companies (CER) celebrated its 30th anniversary in 2018. During that time, the aforementioned association has

mobility. The CER strove to increase the level of funding in the scope of the CEF and was successful in that regard, as the positions of the European Parliament and Council of the EU are quite positive for railways.

Technical pillar of the fourth railway package

The European Union has been continuously reforming the European railway sector since 1991. The fourth railway package, adopted in 2016, is by far the largest and most complex legislative initiative put forth to date. Final work was carried out in 2018 on the technical pillar, the implementation of which is urgently needed by the railway sector, as it introduces a system of transparent and impartial railway regulations at the EU level, with the elimination of national barriers.

International Union of Railways (UIC)

The UIC brings together more than 200 railway operators, infrastructure managers, other companies from the railway sector and research institutions, more than half of which are from Europe, which also earmarks the most funds for projects and other activities. The primary task of the UIC is to preserve and develop technical knowledge, which experts at the UIC's headquarters and from railway companies achieve by participating in various UIC working bodies (forums, platforms, working groups and special groups) and projects. The work of the UIC includes all key areas of the railway sector: passenger and freight transport, the rail system, safety and protection, research and development, the development of talents and expertise, sustainable development, standardisation, digitalisation, etc. Together with its members, the UIC organises conferences, workshops and projects in all of the aforementioned areas.

Strategy to increase the modal share of European rail freight transport

With the support of the UIC and CER, European rail freight operators formulated a strategy in 2018 with the ambitious target of achieving a rail freight modal share of 30% by 2030, which is nearly double today's average. Freight transport is expected to grow by 30% until 2030, and increasing the rail modal share is the most sustainable

option for achieving the objectives set out in the Paris Climate Agreement. Rail Freight Forward, a European coalition of rail freight operators, is committed to drastically reducing the negative impact of freight transport on the planet and mobility through innovation and a more intelligent transport mix. It has called on policymakers to adopt measures to ensure a clear regulatory framework and fair competition.

Review and audit of the Rail Technical Strategy Europe (RTSE)

In 2018, the UIC's experts reviewed past strategic documents (the European rail strategy from 2014, the document Challenge 2050 from 2013, etc.) that were in need of a comprehensive update in order to reflect current development in the area of research and innovation (digitalisation and automation). A comprehensive document had been drawn up by the end of the year, and combines a vision and important factors for the realisation of that vision. It describes certain trends that have emerged recently on the mobility market and in connection with transport technologies. It emphasises that understanding the needs of customers and users is crucial for commercial success in the development of the future European railway system. Users want a system of mobility that is affordable, reliable, safe and with sufficient capacities to meet demand.

Support of the directors of European railway companies for the Virtual European Railway Academy (VERA)

In 2018, together with a number of European railway companies, the CER and the UIC, Slovenske železnice confirmed its participation in a study on the establishment of the Virtual European Railway Academy.

At their annual meeting, the directors of European railway companies discussed, *inter alia*, the workforce of the future, and ways to recruit and retain the best staff for managing the railway system in the future. To that end, they signed a joint resolution and supported the proposed study of the VERA, in which forms of cooperation will be defined to ensure they are better prepared for future challenges faced by the sector in the area of human resources.



Standardisation

Together with a special standardisation group, the UIC Standardisation Platform has been transferring all UIC publications since 2018 in the scope of new and updated documents known as International Railway Solutions (IRS). IRS represent a structured framework of documents that are drafted and published for use in the railway sector. They include a number of voluntary solutions that support the planning, construction, functioning and maintenance of the railway system and services.

Digitalisation and data protection, and the impact on CIT products

As a member of the International Rail Transport Committee (CIT) headquartered in Bern, Slovenske železnice actively monitors the work of the CIT, and its working groups and committees, and responds to their initiatives and suggestions. The CIT represents the interests of operators vis-à-vis legislative bodies, and provides legal advice and training for its members, as required. Slovenske železnice regularly monitors the development of and changes to CIT products.

In addition to its core activities, which are the practical application of the Convention concerning International Carriage by Rail (COTIF) and the standardisation of relations between operators, infrastructure managers and customers, the work of the CIT during the previous year, in the context of cooperation with other international organisations, focused on a review of the Regulation on rail passengers' rights and obligations and the impact of the entry into force of the EU's new Customs Code on rail freight transport and multimodality (the European Commissioner for transport declared 2018 the Year of multimodality), with an emphasis on digitalisation and data protection, and their impact on CIT products. The new issue of CIT products in digital form is intended to improve the user-friendliness of products and the upgrading thereof, and to exploit the advantages facilitated by information technology.

Ljubljana declaration at the TEN-T Days

The TEN-T Days conference, the European Commission's largest transport event, took place in Ljubljana from 25

to 27 April 2018. More than 2,000 participants, including high-level representatives of the European Commission and European Parliament, ministries, public authorities, international financial institutions, civil society and companies, discussed investments in smart, safe and green mobility.

During the conference, more than forty stakeholders from European transport organisations, including the CER, presented the Ljubljana declaration. In that declaration, they called for an increased number of investments (in the form of grants) in clean and modern transport in the scope of the EU's budget after 2020.

Executive director of the CER at Slovenske železnice

The Executive Director of the CER visited Slovenske železnice as part of the TEN-T Days. Emphasised at the meeting was the role of the railway in Slovenia which, as an important element of the European railway network, links Central and South-East Europe. The railway is also important as a link with the Port of Koper. The Director General of Slovenske železnice presented to his guest planned investments in the Slovenian rail infrastructure, and the modernisation and digitalisation of passenger transport. The two also discussed topics that are currently on the EU's political agenda.

Annual meeting of the general directors of the G4 Group

The annual meeting of the G4 Group, which is a regional interest group of the UIC and CER, was held in Bratislava. Members of the G4 Group bring together common interests in the development of railway activities, and discuss current topics and issues at annual meetings, where they also exchange positions, opinions and experiences.

The following topics were the focus of discussions: the Virtual European Railway Academy project, the European rail freight transport strategy until 2030, current events in the area of European railway policy and legislative dossiers that impact the railway sector, and regional issues relating to the infrastructure, and freight and passenger transport.

We upgraded and expanded the central IT infrastructure and set up SAN disk arrays and a private cloud server.

UIC's World Security Congress in Bled

The International Union of Railways (UIC) and Slovenske železnice hosted the UIC's World Security Congress held in Bled from 16 to 18 October 2018. The event was attended by more than 100 participants from 23 countries. At the aforementioned congress, representatives of railway companies, ministries, the UIC and the police, experts in the area of safety and protection, academics and other organisations active in the area of traffic safety discussed crisis management and management activities in the event of natural disasters, the effective actions of infrastructure managers and railway operators in the event of major disruptions to traffic, and safety in tunnels and the associated rescue activities.

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's central information system (IS SŽ), located in the data centre, operates continuously, with a 24/7 on-call service, and provided reliable support for the core and back-office functions of the Slovenske Železnice Group again in 2018.

The core element of Slovenske železnice's central information system is the information system for rail transport monitoring (ISRTM). Its main purposes are to provide support for the functioning of the public rail infrastructure, i.e. the management of rail traffic, the monitoring of freight traffic, the movement of consignments and tractive vehicles and the work of traction staff, and support for other basic processes in real time. Events are recorded at more than 100 locations through the entire area covered by Slovenske železnice. Thus, 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 the Slovenske Železnice Group. Data is exchanged in real time 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 and with many external systems of other operators, infrastructure managers, European associations and agencies.

INTS services were adapted to the requirements of users and to market conditions. Critical HR risks were mitigated. We developed a number of new and important functionalities. All of this contributed to reliable information support for the performance of core work and business processes within the Slovenske Železnice Group. Activities were closely tied to the digitalisation strategy of Slovenske železnice.

Most significant new features in 2018

After a successful trial operation and testing in the production environment, we introduced an active timetable system in 2018 that displays notifications and speed restrictions on mobile devices. A solution for the electronic exchange of data regarding consignment notes is in the final phase of testing. An interface between the MAXIMO system and the ISRTM was developed for the transfer of data regarding infrastructure limitations. The aforementioned system is expected to be placed in production in 2019.

We provided information support for the issue of international brake certificates for freight trains, and provided support for the management of data regarding brake testing on an operator's documents (report on train composition and braking) and in inspections of train work.

We supplemented information support for the transport of consignments on foreign rail lines (Austria and Croatia) with certain functionalities that facilitate a more consolidated approach to the process itself.

In accordance with the European directive on the identification marking of rolling stock, we adapted functionalities in the handling of freight wagons with data from the central international Commercial Responsibility Database (CoReDa) regarding the owner and holder of wagons. The service was developed under the auspices of the International Union of Railways (UIC).

We completed the project to establish a back-up computer centre, at both the technical and procedural levels.



Key IT services are part of the concept of high availability with ensured geo-redundancy. The risks associated with unforeseen failures of the IT infrastructure were thus reduced significantly.

The central IT infrastructure (SAN disk arrays and private cloud server) was successfully upgraded and expanded.

We made significant progress in the area of IT security. We harmonised security policies, instructions and processes, and introduced new IT solutions.

The service centre provides support to the users of IT services according to a 24/7 regime. This means a central and standardised function for all requests from the users of IT services. The service centre functions in accordance with ITIL best practices, and is set-up within the IT Department as the only contact point between that department and the users of its services. This represents the commitment of the head of the IT Department to meet the needs of the business organisation and to support commercial services.

The service centre handled 11,042 service requests in 2018 (an increase of 11% relative to 2017), and resolved 99.8% of those requests. A total of 84 categories have been defined, in the scope of which service centre analysts provide first- and second-level user support. The third level of support comprises other functions within the Information and New Technologies Sector. First-level user support handled 5,544 service requests in 2018 (50% of all requests). The objective is to raise the proportion of resolved first-level requests to 60%. The achievement of that objective requires the inclusion of the service centre, as a stakeholder, in the planning and optimisation of IT services.

DIGITALISATION

In 2018, we continued with the intensive upgrading of the business information system of the Slovenske Železnice Group and other digitalisation programmes based on Slovenske železnice's digitalisation strategy adopted in September 2017. The digitalisation strategy derives from the business strategy, and very ambitiously envisages the rapid transformation of Group companies through

the use of state-of-the-art digital technologies. By implementing the strategy, we will ensure that Group companies have a significant competitive advantage in their respective strategic activities.

The **programme to upgrade the business information system** includes the construction of the central element of the business information system based on standard, high-capacity global platform solutions and on standard registries (business partners, services, etc.) for all Group companies. It includes the introduction of high-capacity business intelligence applications (e.g. Business Intelligence and Business Analytics).

In the scope of comprehensive information support for HR management, the calculation of wages and time management, we successfully completed the implementation of HR administration and the calculation of wages for all Group companies in June 2018. The system also includes effective support for the education and training process. We continued to consolidate all solutions in this area and the gradual implementation of a time-management system at individual Group companies. Planned in 2019 are the implementation of an effective business intelligence (BI) system in the area of HR management, completion of the implementation of a time management system at individual companies and support for certain other areas, such as travel to and from work.

Effective business analytics systems were introduced in the areas of procurement, material warehousing operations, construction projects and financial reporting. The aforementioned systems facilitate improved decision making at all levels of governance.

Important elements of the asset management system for the rail infrastructure were also implemented. We successfully launched the system in May 2018, when advanced, standardised and consolidated records of rail infrastructure assets were provided for the first time ever. A new geospatial asset display application (GIS) was put into production in September 2018. The new application is not yet fully integrated with the existing asset management system, but does facilitate effective access to the system without licencing restrictions. It also facilitates the arrangement of geospatial data directly via a web

user interface for all types of assets (point, linear and polygonal). We began developing a system in September 2018 for speed restrictions and telegrams. An element to support speed restrictions and telegrams was put into production at the beginning of March 2019. The new application replaced all previous applications in this area, and is integrated with the existing ISRTM. It facilitates the tabular and geospatial display of speed restrictions.

In connection with the management of rolling stock assets (maintenance activity), we started up a service request system in May 2018 for tractive vehicles. The system includes a mobile solution for train drivers (more than 1,000 users). We are planning to implement a comprehensive integrated information system (EAM/ERP) in 2019. The new system will be largely automated and will optimise the existing rolling stock maintenance process. It will also serve as the basis for implementing advanced analytics and business intelligence systems in the preventive maintenance segment.

With regard to the management of agreements, we provided effective support for the recording and monitoring of agreements on the SAP ERP platform, including integration with the document management system (and future e-archiving system). In 2019, we are planning to provide full records of agreements for all Group companies, the introduction of an effective business intelligence application to monitor the implementation of individual agreements.

Activities are in progress to ensure the possibility of electronic document approval (internal procurement requests, purchase orders, travel orders and incoming invoices) in the business information system, and the gradual introduction of a new document management system by individual company and document type. In conjunction with the introduction of the new system, we are planning the comprehensive optimisation and rationalisation of the electronic document business process and archiving systems.

The upgrading of the business information system will be completed in 2019. While introducing new systems, we gave special attention to the optimisation and rationalisation of business processes.

We began to work intensively on **digitalisation programmes for the transport and logistics activity** in 2018. Investment documentation for four projects from the programme was drawn up and approved in 2017. The Management Board approved the digitalisation programme in May 2018.

An agreement was signed for the programme's core project in May 2018, following the completion of the associated public tender. The primary objective of the project is to provide an integrated information system for the transport and logistics activity with the appropriate support for all elements of the business process (offers, agreements, orders, the preparation of consignments, train formation, the delivery of consignments, calculations, electronic operations, etc.). Work began on the project in June 2018, while all works including the trial operation period will be completed in 2020. Using the new system, we will provide SŽ-Tovorni promet (and later the forwarding and logistics activities) an effective system with a significantly higher degree of automation and the optimisation of individual elements of the business process. The new system will provide a significant competitive advantage in this activity and will facilitate the expansion of that activity to other markets.

We are planning a project in 2019 to support customer relationship management (CRM). The system will operate in conjunction with the core integrated information system for the transport and logistics activity. The project will be completed in 2020.

In May 2018, we began preparatory work to ensure an effective solution for the planning of tractive vehicles and train drivers. The new system will significantly improve efficiency in the use of tractive vehicles and assignment of train drivers through the use of effective optimisation algorithms. Investment documentation for the project has been drafted and approved, and the associated public tender published. The project is expected to be completed in 2020.

We began preparations in the final quarter of 2018 for the provision of effective information support for the management of switchyards and container terminals. We expect that the project will be defined and a public tender issued in 2019. Implementation will then follow in 2020.



Implementation of the DAS digitalisation programme: Document and archiving systems are a pre-condition for the gradual transition to paperless operations. The programme was approved in May 2018, while investment documentation had been drafted and approved by the end of 2018. After the completion of the public tender to ensure certified electronic storage, a certified electronic storage system will be produced in 2019. We are also planning the gradual transition to electronic storage in connection with business applications, initially for documents generated in business applications and later for other documents. The migration to electronic storage is expected to be completed by the end of 2020.

The **programme to digitalise the management of operational efficiency** is an important pillar in the implementation of the digitalisation strategy. The aim of the aforementioned programme is to establish a system for the planning, reporting and monitoring of key performance indicators (KPIs) and the consolidation of financial statements. The system will be supported by advanced information tools. The new systems will facilitate a transparent view of operations at all levels of governance, which in turn will facilitate the higher-quality governance of Group companies. The Management Board approved the programme to digitalise the management of operational efficiency in 2018, while preparatory works (investment documentation and tender documentation for the programme's core project) were also carried out. By the end of the year, we had analysed potential technological solutions and their compatibility with existing solutions. We are planning to issue a public tender in 2019 for the technological platform and the implementation of all types and areas of planning. The implementing project will be completed in 2020.

We are planning to kick-off a project during the second half of 2019 aimed at defining KPIs by the activities of individual companies and by functional areas. The project will be completed in 2020.

Passenger transport digitalisation programme Digitalisation of the passenger transport activity

We introduced online sales of passenger transport tickets, and are continuing with the project to introduce a

Wi-Fi signal on trains and the purchase of ticket vending machines. In 2019, we are planning the launch of a key project to 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-of-the-art digital marketing systems. The programme was included in SŽ-Potniški promet's development strategy for the period 2017–2031.

At the end of 2018, we began drafting the **digitalisation programme to support the functioning of the public rail infrastructure**. The subject of the programme is the establishment of comprehensive information support for existing business functions at SŽ-Infrastruktura in connection with the functioning of the rail infrastructure, with an emphasis on the maximum exploitation of the digitalisation, automation and optimisation of processes: the digitalisation and automation of train monitoring, the automation of active responses to changes in the monitoring and management of train traffic, the establishment of an integrated process for ordering and constructing train paths, the automation of the production of timetables, the development of a system for monitoring all activities in connection with train movements, the exchange of all necessary data with operators for the planning and implementation of train traffic, the automated calculation of operating fees and performance regime fees, and the establishment of effective business analytics.

Preparations will begin in 2019 for a project to replace the existing information system for rail transport monitoring (ISRTM) with a new system that will serve as the central component of all elements of the information system to support the functioning of the rail infrastructure.

RESEARCH AND DEVELOPMENT[®]

In international terms, Prometni institut Ljubljana contributed to the strengthening of regional railway cooperation in South-East Europe in the scope of the international

Slovenske železnice strengthened its cooperation in South-East Europe.

initiative for development and innovation in the railway sector (SEESARI – South East Europe Strategic Alliance for Rail Innovation). The latter was established in 2016 at the initiative of Prometni institut with the support of the International Union of Railways (UIC). International activities in connection with the initiative continued in 2018 with the signing of an agreement with SHIFT2RAIL, which represents the largest research and innovation programme in the EU for rail transport and is financed from the Horizon 2020 programme.

Preparations were made in 2018 for twelve international projects in the scope of various EU programmes, as follows: Horizon 2020, Alps region, Interreg, Central Europe, ADRION programme, Danube programme and SHIFT2RAIL. While the evaluation of several projects continues, two previously drafted projects were approved:

- > REIF – Regional infrastructure for railway freight transport – revitalised (Central Europe programme); and
- > IN2TRACK2 – Research into enhanced track and switch and crossing system 2 (SHIFT2RAIL programme; support of Slovenske železnice).

Work on international and European projects from the Horizon 2020 initiative continued as part of the following:

- > NeTIRail-INFRA (Needs Tailored Interoperable Railway), Horizon 2020; and
- > SOCIALCAR (Open social transport network for urban approach to carpooling), Horizon 2020.

The latter two projects (NeTIRail-INFRA and SOCIALCAR) were successfully completed in 2018.

Work continued on existing international and European projects from the Alps, Interreg and Central Europe programmes:

- > AlpInnoCT – Alpine Innovation for Combined Transport (Alps programme);
- > REGIO-MOB – Interregional Learning towards Sustainable Mobility in Europe (Interreg programme);
- > SUBNODES – Connecting the hinterland via sub-nodes to the TEN-T core network (Central Europe programme); and

- > CONNECT2CE – Improved rail connections and smart mobility in Central Europe (Central Europe programme).

Prometni institut and Slovenske železnice worked together to implement activities in the scope of the SHIFT2RAIL programme, which represents a joint European technological initiative for research, innovation and market-oriented solutions in connection with new and advanced railway products. SHIFT2RAIL is a public-private partnership between the EU, the manufacturers of railway vehicles and technologies and railway companies.

Research and development activities play a special role in the Slovenske Železnice Group's overall business process, as they serve 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 South-East Europe. During the international InnoTrans rail trade fair in Berlin, the Director of Prometni institut, as the President of the SEESARI initiative, and the Executive Director of SHIFT2RAIL, Carlo Borghini, signed an agreement in September 2018 on joint cooperation in the SHIFT2RAIL, in the presence of European Commissioner Violeta Bulc. The emphasis of the signed agreement is the exchange of information



regarding current and planned activities, and regarding research and innovation programmes. The agreement also emphasises the exchange of experiences and best practices in the transformation of the railway system, with a special focus on digitalisation and interoperability.

The SEESARI published a strategic document in 2018 outlining the development of railways in South-East Europe (SEESARI Masterplan).

Shift2Rail

Also of great importance is our participation in the European Union's **Shift2Rail** 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, the 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.

We were actively involved in IN2STEMPO, IN2TRACK, IN-2TRACK2 and ARCC projects in 2018 in the scope of the UIC.

UIC, ERA, TER and TEM Master plan

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 under the auspices of the UIC by individual project, and the transformation of effects into internal activities.

We actively participated in the following groups within the framework of the UIC:

- > Operators and Functional Group (OFG), which Prometni institut chairs. The group held three meetings.
- > Prequalification Group (PreQ), which Prometni institut chairs. The group held two meetings.

> European Radio Implementors Group (ERIG), for which Prometni institut performs a secretarial function. The group held three meetings.

> Future Railway Mobile Communication System (FRMCS). In the scope of the FRMCS project, which addresses the drafting of new specifications in the area of mobile railway communication systems and their inclusion in the Technical Specification for Interoperability (TSI), we attended a working meeting of the Functional Working Group (FWG), which is drafting functional specifications. We also attended an FRMCS workshop, where the current status of all elements of the project was presented, together with the plans of individual EU countries for the actual implementation of the FRMCS. In the scope of standardising procedures, we attended the conference of the European Telecommunications Standards Institute (ETSI).

Technological and commercial development of transport processes

Integrated public transport

Prometni institut monitors the development of integrated public transport in Slovenia and on that basis provided consultancy services to SŽ-Potniški promet, primarily in the setting of a uniform tariff. Based on its experiences in the establishment of public passenger transport in Slovenia, which was implemented in 2016 for students, it is also prepared to participate in the development and implementation of integrated public transport in Slovenia and elsewhere in the future. The company successfully applied its knowledge and experience in CONNECT2CE, a cross-border cooperation project in Central Europe, in which it is working with other partners to develop a knowledge base for the integration of public transport in inland and cross-border transport. A model is being developed in the scope of the project for a cross-border public service obligation (PSO) and the introduction of a combined ticket between Ljubljana and Opicina, and for local traffic in Trieste.

Upgrading of passenger transport rolling stock – investment documentation

The planned upgrading of passenger transport rolling stock, which will include the purchase of 52 multiple units

and 20 wagons, will contribute to a significant improvement in the quality of public 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 rolling stock will contribute to shorter passenger transport times in the context of the appropriate regulation of the public rail infrastructure.

Energy management

The energy management system helps the organisation develop systems and procedures for improving energy efficiency, including an overview of energy consumption, and facilitates the identification of material energy aspects and the successful implementation of the principles of its energy policy.

In order to comprehensively manage energy supply within the Company, an energy management project was completed in 2018. The aim of that project was to develop systems and procedures for improving energy efficiency, i.e. an energy management system pursuant to the SIST EN 50001 standard.

In June 2018, Bureau Veritas Slovenija performed an external certification assessment of the system in accordance with the ISO 50001:2011 standard. That assessment determined that the organisation has in place and maintains an energy management system in accordance with the requirements of the aforementioned standard, and demonstrated the system's ability to achieve the organisation's policy and established objectives.

The energy management project was thus successfully completed.

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 draw up electronic timetables represent a significant step forward in the use of electronic timetables in the provision of rail transport

services. Testing of the use of the e-timetable was carried out in 2018 for all train drivers in the Slovenske Železnice Group, while preparations were made for the use of additional functionalities. Testing was successfully completed in December 2018 with the new 2018/2019 electronic timetable, which has now replaced printed timetables for train drivers.

Printed forms on locomotives, such as DPV, EV-63, EV-49, EV-38 and P-13, were likewise replaced with electronic forms and a display on tablet computers.

Traffic management technology

In order to achieve the required capacities in the rail infrastructure and shorten travelling times, the appropriate 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.

Calculation of compensation due to operators as the result of traffic disruptions on account of PRI investment works

A calculation of compensation due to operators was drawn up based on the model developed for determining compensation recognised and paid to an operator by the infrastructure manager and an analysis of the causes of limited use of the PRI due to investment works (construction and upgrades).

Development of the public railway infrastructure

GSM-R system

Based on EU directives 2008/57/EC, 2016/797/EC and 2016/919, the interoperability of the railway systems of individual countries must be ensured on international rail corridors.

One step in ensuring the interoperability of railway systems is the use of the GSM-R radio communication system and equipping rolling stock with radio devices that work in the aforementioned system.

In the project contracted by SŽ-Potniški promet, d. o. o. and SŽ-Tovorni promet, d. o. o. (installation of GSM-R devices in the rolling stock of SŽ-Potniški promet, d. o. o. and SŽ-Tovorni promet, d. o. o.), a digital GSM-R radio system with the associated equipment (cable installations, antennas, etc.) will be installed in all of the rolling stock of both contracting authorities. In technical and technological terms, this represents an upgraded control-command and signalling subsystem and the replacement of existing analogue radio systems on the rolling stock of both contracting authorities with a digital radio system, as well as the installation of a digital radio system on rolling stock that was not previously equipped with a radio system.

Measurement of the geometric and dynamic parameters of the PRI in the Republic of Slovenia

The semi-annual measurement of the geometric parameters of lines was carried out in the spring and autumn of 2018 using the measurement train of the Hungarian company MAV. Prometni institut Ljubljana participates in data analyses and the drafting of final reports. Similar to every year, the dynamic parameters of lines were also measured and assessed on the Ljubljana-Maribor line in

both directions. Old and newly purchased high frequency accelerometers (sensors) were used for measurement purposes.

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 ETCS.

The presented research and development activity of the Slovenske Železnice Group was coordinated and performed by Prometni institut Ljubljana in 2018 in the scope of the following strategic and other projects:

- > the implementation of an energy management system in accordance with ISO 50001 at the level of all Slovenske Železnice Group companies;
- > the planning of maintenance works on the public rail infrastructure based on advanced information solutions and tools, with the support of the geometric and dynamic track characteristics;
- > the technical bases for the implementation of the ERTMS on main and regional lines; and
- > projects in the area of consultancy and other projects.



> MANAGEMENT OF RISKS AND OPPORTUNITIES

The Slovenske Železnice Group's corporate integrity system follows the recommendations and guidelines of the Corporate Governance Code for Companies with Capital Assets of the State (SDH, 2017) and the Slovenian Sovereign Holding Company Act (ZSDH-1), as well as the guidelines of the Organisation for Economic Cooperation and Development (OECD).

The system of corporate integrity within the Slovenske Železnice Group is built on compliance, governance and risk management, and on a system of anonymous reporting (whistleblowing):

- > compliance in terms of operations encompasses the operations of the Company in accordance with the law, which can be defined in broader terms as business conduct that, in addition to internal acts, respects all relevant business norms, standards and rules set out in the law;
- > compliance in terms of governance means ensuring the highest standards of operations in the identification and prevention of conflicts of interest and ethical work, compliance with internal rules and rules of procedure, the implementation of the business strategy, the identification of missing or unimplemented internal control mechanisms in business processes, and ensuring the segregation of responsibilities and powers in all business processes. Compliance as it relates to governance thus provides for a structure and relations between stakeholders (e.g. the Management Board, shareholders and the Supervisory Board), and the development of a system through which the objectives of companies and the methods for achieving those objectives are formulated;
- > compliance as it relates to operations and governance is inherently linked to the management and assessment of risks, with systematic and independent control over the effectiveness of the implementation of measures. Risk management at individual companies is more than just a function or inventory of risks and the establishment of a control environment; it is also the internal organisational culture of promoting lawful and ethical conduct, as well as the capacities and practices that companies include in the selection, approval and implementation of their business strategies; and

- > the establishment and functioning of a system for reporting suspected breaches of corporate integrity that ensures anonymity and the protection of whistleblowers.

The implementation of corporate integrity within the Slovenske Železnice Group is based on the Rules of Procedure of the Central Corporate Office for Compliance and Risk Management (Slovenske železnice, 2017).

The most attention in terms of risk management in 2018 was dedicated to the following:

- > the supplementation of the risk register with the inclusion of minor risks, the assessment of which is below risk appetite threshold of individual companies. Companies take up such risks without additional risk management measures and/or activities;
- > the identification of risks associated with irregularities and inconsistencies in transactions between Slovenske Železnice Group companies;
- > risk management measures, through the definition of specific, measurable, achievable, appropriate and time-based objectives, which are adopted in the business plans of companies;
- > the management of risks in connection with personal data protection, information security and the information security policy. The Slovenske Železnice Group has only carried out intensified digitalisation and computerisation activities during the last three years, and thus faces major challenges in ensuring the primary security of the IT system, compliance with regulations governing personal data security and the Information Security Act; and
- > the organisation of training regarding awareness of risks and compliance (corporate governance day for all Slovenske Železnice Group companies).

Risks

The risks to which the Slovenske Železnice Group is exposed are classified to five basic categories that are broken down into sub-areas taking into account the basic business functions at companies. We have thus identified a set of 28 different risks combined into five categories.

Not all companies are exposed to all identified risks, while the impact of risks varies from company to

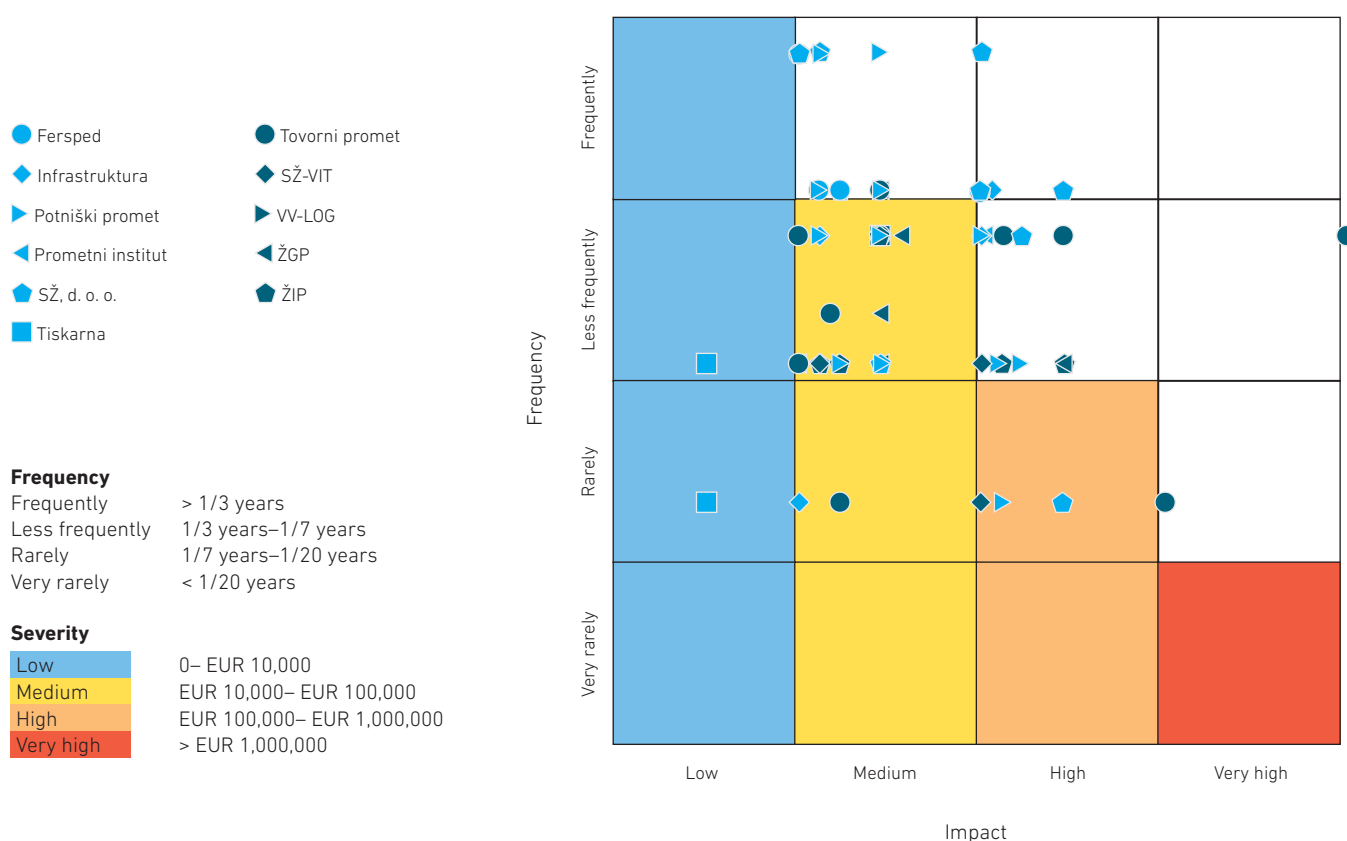


company, particularly because certain companies operate on the open market, while others are completely dependent on cooperation with Slovenske Železnice Group companies. For this reason, not all companies have the

same description for the same risk. The same is true for measures, which are adapted to a company as the basic unit for assessment purposes.

Risk matrix of the Slovenske Železnice Group

The current risk register of the entire Slovenske Železnice Group comprises 135 risks, of which 36 risks have been identified in transactions between Slovenske Železnice Group companies. The graph below illustrates the distribution of risk from a typical scenario for the Slovenske Železnice Group, with an indication of the impact and frequency of all key risks.



In their business plans, the senior management of companies define work associated with adopted business objectives, the identification of risks that arise in the achievement of objectives, the risk appetite threshold (in euros) and a risk management strategy as an integral element of a company's business plan. Deviations from business objectives indicate the need for risk assessment.

As a rule, the risk appetite threshold is EUR 100 thousand (as the impact on the annual net cash flow) at all companies, which results in the classification of risks as low in terms of impact. A company's senior management may also adopt measures to manage such risks, if it deems that such risks are material for the company.

Most important is the management of key risks (assessed impact on operating results in excess of EUR 100

We focus on key risks, which have the largest impact on cash shortfall.

thousand). We therefore included these risks in the risk register during the first phase of the implementation of the new methodology. The assessment and classification of risks (as low/medium/high/very high) allow us to focus on key risks (those that exceed the risk appetite threshold), and analyse other risks with respect to the achievement of objectives and business conditions.

At the end of 2018, we also included in the risk register risks with an assessed impact on cash flow of less than EUR 100 thousand that companies can take up, in accordance with their strategic and annual business plan, without additional risk management measures (strategy governing the take-up of risks).

Risk profile of the Slovenske Železnice Group

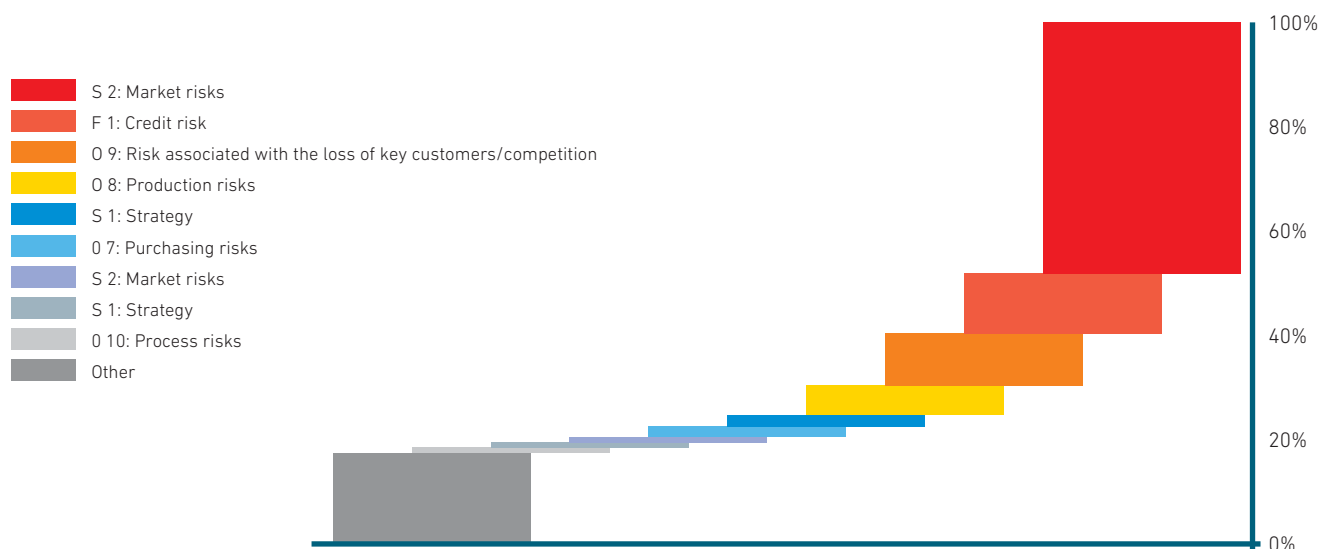
The risk profile illustrates the structure of exposure to risks at the level of the entire Group, where the contribution to aggregate exposure is calculated for every individual risk. Aggregate risk exposure is assessed as a scenario that could be realised, and represents the basis for the calculation of the liquidity reserves required by the Group to cover or hedge against the negative effects of risks on cash flow.

The result according to the VaR method is the worst possible effect of the realisation of such risks in terms of liquidity (impact on net cash flow), which is important for maintaining an optimal level of available cash and thus the avoidance of major financial shocks, and for maintaining an optimal level of capital for a company's stable operations.

Contributing most to the risk profile of the Slovenske Železnice Group is SŽ-Tovorni promet (68%), primarily due to market risks and risks associated with the loss of key customers, followed by Slovenske železnice, d. o. o. (18%) due to centralised finance, IT and procurement functions, and SŽ-ŽGP, d. d. (6%) due to risks associated with the company's strategy and market position in the sector.

In terms of the contribution of a specific risk to the risk profile of the Slovenske Železnice Group, the two largest risks contribute more than one half (56%) to the Group's overall risk profile. The five largest risks account for 76% of all risks that have the greatest impact on the Slovenske Železnice Group's exposure.

The decrease in net cash flow due to risks is estimated at EUR 27.4 million for the Slovenske Železnice Group.



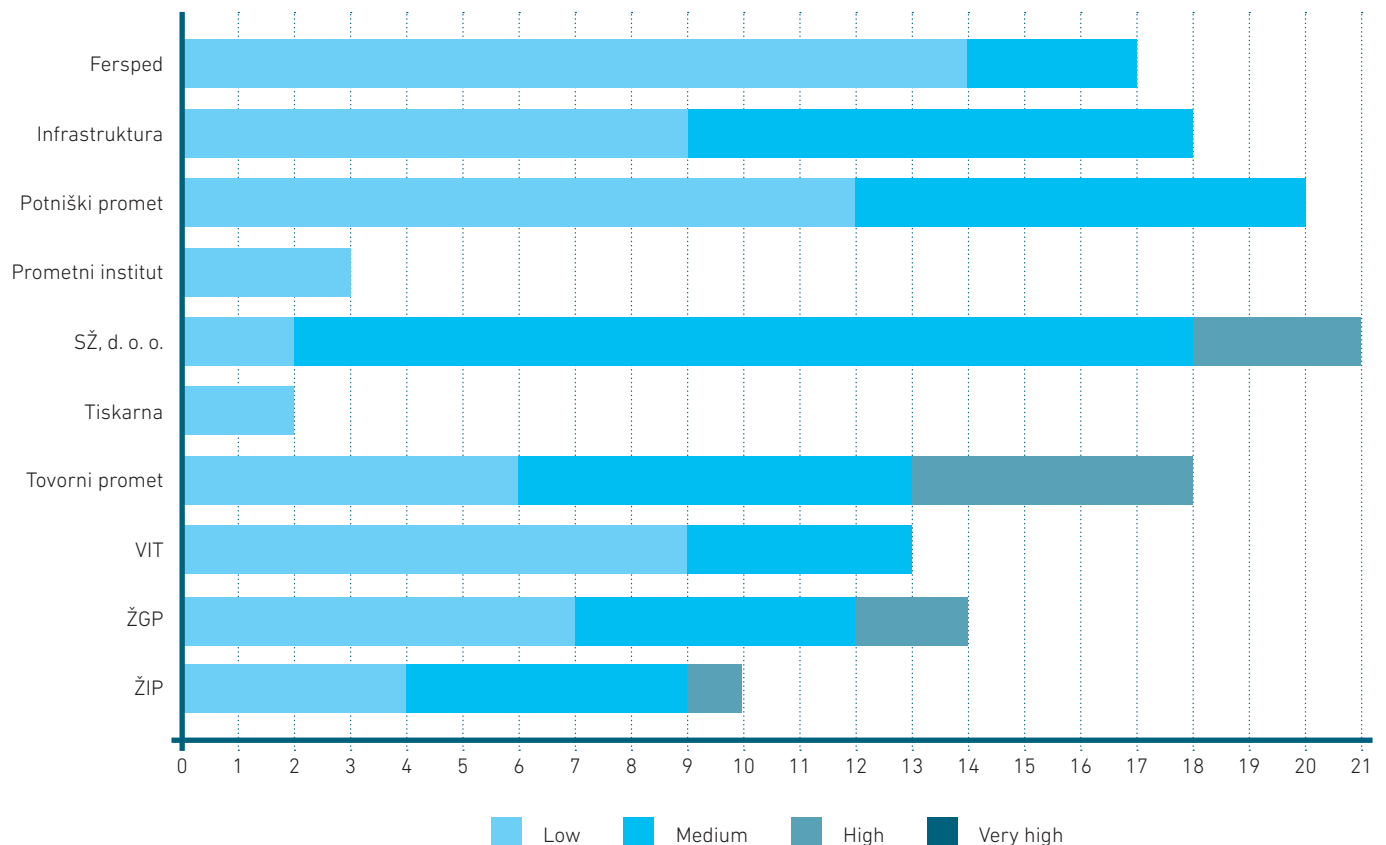


Highest assessed individual risks within the Slovenske Železnice Group

Risk	Company	Contribution to the risk profile	Contribution to the risk profile (EUR thousand)
S 2: Market risks	SŽ-Tovorni promet, d. o. o.	47.6%	13,078
F 1: Credit risk	SŽ, d. o. o.	12.0%	3,296
O 9: Risk associated with the loss of key customers/competition	SŽ-Tovorni promet, d. o. o.	11.0%	3,013
O 8: Production risks	SŽ-Tovorni promet, d. o. o.	5.0%	1,365
O 7: Purchasing risks	SŽ, d. o. o.	1.9%	519
S 1: Strategy	SŽ, d. o. o.	1.8%	498
S 2: Market risks	SŽ-ŽGP, d. d.	1.1%	295
O 10: Process risks	SŽ-Tovorni promet, d. o. o.	0.9%	252
O 5: Risks associated with business continuity	SŽ-Tovorni promet, d. o. o.	0.9%	251
Other		17.8%	4,902
Total			27,469

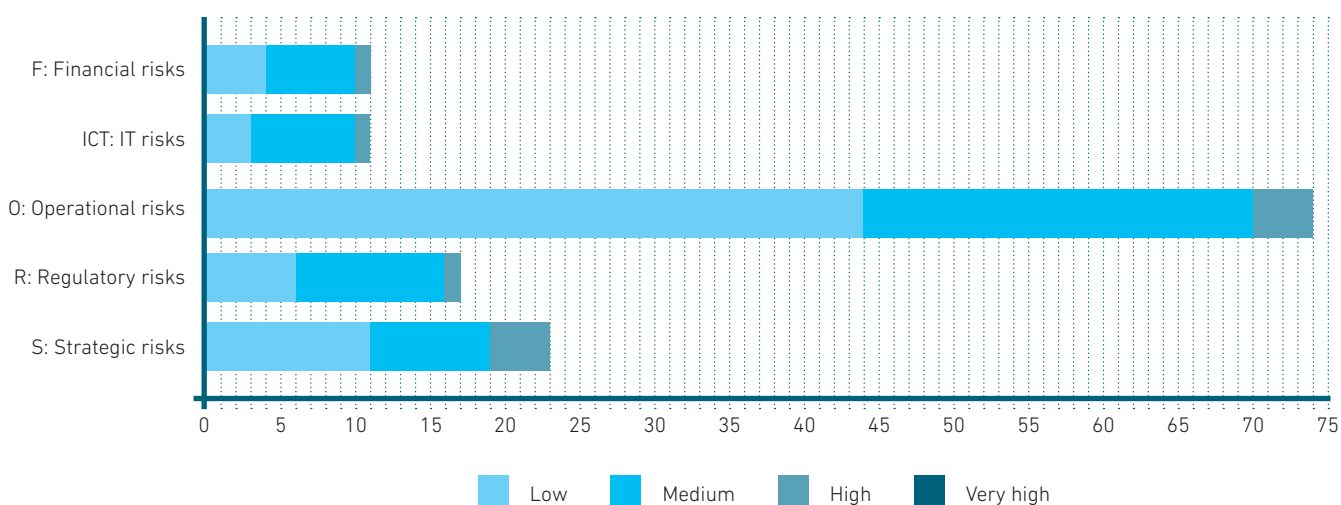
The seven largest risks account for 80% of the Slovenske Železnice Group's exposure. SŽ-Tovorni promet, Slovenske železnice, d. o. o. and SŽ-ŽGP, d. d. have the greatest impact on the risk profile of the Slovenske Železnice Group.

Number of risks by company with regard to the assessed impact of typical damage (in euros)



As expected, the highest number of risks were identified at the controlling company Slovenske železnice, d. o. o. due to the centralisation of processes.

Distribution of risks by risk category and assessed impact



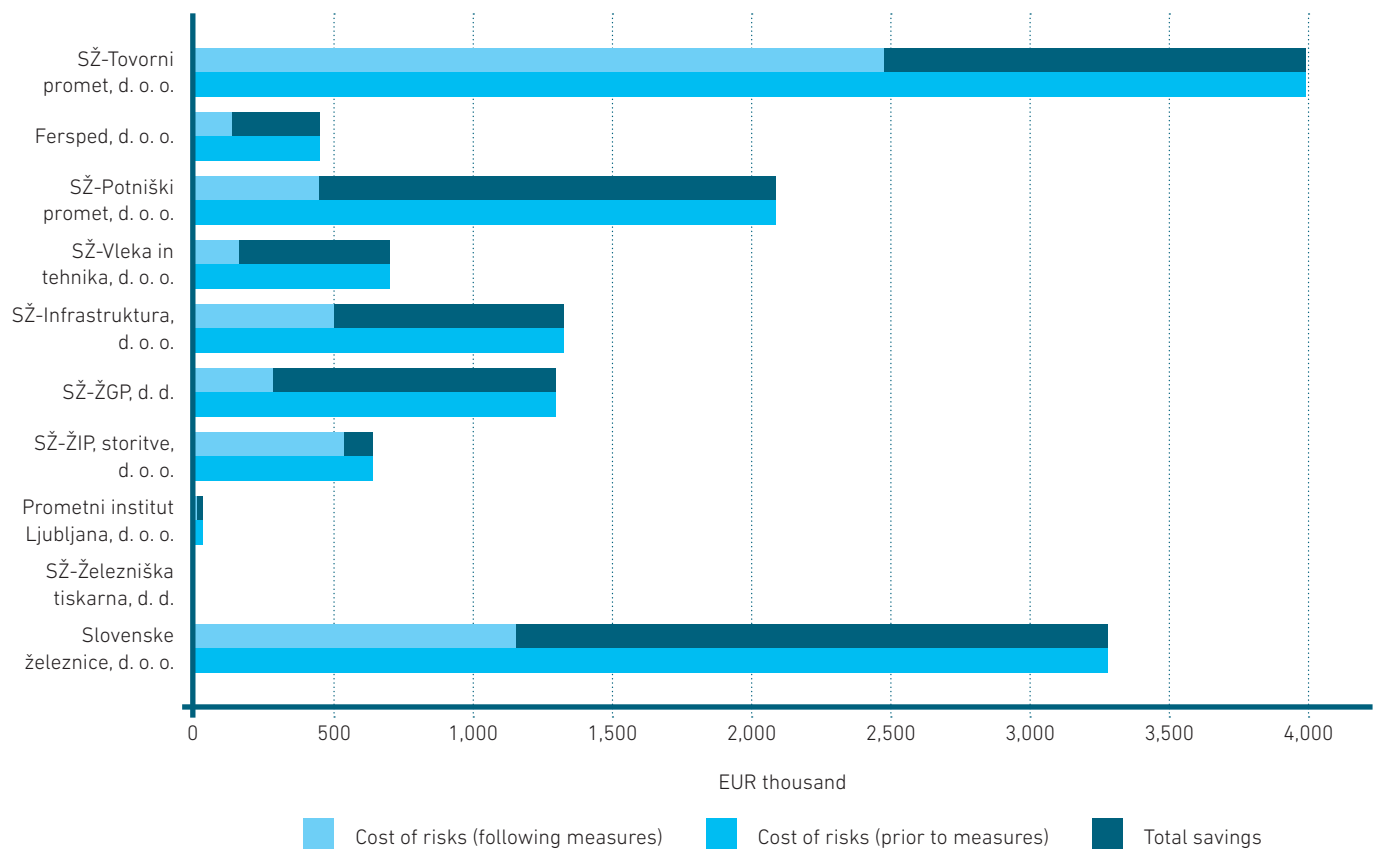
As expected, the majority of all risks are identified and classified as operational risks (54%), which also have the most risks classified as high (4). The operational risk category also has a high proportion of risks (59%) that are assessed as low and that do not require measures for their management, as their assessed impact is below the risk appetite threshold.

The direct cost of risks comprises the expected or average effect of risks on a company's net cash flow, taking into account issued risk assessments. The indirect cost of a risk comprises the cost that arises to maintain sufficient liquidity reserves to hedge against risks that represent a company's cost, which we can approximate using the cost of capital.

The average annual assessed cost of risks by individual company comprise the direct and indirect cost of risks.



The graph and table below illustrate the annual cost of risks before and after the adoption of measures by individual company, as well as the amount of cash required to cover the annual cost of risks.



Average annual costs of risks by company (before and after measures)

Risk category EUR thousand	Cost of risks (prior to measures)	Cost of risks (following measures)	Total savings
SŽ-Tovorni promet, d. o. o.	3,999	2,483	1,516
Fersped, d. o. o.	453	141	312
SŽ-Potniški promet, d. o. o.	2,089	453	1,636
SŽ-Vleka in tehnika, d. o. o.	705	165	540
SŽ-Infrastruktura, d. o. o.	1,327	508	819
SŽ-ŽGP, d. d.	1,301	288	1,013
SŽ-ŽIP, storitve, d. o. o.	645	543	102
Prometni institut Ljubljana, d. o. o.	35	17	18
SŽ-Železniška tiskarna, d. d.	6	2	4
Slovenske železnice, d. o. o.	3,281	1,165	2,117
Total	13,841	5,765	8,077

The average cost of risks at the Slovenske Železnice Group level was EUR 5.8 million, nearly half of which (43.2%) is accounted for by the risks to which SŽ-Tovorni promet, d. o. o. is exposed.

Risk management measures 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.

We are planning even more detailed records of the realisation of risks and their financial effects on the Slovenske Železnice Group. This will contribute to the improved assessment of the value of risks, and thus improve the strategy for mitigating the consequences of risks. We

find that the culture of awareness of the importance of risk management is changing for the better, as we have made considerable progress in terms of methodology and reporting.

Given the functional and procedural link between and the co-dependence of Slovenske Železnice Group companies, which are regulated by mutual cooperation agreements, the proportion of key risks in mutual transactions is high (30% with respect to risk assessments), as companies are strategically established to support or supplement each other's activities, and do not focus on business co-operation outside of the Slovenske Železnice Group. This represents a major opportunity for the effective management of risks based on updated cooperation agreements.





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> 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 long-term and short-term commercial success of the Slovenske Železnice Group, the annual report for 2017 was already an upgrade to reporting with the Global Reporting Initiative guidelines. We transitioned to new reporting standards (GRI Standards) with the 2018 annual report. Material content and disclosures that we report on in the scope of the GRI Standards are as follows:

- > relations with stakeholders, where we present a stakeholder map, forms of engagement and key topics of relevance to specific stakeholders;
- > a uniform and more transparent presentation of the competitive environment, achievements, risks and opportunities by activity;
- > the comprehensive treatment of social responsibility through reporting on employees, cooperation with the wider social environment and environmental protection.

The report covers the period 1 January to 31 December 2018.

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 a fact that the rapidly changing environment, both in the area of mobility and the area of logistics, brings more challenges than ever before to all railways, including the Slovenian railway. 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.

Further development of corporate reporting will follow valid frameworks for the introduction of integrated thinking and reporting.



> GRI TABLE

102-54,
102-55

GENERAL STANDARD DISCLOSURES

Indicator	Disclosure	Section	Page	Comment
GRI 101: Foundation 2016				
GRI 102: General disclosures 2016				
Organisational profile				
102-1	Name of the organisation	General information	25	
102-2	Primary brands, products and services	General information regarding subsidiaries as at 25 February 2019	26	
		Business model and development policies	29	
		Analysis by activity	58	
102-3	Location of headquarters	General information	25	
102-4	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	Analysis by activity	58	The number of countries is covered in part in the 2018 annual report in the section Analysis by activity. In the future, we are planning a separate scheme that will show activities by country.
102-5	Ownership and legal form	General information	25	
		Key stakeholders	34	
		Corporate governance statement	39, 42	
102-6	Markets served (geographic and sectoral breakdown, and breakdown by type of customer)	Analysis by activity	58	
102-7	Scale of the organisation (number of employees, number of activities, sales revenue, liabilities/equity, number of products and services)	Employees	111	
		Performance analysis	50	
		Analysis by activity	58	
102-8	Employees by type of employment, type of contract, region and gender	Employees	112	In accordance with internal rules, we do not disclose data regarding employees by contract type and region.
102-11	Clarification of how the organisation takes into account the precautionary principle	Corporate governance statement	38	
		Management of risks and opportunities	151	
102-12	Externally-developed economic, environmental and social charters, principles or other initiatives to which the organization subscribes, or which it endorses.	Corporate governance statement	36, 37	We disclose codes that relate to corporate governance. In the future, we plan to disclose other codes that apply to the Group.
102-13	Membership in organisations	Participation in the international environment	140	
Strategy and analysis				
102-14	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	
102-15	Key impacts, risks and opportunities	Operating environment	49	
		Analysis by activity	58, 62, 64, 67, 68, 71, 77, 82, 83, 89, 90, 91, 93	
Ethics and integrity				
102-16	Description of values, principles, standards and norms, such as codes of conduct and ethics	Business model and development policies	28	
		Corporate governance statement	36	



Indicator	Disclosure	Section	Page	Comment
Governance				
102-18	Governance structure of the organisation, including committees of the highest governance body	General information	25	
		Corporate governance statement	36, 39, 42	
102-22	Composition of the highest governance body and committees	Corporate governance statement	36, 39	
Stakeholder engagement				
102-40	List of stakeholder groups engaged by the organisation	Key stakeholders	34	
102-42	Bases for the identification and selection of stakeholders, including the frequency of engagement by stakeholder group	Key stakeholders	34	
102-43	Approaches to stakeholder engagement, including the frequency of engagement by stakeholder group	Key stakeholders	34	
102-44	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to them, including through reporting	Key stakeholders	34	
Report profile				
102-45	Entities included in the consolidated financial statements	Corporate governance statement	42	
102-46	Process of defining report content and aspect boundaries.	Corporate governance statement	37	Reporting content includes the requirements of codes and plans, and the development of corporate reporting. We are planning the definition of aspect boundaries in the future.
		Status and development of corporate reporting by Slovenske železnice	158	
102-49	Significant changes from previous reporting periods in terms of scope and aspect boundaries	Status and development of corporate reporting by Slovenske železnice	158	
102-50	Reporting period	Status and development of corporate reporting by Slovenske železnice	158	
102-51	Date of most recent previous report	Significant events in 2018	7	The annual report of the Slovenske Železnice Group for 2017 was approved by the Supervisory Board on 22 May 2018.
		Report of the Supervisory Board	21	
102-52	Reporting cycle	Status and development of corporate reporting by Slovenske železnice	158	Annual report
102-53	Contact point for questions regarding the report	General information	25	
102-54	Claims of reporting in accordance with the GRI Standards	Status and development of corporate reporting by Slovenske železnice	158	
102-55	GRI content index	GRI table	159	
102-56	External assurance of reporting according to the GRI Standards			The external assurance of reporting according to the GRI Standards is planned in the future.
GRI 103: Management approach				
103-1	Explanation of material topics and their boundaries	Business model and development policies	28	Reporting content includes the sections Business model and development policies and Status and development of corporate reporting by Slovenske železnice. We are planning a detailed review of material aspect boundaries.
		Corporate governance statement	37	
		Status and development of corporate reporting by SŽ	158	



SPECIFIC STANDARD DISCLOSURES

Indicator	Disclosure	Section	Page	Comment
ECONOMIC IMPACTS				
GRI 201: Economic performance				
201-1	Direct economic value generated and distributed (revenues, operating costs, employee wages and bonuses, payments to the owners of capital, payments to the state (taxes), donations and other investments in the community)	Performance analysis	50	
		Analysis of financial position	94	
		Profit and loss by individual company/activity	98	
GRI 203: Indirect economic impacts				
203-1	Development and impact of infrastructure investments and support activities	Analysis by activity	83	
		Investments	136	
		Research and development	146	
GRI 205: Anti-corruption				
205-1	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Corporate governance statement	45	
ENVIRONMENTAL IMPACT				
GRI 302: Energy				
302-1	Energy consumption within the organisation	Environmental responsibility	127	
302-4	Reduction of energy consumption within the organisation	Environmental responsibility	127	Total energy consumption has risen due to the increased scope of kilometres driven in passenger transport.
302-5	Reduction in energy requirements of products and services	Environmental responsibility	127	Reducing the need for energy is closely linked to the number of kilometres driven. However, the Slovenske Železnice Group strives to make improvements in the area of energy efficiency. Specific energy consumption is otherwise in decline.
GRI 304: Biodiversity				
304-2	Description of significant impacts of activities, products and services on biodiversity in protected areas	Environmental responsibility	124	We report on the impact of the rail infrastructure on the environment in which it is located. We plan to enhance this section in the future with specific data regarding impacts.
SOCIAL IMPACTS				
GRI 401: Employment				
401-1	New employee hires and employee turnover	Employees	111	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, with respect to core activities	Employees	112	In accordance with the provisions of labour law, the Slovenske Železnice Group complies with the principle of the equal treatment of all employees.
GRI 403: Occupational health and safety				
403-1	Clarification as to whether the organisation has an occupational health and safety system	Employees	116	
403-5	Worker training on occupational health and safety	Employees	115	We monitor the situation through the number of trainings hours.
403-6	Promotion of worker health	Employees	116	
403-9	Occupational injury rate	Employees	118	

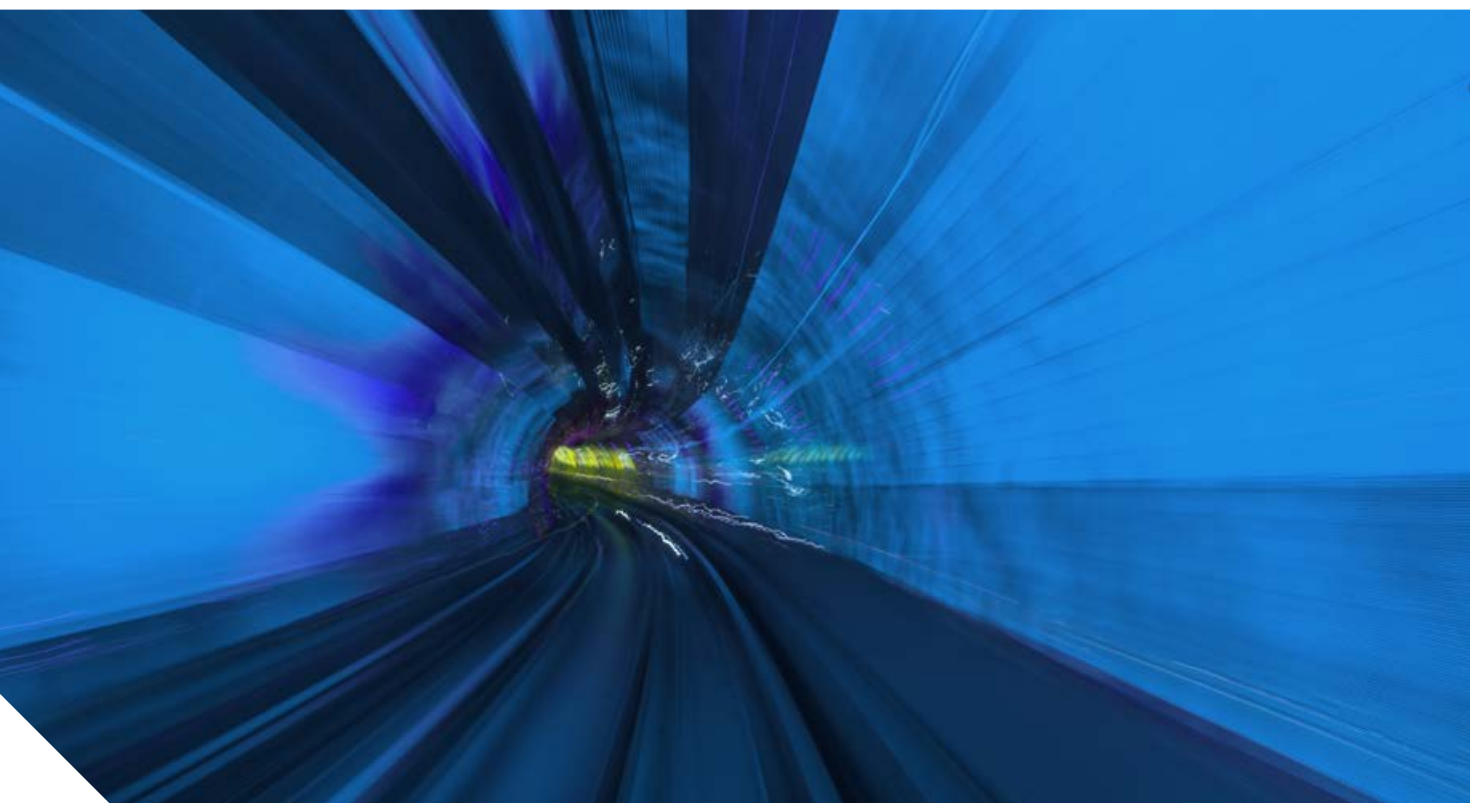


Indicator	Disclosure	Section	Page	Comment
GRI 404: Training and education				
404-1	Average hours of training per year per employee by gender and by employee category	Employees	115	We monitor the number of training hours by individual company.
GRI 405: Diversity and equal opportunity				
405-1	Composition of governance bodies and the structure of employees by 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	Corporate governance statement	36, 44	
		Employees	112	
405-2	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operations	Employees	112	The Slovenske Železnice Group pursues the principle of equal wages for all employees in accordance with the applicable labour legislation.
GRI 413: Local communities				
413-1	Operations with local community engagement, impact assessments and development programs	Key stakeholders	34	
		Engagement with the wider environment	121	





III. FINANCIAL REPORT



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EMBRACING
DIGITALISATION.
NEW
TECHNOLOGIES
INTRODUCED
IN EVERY
SEGMENT OF OUR
BUSINESS.

1. CONSOLIDATED FINANCIAL STATEMENTS OF THE SLOVENSKE ŽELEZNICE GROUP

1.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in EUR	Note	Balance as at	
		31 December 2018	31 December 2017
ASSETS		895,348,983	574,926,962
A. Non-current assets		487,926,532	378,010,765
Intangible assets	2.3.1.1	14,310,101	5,209,209
Property, plant and equipment	2.3.1.2	307,433,574	295,955,825
Investment property	2.3.1.3	46,325,721	46,468,652
Investments in associates	2.3.1.4	13,233,615	12,478,349
Other financial assets	2.3.1.4	2,093,564	4,162,294
Financial receivables	2.3.1.5	43,325,489	3,133,327
Operating receivables	2.3.1.6	54,690,958	5,047,642
Deferred tax assets	2.3.1.7	4,339,296	4,403,947
Other non-current assets	2.3.1.8	2,174,214	1,151,520
B. Current assets		407,422,451	196,916,197
Assets held for sale		117,464	52,573
Inventories	2.3.1.9	32,873,197	33,893,935
Financial receivables	2.3.1.10	60,271,385	824,336
Trade receivables	2.3.1.11	51,803,986	66,399,598
Other operating receivables	2.3.1.12	80,799,798	60,740,370
Receivables for corporate income tax	2.3.2.10	34,316	495,687
Cash and cash equivalents	2.3.1.13	181,522,305	34,509,698
EQUITY AND LIABILITIES		895,348,983	574,926,962
A. Equity	2.3.1.14	356,023,566	330,332,962
a) Equity of the owner of the controlling company		351,151,059	325,724,946
Called-up capital		205,274,421	205,274,421
Share premium account		45,002,140	45,002,140
Legal reserves		2,917,693	1,869,355
Other profit reserves		38,275,168	28,315,958
Fair value reserves		-2,985,233	-2,382,728
Retained earnings		62,665,641	47,647,673
1. Retained earnings from previous years		45,034,736	19,974,814
2. Undistributed retained earnings from the financial year		17,630,905	27,672,859
Translation differences		1,229	-1,873
b) Non-controlling interest		4,872,507	4,608,016
B. Non-current liabilities		208,271,650	144,880,688
Provisions for jubilee benefits and termination benefits	2.3.1.15	30,507,028	28,463,196
Other provisions	2.3.1.15	640,194	931,819
Non-current deferred income	2.3.1.16	1,963,320	2,409,409
Financial liabilities	2.3.1.17	42,663,310	111,392,771
Operating liabilities	2.3.1.18	132,497,672	1,683,280
Deferred tax liabilities		126	213
C. Current liabilities		331,053,767	99,713,312
Financial liabilities	2.3.1.17	239,327,077	12,644,474
Trade payables	2.3.1.19	32,687,478	29,368,411
Other operating liabilities	2.3.1.18	57,786,051	57,440,702
Liabilities for corporate income tax	2.3.2.10	1,253,161	259,725

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

1.2 CONSOLIDATED STATEMENT OF PROFIT OR LOSS

in EUR	Note	2018	2017
1. Net sales revenue	2.3.2.1	422,888,080	397,100,113
2. Change in the value of inventories of finished goods and work in progress		-66,979	29,867
3. Capitalised own products and services	2.3.2.2	36,261,687	32,448,420
4. Other operating revenue	2.3.2.3	102,862,468	87,801,898
5. Costs of goods, materials and services	2.3.2.4	220,290,691	205,961,776
6. Labour costs	2.3.2.5	259,301,555	241,648,389
7. Write-downs	2.3.2.6	38,689,848	36,306,517
8. Other operating expenses	2.3.2.7	7,393,170	2,522,290
9. Operating profit or loss (1 ± 2 + 3 + 4 - 5 - 6 - 7 - 8)		36,269,992	30,941,326
10. Finance income	2.3.2.8	2,559,843	3,769,017
11. Finance costs	2.3.2.9	7,426,773	4,912,042
12. Net finance income/costs (10 - 11)		-4,866,930	-1,143,025
13. Pre-tax profit or loss (9 + 13)		31,403,062	29,798,301
14. Current tax		1,602,017	301,046
15. Deferred taxes	2.3.1.7	64,564	-1,147,101
16. Corporate income tax	2.3.2.10	1,666,581	-846,055
17. Net profit or loss for the accounting period		29,736,481	30,644,356
Net profit or loss for the accounting period pertaining to:			
a) owner of the controlling company		29,312,868	30,629,299
b) non-controlling interest		423,613	15,057

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

1.3 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

in EUR	Note	2018	2017
Net profit or loss for the accounting period		29,736,481	30,644,356
Items that will not be reclassified subsequently to profit or loss		-568,241	-2,222,001
Actuarial gains/losses		-568,241	-2,387,125
Attributable changes in equity of associates		0	165,124
Items that may be reclassified subsequently to profit or loss		-292,113	-68,656
Net changes in the fair value of available-for-sale instruments		0	1,221
Other changes		-295,217	-88,641
Exchange rate differences		3,104	18,764
Other comprehensive income for the financial year		-860,354	-2,290,657
Total comprehensive income for the reporting period		28,876,127	28,353,699
Total comprehensive income for the reporting period attributable to:			
a) owner of the controlling company		28,426,113	28,367,563
b) non-controlling interest		450,014	-13,864

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

1.4 CONSOLIDATED STATEMENT OF CASH FLOWS

in EUR	Note	2018	2017
A. CASH FLOWS FROM OPERATING ACTIVITIES			
a) Net profit or loss		29,736,481	30,644,357
Pre-tax profit or loss	1.2	31,403,062	29,798,301
Corporate income tax and other taxes not included in operating expenses		1,666,581	-846,056
b) Adjustments for		36,649,330	34,826,457
Amortisation and depreciation (+)	2.3.2.6	37,374,390	34,812,773
Revaluation operating revenues (-)		-3,163,509	-5,687,560
Revaluation operating expenses (+)		1,315,457	1,493,745
Finance income, excluding finance income from operating receivables (-)	2.3.2.8	-2,022,829	-3,545,873
Finance costs, excluding finance costs from operating liabilities (+)	2.3.2.9	7,195,262	4,797,970
Revenues from the acquisition of superficies		-7,562,778	0
Actuarial calculation of provisions for employee benefits		1,911,460	2,195,021
Revenues from the reversal of other provisions		-537,804	-990,491
Tax expenses		1,524,008	783,379
Reversal of accrued revenues and expenses		476,876	0
Other adjustments to revenues and expenses		138,797	967,493
c) Changes in net working capital (and provisions and deferred tax assets and liabilities) from balance sheet operating items		-3,442,160	-20,411,177
Opening less closing operating receivables		-6,633,394	-19,528,927
Opening less closing inventories		824,276	-4,163,048
Closing less opening operating liabilities		3,572,576	4,858,824
Closing less opening provisions		-1,205,618	-1,578,026
d) Net cash flows from operating activities (a + b + c + d + e)		62,943,651	45,059,637
B. CASH FLOWS FROM INVESTING ACTIVITIES			
a) Inflows from investing activities		49,333,559	8,030,249
Inflows from interest received, and shares in the profit of others		442,682	808,885
Inflows from the disposal of property, plant and equipment	2.3.1.2	1,595,425	1,509,860
Inflows from the disposal of investment property	2.3.1.3	1,590,492	1,099,895
Inflows from the disposal of financial assets		45,704,960	4,611,609
b) Outflows from investing activities		-114,612,016	-45,449,439
Outflows for the acquisition of intangible assets	2.3.1.1	-1,858,286	-2,372,422
Outflows for the acquisition of property, plant and equipment	2.3.1.2	-98,423,251	-35,845,975
Outflows for the acquisition of investment property	2.3.1.3	-308,154	-1,946,090
Outflows for the acquisition of participating interests in subsidiaries		-747,180	-1,435,500
Outflows for the acquisition of financial assets	2.3.1.4	-13,275,145	-3,849,452
c) Net cash flows from investing activities (a + b)		-65,278,457	-37,419,190
C. CASH FLOWS FROM FINANCING ACTIVITIES			
a) Inflows from financing activities		418,805,500	28,000,000
Inflows from the increase in financial liabilities for recapitalisation		154,255,500	0
Inflows from the increase in financial liabilities	2.3.1.17	264,550,000	28,000,000
b) Outflows from financing activities		-269,457,369	-47,775,427
Outflows for interest paid		-3,633,314	-3,702,466
Outflows for the repayment of capital		0	-1,600
Outflows for the repayment of financial liabilities	2.3.1.17	-262,824,055	-40,463,673
Outflows for the payment of dividends and other shares in profit		-3,000,000	-3,607,688
c) Net cash flow from financing activities (a + b)		149,348,131	-19,775,427
D. Closing balance of cash and cash equivalents	2.3.1.13	181,522,305	34,509,699
x) Net cash flow in period (sum of Ac, Bc and Cc)		147,013,325	-12,134,980
+/- Calculated exchange rate differences from foreign currency assets		-719	3,095
y) Opening balance of cash and cash equivalents	2.3.1.13	34,509,699	46,641,584

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

1.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in the period 1 January to 31 December 2018

in EUR	Share capital	Share premium account	Legal reserves	Other profit reserves	Fair value reserves	Retained earnings		Translation differences	Equity of the owner of the controlling company	Non-controlling interest	Total
						Retained earnings from previous years	Undist. retain. earnings from the fin. year				
Opening 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
Changes in equity – transactions with owners	0	0	0	0	0	-3,000,000	0	0	-3,000,000	-185,523	-3,185,523
Payment of shares in profit and dividends						-3,000,000			-3,000,000		-3,000,000
Other changes in equity										-185,523	-185,523
Changes in total comprehensive income for the reporting period	0	0	0	0	-602,505	7,863	29,017,651	3,104	28,426,113	450,014	28,876,127
Entry of net profit or loss for the reporting period							29,312,868		29,312,868	423,613	29,736,481
Items that will not be reclassified subsequently to profit or loss					-602,505	7,863	-295,217		-889,859	26,401	-863,458
Gains and losses from the conversion of foreign companies' financial statements								3,104	3,104		3,104
Changes within equity	0	0	1,048,338	9,959,210	0	28,052,058	-39,059,606	0	0	0	0
Allocation of remaining portion of net profit for the comparable reporting period to other components of equity						28,052,058	-28,052,058				0
Allocation of a portion of net profit from the reporting period to other components of equity			1,048,338	9,959,210			-11,007,548				0
Closing balance for reporting period	205,274,421	45,002,140	2,917,693	38,275,168	-2,985,233	45,034,736	17,630,904	1,230	351,151,059	4,872,507	356,023,566

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

in the period 1 January to 31 December 2017

in EUR	Share capital	Share premium account	Legal reserves	Other profit reserves	Fair value reserves	Retained earnings Retained earnings from previous years	Undist. retain. earnings from the fin. year	Translation differences	Equity of the owner of the controlling company	Non-controlling 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 reclassified subsequently to profit or loss					-2,355,173	162,093			-2,193,080	-28,921	-2,222,001
Items that may be reclassified subsequently to profit or loss					1,221	-88,641			-87,420		-87,420
Gains and losses from the conversion 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 components of equity						17,161,833	-17,161,833				0
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

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

2. 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 2018 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 2018 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.

2.1 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 19 April 2019.

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 of assets for impairment

Information regarding significant assessments of uncertainty and critical judgements drawn up by the Group and/or Company in the application of accounting policies

that have the greatest effect on the amounts in the financial statements were used in the assessment of values:

- > investment property (note 2.3.1.3);
- > goodwill (note 2.3.1.1);
- > investments in subsidiaries (note 6.6.1.4);
- > non-current financial assets (note 2.3.1.4); and
- > other current operating receivables (note 2.3.1.12).

> Post-employment benefits

The present value of retirement benefits is recorded in commitments for post-employment benefits. Those benefits are recognised on the basis of an actuarial calculation drawn up by a certified actuary, which in turn is 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.

2.2 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. (2/3 owned by Fersped, d. o. o. and 1/3 owned by the company itself),
- > Kamnolom Verd, d. o. o. (100% owned by SŽ-Železniško gradbeno podjetje Ljubljana, d. d.; a 3.66% non-controlling interest was absorbed on 10 May 2018),
- > 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.), and

- > SI-Cargo Logistics, d. o. o., Belgrade, 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.

Fercargo, d. o. o., Sarajevo (Bosnia and Herzegovina), which is 70% owned by Fersped, d. o. o., is excluded from consolidation due to a lack of control. SŽ-ŽGP, d. o. o., Belgrade is likewise excluded from consolidation due to the initiation of liquidation proceedings against that company.

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	Effect on the financial statements
Amendments to IFRS 9	1 January 2019	No material effect
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019	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 exemptions 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.

In accordance with the standard, the Slovenske Železnice Group and Slovenske železnice, d. o. o. will apply exemptions for low-value leases of up to EUR 5,000 and for leases with a lease term of less than 12 months.

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.

For the purpose of transitioning to the new standard, the Slovenske Železnice Group and Slovenske železnice, d. o. o. will take into account the cumulative effect of the initial application of this standard on 1 January 2019. The Slovenske Železnice Group and Slovenske železnice, d. o. o. will not recalculate comparable data for 2018, but will disclose all changes due to the transition to the new standard as an adjustment to the balance in the statement of financial position on the date of initial application.

The Slovenske Železnice Group assesses that assets under lease and thus lease liabilities will increase by EUR 28,044 thousand due to the transition to the new standard on 1 January 2019, while assets and lease liabilities will increase by EUR 421 thousand at Slovenske železnice, d. o. o. on 1 January 2019 for the same reason.

Amendments to IFRS 9 Financial Instruments

Prepayment Features with Negative Compensation, adopted by the EU on 22 March 2018, is applicable to annual periods beginning on or after 1 January 2019.

The existing requirements of IFRS 9 regarding the right to terminate a contract have been amended, such that a party shall pay or receive appropriate compensation for early termination of a contract, regardless of the event or circumstance that led to early termination. For example, a party may pay or receive appropriate compensation when it decides to terminate a contract early (or otherwise causes early termination). The calculation of compensation must be the same in the event of a penalty for early termination and in the event of a reward for early termination. The Slovenske Železnice Group and Slovenske železnice, d. o. o. assess that the introduction of the amendments to IFRS 9 will not have a material impact on their financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

Uncertainty over Income Tax Treatments, adopted by the EU on 23 October 2018, is applicable to annual periods

beginning on or after 1 January 2019. This interpretation explains how to apply recognition and measurement requirements set out in IAS 12 when there is uncertainty over income tax treatments. Uncertain tax treatment arises when there is uncertainty whether the relevant tax authority will accept a tax treatment as a treatment that is compliant with tax legislation. In such circumstances, a company recognises and measures current taxes, or deferred tax assets or liabilities in accordance with the requirements of IAS 12 based on taxable profit (or a tax loss), tax bases, unused tax losses, unused tax credits and tax rates set in accordance with IFRIC 23. The Slovenske Železnice Group and Slovenske železnice, d. o. o. assess that the introduction of IFRIC 23 will not have a material impact on their financial statements.

New standards and amendments to existing standards issued by the IASB but not yet adopted by the EU

Standard/interpretation	Effective from	Effect on the financial statements
IFRS 14 Regulatory Deferral Accounts		No material effect
Amendments to IFRS 3 Business Combinations	1 January 2020	No material effect
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures		No material effect
Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies	1 January 2020	No material effect
Amendments to IAS 19 Employee Benefits	1 January 2019	No material effect
Spremembe IAS 28 Investments in Associates and Joint Ventures	1 January 2019	No material effect
Amendments to various standards – Annual Improvements to the IFRS 2015–2017 Cycle	1 January 2019	No material effect
Amendments to references to the Conceptual Framework in IFRS	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	Effect on the financial statements
IFRS 9 Financial Instruments	1 January 2018	No material effect
IFRS 15 Revenue from Contracts with Customers	1 January 2018	No material effect
Amendments to IFRS 15 Revenue from Contracts with Customers	1 January 2018	No material effect
Amendments to IFRS 2 Share-Based Payments	1 January 2018	No material effect
Amendments to IAS 40 Investment Property	1 January 2018	No material effect
Amendments to IFRS 1 and IAS 28 – Annual Improvements to IFRS 2014–2016 Cycle	1 January 2018	No material effect
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	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, non-controlling interests, and other components of equity relating to that subsidiary are derecognised;
- > any gain or loss in connection with the loss of control that can be attributed to the former interest is recognised; and
- > any interest retained by the 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-Tovorni promet, d. o. o., SŽ-Potniški promet, d. o. o., SŽ-Infrastruktura, d. o. o., SŽ-Prometni institut, d. o. o., SŽ-VIT, d. o. o., SŽ-ŽIP, 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 2018, with the exception of SŽ-ŽIP, d. o. o., whose loss in the amount of EUR 803,529 was covered by the controlling company 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 in the consolidated financial statements 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 flows method was used to test goodwill for impairment as at 31 December 2018. 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. Goodwill was tested with the help of a certified business valuer.

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 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 accounts for 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 that 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 2018 and 2017

	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 amortisation and depreciation rates used in 2018 were unchanged relative to the previous year. 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 exist that the fair value of investment property has changed significantly.

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

Inventories

Inventories comprise stocks of raw materials, materials, replacement parts, 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 complaints, 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.

When revaluing receivables due to impairment, impairment is recognised before a loss arises based on an expected credit loss model. Receivables were thus impaired as follows:

- > ordinary receivables and receivables subject to judicial proceedings according to the criterion of the age of an individual group or category of receivables:
 - a) non-past-due receivables in the amount of 0.2%;
 - b) receivables in arrears up to 30 days in the amount of 1%;
 - c) receivables in arrears between 31 and 90 days in the amount of 8%;
 - d) receivables in arrears between 91 and 120 days in the amount of 10%;
 - e) receivables between 121 and 150 days in the amount of 20%;
 - f) receivables between 151 and 180 days in the amount of 30%;
 - g) receivables between 181 and 364 days in the amount of 50%;
 - h) receivables more than 365 days in arrears in the amount of 100%;
- > trade receivables for which compulsory composition has been confirmed (disclosed on separate accounts):
 - a) receivables in arrears up to 365 days in the amount of 50%, and
 - b) receivables more than 365 days in arrears 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.

A change to the policy governing the impairment of receivables to align it with IFRS 9 did not have a material effect on the calculation of impairments of receivables in the financial statements for 2018. There was thus no change in the retained earnings of the Slovenske Železnice Group or Slovenske železnice, d. o. o. for 2017.

Cash and cash equivalents

In addition to cash on business accounts at banks and cash on hand, cash and cash equivalents 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.

Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise investments in the equity of other companies. The Slovenske Železnice Group and Slovenske železnice, d. o. o. classify investments in the equity of other companies into two categories:

- > subsidiaries, and
- > associates.

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 individual financial statements at historical cost, increased by transaction costs and subsequently reduced for any impairment.

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.

Financial instruments

In accordance with IFRS 9, the Slovenske Železnice Group and Slovenske železnice, d. o. o. classify financial instruments into two categories:

- > financial assets measured at amortised cost, and
- > financial assets measured at fair value through profit or loss.

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 non-current financial assets (maturity exceeding 12 months following the statement of financial position date). Loans and operating receivables are measured at amortised cost.

A financial asset is classified at fair value through profit or loss 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 and Slovenske železnice, d. o. o. are 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.

The table below illustrates the classification of financial instruments according to IAS 39 and the new IFRS 9 as at 1 January 2018:

in EUR	Note	Classification according to IAS 39	Classification according to IFRS 9	Value according to IAS 39	Value according to IFRS 9
Investments in other shares and participating interests	a)	Available-for-sale financial assets	Investments in financial instruments measured at fair value through profit or loss	4,162,294	4,162,294
Loans granted	b)	Loans and receivables	Amortised cost	3,957,663	3,957,663
Operating receivables	c)	Loans and receivables	Amortised cost	71,447,240	71,447,240
Cash and cash equivalents		Loans and receivables	At historical cost	34,509,698	34,509,698

- a) Investments in equity instruments that were classified as available-for-sale assets in accordance with IAS 39 and valued at historical cost were irrevocably classified to financial assets measured at fair value through profit or loss by the Slovenske Železnice Group upon initial recognition. Dividends received and shares in profit are recognised as finance income.
- b) In accordance with IFRS 9, the Slovenske Železnice Group and Slovenske železnice, d. o. o. will classify investments in loans and receivables to financial assets measured at amortised cost.
- c) The Slovenske Železnice Group and Slovenske železnice, d. o. o. classified trade receivables and assets from contracts with customers to assets measured at amortised cost. The Slovenske Železnice Group and Slovenske železnice, d. o. o. will use a simplified approach for the impairment of receivables, meaning that loss-related value adjustments are always measured in an amount that is equal to expected credit losses over the entire life of the receivables.

In accordance with IFRS 9, the Slovenske Železnice Group and Slovenske železnice, d. o. o. will use the expected credit loss model for the calculation of impairments of financial instruments, meaning that the impairment of a financial instrument may be recognised before a loss even arises.

The application of IFRS 9, effective 1 January 2018, had no impact on the financial statements of the Slovenske Železnice Group and Slovenske železnice, d. o. o.

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.

Revenue from contracts with customers

In accordance with IFRS 15, the Slovenske Železnice Group and Slovenske železnice, d. o. o. use a five-step model to determine the amount of revenue and timing of the recognition thereof. The model states that revenue is recognised when the Slovenske Železnice Group and Slovenske železnice, d. o. o. transfer services or goods to a customer in the amount to which they expect to be entitled. Taking into account the fulfilment of criteria, revenue is recognised:

- > at a point in time; or
- > over time.

The Slovenske Železnice Group and Slovenske železnice, d. o. o. recognise revenue from contracts with customers based on the associated contracts and when services and goods are transferred to a customer, in an amount that reflects the consideration to which they expect to be entitled. Every promised service or good is treated as a separate performance obligation, provided that it is distinct. It is distinct whenever a customer enjoys a

benefit from a rendered service or supplied good. A performance obligation is a promise to provide a customer some service or good.

Revenue is recognised at the moment the Slovenske Železnice Group or Slovenske železnice, d. o. o. fulfils its performance obligation, i.e. when control over a service or good is transferred to the customer. Control means that the customer may direct the use of and obtain all material benefits from the asset, and prevent others from directing the use of and obtaining the benefits from the asset.

Discounts approved when a contract is signed are allocated to all performance obligations over the term of a contract. All subsequently approved discounts are recognised in the period in which they are approved, and revenue reduced accordingly.

The Slovenske Železnice Group and Slovenske železnice, d. o. o. consistently follow a policy of simultaneously recognising revenue and expenses in the period a service was rendered or a good sold, regardless of when payment is made.

The Group and Company were required to apply IFRS 15 Revenue from Contracts with Customers in full in 2018. This included retrospective application for contracts that were open at the beginning of the reporting period. For transitional periods, the standard allows for an adjustment to the opening balance of equity as at the date of initial application. The introduction of IFRS 15 had no material impact on the financial statements of the Slovenske Železnice Group and Slovenske železnice, d. o. o. Thus, no adjustment was made to the opening balance of equity at the beginning of 2018.

Finance income

Finance income comprises revenue generated from investing activities. It arises in connection with investments, and 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).

2.3 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.3.1 Notes to the statement of financial position

2.3.1.1 Intangible assets

in EUR	31 December 2018	31 December 2017
Long-term property rights	10,712,695	1,601,803
Goodwill	3,568,239	3,568,239
Non-current deferred development costs	29,167	39,167
Total	14,310,101	5,209,209

Changes in intangible assets

in EUR	Long-term property rights	Other intang. ass. in acquisition	Goodwill	Non-curr. deferr. develop. costs	Total
Historical cost					
Balance as at 1 January 2017	8,231,378	0	1,579,374	189,338	10,000,090
Increase (VV-LOG, d. o. o.)	4,135	0	1,988,865	0	1,993,001
Acquisitions	451,825	0	0	0	451,825
Write-downs	-255,650	0	0	0	-255,650
Balance as at 31 December 2017	8,431,689	0	3,568,239	189,338	12,189,266
Balance as at 1 January 2018	8,431,689	0	3,568,239	189,338	12,189,266
Acquisitions	9,669,140	166,385	0	0	9,835,526
Write-downs	-239,513	0	0	0	-239,513
Balance as at 31 December 2018	17,861,479	166,386	3,568,239	189,338	21,785,441
Value adjustment					
Balance as at 1 January 2017	6,486,164	0	0	140,171	6,626,335
Increase (VV-LOG, d. o. o.)	2,739	0	0	0	2,739
Write-downs	-250,874	0	0	0	-250,874
Amortisation	591,856	0	0	10,000	601,856
Balance as at 31 December 2017	6,829,885	0	0	150,171	6,980,056
Balance as at 1 January 2018	6,829,885	0	0	150,171	6,980,056
Write-downs	-239,351	0	0	0	-239,351
Amortisation	724,635	0	0	10,000	734,635
Balance as at 31 December 2018	7,315,169	0	0	160,171	7,475,341
Carrying amount					
Carrying amount as at 1 January 2017	1,745,214	0	1,579,374	49,167	3,373,755
Carrying amount as at 31 December 2017	1,601,803	0	3,568,239	39,167	5,209,209
Carrying amount as at 1 January 2018	1,601,803	0	3,568,239	39,167	5,209,209
Carrying amount as at 31 December 2018	10,546,310	166,385	3,568,239	29,167	14,310,101

The Slovenske Železnice Group had no commitments for the acquisition of intangible assets as at 31 December 2018 and 31 December 2017, nor had it pledged intangible assets as collateral.

A total of 33.4% of all intangible assets in use as at 31 December 2018 have been depreciated in full (that proportion stood at 69.5% as at 31 December 2017). That proportion is calculated taking into account the historical cost of intangible assets.

The majority of the increase in intangible assets in the amount of EUR 7,562,778 comprises the acquisition of superficies on land based on a court-brokered settlement signed on 21 December 2018 between Slovenske železnice, d. o. o. and SŽ-Infrastruktura, d. o. o. on the one side and Emonika NS, d. o. o. on the other.

2.3.1.2 Property, plant and equipment

in EUR	31 December 2018	31 December 2017
Land	10,042,915	9,960,999
Buildings	52,726,913	54,253,740
Equipment	226,443,404	216,589,210
- Rolling stock	202,610,228	194,867,952
- Other equipment	23,833,176	21,721,258
Property, plant and equipment in acquisition	18,220,342	15,151,876
Total	307,433,574	295,955,825

Changes in property, plant and equipment

in EUR	Land	Buildings	Plant and equipment, and investments in the assets of others	Equipment under finance leasing	Property, plant and equipment in acquisition	Total property, plant and equipment
Historical cost						
Balance as at 1 January 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 December 2017	9,960,999	125,819,569	811,090,633	5,729,746	15,151,876	967,752,823
Balance as at 1 January 2018	9,960,999	125,819,569	811,090,633	5,729,746	15,151,876	967,752,823
Acquisitions	82,030	995,028	42,589,390	1,569,657	3,068,466	48,304,572
Disposals	-113	-1,086,809	-33,050,407	0	0	-34,137,330
Write-downs	0	0	-40,434	0	0	-40,434
Transfers	0	-96,318	489,286	-489,286	0	-96,318
Exclusion from consolidation	0	0	-737	-19,754	0	-20,491
Balance as at 31 December 2018	10,042,916	125,631,470	821,077,732	6,790,363	18,220,342	981,762,822
Value adjustment						
Balance as at 1 January 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
Deprecation	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 December 2017	0	71,565,829	598,859,807	1,371,363	0	671,796,998
Balance as at 1 January 2018	0	71,565,829	598,859,807	1,371,363	0	671,796,998
Increases	0	0	271,328	-243,485	0	27,844
Decreases	0	-754,175	-32,923,101	-18,703	0	-33,695,979
Deprecation	0	2,092,901	33,519,595	594,075	0	36,206,571
Exclusion from consolidation	0	0	-62	-6,124	0	-6,186
Balance as at 31 December 2018	0	72,904,552	599,727,567	1,697,126	0	674,329,248
Carrying amount						
Balance as at 1 January 2017	9,669,890	55,747,270	211,173,133	2,414,026	14,363,201	293,367,521
Balance as at 31 December 2017	9,960,999	54,253,740	212,230,826	4,358,383	15,151,876	295,955,825
Balance as at 1 January 2018	9,960,999	54,253,740	212,230,826	4,358,383	15,151,876	295,955,825
Balance as at 31 December 2018	10,042,916	52,726,915	221,350,165	5,093,237	18,220,342	307,433,574

Moveable property and real estate valued at EUR 79,672,353 were pledged as guarantees for long-term loans as at 31 December 2018 (EUR 84,135,574 as at 31 December 2017).

The Group had commitments for the purchase of property, plant and equipment in the amount of EUR 129,268,284 as at 31 December 2018 (EUR 125,536,595 as at 31 December 2017).

A total of 45.0% of all items of property, plant and equipment in use as at 31 December 2018 have been depreciated in full (that proportion stood at 46.4% as at 31 December 2017). That proportion is calculated taking into account the historical cost of property, plant and equipment.

2.3.1.3 Investment property

in EUR	31 December 2018	31 December 2017
Investment property	46,325,721	46,468,652
Total	46,325,721	46,468,652

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 January 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 from property, plant and equipment	533,994	685,693	1,219,688
Balance as at 31 December 2017	39,766,940	25,330,531	65,097,471
Balance as at 1 January 2018	39,766,940	25,330,531	65,097,471
Acquisitions	0	296,746	296,746
Disposals	-5,799	-325,624	-331,423
Transfers for sale	-9,248	-66,597	-75,845
Transfers to property, plant and equipment	0	96,318	96,318
Balance as at 31 December 2018	39,751,892	25,331,375	65,083,267
Value adjustment			
Balance as at 1 January 2017	0	18,377,277	18,377,277
Depreciation	0	432,795	432,795
Disposals	0	-522,972	-522,972
Transfers from property, plant and equipment	0	341,719	341,719
Balance as at 31 December 2017	0	18,628,819	18,628,819
Balance as at 1 January 2018	0	18,628,819	18,628,819
Depreciation	0	433,184	433,184
Disposals	0	-304,458	-304,458
Balance as at 31 December 2018	0	18,757,546	18,757,546
Carrying amount			
Balance as at 1 January 2017	37,567,549	5,050,544	42,618,093
Balance as at 31 December 2017	39,766,940	6,701,712	46,468,652
Balance as at 1 January 2018	39,766,940	6,701,712	46,468,652
Balance as at 31 December 2018	39,751,892	6,573,829	46,325,721

The Group has not pledged investment property as collateral.

The Group generated rental income of EUR 1,692,810 in 2018 (EUR 1,626,137 in 2017). Depreciation costs associated with investment property totalled EUR 433,184 (EUR 432,795 in 2017).

The fair value of investment property was determined with the help of certified real estate valuers and amounted to EUR 84,066,214 as at 31 December 2018 (EUR 82,510,729 as at 31 December 2017).

2.3.1.4 Non-current financial assets

in EUR	31 December 2018	31 December 2017
Investments in associates	13,233,615	12,478,349
Other financial assets	2,093,564	4,162,294
Total	15,327,179	16,640,643

The Group had no non-current financial assets pledged as guarantees for long-term loans as at 31 December 2018, nor at 31 December 2017.

Information regarding associates as at 31 December 2018

Business name of associate	Business address of associate	Activity	Ownership as at 31 December 2018	Ownership as at 31 December 2017
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%

in EUR	Equity		Profit or loss for the year	
	31 December 2018	31 December 2017	2018	2017
Terme Olimia, d. d.	35,765,444	33,409,463	2,336,087	756,569
Adria Kombi, d. o. o., Ljubljana	11,297,912	10,811,876	1,382,365	1,378,954
CKTZ, d. d., Zagreb	3,013,942	2,915,403	516,593	307,299
Total	50,077,298	47,136,742	4,235,045	2,442,822

Balance of investments in associates

in EUR	31 December 2018	31 December 2017
Terme Olimia, d. d.	8,537,504	7,975,112
Adria Kombi, d. o. o., Ljubljana	3,809,656	3,645,764
CKTZ, d. d., Zagreb	886,455	857,473
Total investments in associates	13,233,615	12,478,349

Changes in investments in associates

in EUR	SŽ Group	
	31 December 2018	31 December 2017
Balance as at 1 January	12,478,349	12,313,226
Attributable profit/loss	1,175,716	735,965
Dividends received	-379,199	-542,759
Attributable changes in equity of associates	-41,251	-28,083
Balance as at 31 December	13,233,615	12,478,349

Other financial assets	Participating interest in %	Amount of investment in EUR	
		31 December 2018	31 December 2017
– Emonika NS, d. o. o.	3.00	0	1,953,330
– EUROFIMA	0.42	2,033,709	2,033,709
– Emonika PS, d. o. o.	3.00	0	73,253
– HIT RAIL		54,439	54,439
– Telekom, d. d.		0	27,350
– Ferit, s. r. l., Trst	80.00	0	8,000
– Fercargo, d. o. o., Sarajevo	70.00	924	924
– Other shares and participating interests		4,492	11,289
Total		2,093,564	4,162,294

All investments in shares and participating interests are classified as financial assets measured at fair value through profit or loss. None of the shares and participating interests held by the Slovenske Železnice Group at the end of 2018 are quoted on a regulated market Other financial assets are not used as collateral and are free from encumbrances.

2.3.1.5 Non-current financial receivables

in EUR	31 December 2018	31 December 2017
Other non-current financial receivables	40,220,319	0
Receivables for funds paid to institution (Železniški zdravstveni dom)	2,401,003	2,401,003
Deposits placed with banks and others	690,653	720,210
Other financial receivables	13,514	12,114
Total	43,325,489	3,133,327

Other non-current financial receivables from the sale of receivables based on the agreement of 12 June 2018 on the assignment of claims for consideration between Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. and two banks totalled EUR 40,220,319 and fall due for payment in 2021 (EUR 0 as at 31 December 2017).

2.3.1.6 Non-current operating receivables

in EUR	31 December 2018	31 December 2017
Non-current advance for the purchase of new passenger wagons	50,998,350	0
Trade receivables	4,488	106,633
Trade credits for the purchase of real estate	3,424,951	3,515,243
Other operating receivables	263,168	1,425,766
Total	54,690,958	5,047,642

A non-current advance is disclosed in the amount of 30% of the contractual price based on NAB agreement no. 40/2018/08INV on the purchase of 25 new passenger wagons, concluded between SŽ-Potniški promet, d. o. o. and a consortium of Stadler Polska companies.

2.3.1.7 Deferred tax assets

in EUR	31 December 2018	31 December 2017
Deferred tax assets	4,339,296	4,403,947

Deferred tax assets are recognised in an amount that is in line with the adjusted tax base.

	Consolidated 31 December 2018	Consolidated 31 December 2017
SŽ, d. o. o.	1,225,007	1,221,900
SŽ-Infrastruktura, d. o. o.	1,432,286	1,782,564
SŽ-Potniški promet, d. o. o.	253,703	248,994
SŽ-Tovorni promet, d. o. o.	482,379	471,892
SŽ-ŽGP Group	239,254	216,316
Fersped, d. o. o.	688,674	447,298
SŽ-Železniška tiskarna, d. d.	3,160	4,177
Prometni institut, d. o. o.	10,671	10,805
VV-LOG, d. o. o.	4,160	0
Total	4,339,296	4,403,946

The Slovenske Železnice Group recognises deferred tax assets for non-deductible expenses arising from provisions, tax losses, tax allowances for investments and adjustments to the value of receivables, but only to the extent of revenues from positive tax bases for the next five years. The negative tax base that is not included in deferred tax assets amounted to EUR 31,742,405 (EUR 32,284,963 in 2017).

Changes in deferred tax assets within the Slovenske Železnice Group in 2018

in EUR	Tax loss	Provisions	Tax allowances for investments	Adjustments to the value of receivables	Total
Balance as at 1 January 2017	2,685,065	376,129	0	195,731	3,256,925
Drawn	-296,440	-23,919	-1,554	-121,355	-443,268
Created	264,857	831,264	459,349	34,822	1,590,292
Balance at 31 December 2017	2,653,482	1,183,474	457,795	109,198	4,403,949
Drawn	-386,769	-16,370	-421,516	-576	-825,231
Created	241,376	423,119	46,052	50,031	760,578
Balance as at 31 December 2018	2,508,089	1,590,224	82,330	158,653	4,339,296

2.3.1.8 Other non-current assets

in EUR	31 December 2018	31 December 2017
Deferred licence maintenance costs	298,254	596,509
Deferred costs from the periodic revision of locomotives	1,529,104	229,431
Deferred costs for the reserve fund for leased housing	346,856	325,580
Total	2,174,214	1,151,520

2.3.1.9 Inventories

in EUR	31 December 2018	31 December 2017
Materials	10,021,601	11,173,578
Replacement parts	16,862,146	16,629,658
Small inventory and packaging	505,972	473,270
Work in progress	3,383,831	3,399,366
Products and merchandise	2,099,647	2,218,063
Total	32,873,197	33,893,935

Write-offs and impairments of inventories amounted to EUR 34,870 and EUR 161,592 respectively in 2018 (write-offs of obsolete inventories amounted to EUR 359,212, while impairments of inventories totalled EUR 180,163 in 2017). There are no liens on inventories.

2.3.1.10 Current financial receivables

in EUR	31 December 2018	31 December 2017
Financial instruments measured at fair value through profit or loss	744,140	0
Current financial receivables – sale of receivables	55,317,200	0
Other financial receivables	4,210,045	824,336
Total	60,271,385	824,336

Financial instruments measured at fair value through profit or loss comprise FX swap instruments in the amount of EUR 744,140.

Other financial receivables primarily comprise receivables from banks from deposited funds in the amount of EUR 4,210,000 (EUR 816,000 as at 31 December 2017) and current financial receivables from the agreement on the sale of receivables to finance the purchase of passenger trains concluded between Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. and two banks in the amount of EUR 55,317,200, which fall due for payment in 2019 (EUR 0 as at 31 December 2017).

2.3.1.11 Trade receivables

in EUR	31 December 2018	31 December 2017
Current trade receivables from domestic customers	33,733,172	48,256,725
Current trade receivables from foreign customers	18,070,814	18,142,873
Total	51,803,986	66,399,598

in EUR	2018			2017		
	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Current trade receivables from domestic customers	38,564,010	4,830,838	33,733,172	53,124,528	4,867,803	48,256,725
Current trade receivables from foreign customers	20,488,754	2,417,940	18,070,814	20,225,521	2,082,648	18,142,873
Total	59,052,764	7,248,778	51,803,986	73,350,049	6,950,451	66,399,598

Secured receivables amounted to EUR 84,404 as at 31 December 2018 (EUR 86,780 in 2017).

Net adjustments to the value of current trade receivables were created as follows:

in EUR	2018	2017
Balance as at 1 January	6,950,451	7,066,531
Reversal of value adjustments	-155,683	-531,508
Creation of value adjustments	801,307	415,428
Reduction for written-off receivables	-347,297	0
Balance as at 31 December	7,248,778	6,950,451

Maturity breakdown of trade receivables

in EUR	31 December 2018	31 December 2017
Non-past-due receivables	45,635,532	59,180,184
Past-due receivables	13,417,232	14,169,865
- up to 30 days	4,181,046	4,168,976
- 31 to 90 days	1,023,452	1,981,616
- 91 to 365 days	1,201,512	1,473,701
- more than 365 days	7,011,222	6,545,572
Total	59,052,764	73,350,049

2.3.1.12 Other current operating receivables

in EUR	31 December 2018	31 December 2017
Receivables from government and other institutions	8,829,654	9,368,770
Receivables from employees	615,791	313,949
Other receivables associated with finance income	22	0
Current operating receivables based on advances	37,478	495,446
Current security deposits	1,375	30,000
Other current operating receivables	643,775	930,696
Deferred costs	588,108	486,031
Accrued income:	70,036,482	49,031,963
– accrued development element of compensation for the discharge of the PSO	21,970,940	10,900,326
– accrued under-compensation for the discharge of the PSO	4,391,875	9,000,000
– accrued compensation due to traffic disruptions	29,070,592	8,727,694
– accrued income as the result of the migrant flow into the Republic of Slovenia	3,816,422	4,065,942
– accrued income from traffic management subsidies	1,000,000	0
– accrued income from the maintenance of PRI buildings	5,108,386	6,639,574
– accrued income from claims for damages	1,720,369	2,566,346
– accrued income from delays in the maintenance of the Celje and Laško passenger stations	251,000	1,446,298
– other accrued income	2,706,898	5,685,783
VAT on advances received	47,113	83,515
Total	80,799,798	60,740,370

Write-offs and impairments of trade receivables and other current operating receivables that are disclosed in operating expenses amounted to EUR 952,103 in 2018 (EUR 628,121 in 2017).

2.3.1.13 Cash and cash equivalents

in EUR	31 December 2018	31 December 2017
Cash in hand	346,517	570,348
Cash in bank accounts	181,175,788	33,939,350
Total	181,522,305	34,509,698

The balance of cash and cash equivalents was up on account of funds for the recapitalisation of Slovenske železnice, d. o. o. in the amount of EUR 154,255,500, which were paid-up on 28 December 2018 (see section 2.3.4).

2.3.1.14 Equity

in EUR	31 December 2018	31 December 2017
Called-up capital	205,274,421	205,274,421
Share premium account	45,002,140	45,002,140
Legal reserves	2,917,693	1,869,355
Other profit reserves	38,275,168	28,315,958
Fair value reserves	-2,985,233	-2,382,728
Retained earnings from previous years	45,034,736	19,974,814
Undistributed retained earnings from the financial year	17,630,905	27,672,859
Translation differences	1,229	-1,873
Non-controlling interest	4,872,507	4,608,016
Total	356,023,566	330,332,962

Changes in equity

in EUR	
Balance as at 1 January 2017	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
Exchange rate differences from the conversion of foreign companies' financial statements	18,764
Other changes	-88,641
Balance as at 31 December 2017	330,332,962
Absorption of a non-controlling interest in Kamnolom Verd, d. o. o.	-185,523
Net profit for the financial year	29,736,481
Payment of shares in profit	-3,000,000
Actuarial gains and losses	-568,241
Exchange rate differences from the conversion of foreign companies' financial statements	3,104
Other changes	-295,217
Balance as at 31 December 2018	356,023,566

2.3.1.15 Provisions

Provisions for jubilee benefits and termination benefits

in EUR	31 December 2018	31 December 2017
Provisions for termination benefits	26,845,794	25,251,707
Provisions for jubilee benefits	3,661,234	3,211,489
Total	30,507,028	28,463,196

Changes in provisions for jubilee benefits and termination benefits

in EUR	Termination benefits	Jubilee benefits	Total
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
Balance as at 1 January 2018	25,251,707	3,211,489	28,463,196
Used	-550,675	-455,033	-1,005,708
Current employment costs	1,324,199	862,600	2,186,799
Interest (expenses)	452,072	54,010	506,082
Reversal of provisions – closure, rights, etc. (revenues)	-263,508	-11,832	-275,340
Actuarial gains/losses	631,999	0	631,999
Balance as at 31 December 2018	26,845,794	3,661,234	30,507,028

The following material assumptions were taken into account in the calculation of provisions for termination benefits at retirement and jubilee benefits:

	2018	2017
Average monthly gross wage in Slovenia	EUR 1,680	EUR 1,630
Discount rate	1.81%	1.96%
Overall wage growth	2.00%	2.00%
Retirement conditions (age)		
– men (transitional period)	62	62
– women (transitional period)	60	60
– men	65	65
– women	65	65

in EUR	31 December 2018	31 December 2017
Provisions for litigation	329,939	606,661
Provisions for guarantees issued	245,181	227,391
Provisions for the clean-up of a quarry	65,074	97,767
Total	640,194	931,819

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 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
Balance as at 1 January 2018	606,661	227,391	97,767	931,819
Created	193,863	33,615	8,118	235,596
Reversed	-73,278	0	-11,849	-85,127
Used	-397,307	-15,826	-28,961	-442,094
Balance as at 31 December 2018	329,939	245,180	65,075	640,194

A total of 69 legal proceedings in the total amount of EUR 3,550,520 (labour, civil and economic disputes) were in progress against the Slovenske Železnice Group during 2018.

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 21 cases as at 31 December 2018 in the total amount of EUR 329,939. In the remaining cases, it has been assessed 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.

2.3.1.16 Non-current deferred income

in EUR	Waived contributions	Government grants	Deferred income from construction services	Total
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
Balance as at 1 January 2018	2,238,569	45,360	125,480	2,409,409
Created	5,293,223	0	18,148	5,311,371
Used and/or transferred to current portion	-5,730,390	-3,110	-23,960	-5,757,460
Balance as at 31 December 2018	1,801,402	42,250	119,668	1,963,320

2.3.1.17 Financial liabilities

in EUR	31 December 2018	31 December 2017
Non-current financial liabilities to banks	11,593,750	8,076,923
Other non-current financial liabilities	31,069,560	103,315,848
Total non-current financial liabilities	42,663,310	111,392,771
Current financial liabilities to banks:	9,733,173	10,769,231
- current portion of loan raised to refinance loans from EUROFIMA	8,076,923	10,769,231
- current portion of loan raised for the purchase of fixed assets	1,656,250	0
Liabilities to banks arising from the fair value of derivatives	429,968	980,947
Current financial liabilities from the payment of capital until entry in the companies register	154,255,500	0
Other current financial liabilities to foreign entities (EUROFIMA)	74,000,000	0
Other current financial liabilities	908,436	894,296
Total current financial liabilities	239,327,077	12,644,474
Total	281,990,387	124,037,245

Other current financial liabilities to foreign entities comprise the transfer of non-current liabilities to current liabilities (EUROFIMA loans to finance the purchase of locomotives).

Changes in financial liabilities

in EUR	2018	2017
Non-current financial liabilities		
Balance as at 1 January	111,392,771	125,178,456
- Increases	15,775,650	145,617
- Decreases	-84,505,110	-13,931,302
Balance as at 31 December	42,663,310	111,392,771
Current financial liabilities		
Balance as at 1 January	12,644,474	13,808,310
- Increases	491,989,235	42,706,933
- Decreases	-265,306,632	-43,870,769
Balance as at 31 December	239,327,077	12,644,474
Total	281,990,387	124,037,245

in EUR	2018	2017
Balance as at 1 January	124,037,245	138,986,765
Proceeds from loans raised	264,550,000	28,000,000
Inflows for the recapitalisation of SŽ, d. o. o.	154,255,500	0
Outflows from loans raised	-262,824,055	-40,463,673
Changes in liabilities from financial instruments	-550,979	-179,857
Changes in liabilities for interest	6,151	26,392
Increase in other liabilities (leasing)	1,456,204	143,057
Exchange rate differences	1,060,321	-2,474,556
Write-offs of liabilities	0	-883
Balance as at 31 December	281,990,387	124,037,245

Non-current financial liabilities

in EUR	Date of agreement or annex	Date of maturity	Balance as at 31 December 2018	Collateral
– Financing of locomotive purchases	5 April 2018	6 December 2024	11,593,750	Deposit
– Financing of locomotive purchases	19 November 2008	15 December 2020	28,655,604	Sureties
– Loan from the Eco Fund for property, plant and equipment	12 January 2010	30 April 2020	7,845	Mortgage
– Finance leases for fixed assets		until 29 December 2025	2,406,111	Bills of exchange
Total			42,663,310	

Current financial liabilities

in EUR	Date of agreement or annex	Date of maturity	Balance as at 31 December 2018	Collateral
– Financing of locomotive purchases	5 April 2018	6 December 2019	1,656,250	Deposit, pledged vehicles
– Restructuring of liabilities to EUROFIMA	27 July 2015	31 July 2019	8,076,923	Bills of exchange
– Financing of locomotive purchases	7 September 2004	9 September 2019	37,100,000	Sureties
– Financing of locomotive purchases	7 September 2004	10 September 2019	36,900,000	Sureties
– Loan from the Eco Fund for property, plant and equipment	12 January 2010	31 October 2019	15,689	Mortgage
– Finance leases for fixed assets		until 31 December 2019	667,759	Bills of exchange
– Payment of capital until entry in the companies register for Slovenske železnice, d. o. o.	28 December 2018	11 January 2019	154,255,500	
– Liabilities to banks arising from the fair value of derivatives			429,968	
– Other current liabilities – interest			224,988	
Total			239,327,077	

2.3.1.18 Operating liabilities

in EUR	31 December 2018	31 December 2017
Non-current liabilities	132,497,672	1,683,280
Trade payables	136	472,538
Non-current operating liabilities	131,738,650	0
Other non-current operating liabilities	758,886	1,210,742
Current liabilities	57,786,051	57,440,702
Liabilities based on advances	1,181,402	844,392
Liabilities to employees	23,721,142	21,529,862
Liabilities to the government and government institutions	8,599,598	9,362,677
Liabilities to others	7,228,756	11,257,581
Deferred income	3,705,587	3,202,233
Accrued costs and expenses	13,349,566	11,243,957
Total	190,283,723	59,123,982

Non-current operating liabilities arising from the sale of receivables based on the agreement of 12 June 2018 on the assignment of claims for consideration between Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. and two banks totalled EUR 131,738,650 (EUR 0 in 2017).

Accrued costs and expenses

in EUR	31 December 2018	31 December 2017
Unused annual leave	7,729,707	7,795,480
Use of passenger coaches	0	1,014,659
Termination benefits for redundant employees	0	140,430
Use of freight wagons	1,427,637	681,204
Accrued compensation in international freight transport	150,000	160,000
Accrued compensation for the closure of lines (maintenance of the public rail infrastructure)	2,786,466	150,000
Accrued cross-border services	64,587	125,180
Accrued scholarship costs	0	158,925
Accrued costs of hours worked	239,365	195,276
Accrued concession fees	119,836	318,468
Accrued positioning costs for individual work orders	231,518	170,397
Other	600,450	333,938
Total	13,349,566	11,243,957

2.3.1.19 Trade payables

in EUR	31 December 2018	31 December 2017
Domestic trade payables	24,314,559	22,101,701
Foreign trade payables	8,372,919	7,266,710
Total	32,687,478	29,368,411

in EUR	31 December 2018	31 December 2017
Non-past-due liabilities	31,400,426	28,054,704
Past-due liabilities	1,287,052	1,313,707
- up to 30 days	737,245	696,029
- 31 to 90 days	63,026	214,971
- 91 to 365 days	54,540	290,826
- more than 365 days	432,241	111,881
Total	32,687,478	29,368,411

Contingent receivables and contingent liabilities

in EUR	31 December 2018	31 December 2017
Mortgages and liens received	3,179,753	20,111,848
Estimated value of superficies assigned to Emonika, d. o. o.	0	3,955,500
Bank guarantees received:	79,130,441	6,608,322
– for the purchase of new rolling stock units	71,737,679	0
– for performance bonds and warranties	6,993,802	6,603,322
– other	398,960	5,000
Merchandise on consignment	5,865	6,486
Other contingent liabilities	0	1,006,995
Enforcement drafts received	0	40,435
Withheld dividend payments	23,963	24,435
Total contingent receivables	82,340,022	31,754,021
Bank guarantees issued:	21,659,358	23,239,327
– collateral for contractual liabilities, warranties and performance bonds	12,323,730	16,139,531
– transit insurance	9,250,000	7,019,796
– other	85,628	80,000
Liabilities for merchandise on consignment	5,865	6,486
Contingent liabilities for lawsuits	3,550,520	3,859,796
Total contingent liabilities	25,215,743	27,105,609

2.3.2 Notes to the statement of profit or loss

2.3.2.1 Net sales revenue

in EUR	2018	2017
Revenues on the domestic market	235,316,425	209,196,327
Services and products	234,354,591	208,666,843
– Services and products in connection with associates	293,430	304,434
– Services and products in connection with others	234,061,161	208,362,409
Merchandise and materials	961,834	529,484
– Merchandise and materials in connection with others	961,834	529,484
Revenues on the foreign market	187,571,655	187,903,786
Services	187,571,655	187,903,786
– Services and products in connection with others	187,571,655	187,903,786
Total	422,888,080	397,100,113

Net sales revenue comprises:

in EUR	Consolidated 2018	Consolidated 2017
– Slovenske železnice, d. o. o.	1,352,869	1,438,299
– SŽ-Tovorni Promet Group	166,797,297	171,322,803
– SŽ-Potniški promet, d. o. o.	34,846,183	36,071,623
– SŽ-Infrastruktura, d. o. o.	136,553,578	122,511,338
– SŽ-VIT, d. o. o.	12,504,948	11,174,938
– SŽ-ŽIP Group	4,495,191	3,875,247
– Prometni institut Ljubljana, d. o. o.	149,167	262,976
– SŽ-Železniška tiskarna Ljubljana, d. d.	61,670	42,420
– SŽ-ŽGP Group	39,708,049	32,504,612
– Fersped, d. o. o.	22,538,535	17,895,857
– VV-LOG, d. o. o.	3,880,595	0
Total	422,888,082	397,100,113

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 187,614,066 (EUR 192,190,599 in 2017) were generated on the local and foreign markets by the SŽ-Tovorni Promet Group in the amount of EUR 154,816,429 (EUR 158,301,609 in 2017) and SŽ-Potniški promet, d. o. o. in the amount of EUR 32,797,637 (EUR 33,888,990 in 2017).

SŽ-Infrastruktura, d. o. o. generated the majority of its revenues based on agreements with the Slovenian government:

in EUR	2018	2017
Public service obligation of the maintenance of the PRI	84,919,015	78,145,296
Public service obligation of traffic management	36,000,000	34,000,000
Performance of tasks as manager of the PRI	1,996,231	1,401,777
Management and maintenance of housing and buildings that are not part of the PRI	407,369	404,225
Total	123,322,615	113,951,298

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.

2.3.2.2 Capitalised own products and services

in EUR	2018	2017
Capitalised own products and services	36,261,687	32,448,420

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.

2.3.2.3 Other operating revenue

in EUR	2018	2017
Revenues from the discharge of the public service obligation of passenger transport by rail	56,695,068	65,714,567
Revenue from other subsidies	1,186,133	865,609
Compensation and fines received	27,242,083	9,654,722
Revenues from the reversal of non-current accrued expenses and deferred income for the wages of disabled persons	5,290,396	4,733,474
Revenues from the reversal of provisions	1,308,801	1,199,720
Revenues from the sale of property, plant and equipment, and the revaluation of receivables and liabilities	3,163,508	5,585,253
Other revenues	7,976,479	48,553
Total	102,862,468	87,801,898

The majority of compensation received comprises accrued income from the maintenance of lines in the public railway infrastructure (traffic disruptions) in the amount of EUR 26,808,832.

The majority of other revenues comprise income of Slovenske železnice, d. o. o. from the acquisition of superficies on land owned by SŽ-Potniški promet, d. o. o. and on state-owned land in the total amount of EUR 7,562,778 (value recognised on the basis of an appraisal report). The aforementioned superficies for the construction of the Ljubljana passenger centre were obtained on the basis of an agreement with Slovenske železnice, d. o. o. by Emonika, d. o. o. in 2008. The latter's legal successor, Emonika Nakupovalno središče, d. o. o., transferred those superficies to Slovenske železnice, d. o. o., free of charge, based on the court-brokered settlement signed on 21 December 2018.

2.3.2.4 Costs of goods, materials and services

in EUR	2018	2017
Historical cost of goods sold and costs of materials used	1,450,439	305,509
Costs of materials	44,250,841	39,125,788
Energy costs	30,627,606	30,762,849
Costs of replacement parts	4,679,703	4,865,626
Write-off of small inventory	1,938,414	1,920,396
Costs of office materials	535,659	497,210
Other material costs	581,733	410,792
Total cost of goods and materials sold and cost of materials used	84,064,395	77,888,170
Costs from the manufacture of products and provision of services	39,453,876	36,665,799
Transport services	23,087,856	22,863,943
Maintenance services	19,404,672	16,068,416
Reimbursement of employee expenses	3,634,957	3,078,403
Payment transaction and banking services	632,771	587,826
Intellectual and personal services	3,103,136	3,039,404
Insurance premiums	4,859,373	4,921,329
Advertising, publicity and representation	1,560,934	1,162,162
Costs under the RIV Rules	6,814,938	6,032,796
Costs under the RIC Rules	950,464	944,303
Costs of other services:	32,723,319	32,709,225
– rental costs	15,398,617	15,230,094
<i>of which fee for access to the public railway infrastructure</i>	<i>8,650,914</i>	<i>8,698,332</i>
– costs of municipal services	1,850,384	1,619,037
– costs of services provided by the Port of Koper	3,751,119	3,913,143
– costs of student services and hired labour	5,334,820	4,504,230
– costs of transport services (traction) provided by foreign operators	424,790	1,409,002
– 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	644,657	643,975
– costs of services associated with contracted work	637,213	676,139
– membership fees and contributions paid to international organisations and other associations	525,729	641,341
– administrative fees, administrative announcements and court fees	372,553	310,518
– engineering services (ancillary activity in the maintenance of the PRI)	419,072	0
– border services provided by foreign railway administrations	144,259	205,011
– other costs	1,801,442	2,138,071
Total costs of services	136,226,296	128,073,606
Total	220,290,691	205,961,776

The costs of goods, materials and services comprise:

in EUR	Consolidated 2018	Consolidated 2017
– Slovenske železnice, d. o. o.	5,416,794	4,454,885
– SŽ-Tovorni Promet Group	58,123,767	60,692,273
– SŽ-Potniški promet, d. o. o.	12,650,800	11,770,180
– SŽ-Infrastruktura, d. o. o.	49,365,936	46,261,191
– SŽ-VIT, d. o. o.	35,628,696	34,970,571
– SŽ-ŽIP Group	10,853,014	10,791,059
– Prometni institut Ljubljana, d. o. o.	168,301	263,166
– SŽ-Železniška tiskarna Ljubljana, d. d.	151,555	137,397
– SŽ-ŽGP Group	31,594,665	25,866,896
– Fersped, d. o. o.	14,092,182	10,754,158
– VV-LOG, d. o. o.	2,244,981	0
Total	220,290,691	205,961,776

The most significant material costs comprise the electricity and other fuels used to drive rolling stock in the amount of EUR 23,462,118 (EUR 23,919,328 in 2017) and the costs of materials and replacement parts for rolling stock maintenance in the amount of EUR 4,081,860 (EUR 4,234,772 in 2017).

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 2018	Consolidated 2017
– SŽ-VIT, d. o. o.	4,843,904	6,570,437
– SŽ-ŽIP Group	6,546,205	6,745,286
– SŽ-ŽGP Group	12,780,479	13,095,246
– Fersped, d. o. o.	13,416,727	10,199,612
– VV-LOG, d. o. o.	1,808,207	0
Total	39,395,522	36,610,581

Costs of auditor

in EUR	2018	2017
Auditing of the annual report	89,870	93,083
Other assurance services	6,720	7,220
Other non-audit services	0	3,300
Total	96,590	103,603

2.3.2.5 Labour costs

in EUR	2018	2017
Costs of wages and salaries	184,403,122	173,221,294
Pension insurance costs	24,813,777	23,237,561
Other social security costs	13,822,720	12,747,563
Other labour costs:	36,261,936	32,441,971
– reimbursements	20,366,261	19,645,823
– annual leave allowance	8,726,782	8,233,307
– termination benefits at retirement	3,965,722	936,795
– provisions for jubilee benefits and termination benefits (actuarial calculation)	2,186,801	2,407,360
– contractual penalty for unused annual leave for previous year	774,203	1,016,470
– other costs	242,167	202,216
Total	259,301,555	241,648,389

2.3.2.6 Write-downs

in EUR	2018	2017
Amortisation/depreciation	37,374,391	34,812,773
Operating expenses for intangible assets and property, plant and equipment	166,872	324,143
Operating expenses for working capital:	1,148,585	1,169,601
– revaluation of inventories	196,462	541,461
– revaluation of receivables	763,380	319,376
– write-offs of receivables	188,743	308,764
Total	38,689,848	36,306,517

2.3.2.7 Other operating expenses

in EUR	2018	2017
Accrued costs for damages due to the closure of lines	3,212,484	0
Fees for the use of building land, and other taxes and levies	1,318,715	1,000,845
Bonuses for pupils and students on compulsory job training	611,677	607,162
Fines and compensation for damage incurred by legal and natural persons	877,213	223,633
Partial reversal of accrued claim for payment of damages	945,995	0
Donations (for sporting, cultural and humanitarian activities)	166,710	343,559
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	76,057	78,254
Other expenses	184,319	268,837
Total	7,393,170	2,522,290

2.3.2.8 Finance income

in EUR	2018	2017
Finance income from participating interests in associates	1,175,716	735,965
Finance income from participating interests in other companies	38,275	6,247
Finance income from other investments	744,510	6,425
Total finance income from participating interests	1,958,501	748,637
Finance income from loans to others	64,328	2,797,235
Total finance income from loans granted	64,328	2,797,235
Finance income from other operating receivables	537,014	223,145
Total finance income from operating receivables	537,014	223,145
Total	2,559,843	3,769,017

Nearly the full amount of **finance income from participating interests** comprises income from participation in the profit of associates and other companies in the amount of EUR 1,180,313 (EUR 742,212 in 2017), and income from other investments, which by their nature are deemed revenues from derivatives in the amount of EUR 744,140 (EUR 19 in 2017).

Finance income from operating receivables primarily comprises default interest on current receivables in the amount of EUR 471,624 (EUR 94,531 in 2017) and written-off default interest from suppliers in the amount of EUR 43,066 (EUR 29,029 in 2017).

2.3.2.9 Finance costs

in EUR	2018	2017
Finance costs from impairments and write-downs of financial assets at other companies	2,018,022	0
Finance costs from impairments and write-downs of financial assets	2,018,022	0
Finance costs from bank loans	878,337	530,865
Finance costs from other financial liabilities	4,298,903	4,267,104
Total finance costs from financial liabilities	5,177,240	4,797,969
Finance costs from trade payables and liabilities from bills of exchange	205,996	69,943
Finance costs from other operating liabilities	25,515	44,130
Total finance costs from operating liabilities	231,511	114,073
Total	7,426,773	4,912,042

Nearly the full amount of **finance costs from impairments and write-downs of financial assets** comprises expenses incurred by the controlling company Slovenske železnice, d. o. o. from the sale of a 3% participating interest in three Emonika companies in the amount of EUR 2,017,583 (based on the court-brokered settlement of 21 December 2018).

The majority of **finance costs from financial liabilities** are accounted for by expenses incurred by the controlling company Slovenske železnice, d. o. o. in the amount of EUR 4,633,032 (EUR 4,275,146 in 2017), and primarily comprise:

- > expenses from the revaluation of financial liabilities (exchange rate differences) in the amount of EUR 1,060,321 (EUR 257,631 in 2017);
- > interest on loans from banks in the amount of EUR 878,337 (EUR 521,718 in 2017) and from EUROFIMA in the amount of EUR 338,151 (EUR 364,135 in 2017);
- > expenses from a discount on the assignment of claims for consideration in the amount of EUR 2,202,781 (based on the agreement of 12 June 2018 between Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. and two banks); and
- > expenses in connection with derivatives in the amount of EUR 116,504 (EUR 3,099,212 in 2017).

Interest as the result of actuarial calculations in the total amount of EUR 506,082 (EUR 465,818 in 2017) represents the most significant item at all Group companies.

2.3.2.10 Corporate income tax

in EUR	2018	2017
Current tax	1,602,017	301,046
Deferred tax	64,564	-1,147,102
Total corporate income tax	1,666,581	-846,055
Pre-tax profit	31,403,062	29,798,301
Tax calculated at effective tax rate	9,379,449	7,144,309
Tax from decrease in revenues	-3,717,814	-1,663,173
Tax from increase in revenues	531	595
Tax from decrease in expenses	1,442,271	1,381,563
Tax from increase in expenses	-150,781	-157,609
Tax from decrease in tax base	-19,601	-71,319
Tax from increase in tax base	195,899	80,533
Tax from tax allowances	-5,527,937	-6,413,852
Total corporate income tax	1,666,581	-846,055
Effective tax rate	5.31	-2.84

The Group disclosed corporate income tax receivables in the amount of EUR 34,316 as at 31 December 2018 (EUR 495,687 in 2017) and corporate income tax liabilities of EUR 1,253,161 (EUR 259,725 in 2017). 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 2018 and 2017, while statutory tax rates for the Group range from 9% to 19%.

2.3.3 Transactions with associates

Gross earnings of groups of persons

in EUR	2018	2017
Management Board of the controlling company	366,759	334,998
Supervisory Board of the controlling company	115,873	115,843
External members of the committees of controlling company's Supervisory Board	10,308	10,572
Management boards of subsidiaries	1,532,701	1,424,279
Supervisory boards of subsidiaries	100,701	98,138
External members of the committees of subsidiaries' supervisory boards	5,590	5,919
Group employees under individual contracts	6,124,010	6,071,794
Total	8,255,942	8,061,543

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 positions on supervisory boards and the committees thereof, session fees, fringe benefits and the reimbursement of costs.

Earnings of the Management Board during the 2018 financial year – Slovenske Železnice Group

(in EUR)

Name and surname/ company	Position	Fixed remuneration – gross	Variable remuneration – gross		Deferred remuneration	Termination benefits	Fringe benefits	Repayment of previously paid bonuses (clawback)	Total (gross)	Total (net)
			Based on quant. criteria	Based on qualitative criteria						
		1			2	3	4	5	6	(1 do 6)
Controlling company Slovenske železnice, d. o. o.										
Dušan Mes	Director General	110,347	10,639	7,095	17,734	0	0	9,244	0	137,325
Tomaž Kraškovic	Member of the Management Board (Director)	104,909	10,606	7,071	17,677	0	0	2,339	0	124,925
Albert Pavlič	Workers' Director (1 Jan to 5 Mar 2018)	18,257	0	0	0	0	0	641	0	18,898
Nina Avbelj Lekić	Workers' Director (21 Mar to 31 Dec 2018)	82,674	0	0	0	0	0	2,937	0	85,611
Total		316,187	21,245	14,166	35,411	0	0	15,161	0	366,759
SŽ-Tovorni promet, d. o. o.										
Melita Rozman Dacar	Director	99,519	0	0	0	0	0	6,432	0	105,951
Drago Savić	Workers' Director	80,348	0	0	0	0	0	3,509	0	83,857
Total		179,867	0	0	0	0	0	9,941	0	189,808
SI Cargo Logistic, d. o. o., Beograd										
Dragan Grujić	Director	50,492	0	0	0	0	0	0	0	50,492
SŽ-Potniški promet, d. o. o.										
Boštjan Koren	Director	94,589	0	0	0	0	0	1,365	0	95,954
Remzija Cinac	Workers' Director (1 Jan to 1 Feb 2018 and 22 May to 31 Dec 2018)	52,777	0	0	0	0	0	2,573	0	55,350
Total		147,366	0	0	0	0	0	3,938	0	151,304
SŽ-Infrastruktura, d. o. o.										
Matjaž Kranjc	Director	100,010	0	0	0	0	0	6,971	0	106,981
Matjaž Skutnik	Workers' Director	81,445	0	0	0	0	0	2,835	0	84,280
Total		181,455	0	0	0	0	0	9,806	0	191,261
SŽ-Vleka in tehnika, d. o. o.										
Dušan Žičkar	Director	100,014	0	0	0	0	0	7,071	0	107,085
Zdravko Skrbiš	Workers' Director	80,440	0	0	0	0	0	2,472	0	82,912
Total		180,454	0	0	0	0	0	9,543	0	189,997
SŽ-ŽIP storitve, d. o. o.										
Vojka Martinčič	Director	103,338	0	0	0	0	0	5,013	0	108,351
Vesna Ritlop	Workers' Director	76,013	0	0	0	0	0	2,936	0	78,949
Total		179,351	0	0	0	0	0	7,949	0	187,300
Fersped, d. o. o.										
Jožef Petrovič	Director	0	0	0	0	0	0	0	0	0
VV-LOG, d. o. o.										
Dean Peršić	Director	73,791						44		73,835
Daniel Tomljanović	Director	73,238						44		73,282
Total		147,029	0	0	0	0	0	88	0	147,117
Prometni institut, d. o. o.										
Peter Verlič	Director	74,872	0	0	0	0	0	4,723	0	79,595
SŽ-Železniška tiskarna, d. d.										
Janez Brezovar	Director	72,495	0	0	0	0	0	94	0	72,589
SŽ-ŽGP, d. d.										
Tine Svoljšak	Director	99,704	0	0	0	0	0	3,608	0	103,312
Pavel Piškur	Workers' Director	80,306			0			3,715		84,021
Total		180,010	0	0	0	0	0	7,323	0	187,333
Kamnlom Verd, d. o. o.										
Matjaž Komprej	Director	72,796	0	0	0	0	0	4,045	0	76,841
SŽ-ŽGP Podgorica, d. o. o.										
Veljko Flis	Director	9,064	0	0	0	0	0	0	0	9,064
Total		1,791,438	21,245	14,166	35,411	0	0	72,611	0	1,899,460
Other employees on individual contracts		6,067,559	0	0	0	0	0	56,451	0	6,124,010

Earnings of the Management Board during the 2017 financial year – Slovenske Železnice Group

(in EUR)

Name and surname/ company	Position	Fixed remuneration – gross	Variable remuneration – gross		Deferred remuneration	Termination benefits	Fringe benefits	Repayment of previously paid bonuses (clawback)	Total (gross)	Total (net)
			Based on quant. criteria	Based on qualitative criteria						
		1			2	3	4	5	6	(1 do 6)
Controlling company Slovenske železnice, d. o. o.										
Dušan Mes	Director General	107,038	0	0	0	0	0	4,998	0	58,184
Tomaž Kraškovič	Member (Director)	101,809	0	0	0	0	0	2,133	0	56,687
Milan Jelenc	Director (1 Jan to 14 Feb 2017)	12,330	0	0	0	0	0	274	0	6,481
Albert Pavlič	Workers' Director	102,403	0	0	0	0	0	4,013	0	54,984
Total		323,580	0	0	0	0	0	11,418	0	176,336
SŽ-Tovorni promet, d. o. o.										
Melita Rozman Dacar	Director	96,898	0	0	0	0	0	4,491	0	52,448
Drago Savič	Workers' Director	78,011	0	0	0	0	0	4,287	0	41,686
Total		174,909	0	0	0	0	0	8,778	0	94,134
SI Cargo Logistic, d. o. o., Beograd										
Dragan Grujić	Director	53,051	0	0	0	0	0	0	0	41,491
SŽ-Potniški promet, d. o. o.										
Boštjan Koren	Director	91,736	0	0	0	0	0	48	0	51,990
Remzija Cinac	Workers' Director	73,796	0	0	0	0	0	4,169	0	41,141
Total		165,532	0	0	0	0	0	4,217	0	93,131
SŽ-Infrastruktura, d. o. o.										
Matjaž Kranjc	Director	97,029	0	0	0	0	0	4,825	0	50,310
Matjaž Skutnik	Workers' Director	79,968	0	0	0	0	0	942	0	46,431
Total		176,997	0	0	0	0	0	5,767	0	96,741
SŽ-Vleka in tehnika, d. o. o.										
Dušan Žičkar	Director	97,385	0	0	0	0	0	3,778	0	53,862
Zdravko Skrbuš	Workers' Director	78,021	0	0	0	0	0	3,017	0	43,693
Total		175,406	0	0	0	0	0	6,795	0	97,555
SŽ-ŽIP storitve, d. o. o.										
Vojka Martinčič	Director	102,910	0	0	0	0	0	6,164	0	56,797
Vesna Ritlop	Workers' Director	73,020	0	0	0	0	0	3,523	0	39,239
Total		175,930	0	0	0	0	0	9,687	0	96,036
Fersped, d. o. o.										
Metod Podkrižnik	Director (1 Jan - 28 Dec 2017)	87,583	0	0	0	0	0	48	0	49,204
Prometni institut, d. o. o.										
Peter Verlič	Director	68,721	0	0	0	0	0	2,173	0	40,598
SŽ-Železniška tiskarna, d. d.										
Janez Brezovar	Director	68,572	0	0	0	0	0	98	0	40,354
SŽ-ŽGP Ljubljana, d. d.										
Anton Žagar	Director (1 Jan - 4 May 2017)	33,331	0	0	0	0	0	10	0	18,109
Dušan Mes	Director (4 May - 23 Aug 2017)	0	0	0	0	0	0	0	0	0
Tine Svoljšak	Director (23 Aug - 31 Dec 2017)	34,486	0	0	0	0	0	1,318	0	18,464
Pavel Piškur	Workers' Director	79,107			0			4,582		44,129
Total		146,924	0	0	0	0	0	5,910	0	80,702
Kamnlom Verd, d. o. o.										
Matjaž Komprej	Director	68,880	0	0	0	0	0	4,918	0	38,676
SŽ-ŽGP Beograd, d. o. o.										
Leon Kostiov	Director	4,318	0	0	0	0	0	0	0	3,627
SŽ-ŽGP Podgorica, d. o. o.										
Veljko Flis	Director	9,065	0	0	0	0	0	0	0	6,072
Total		1,699,468	0	0	0	0	0	59,809	0	954,657
Other employees on individual contracts		5,970,179	0	0	0	0	49,902	51,712	0	3,585,042

Remuneration of Supervisory Board members in 2018

(in EUR)

Name and surname/company	Position	Gross annual wages for performance of position	Gross annual atten. fees for SB and committee meetings	Fringe benefits	Total (gross)	Total (net)	Travel expenses
		1	2	3	(1 do 3)		
Slovenske železnice, d. o. o.							
Bojan Brank	Member and Chairman of the Supervisory Board, member of the HR committee	18,025	4,576	44	22,645	16,514	121
Mitja Križaj	Member of the Supervisory Board, member and chair of the audit committee	14,162	4,928	44	19,134	14,013	192
Aleksander Nagode	Member and Deputy Chairman of the Supervisory Board, member of the audit committee	13,905	5,203	44	19,152	13,885	0
Jože Oberstar	Member of the Supervisory Board, member and chair of the HR committee	14,162	5,071	44	19,277	14,166	260
Silvo Berdajs	Member and employee representative of the Supervisory Board, member of the audit committee (1 January to 11 April 2018)	3,612	1,386	44	5,042	3,623	0
Zlatko Ratej	Member and employee representative of the Supervisory Board, member of the audit committee (24 April to 31 December 2018)	8,638	3,421	0	12,059	8,771	0
Jože Pavšek	Member and employee representative of the Supervisory Board, member of the HR committee	12,875	5,071	44	17,990	13,040	0
Barbara Nose	External member of the audit committee	8,240	2,068	0	10,308	7,497	0
Total		93,619	31,724	264	125,607	91,509	573
SŽ-Infrastruktura, d. o. o.							
Darja Kocjan	Member and Chairwoman of the Supervisory Board	15,450	4,015	44	19,509	14,145	0
Matej Čepeljnik	Member and Deputy Chairman of the Supervisory Board	11,330	3,740	44	15,114	10,948	0
Silvo Berdajs	Member and employee representative of the Supervisory Board (1 January to 11 April 2018)	2,890	495	44	3,429	2,450	0
Matjaž Hribar	Member and employee representative of the Supervisory Board (25 April to 31 December 2018)	7,038	3,300	0	10,338	7,519	0
Total		36,708	11,550	132	48,390	35,062	0
SŽ-ŽGP Ljubljana, d. d.							
Gorazd Podbevšek	Chairman of the Supervisory Board and member of the audit committee	18,025	1,980	44	20,049	14,538	0
Dušan Mes	Member and Deputy Chairman of the Supervisory Board, member and chair of the audit committee	15,192	1,485	44	16,721	12,118	0
Silvo Berdajs	Member and employee representative of the Supervisory Board, member of the audit committee (1 January to 11 April 2018)	3,612	220	44	3,876	2,775	0
Stanislav Debeljak	Member and employee representative of the Supervisory Board, member of the audit committee (22 April to 31 December 2018)	8,834	1,265	0	10,099	7,345	0
Marjeta Mlinar	External member of the audit committee	5,150	440	0	5,590	4,066	0
Total		50,813	5,390	132	56,335	40,842	0
Kamnolom Verd, d. o. o.							
Tine Svöljšak	Chairman of the Supervisory Board (1 January to 8 August 2018)	0	195	44	239	130	0
Dušan Žičkar	Member of the Supervisory Board (1 January to 8 August 2018)	0	150	44	194	97	0
Pavel Piškur	Member and employee representative of the Supervisory Board (1 January to 8 August 2018)	0	150	44	194	97	0
Total		0	495	132	627	324	0
SŽ-Železniška tiskarna Ljubljana, d. d.							
Boštjan Koren	Member and Chairman of the Supervisory Board	0	323	44	367	223	0
Istok Puš	Member and Deputy Chairman of the Supervisory Board (1 January to 31 August 2018)	0	162	44	206	106	0
Martina Resnik	Member and Deputy Chairwoman of the Supervisory Board (1 September to 31 December 2018)	0	81	0	0	59	0
Miran Parkelj	Member and employee representative of the Supervisory Board	0	242	44	286	164	0
Total		0	808	132	940	552	0
Total		181,140	49,967	792	231,899	168,289	573

Remuneration of Supervisory Board members in 2017

(in EUR)

Name and surname/company	Position	Gross annual wages for performance of position	Gross annual atten. fees for SB and committee meetings	Fringe benefits	Total (gross)	Total (net)	Travel expenses
		1	2	3	(1 do 3)		
Slovenske železnice, d. o. o.							
Bojan Brank	Member and Chairman of the Supervisory Board, member of the HR committee	18,025	4,070	48	22,143	16,178	167
Mitja Križaj	Member of the Supervisory Board, 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 Supervisory Board, member of the audit committee	13,905	5,357	48	19,310	13,996	0
Jože Oberstar	Member of the Supervisory Board, 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 Supervisory Board, member of the audit committee	12,875	5,302	48	18,225	13,207	0
Jože Pavšek	Member and employee representative of the Supervisory Board, 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	0
Total		94,244	31,493	288	126,025	91,651	387
SŽ-Infrastruktura, d. o. o.							
Darja Kocjan	Member and Chairwoman of the Supervisory Board	15,450	2,695	48	18,193	13,184	0
Matej Čepeljnik	Member and Deputy Chairman of the Supervisory Board	11,330	2,695	48	14,073	10,187	0
Nikola Knežević	Member and employee representative of the Supervisory Board (1 January -12 July 2017)	5,482	990	48	6,520	4,694	0
Silvo Berdajs	Member and employee representative of the Supervisory Board (19 July -31 December 2017)	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. d.							
Gorazd Podbevšek	Member and Chairman of the Supervisory Board, 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 Supervisory Board, 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 Supervisory Board	12,820	3,685	48	16,553	11,991	0
Marjeta Mlinar	External member of the audit committee (9 January to 31 December 2017)	5,039	880	0	5,919	4,305	0
Total		46,364	10,450	144	56,958	41,281	0
Kamnolom Verd, d. o. o.							
Tine Svoljšak	Chairman of the Supervisory Board (13 September - 31 December 2017)	0	0	0	0	0	0
Anton Žagar	Chairman of the Supervisory Board (1 January -13 September 2017)	0	488	48	536	341	0
Dušan Žičkar	Member of the Supervisory Board	0	248	48	296	167	0
Pavel Piškur	Member and employee representative of the Supervisory Board	0	398	48	446	276	0
Total		0	1,134	144	1,278	784	0
SŽ-Železniška tiskarna Ljubljana, d. d.							
Boštjan Koren	Member and Chairman of the Supervisory Board	0	323	48	371	222	0
Istok Puš	Member and Deputy Chairman of the Supervisory Board	0	242	48	290	163	0
Miran Parkelj	Member and employee representative of the Supervisory Board	0	242	48	290	163	0
Total		0	807	145	952	548	0
Total		177,522	51,694	865	230,081	166,752	387

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
2018		
Adria kombi, d. o. o., Ljubljana	18,263,569	380,458
Terme Olimia, d. d.	0	177,890
CKTZ, d. d., Zagreb	282,068	154,975
Total	18,545,637	713,323
2017		
Adria kombi, d. o. o., Ljubljana	19,347,949	77,648
Terme Olimia, d. d.	0	174,796
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 2018 and 2017, 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	2018	2017
Public service obligation of the maintenance of the PRI	84,919,015	78,145,296
Public service obligation of traffic management	36,000,000	34,000,000
Performance of tasks as manager of the PRI	1,996,231	1,401,777
Management and maintenance of housing and buildings that are not part of the PRI	407,369	404,225
Total	123,322,615	113,951,298

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 4 and 5 to that agreement for the period 1 January 2018 to 31 December 2018.

Revenues from transactions between the government and the subsidiary SŽ-Potniški promet, d. o. o.

V EUR	2018	2017
Revenues from the discharge of the public service obligation provision of passenger transport	56,695,068	65,714,567

Based on the Agreement 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 2 and amendments to the aforementioned agreement concluded with the Slovenian government, the company received net compensation of EUR 56,695,068 for services rendered in 2018 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. The aforementioned 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.

V EUR	2018	2017
Provision of constructions services for:		
- Ministry of Infrastructure of the Republic of Slovenia	15,367,622	17,071,693
- Municipalities	126,604	734,345
Total	15,494,226	17,806,038

Transactions with the owners of associates

in EUR	31 December 2018	31 December 2017
Balance of current trade and other operating receivables	1,682,864	2,428,736
Balance of current trade and other operating liabilities	3,363,631	2,568,590

in EUR	2018	2017
Transport – receivables	31,089,131	16,051,714
Transport – liabilities	26,259,993	29,481,250

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%.

2.3.4 Events after the end of the accounting period

An increase in the share capital of Slovenske železnice, d. o. o. in the amount of EUR 154,255,500 was entered in the companies register on 11 January 2019, bringing that company's total share capital to EUR 359,529,921 as at 11 January 2019.

An increase in the share capital of SŽ-Potniški promet, d. o. o. in the amount of EUR 154,255,500 was entered in the companies register on 5 February 2019, bringing that company's total share capital to EUR 285,939,660.

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 Policy 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, 76.87% of the entire credit portfolio is hedged using interest rate swaps, meaning those loans may be deemed fixed-rate loans.

Financial instruments	in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
Financial receivables		103,596,874	3,957,663
Financial liabilities		-281,990,387	-124,037,245
Net financial instruments		-178,393,513	-120,079,582

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 December 2018	Balance as at 31 December 2017
Total loans (principal)	110,756,061	120,480,661

Balance of loan liabilities with a fixed interest rate:

in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
Total loans (principal)	13,250,000	0

Concluded interest rate swap (IRS) agreements:

in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
Total loans (principal)	82,076,923	92,846,154

Concluded IRS agreements by maturity:

Maturity	in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
10 September 2019		74,000,000	74,000,000
31 July 2019		8,076,923	18,846,154
Total loans (principal)		82,076,923	92,846,154

Liabilities for IRS at fair value:

in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
Total liabilities	429,968	835,344

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 317 thousand, 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 Policy 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 61,576 in 2018 and EUR 141,149 in 2017).

for EUR 1	31 December 2018	31 December 2017
HRK	7.4125	7.4400
RSD	118.43	118.66
USD	1.1450	1.1993

31 December 2018

in EUR	EUR	CHF	HRK	RSD	USD	Total
Cash and cash equivalents	181,281,589		54,986	185,730		181,522,305
Current operating receivables (excluding receivables from the government)	51,353,500		158,300	227,758	64,428	51,803,986
Non-current operating receivables	54,690,958					54,690,958
Current financial receivables	60,271,385					60,271,385
Non-current financial receivables	43,325,489					43,325,489
Non-current operating liabilities (excluding other liabilities)	132,497,672					132,497,672
Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances)	32,612,040		52,244	9,468	13,726	32,687,478
Non-current financial liabilities	14,007,706	28,655,604				42,663,310
Current financial liabilities	239,327,077					239,327,077
Exposure in the statement of financial position	-27,521,574	-28,655,604	161,042	404,020	50,702	-55,561,414
Nominal value of concluded forward transactions	-28,655,604	28,655,604				
Net exposure disclosed in the statement of financial position	-56,177,178	-	161,042	404,020	50,702	-55,561,414

31 December 2017

in EUR	EUR	CHF	HRK	RSD	Total
Cash and cash equivalents	34,052,169	0	242,633	214,896	34,509,698
Current operating receivables (excluding receivables from the government)	65,330,898	0	457,811	610,889	66,399,598
Non-current operating receivables	5,046,243	0	0	1,399	5,047,642
Current financial receivables	824,336	0	0	0	824,336
Non-current financial receivables	3,133,327	0	0	0	3,133,327
Non-current operating liabilities (excluding other liabilities)	-1,683,280	0	0	0	-1,683,280
Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances)	-29,261,446	0	-87,190	-19,775	-29,368,411
Non-current financial liabilities	-83,791,405	-27,595,283	0	-6,083	-111,392,771
Current financial liabilities	-12,641,383		-49	-3,042	-12,644,474
Exposure 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	0	0	0
Net exposure disclosed in the statement of financial position	-46,585,824	0	613,205	798,284	-45,174,335

A total of 76.89% of loans in the Slovenske Železnice Group's credit portfolio are denominated in euros, while 23.11% 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 December 2018	Balance as at 31 December 2017
EUR	95,350,457	92,885,378
CHF	28,655,604	27,595,283
Total loans (principal)	124,006,061	120,480,661

Concluded FX forward contracts:

in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
NLB, d. d.	28,655,604	27,595,283

Concluded FX forward contracts by maturity:

Maturity	in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
25 September 2020		28,655,604	27,595,283

Concluded FX forward contracts by fair value:

Fair value of FX forward transaction	in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
NLB, d. d.		744,140	145,602

Revenues/expenses from changes in exchange rates:

in EUR	2018	2017
Loan liabilities in CHF	-1,060,321	2,473,908
Other operating liabilities	-15,633	52,739
Total revenues/expenses from changes in exchange rates	- 1,075,954	2,526,647

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 2018, 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 a cash-pooling agreement for the purpose of managing and balancing liquidity within the Group), and the securing and availability of the necessary short-term credit lines in the amount of EUR 50 million ensured that the liquidity of the Slovenske Železnice Group was controlled and ensured in 2018, and that liquidity risk was well-managed. Current credit lines are regularly rolled-over.

Maturity breakdown of liabilities:

in EUR	Carrying amount of liabilities	Contractual cash flows				
		Total contractual obligations	0 to 6 months	6 to 12 months	From 1 to 3 years	More than 3 years
Non-current financial liabilities	42,663,310	43,612,384			37,967,196	5,645,188
Other non-current operating liabilities	132,497,672	132,499,537			36,380,579	96,118,958
Current financial liabilities	239,327,077	239,839,148	154,255,500	85,583,648		
Curr. oper. liab. (excluding liabilities to the government and employees, and liabilities from advances)	32,687,478	32,687,478	32,687,478			
Balance as at 31 December 2018	447,175,537	448,638,547	186,942,978	85,583,648	74,347,775	101,764,146

in EUR	Carrying amount of liabilities	Contractual cash flows				
		Total contractual obligations	0 to 6 months	6 to 12 months	From 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

CREDIT RISK

The deteriorating liquidity of partners on the market requires additional attention when monitoring their credit ratings and thus the provision of the appropriate collateral. Investments in a new system for monitoring the credit ratings of the Group's partners will reduce credit risk, which will be reflected in the reduced value of past-due receivables and more secure operations. The adverse economic conditions and the associated increased probability of failure to fulfil contractually defined obligations by partners require the Company to pay special attention to the management of credit risks. For this reason, the credit risk management process actively includes several departments.

The credit risk management process is supplemented during the formulation of the portfolio through the careful selection of partners, followed by the regular review of the credit quality of those partners through the assignment of credit ratings.

An active approach is taken to the recovery process, which has ensured a reduction in the proportion of total trade payables accounted for by past-due trade payables relative to the previous year.

Data regarding the operations of the banks with which the Group cooperates are monitored as part of the credit risk management process. Risk is further managed by diversifying the placement of cash at individual banks, by investing cash for current operations over the short term and by entering into transactions to hedge against currency and interest rate risks.

Credit risks were appropriately managed in 2017 and 2018, 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 2018 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 2.3.1.11).

Maturity of trade receivables (gross amount):

As at	Maturity					in EUR
	Past-due					Total
	Non-past-due	up to 30 days	31 to 90 days	91 to 365 days	more than 365 days	
31 December 2018	45,635,532	4,181,046	1,023,452	1,201,512	7,011,222	59,052,764
31 December 2017	59,180,184	4,168,976	1,981,616	1,473,701	6,545,572	73,350,049

4. 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 Group's owners, which is reflected in stable dividends for the owner.

in EUR	2018	2017
Non-current financial liabilities	42,663,310	111,392,771
Current financial liabilities	239,327,077	12,644,474
Total financial liabilities	281,990,387	124,037,245
Total equity	356,023,566	330,332,962
Debt/equity	0.79	0.38
Cash and cash equivalents	181,522,305	34,509,699
Net financial liabilities	100,468,082	89,527,546
Net debt/equity	0.28	0.27

The debt-to-equity ratio was up, as funds transferred by the owner of Slovenske železnice, d. o. o. to the Company's transaction account at the end of December 2018 as an increase in capital were disclosed in current financial liabilities (EUR 154,255,500). The aforementioned increase in capital was entered in the companies register on 11 January 2019.

5. CARRYING AMOUNT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below only includes information regarding classification to the fair value hierarchy for assets and financial liabilities measured at fair value and for which fair value is disclosed.

EUR	31 December 2018				
	Carrying amount	Fair value	1st level	2nd level	3rd level
Non-current financial assets					
Investments in shares and participating interests measured at fair value through profit or loss that are not quoted on a regulated market	2,093,564	2,093,564			2,093,564
Non-current financial receivables from the sale of receivables	40,220,319	40,220,319			40,220,319
Other non-current financial assets	3,105,170	3,105,170			3,105,170
Current financial assets					
Financial instruments measured at fair value through profit or loss that are not quoted on a regulated market	744,140	744,140			744,140
Current financial receivables from the sale of receivables	55,317,200	55,317,200			55,317,200
Other current assets	4,210,045	4,210,045			4,210,045
Non-current financial liabilities					
Loans received	40,257,199	40,257,199			40,257,199
Liabilities from finance leasing	2,406,111	2,406,111			2,406,111
Current financial liabilities					
Loans received	83,733,173	83,733,173			83,733,173
Liabilities for interest-rate swaps	429,968	429,968			429,968
Liabilities from recapitalisation	154,255,500	154,255,500			154,255,500
Other financial liabilities	908,436	908,436			908,436
EUR					
EUR	31 December 2017				
	Carrying amount	Fair value	1st level	2nd level	3rd level
Non-current financial assets					
Investments in shares and participating interests measured at fair value through profit or loss that are not quoted on a regulated market	4,162,294	4,162,294			4,162,294
Other non-current financial assets	3,133,327	3,133,327			3,133,327
Current financial assets					
Other current assets	824,336	824,336			824,336
Non-current financial liabilities					
Loans received	109,695,740	109,695,740			109,695,740
Liabilities from finance leasing	1,697,031	1,697,031			1,697,031
Current financial liabilities					
Loans received	10,769,231	10,769,231			10,769,231
Liabilities for interest-rate swaps	980,947	980,947			980,947
Other financial liabilities	894,296	894,296			894,296

The Slovenske Železnice Group did not record any transitions between fair value levels in 2018. The Slovenske Železnice Group did not include operating receivables and liabilities in the above table, as they are both primarily of a short-term nature, meaning they are typically settled within 180 days.

> AUDIT REPORT FOR THE SLOVENSKE ŽELEZNICE GROUP FOR 2018



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INDEPENDENT AUDITOR'S REPORT to the owners of SLOVENSKE ŽELEZNICE, d. o. o.

Opinion

We have audited the enclosed consolidated financial statements of Slovenske železnice, d. o. o. and its subsidiaries (hereinafter: the Group), which include the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the enclosed consolidated financial statements present fairly, in all material aspects, the consolidated financial position of the Slovenske Železnice Group as at 31 December 2018, and its consolidated operating results and consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards, as adopted by the European Union (hereinafter: the IFRS).

Basis for our opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities on the basis of those standards are described in detail in the paragraph *Auditor's responsibilities for the auditing of the consolidated financial statements*. In accordance with the Code of Ethics for Accounting Professionals issued by the International Ethics Board for Accountants (IESBA Code) and the ethical requirements relating to the auditing of financial statements in Slovenia, we hereby confirm our independence from the Group and our fulfilment of all other ethical obligations in accordance with those requirements and the IESBA Code. We believe that the auditing evidence obtained is a sufficient and appropriate basis for our opinion.

Other information

The Management Board is responsible for other information. Other information comprises information presented in the annual report, except the financial statements and the auditor's report regarding those statements.

Our opinion regarding the consolidated financial statements does not relate to the other information referred to above, and we do not provide any assurance whatsoever in connection with that information.

In connection with our audit of the consolidated financial statements, it is our responsibility to interpret other information and assess whether it fails to conform materially to the consolidated financial statements, legal requirements or with the knowledge we have obtained through our audit, and whether that information is otherwise materially misstated. If on the basis of our work we conclude that there exists a material misstatement of other information, we are obliged to report on such circumstances. In that regard and based on the procedures described above, we hereby report that:

- > other information is in line, in all material aspects, with the consolidated financial statements;
- > other information has been compiled in accordance with the applicable laws and regulations; and
- > we did not identify any material misstatements based on our knowledge and understanding of the Group and its environment, which we gained during our audit.

Responsibility of the Management Board, Supervisory Board and audit committee with regard to the consolidated financial statements

The Management Board is responsible for the compilation and fair presentation of these consolidated financial statements in accordance with the IFRS, and for the internal controls that it deems necessary to enable the compilation of consolidated financial statements that are free from material misstatements due to fraud or error.

In compiling the Group's consolidated financial statements, the Management Board is responsible for assessing the ability of the Group to continue functioning as a going concern, for the disclosure of matters associated with the Group as a going concern as the basis for accounting, unless the Management Board intends to liquidate or wind up the Group, or if it has no real choice between one or the other.

The Supervisory Board and audit committee are responsible for control over the financial reporting process within the Group, and for approving the audited annual report.

Auditor's responsibility for the auditing of the consolidated financial statements

Our objectives are to obtain acceptable assurance as to whether the consolidated financial statements as a whole are free from material misstatements due to fraud or errors, and to issue an audit report that includes our opinion. Acceptable assurance means a high degree of assurance, but no guarantee, that our audit, conducted in accordance with the relevant auditing rules, will uncover all material misstatements should they exist. Misstatements may be the result of fraud or errors, and are deemed material if it is reasonable to expect that they may, individually or collectively, impact the business decisions adopted by users on the basis of the consolidated financial statements.

We make use of professional assessments and maintain professional scepticism in conducting audits in accordance with auditing rules. We also:

- > Identify and assess the risks associated with material misstatements in the consolidated financial statements due to fraud or errors, formulate and implement audit procedures as a response to assessed risks, and obtain sufficient audit evidence as the basis for our opinion. The risk that we will fail to uncover material misstatements due to fraud is greater than the risk associated with such an error, as fraud may include secret agreements, forgery, intentional omissions, erroneous interpretations or the avoidance of internal controls.
- > Obtain understanding of internal controls relevant to auditing for the purpose of formulating audit procedures appropriate to the environment, but not for the purpose of expressing an opinion regarding the effectiveness of the Group's internal controls.
- > Assess the appropriateness of applied accounting policies, as well as the acceptability of accounting estimates and the associated disclosures by the Management Board.
- > Adopt a decision on the acceptability of the Management Board's application of the assumption of the Company as a going concern as an accounting basis, taking into account audit evidence obtained regarding the existence of significant uncertainties with regard to events or circumstances that raise doubts about the ability of the organisation to continue operating as a going concern. Should we adopt a decision on the existence of significant uncertainties, we are responsible for using the auditor's report as a vehicle to raise concerns regarding the appropriateness of disclosures in the consolidated financial statements, and for amending our opinion if those disclosures are inappropriate. The auditor's decisions are based on audit evidence obtained up to the date of issuance of the auditor's report. However, subsequent events or circumstances may cause an organisation to cease functioning as a going concern.
- > Assess the general presentation, structure and content of the consolidated financial statements, including disclosures, and assess whether the consolidated financial statements present transactions and events in such a way that a fair presentation is achieved.

- > Obtain sufficient and appropriate audit evidence in connection with the financial information and business activities of Group companies, in order to express our opinion about the consolidated financial statements. We are responsible for managing, overseeing and conducting the audit of the Group. We are solely responsible for our audit opinion.

We notify the Supervisory Board and audit committee, *inter alia*, about the planned scope and timing of the audit, and about significant audit findings, including the lack of internal controls that we identified during our audit.

Deloitte Revizija d. o. o.
Dunajska 165
1000 Ljubljana

Katarina Kadunc
Certified auditor

*For signature please refer to the
original Slovenian version.*

Ljubljana, 20 May 2019

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

TRANSLATION ONLY - SLOVENIAN ORIGINAL PREVAILS

6. FINANCIAL STATEMENTS OF SLOVENSKE ŽELEZNICE, D. O. O.

6.1 STATEMENT OF FINANCIAL POSITION

in EUR	Note	Balance as at	
		31 December 2018	31 December 2017
ASSETS		759,530,774	516,020,097
A. Non-current assets		438,686,163	460,958,211
Intangible assets	6.6.1.1	9,547,492	840,192
Property, plant and equipment	6.6.1.2	15,607,125	13,423,568
Investment property	6.6.1.3	47,260,151	47,418,773
Investments in subsidiaries	6.6.1.4	272,554,833	272,554,833
Investments in associates	6.6.1.4	3,079,623	3,079,623
Other financial assets	6.6.1.4	2,090,592	4,117,175
Financial receivables	6.6.1.5	82,872,956	113,446,859
Operating receivables	6.6.1.6	3,811,552	3,940,398
Deferred tax assets	6.6.1.7	1,225,007	1,221,899
Other non-current assets		636,832	914,891
B. Current assets		320,844,611	55,061,886
Assets held for sale		112,459	33,435
Inventories		565	0
Financial receivables	6.6.1.8	160,376,513	25,722,242
Trade receivables	6.6.1.9	3,072,539	6,308,712
Other operating receivables	6.6.1.10	1,029,196	1,336,069
Receivables for corporate income tax		0	464,108
Cash and cash equivalents	6.6.1.11	156,253,339	21,197,320
EQUITY AND LIABILITIES		759,530,774	516,020,097
A. Equity	6.6.1.12	307,342,908	289,420,112
Called-up capital		205,274,421	205,274,421
Share premium account		45,002,140	45,002,140
Legal reserves		2,917,693	1,869,355
Other profit reserves		38,275,168	28,315,958
Fair value reserves		-385,614	-345,492
Retained earnings		16,259,100	9,303,730
1. Retained earnings from previous years		6,299,890	6,347,289
2. Undistributed retained earnings from the financial year		9,959,210	2,956,441
B. Non-current liabilities		87,722,531	118,002,497
Provisions for jubilee benefits and termination benefits	6.6.1.13	2,179,129	2,067,765
Other provisions		0	19,000
Non-current deferred income		2,528	2,576
Financial liabilities	6.6.1.14	80,469,673	109,672,206
Operating liabilities	6.6.1.15	5,071,201	6,240,950
C. Current liabilities		364,465,335	108,597,488
Financial liabilities	6.6.1.14	356,870,119	99,039,683
Trade payables	6.6.1.16	4,509,962	6,019,096
Other operating liabilities	6.6.1.15	3,085,254	3,538,709

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

6.2 STATEMENT OF PROFIT OR LOSS

in EUR	Note	2018	2017
1. Net sales revenue	6.6.2.1	20,366,087	22,869,477
3. Capitalised own products and services		1,372,805	320,612
4. Other operating revenue (including revaluation operating revenues)	6.6.2.2	9,562,938	4,554,574
5. Costs of goods, materials and services	6.6.2.3	6,929,722	6,304,228
6. Labour costs	6.6.2.4	17,474,598	16,468,400
7. Write-downs	6.6.2.5	1,526,604	1,269,909
8. Other operating expenses	6.6.2.6	1,318,783	2,825,853
9. Operating profit or loss (1 ± 2 + 3 + 4 - 5 - 6 - 7 - 8)		4,052,123	876,273
10. Finance income	6.6.2.7	24,121,465	12,449,400
11. Finance costs	6.6.2.8	7,209,938	7,807,089
12. Net finance income/costs (11 - 12)		16,911,527	4,642,311
13. Pre-tax profit or loss (9 + 13)		20,963,650	5,518,584
14. Current tax		0	0
15. Deferred taxes	6.6.1.7	-3,108	-394,297
16. Corporate income tax	6.6.2.9	-3,108	-394,297
17. Net profit or loss for the accounting period		20,966,758	5,912,881

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	2018	2017
Net profit or loss for the accounting period		20,966,758	5,912,881
Items that will not be reclassified subsequently to profit or loss		-43,962	-143,009
Actuarial gains/losses		-43,962	-143,009
Other comprehensive income for the financial year		-43,962	-143,009
Total comprehensive income for the reporting period		20,922,796	5,769,872

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

6.4 STATEMENT OF CASH FLOWS

in EUR	Note	2018	2017
A. CASH FLOWS FROM OPERATING ACTIVITIES			
a) Net profit or loss		20,966,758	5,912,881
Pre-tax profit or loss		20,963,650	5,518,584
Corporate income tax and other taxes not included in operating expenses		-3,108	-394,297
b) Adjustments for		-23,840,961	-6,901,524
Amortisation and depreciation (+)	6.6.2.5	1,449,056	1,123,080
Revaluation operating revenues (-)		-1,641,623	-4,065,752
Revaluation operating expenses (+)		77,548	146,829
Finance income, excluding finance income from operating receivables (-)	6.6.2.7	-23,811,338	-12,415,667
Finance costs, excluding finance costs from operating liabilities (+)	6.6.2.8	7,148,090	7,708,921
Revenues from the acquisition of superficies		-7,562,778	0
Actuarial calculation of provisions for employee benefits		85,379	263,852
Tax expenses		461,001	337,213
Revenues from the reversal of other provisions		-19,000	0
Other adjustments to revenues and expenses		-27,296	0
c) Changes in net working capital (and provisions and deferred tax assets and liabilities) from balance sheet operating items		277,292	-5,240,458
Opening less closing operating receivables		4,392,141	-1,913,162
Opening less closing inventories		-583	0
Closing less opening operating liabilities		-4,059,312	-3,288,082
Closing less opening provisions		-54,954	-39,214
d) Net cash flows from operating activities (a + b + c + d + e)		-2,596,911	-6,229,101
B. CASH FLOWS FROM INVESTING ACTIVITIES			
a) Inflows from investing activities		275,465,206	135,094,230
Inflows from interest received, and shares in the profit of others		21,482,139	9,424,123
Inflows from the disposal of property, plant and equipment	6.6.1.2	692,207	706,631
Inflows from the disposal of investment property	6.6.1.3	1,138,422	1,001,841
Inflows from the disposal of financial assets		252,152,438	123,961,635
b) Outflows from investing activities		-227,652,653	-125,799,942
Outflows for the acquisition of intangible assets	6.6.1.1	-930,297	-201,608
Outflows for the acquisition of property, plant and equipment	6.6.1.2	-3,285,759	-2,038,627
Outflows for the acquisition of investment property	6.6.1.3	-233,551	-1,380,102
Outflows for the acquisition of financial assets	6.6.1.4	-223,203,046	-122,179,605
c) Net cash flows from investing activities (a + b)		47,812,553	9,294,288
C. CASH FLOWS FROM FINANCING ACTIVITIES			
a) Inflows from financing activities		727,188,500	318,371,774
Inflows from the increase in financial liabilities for recapitalisation		154,255,500	0
Inflows from the increase in financial liabilities	6.6.1.14	572,933,000	318,371,774
b) Outflows from financing activities		-637,348,123	-338,520,891
Outflows for interest paid		-4,087,129	-4,307,973
Outflows for the repayment of financial liabilities	6.6.1.14	-630,260,994	-331,212,918
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)		89,840,377	-20,149,117
D. Closing balance of cash and cash equivalents	6.6.1.11	156,253,339	21,197,320
x) Net cash flow in period (sum of Ac, Bc and Cc)		135,056,019	-17,083,930
+/- Calculated exchange rate differences from foreign currency assets		0	0
y) Opening balance of cash and cash equivalents	6.6.1.11	21,197,320	38,281,250

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

6.5 STATEMENT OF CHANGES IN EQUITY

in the period 1 January to 31 December 2018

in EUR	Share capital	Share premium account	Legal reserves	Other profit reserves	Fair value reserves	Retained earnings		Total
						Retained earnings from previous years	Undist. retain. earnings from the finan. year	
Opening 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
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	-40,122	-3,840	20,966,758	20,922,796
Entry of net profit or loss for the reporting period							20,966,758	20,966,758
Other items of comprehensive income in the reporting period					-40,122	-3,840		-43,962
Changes within equity	0	0	1,048,338	0	0	2,956,441	-4,004,779	2,956,441
Allocation of remaining portion of net profit for the comparable reporting period to other components of equity						2,956,441	-2,956,441	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			1,048,338	9,959,210			-11,007,548	0
Closing balance for reporting period	205,274,421	45,002,140	2,917,693	38,275,168	-385,614	6,299,890	9,959,210	307,342,908

in the period 1 January to 31 December 2017

in EUR	Share capital	Share premium account	Legal reserves	Other profit reserves	Fair value reserves	Retained earnings		Total
						Retained earnings from previous years	Undist. retain. earnings from the finan. 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

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

Distributable profit

in EUR	31 December 2018	31 December 2017
Mandatory use of net profit		
Net profit or loss	20,966,758	5,912,881
Creation of legal reserves	1,048,339	295,644
Net profit or loss following mandatory use	19,918,419	5,617,237
Creation of other profit reserves	9,959,210	2,660,796
Determination of distributable profit		
Net profit or loss	9,959,210	2,956,441
Retained earnings from previous years	6,299,890	6,347,289
Distributable profit	16,259,100	9,303,730

Pursuant to the resolution of Slovenske železnice, d. o. o.'s Management Board of 19 April 2019, a portion of the Company's net profit for 2018 in the amount of EUR 1,048,339 was used for the creation of legal reserves, while a portion in the amount of EUR 9,959,210 was used for the creation of other profit reserves. A portion of net profit in the amount of EUR 9,959,210 remains undistributed. On 20 May 2019, the Management Board of Slovenske železnice, d. o. o. adopted a resolution that distributable profit in the amount of EUR 16,259,100 as at 31 December 2018 be used for the following purposes:

- > EUR 6,000,000 for the payment of shares in profit; and
- > EUR 10,259,100 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 2017	4,490,989	129,683	4,620,672
Acquisitions	272,361	0	272,361
Write-downs	-153,480	0	-153,480
Balance as at 31 December 2017	4,609,870	129,683	4,739,553
Balance as at 1 January 2018	4,609,870	129,683	4,739,553
Acquisitions	9,197,840	0	9,197,840
Write-downs	-215,562	0	-215,562
Balance as at 31 December 2018	13,592,148	129,683	13,721,831
Value adjustment			
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
Balance as at 1 January 2018	3,769,678	129,683	3,899,361
Write-downs	-215,562	0	-215,562
Amortisation	490,540	0	490,540
Balance as at 31 December 2018	4,044,656	129,683	4,174,338
Carrying amount			
Carrying amount as at 1 January 2017	907,274	0	907,274
Carrying amount as at 31 December 2017	840,192	0	840,192
Carrying amount as at 1 January 2018	840,192	0	840,192
Carrying amount as at 31 December 2018	9,547,492	0	9,547,492

The Company had no commitments for the acquisition of intangible assets as at 31 December 2017 and 31 December 2018, nor had the Company pledged intangible assets as collateral.

A total of 24.3% of all intangible assets in use as at 31 December 2018 have been depreciated in full (that proportion stood at 70.2% as at 31 December 2017). That proportion is calculated taking into account the historical cost of intangible assets.

The majority of the increase in intangible assets in the amount of EUR 7,562,778 comprises the acquisition of superficies on land based on a court-brokered settlement signed on 21 December 2018 between Slovenske železnice, d. o. o. and SŽ-Infrastruktura, d. o. o. on the one side and Emonika NS, d. o. o. on the other.

6.6.1.2 Property, plant and equipment

in EUR	31 December 2018	31 December 2017
Land	1,920,598	1,920,711
Buildings	6,217,503	6,656,102
Equipment	2,223,773	1,912,545
Property, plant and equipment in acquisition	5,245,251	2,934,210
Total	15,607,125	13,423,568

Changes in property, plant and equipment

in EUR	Land	Buildings	Plant and equipment	Equipment under finance leasing	Property, plant and equipment in acquisition	Total PPE
Historical cost						
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
Balance as at 1 January 2018	1,920,711	18,965,436	9,358,120	19,348	2,934,210	33,197,825
Acquisitions	0	103,934	797,858	0	2,311,041	3,212,833
Disposals	-113	-792,225	-386,858	0	0	-1,179,197
Transfers from finance leasing	0	0	19,348	-19,348	0	0
Balance as at 31 December 2018	1,920,598	18,277,145	9,788,468	0	5,245,251	35,231,461
Value adjustment						
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
Balance as at 1 January 2018	0	12,309,334	7,446,865	18,058	0	19,774,256
Increases	0	0	19,783	0	0	19,783
Decreases	0	-477,699	-384,626	-18,703	0	-881,029
Depreciation	0	228,007	482,673	645	0	711,325
Balance as at 31 December 2018	0	12,059,642	7,564,694	0	0	19,624,336
Carrying amount						
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
Balance as at 1 January 2018	1,920,711	6,656,102	1,911,256	1,290	2,934,210	13,423,568
Balance as at 31 December 2018	1,920,598	6,217,503	2,223,773	0	5,245,251	15,607,125

The Company's moveable property and real estate were not pledged as guarantees for long-term loans as at 31 December 2018, nor at 31 December 2017.

The Company had commitments for the purchase of property, plant and equipment in the amount of EUR 1,462,294 as at 31 December 2018 (EUR 765,714 as at 31 December 2017).

A total of 39.7% of all items of property, plant and equipment in use as at 31 December 2018 have been depreciated in full (that proportion stood at 39.7% as at 31 December 2017). That proportion is calculated taking into account the historical cost of property, plant and equipment.

6.6.1.3 Investment property

in EUR	31 December 2018	31 December 2017
Investment property	47,260,151	47,418,773
Total	47,260,151	47,418,773

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 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
Balance as at 1 January 2018	39,358,571	17,398,213	56,756,785
Acquisitions	0	149,089	149,089
Disposals	-4,140	-283,343	-287,482
Transfers for sale	-8,098	0	-8,098
Balance as at 31 December 2018	39,346,334	17,263,959	56,610,293
Value adjustment			
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
Balance as at 1 January 2018	0	9,338,012	9,338,012
Depreciation	0	247,191	247,191
Disposals	0	-235,061	-235,061
Balance as at 31 December 2018	0	9,350,142	9,350,142
Carrying amount			
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
Balance as at 1 January 2018	39,358,571	8,060,201	47,418,773
Balance as at 31 December 2018	39,346,334	7,913,817	47,260,151

The Company has not pledged investment property as collateral.

Slovenske železnice, d. o. o. generated rental income of EUR 1,638,323 in 2018 (EUR 1,692,428 in 2017). Depreciation costs associated with investment property totalled EUR 247,191 (EUR 217,688 in 2017).

A total of 23.8% of all investment property in use as at 31 December 2018 has been depreciated in full (that proportion stood at 25.1% as at 31 December 2017). 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 82,612,881 as at 31 December 2018 (EUR 82,510,729 as at 31 December 2017).

6.6.1.4 Non-current financial assets

in EUR	31 December 2018	31 December 2017
Investments in subsidiaries	272,554,833	272,554,833
Investments in associates	3,079,623	3,079,623
Other financial assets	2,090,592	4,117,175
Total	277,725,048	279,751,631

The Company had no non-current financial assets pledged as guarantees for long-term loans as at 31 December 2018, nor at 31 December 2017.

Changes in non-current financial assets

in EUR	Investments in subsidiaries	Investments in associates	Other financial assets
Historical cost			
Balance as at 1 January 2017	271,066,904	5,609,252	4,136,653
Conversion of a portion of receivables into the equity of SŽ-ŽIP, d. o. o.	1,687,875	0	0
Balance as at 31 December 2017	272,754,779	5,609,252	4,136,653
Balance as at 1 January 2018	272,754,779	5,609,252	4,136,653
Court-brokered settlement – sale of participating interest	0	0	2,026,583
Balance as at 31 December 2018	272,754,779	5,609,252	2,110,070
Value adjustment			
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
Balance as at 1 January 2018	199,946	2,529,629	19,478
Balance as at 31 December 2018	199,946	2,529,629	19,478
Carrying amount			
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
Balance as at 1 January 2018	272,554,833	3,079,623	4,117,175
Balance as at 31 December 2018	272,554,833	3,079,623	2,090,592

Participating interests in subsidiaries

in EUR	Participating interest* 31 December 2018	Share capital* 31 December 2018	Carrying amount of participating interest		Profit or loss for the year	
			31 December 2018	31 December 2017	2018	2017
SŽ-Tovorni promet, d. o. o.	100%	36,860,942	61,615,541	61,615,541	8,721,069	12,027,320
SŽ-Potniški promet, d. o. o.	100%	131,684,161	133,832,158	133,832,158	9,939,381	16,876,524
SŽ-Infrastruktura, d. o. o.	100%	15,828,186	17,411,005	17,411,005	3,256,092	1,832,926
SŽ-Vleka in tehnika, d. o. o.	100%	26,068,145	41,718,205	41,718,205	20,453	433,997
Prometni institut Ljubljana, d. o. o.	100%	162,328	338,846	338,846	243,112	262,406
SŽ-ŽIP, storitve, d. o. o.	100%	6,072,597	4,782,426	4,782,426	0	145,995
Fersped, d. o. o.	100%	3,138,557	8,940,000	8,940,000	1,880,278	450,681
SŽ-ŽGP Ljubljana, d. d.	79.82%	3,152,412	3,388,034	3,388,034	1,608,559	322,624
SŽ-Železniška tiskarna Ljubljana, d. d.	64.28%	265,160	528,618	528,618	11,174	-94,704
Total			272,554,833	272,554,833	25,680,118	32,257,769

* The amount of share capital and participating interests were unchanged in 2018.

Information regarding associates as at 31 December 2018

Business name of associate	Business address of associate	Activity	Ownership as at 31 December 2018	Ownership as at 31 December 2017
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%

in EUR	Equity		Profit or loss for the year	
	31 December 2018	31 December 2017	2018	2017
Terme Olimia, d. d.	35,765,444	33,409,463	2,336,087	756,569
Adria Kombi, d. o. o., Ljubljana	11,297,912	10,811,876	1,382,365	1,378,954
Total investments in associates	47,063,356	44,221,339	3,718,452	2,135,523

Balance of investments in associates

in EUR	31 December 2018	31 December 2017
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

Other financial assets

in EUR	Participating interest 31 December 2018	Value of investment	
		31 December 2018	31 December 2017
– Emonika NS, d. o. o.	3%	0	1,953,330
– EUROFIMA	0.42%	2,033,709	2,033,709
– Emonika PS, d. o. o.	3%	0	73,253
– HIT RAIL		54,439	54,439
– Other shares and participating interests		2,444	2,444
Total		2,090,592	4,117,175

All other investments in shares and participating interests are classified as financial assets measured at fair value through profit or loss. None of the shares and participating interests held by Slovenske železnice, d. o. o. at the end of 2018 are quoted on a regulated market. Other financial assets are not used as collateral and are free from encumbrances.

6.6.1.5 Non-current financial receivables

in EUR	31 December 2018	31 December 2017
Non-current financial receivables to Group companies	40,249,354	111,043,576
Other non-current financial receivables	42,623,602	2,403,283
Total	82,872,956	113,446,859

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). Other non-current financial receivables arising from the sale of receivables based on the agreement of 12 June 2018 on the assignment of claims for consideration between Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. and two banks totalled EUR 40,220,319 and fall due for payment in 2021 (EUR 0 as at 31 December 2017).

Changes in non-current financial receivables from Group companies

in EUR	2018	2017
Balance as at 1 January	113,446,859	125,319,445
- increases	146,048,971	1,567,280
- transferred to current portion	-176,100,523	-10,965,310
- reduction for discounts and exchange rate differences	-522,351	-2,474,556
Balance as at 31 December	82,872,956	113,446,859

6.6.1.6 Non-current operating receivables

in EUR	31 December 2018	31 December 2017
Non-current operating receivables from Group companies	412,601	427,600
Other non-current operating receivables	3,398,951	3,512,798
Total	3,811,552	3,940,398

Other non-current operating receivables comprise loans granted for the purchase of housing and other real estate in the amount of EUR 3,357,368 (EUR 3,432,798 as at 31 December 2017).

Real estate valued at EUR 3,178,937 was pledged as guarantees for long-term loans as at 31 December 2018 (EUR 5,993,387 as at 31 December 2017).

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 December 2018	31 December 2017
Deferred tax assets	1,225,007	1,221,899

in EUR	Tax loss	Provisions	Tax allowances for investments	Total
Balance as at 1 January 2017	827,603	0	0	827,603
Credited/debited to operating results	276,499	0	117,798	394,297
Balance as at 31 December 2017	1,104,102	0	117,798	1,221,900
Balance as at 1 January 2018	1,104,102	0	117,798	1,221,900
Credited/debited to operating results	-386,770	343,825	46,052	3,107
Balance as at 31 December 2018	717,332	343,825	163,850	1,225,007

Deferred tax assets are recognised for non-deductible expenses from provisions, 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 tax-deductible expenses. Deferred tax assets were therefore higher relative to 2017.

Total sources for the creation of deferred tax assets are as follows:

in EUR	Tax loss	Provisions	Tax allowances for investments	Total
Balance as at 31 December 2017	5,811,060	0	619,990	6,431,050
Balance as at 31 December 2018	3,775,433	1,809,605	862,368	6,447,406

6.6.1.8 Current financial receivables

in EUR	31 December 2018	31 December 2017
Financial receivables from subsidiaries	100,105,173	24,905,451
Financial instruments measured at fair value through profit or loss	744,140	0
Financial receivables from others	59,527,200	816,791
Total	160,376,513	25,722,242

Changes in current financial receivables from Group companies

in EUR	31 December 2018	31 December 2017
Balance as at 1 January	25,722,242	19,794,116
– Increases	386,797,709	131,577,643
– Decreases	252,143,438	125,649,517
Balance as at 31 December	160,376,513	25,722,242

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 16,372,000 (EUR 13,661,000 as at 31 December 2017), and from the transfer of the current portion of long-term loans that mature in 2019 in the amount of EUR 83,733,173 (EUR 10,769,231 as at 31 December 2017).

Financial instruments measured at fair value through profit or loss comprise FX swap instruments in the amount of EUR 744,140.

Other financial receivables primarily comprise receivables from banks from deposited funds in the amount of EUR 4,210,000 (EUR 816,000 as at 31 December 2017) and current financial receivables from the agreement concluded between Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. and two banks in the amount of EUR 55,317,200, which fall due for payment in 2019 (EUR 0 as at 31 December 2017).

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 December 2018	31 December 2017
Current receivables from Group companies	2,750,094	5,643,834
Current trade receivables from domestic customers	298,040	655,729
Current trade receivables from foreign customers	24,405	9,149
Total	3,072,539	6,308,712

in EUR	Gross value 31 December 2018	Value adjustment 31 December 2018	Net value 31 December 2018	Net value 31 December 2017
Current receivables from Group companies	2,750,094	0	2,750,094	5,643,834
Current trade receivables from domestic customers	406,896	108,855	298,041	655,729
Current trade receivables from foreign customers	24,435	31	24,404	9,149
Total	3,181,425	108,886	3,072,539	6,308,712

Net adjustments to the value of current trade receivables were created as follows:

in EUR	2018	2017
Balance as at 1 January	129,973	145,203
Reduction for written-off receivables	-43,075	0
Reversal of value adjustments	-13,721	-16,092
Creation of value adjustments	35,709	862
Balance as at 31 December	108,886	129,973

Maturity breakdown of receivables:

in EUR	31 December 2018	31 December 2017
Non-past-due receivables	2,888,684	5,976,646
Past-due receivables	292,741	462,039
- up to 30 days	96,968	183,478
- 31 to 90 days	68,653	99,306
- 91 to 365 days	55,765	56,574
- more than 365 days	71,355	122,681
Total	3,181,425	6,438,685

6.6.1.10 Other current operating receivables

in EUR	31 December 2018	31 December 2017
Receivables from government and other institutions	308,496	756,421
Receivables from employees	274,003	278,451
Current operating receivables based on advances	1,186	1,647
Other current operating receivables	29,611	2,576
Deferred costs	397,501	283,316
Accrued income	18,399	13,658
Total	1,029,196	1,336,069

Write-offs and impairments of current operating receivables in 2018 are disclosed in operating expenses in the amount of EUR 43,004 (EUR 34,702 in 2017).

6.6.1.11 Cash and cash equivalents

in EUR	31 December 2018	31 December 2017
Cash in hand	1,978	1,474
Cash in bank accounts	156,251,361	21,195,846
Total	156,253,339	21,197,320

The balance of cash and cash equivalents was up due to the payment of funds for recapitalisation purposes in the amount of EUR 154,255,500.

6.6.1.12 Equity

in EUR	31 December 2018	31 December 2017
Called-up capital	205,274,421	205,274,421
Share premium account	45,002,140	45,002,140
Legal reserves	2,917,693	1,869,355
Other profit reserves	38,275,168	28,315,958
Fair value reserves	-385,614	-345,492
Retained earnings from previous years	6,299,890	6,347,289
Undistributed retained earnings from the financial year	9,959,210	2,956,441
Total	307,342,908	289,420,112

Changes in equity

	in EUR
Balance as at 1 January 2017	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
Net profit for the financial year	20,966,758
Payment of shares in profit	-3,000,000
Actuarial gains and losses	-43,962
Balance as at 31 December 2018	307,342,908

6.6.1.13 Provisions and non-current deferred income

in EUR	31 December 2018	31 December 2017
Provisions for jubilee benefits and termination benefits	2,179,129	2,067,765
Other provisions	0	19,000
Non-current deferred income	2,528	2,576
Total	2,181,657	2,089,341

Provisions for a labour-related lawsuit, disclosed in the amount of EUR 19,000 as at 31 December 2017, were reversed in 2018 pursuant to the relevant court ruling.

A total of seven legal proceedings in the total amount of EUR 326,362 (labour, civil and economic disputes) were in progress against Slovenske železnice, d. o. o. during 2018. Provisions were recognised at the subsidiary SŽ-Potniški promet, d. o. o. for two legal disputes in accordance with the demerger plan from 2011.

In accordance with assessments of the possible outcomes of other disputes, drawn up on the bases of reports prepared by law firms, 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.

Changes in provisions for jubilee benefits and termination benefits

in EUR	Termination benefits	Jubilee benefits	Total
Balance as at 1 January 2017	1,509,226	158,006	1,667,232
Used	-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
Balance as at 1 January 2018	1,916,583	151,182	2,067,765
Used	-21,682	-33,224	-54,906
Current employment costs	70,586	51,103	121,689
Interest (expenses)	34,494	2,436	36,930
Reversal of provisions – closure, rights, etc. (revenues)	-36,311	0	-36,311
Actuarial gains/losses	43,962	0	43,962
Balance as at 31 December 2018	2,007,632	171,497	2,179,129

The following material assumptions were taken into account in the calculation of provisions for termination benefits at retirement and jubilee benefits:

	2018	2017
Average monthly gross wage in Slovenia	EUR 1,680	EUR 1,630
Discount rate	1.81%	1.96%
Overall wage growth	2.00%	2.00%
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 December 2018	31 December 2017
Non-current financial liabilities to Group companies from the sale of receivables	40,220,319	0
Non-current financial liabilities to domestic banks	11,593,750	8,076,923
Other non-current financial liabilities – EUROFIMA	28,655,604	101,595,283
Total non-current financial liabilities	80,469,673	109,672,206
Current financial liabilities to Group companies	58,699,303	87,068,877
Current financial liabilities to Group companies from the sale of receivables	59,527,200	0
Current financial liabilities to domestic banks	9,733,173	10,769,231
– current portion of loan raised to refinance loans from EUROFIMA	8,076,923	10,769,231
– current portion of loan raised for the purchase of fixed assets	1,656,250	0
Current financial liabilities from the payment of capital until entry in the companies register	154,255,500	0
Liabilities to banks arising from the fair value of derivatives	429,968	980,947
Other current financial liabilities to domestic entities	224,974	220,627
Other current financial liabilities to foreign entities (EUROFIMA)	74,000,000	0
Total current financial liabilities	356,870,119	99,039,682
Total	437,339,792	208,711,888

Changes in financial liabilities

in EUR	31 December 2018	31 December 2017
Non-current financial liabilities to Group companies		
Balance as at 1 January	0	0
– Increases	131,738,650	0
– Decreases	-91,518,331	0
Balance as at 31 December	40,220,319	0
Non-current financial liabilities to banks and others		
Balance as at 1 January	109,672,206	122,917,859
– Increases	14,310,321	0
– Decreases	-83,733,173	-13,245,653
Balance as at 31 December	40,249,354	109,672,206
Total non-current financial liabilities	80,469,673	109,672,206
Current financial liabilities to Group companies		
Balance as at 1 January	87,068,878	89,133,070
– Increases	399,904,455	291,078,011
– Decreases	-368,746,830	-293,142,203
Balance as at 31 December	118,226,503	87,068,878
Current financial liabilities to banks and others		
Balance as at 1 January	11,970,804	12,123,588
– Increases	491,141,074	40,231,799
– Decreases	-264,468,263	-40,384,583
Balance as at 31 December	238,643,615	11,970,804
Total current financial liabilities	356,870,119	99,039,682
Total	437,339,792	208,711,888

in EUR	2018	2017
Balance as at 1 January	208,711,889	224,174,517
Proceeds from loans raised	572,933,000	318,371,774
Inflows for the recapitalisation of SŽ, d. o. o.	154,255,500	0
Outflows from loans raised	-630,260,994	-331,212,918
Liabilities to SŽ-Potniški promet, d. o. o. – sale of receivables to SID banka	131,216,299	0
Changes in liabilities from financial instruments	-550,979	-179,857
Changes in liabilities for interest	-25,244	33,812
Exchange rate differences	1,060,321	-2,474,556
Write-offs of liabilities	0	-883
Balance as at 31 December	437,339,792	208,711,889

Non-current financial liabilities

in EUR	Date of agreement or annex	Date of maturity	Balance as at 31 December 2018	Collateral
– Liabilities from the sale of receivables	12 June 2018	30 June 2021	40,220,319	
– Financing of locomotive purchases	5 April 2018	6 December 2024	11,593,750	Deposit
– Financing of locomotive purchases	19 November 2008	15 December 2020	28,655,604	Sureties
Total			80,469,673	

Slovenske železnice, d. o. o. discloses both liabilities to creditors and receivables from the subsidiary SŽ-Tovorni promet, d. o. o. and SŽ-Potniški promet, d. o. o. for the loans stated above.

Non-current financial liabilities to Group companies comprise liabilities arising from the agreement of 12 June 2018 on the assignment of claims for consideration between Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. and two banks.

6.6.1.15 Operating liabilities

in EUR	31 December 2018	31 December 2017
Non-current liabilities	5,071,201	6,240,950
Liabilities to Group companies	5,065,309	6,233,387
Other operating liabilities	5,892	7,563
Current liabilities	3,085,254	3,538,709
Liabilities for advances received	35,350	92,791
Liabilities to employees	1,472,276	1,293,813
Liabilities to the government and government institutions	557,984	1,166,752
Liabilities to others	281,516	299,605
Deferred income	138,014	91,536
Accrued costs and expenses	600,114	594,212
Total	8,156,455	9,779,659

Non-current operating liabilities

Non-current liabilities to Group companies in the amount of EUR 5,029,432 (EUR 6,196,643 in 2017) 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 4,445,797 (EUR 5,477,561 as at 31 December 2017) and to SŽ-Potniški promet, d. o. o. in the amount of EUR 583,635 (EUR 719,082 as at 31 December 2017). 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 2018 by accrued interest in the amount of EUR 57,122 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 2019.

Current operating liabilities

Accrued costs and expenses primarily comprise the accrued costs of unused annual leave in the amount of EUR 563,839 (EUR 591,135 as at 31 December 2017).

Trade payables

in EUR	31 December 2018	31 December 2017
Liabilities to Group companies	3,481,154	4,844,777
Domestic trade payables	1,020,982	1,140,720
Foreign trade payables	7,826	33,599
Total	4,509,962	6,019,096

in EUR	31 December 2018	31 December 2017
Non-past-due liabilities	4,381,987	6,011,061
Past-due liabilities	127,975	8,035
- up to 30 days	126,259	8,035
- 31 to 90 days	0	0
- od 91 do 365dni	1,716	0
- more than 365 days	0	0
Total	4,509,962	6,019,096

Contingent receivables and contingent liabilities

in EUR	31 December 2018	31 December 2017
Mortgages and liens received	3,178,937	4,308,976
Estimated value of superficies assigned to Emonika, d. o. o.	0	1,725,000
Bank guarantees received	677,118	299,600
Merchandise on consignment	205	366
Total contingent receivables	3,856,260	6,333,942
Bank guarantees issued	0	562,807
Liabilities for merchandise on consignment	205	366
Contingent liabilities for lawsuits	326,362	1,193,903
Total contingent liabilities	326,567	1,757,076

6.6.2 Notes to the statement of profit or loss

6.6.2.1 Sales revenues

in EUR	2018	2017
Revenues on the domestic market	20,275,532	22,779,147
Services and products	20,275,381	22,779,147
– services and products in connection with Group companies	18,922,737	21,340,848
– services and products in connection with others	1,352,644	1,438,299
Merchandise and materials	151	0
– Merchandise and materials in connection with Group companies	151	0
Revenues on the foreign market	90,555	90,330
Services and products	90,555	90,330
– services and products in connection with Group companies	90,330	90,330
– services and products in connection with others	225	0
Total	20,366,087	22,869,477

Sales revenue primarily comprises revenues from transactions with Group companies. Nearly 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 Group companies in the amount of EUR 13,654,625 (EUR 16,189,049 in 2017).

6.6.2.2 Other operating revenues

in EUR	2018	2017
Revenues from the sale of property, plant and equipment, and the revaluation of receivables and liabilities	1,641,622	4,064,647
Compensation	189,022	432,310
Revenues from the reversal of provisions	82,605	1,649
Revenues from assigned contributions for the employment of disabled persons	59,677	55,782
Subsidies for projects	21,001	0
Other revenues	7,569,011	186
Total	9,562,938	4,554,574

The majority of other operating revenues comprise income from the acquisition of superficies on land owned by SŽ-Potniški promet, d. o. o. and the PRI in the total amount of EUR 7,562,778. Those superficies were obtained based on a court-brokered settlement signed on 21 December 2018 between Slovenske železnice, d. o. o. and SŽ-Infrastruktura, d. o. o. on the one side and Emonika NS, d. o. o. on the other.

6.6.2.3 Costs of goods, materials and services

in EUR	2018	2017
Historical cost of goods and materials sold and costs of materials used	107,904	95,849
Energy costs	169,122	175,340
Other material costs	44,753	53,146
Total cost of goods and materials sold and cost of materials used	321,779	324,335
Transport services	203,824	203,618
Maintenance services	1,731,806	1,261,611
Reimbursement of employee expenses	333,527	160,199
Payment transaction and banking services	323,956	252,414
Intellectual and personal services	1,071,971	1,313,545
Insurance premiums	114,536	119,915
Advertising, publicity and representation	952,407	759,756
Costs of other services	1,875,916	1,908,835
– membership fees for international organisations and other associations	340,247	340,761
– municipal services	183,980	174,987
– services associated with contracted work	212,172	227,066
– property surveillance services	220,852	225,812
– cleaning of premises and outside areas	195,530	169,404
– audit of the efficiency of rail transport, analysis and training	0	100,001
– costs of providing ancillary administrative and technical services (SŽ-ŽIP, d. o. o.)	133,957	129,076
– rental costs	115,535	68,171
– costs of labour of officials on the works councils of companies linked through capital investments	72,617	68,481
– other	401,026	405,076
Total costs of services	6,607,943	5,979,893
Total	6,929,722	6,304,228

Costs of auditor

in EUR	2018	2017
Auditing of the annual report	12,000	12,000
Other assurance services	0	500
Other non-audit services	0	3,300
Total	12,000	15,800

6.6.2.4 Labour costs

in EUR	2018	2017
Costs of wages and salaries	13,306,821	12,437,519
Pension insurance costs	1,392,804	1,281,107
Other social security costs	975,715	898,765
Other labour costs	1,799,258	1,851,009
– reimbursements	1,040,140	1,013,033
– annual leave allowance	529,752	492,697
– actuarial calculation	121,689	265,501
– redundant employees	64,135	4,312
– other labour costs	43,542	75,466
Total	17,474,598	16,468,400

6.6.2.5 Write-downs

in EUR	2018	2017
Amortisation/depreciation	1,449,056	1,123,080
Operating expenses for intangible assets and property, plant and equipment	34,526	110,063
Operating expenses for working capital	43,022	36,766
Total	1,526,604	1,269,909

6.6.2.6 Other operating expenses

in EUR	2018	2017
Expenses for the refund of performance bonuses	0	2,073,321
Coverage of the annual losses of SŽ-ŽIP Group companies for 2018 (resolution no. 7767)	803,529	0
Donations (for sporting, cultural and humanitarian activities)	187,951	369,703
Fees for the use of building land, and other taxes and levies	173,530	161,614
Bonuses for pupils and students on compulsory job training	49,649	70,689
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	76,057	78,254
Other expenses	28,067	72,272
Total	1,318,783	2,825,853

6.6.2.7 Finance income

in EUR	2018	2017
Finance income from participating interests in Group companies	18,139,868	7,898,418
Finance income from participating interests in associates	303,408	472,080
Finance income from participating interests in other companies	4,047	4,047
Finance income from other investments	744,140	19
Total finance income from participating interests	19,191,463	8,374,564
Finance income from loans to Group companies	4,562,378	1,256,825
Finance income from loans to others	57,497	2,784,278
Total finance income from loans granted	4,619,875	4,041,103
Finance income from operating receivables from Group companies	1,797	1,650
Finance income from other operating receivables	308,330	32,083
Total finance income from operating receivables	310,127	33,733
Total	24,121,465	12,449,400

Finance income from participating interests comprises:

- > income from participation in the profit of subsidiaries, associates and other companies in the amount of EUR 18,447,323 (EUR 8,374,545 in 2017);
- > income from a currency option for the purchase and sale of foreign currencies (derivatives) in the amount of EUR 744,140.

Finance income from loans granted primarily comprises income from relationships within the Group:

- > income from the conversion of a loan denominated in a foreign currency (exchange rate differences) in the amount of EUR 1,060,321 (EUR 256,983 in 2017);
- > interest on loans charged to Group companies in the amount of EUR 922,533 (EUR 885,927 in 2017);
- > income from a discount in the amount of EUR 2,202,781 under the agreement on the assignment of claims for consideration concluded on 12 June 2018 between Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. and two banks (of which: a discount of EUR 1,680,430 in connection with the payment of the first instalment for receivables on 17 August 2018 and a discount of EUR 522,351 on the non-current portion of receivables as at 31 December 2018, which falls due for payment in 2021; see note 6.6.1.5); and
- > bank fees for the organisation and management of the purchase of receivables in the amount of EUR 376,743.

6.6.2.8 Finance costs

in EUR	2018	2017
Finance costs from impairments and write-downs of financial assets at other companies	2,017,583	0
Finance costs from loans from Group companies	497,475	3,433,775
Finance costs from bank loans	878,337	521,718
Finance costs from other financial liabilities	3,754,695	3,753,428
Total finance costs from financial liabilities	5,130,507	7,708,921
Finance costs from operating liabilities to Group companies	57,122	77,524
Finance costs from trade payables and liabilities from bills of exchange	2,432	601
Finance costs from other operating liabilities	2,294	20,043
Total finance costs from operating liabilities	61,848	98,168
Total	7,209,938	7,807,089

Finance costs from impairments and write-downs of financial assets comprises expenses from the sale of a 3% participating interest in three Emonika companies (based on the court-brokered settlement of 21 December 2018).

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 497,475 (EUR 702,236 in 2017); and
- > expenses vis-a-vis banks and others, which in terms of content are primarily:
 - > expenses from the revaluation of financial liabilities (exchange rate differences) in the amount of EUR 1,060,321 (EUR 257,631 in 2017),
 - > interest on loans from banks in the amount of EUR 878,337 (EUR 521,718 in 2017) and from EUROFIMA in the amount of EUR 338,151 (EUR 364,135 in 2017),
 - > expenses from a discount on the assignment of claims for consideration in the amount of EUR 2,202,781 (based on the agreement of 12 June 2018 between Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. and two banks),
 - > expenses in connection with derivatives in the amount of EUR 116,504 (EUR 3,099,212 in 2017), and
 - > interest as the result of an actuarial calculation in the amount of EUR 36,930 (EUR 32,299 in 2017).

6.6.2.9 Corporate income tax

in EUR	2018	2017
Current tax	0	0
Deferred tax	-3,108	-394,297
Total taxes	-3,108	-394,297
Pre-tax profit	20,963,650	5,518,584
Tax calculated at effective tax rate	3,983,094	1,048,531
Tax from decrease in revenues	-3,515,371	-1,594,378
Tax from decrease in expenses	145,775	194,898
Tax from increase in expenses	-15,460	-5,108
Tax from increase in tax base	175,501	79,558
Tax from tax allowances	-773,538	0
Tax credits	0	276,499
Total taxes	-3,108	-394,297
Effective tax rate	-0.01	-7.14

The valid corporate income tax rate was 19% in Slovenia in 2018 and 2017.

6.6.3 Transactions with related parties

The table below presents transactions with Group companies and associates:

2018	in EUR	Sales	Purchases	Loans received	Loans granted
SŽ-Tovorni promet, d. o. o.		5,359,809	97,734	189,955,383	10,399,709
SŽ-Potniški promet, d. o. o.		4,831,490	163,692	296,323,939	2,033
SŽ-Infrastruktura, d. o. o.		9,084,441	843,662	58,549,541	73,559,141
SŽ-VIT Ljubljana, d. o. o.		4,172,937	480,025	0	91,400,079
SŽ-ŽIP, Storitve, d. o. o.		836,826	1,647,015	2,582,463	14,807,460
SŽ-ŽGP Ljubljana, d. d.		812,003	27,309	0	9,230,138
Prometni institut Ljubljana, d. o. o.		146,555	211,229	986,917	0
SŽ-Železniška tiskarna Ljubljana, d. d.		9,567	40,035	2,754	0
Fersped, d. o. o.		102,280	43,118	9,893,265	3,521,630
VV-LOG, d. o. o.		62,938	0	3,541,842	0
Kamnolom Verd, d. o. o.		4,537	0	0	0
SŽ-ŽIP, d. o. o., Croatia		91,597	9,406	0	0
Group companies		25,514,980	3,563,225	561,836,104	202,920,190
Terme Olimia, d. d.		0	22,524	0	0
Associates		0	22,524	0	0
Total associates		25,514,980	3,585,749	561,836,104	202,920,190

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

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 December 2018	31 December 2017
Balance of current trade and other operating receivables	3,399	10,659
Balance of current trade and other operating liabilities	17,422	17,336

in EUR	2018	2017
Transport – receivables	26,491	27,929
Transport – liabilities	240,721	210,742

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%.

Gross earnings of groups of persons

The earnings of members of the Management Board and supervisory bodies are presented in point 2.3.3 for Slovenske železnice, d. o. o.

6.6.4 Events after the accounting period

An increase in the share capital of Slovenske železnice, d. o. o. in the amount of EUR 154,255,500 was entered in the companies register on 11 January 2019, bringing that company's total share capital to EUR 359,529,921 as at 11 January 2019.

An increase in the share capital of SŽ-Potniški promet, d. o. o. in the amount of EUR 154,255,500 was carried out by Slovenske železnice, d. o. o. on 5 February 2019.



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 Policy on the comprehensive management of risks within the Slovenske Železnice Group. A total of 89.31% of Slovenske železnice, d. o. o.'s credit portfolio vis-à-vis banks includes loans bearing a variable interest rate. However, 74.12% of the entire credit portfolio vis-à-vis banks is hedged using interest rate swaps, meaning those loans may be treated as fixed-rate loans.

Financial instruments bearing a variable interest rate	in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
Financial receivables		243,249,469	139,169,101
Financial liabilities		-437,339,792	-208,711,888
Net financial instruments bearing a variable interest rate		-194,090,323	-69,542,787

Financial receivables bearing a variable interest rate	in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
Financial receivables from Group companies		140,354,527	135,949,027
Financial receivables from others		102,894,942	3,220,074
Total financial receivables		243,249,469	139,169,101

Financial liabilities	in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
Financial liabilities to Group companies		98,919,622	87,068,877
Liabilities to banks from credit transactions (principal)		123,982,527	120,441,437
Liabilities arising from interest rate swaps		429,968	980,947
Other financial liabilities		214,007,675	220,627
Total financial liabilities		437,339,792	208,711,888

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 fixed interest rate:

in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
Total loans (principal)	13,250,000	0

Balance of loan liabilities (principal) with a variable interest rate:

in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
Total loans (principal)	110,732,527	120,441,437

Concluded interest rate swap (IRS) agreements:

in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
Total loans (principal)	82,076,923	92,846,154

Concluded IRS agreements by maturity:

Maturity	in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
10 September 2019		74,000,000	74,000,000
31 July 2019		8,076,923	18,846,154
Total loans (principal)		82,076,923	92,846,154

Liabilities for IRS at fair value:

in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
Total liabilities	429,968	980,947

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 287 thousand, 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

Slovenske železnice, d. o. o. likewise manages currency risk in accordance with the Policy on the comprehensive management of risks within the Slovenske Železnice Group. Slovenske železnice, d. o. o. is less exposed to currency risk, as the majority of the Company's transactions are in euros, while the number of transactions in other currencies is negligible. Thus, in practical terms, the Company is not exposed to currency risk in normal operations, except to some extent in financing.

A total of 76.89% of loans in Slovenske železnice, d. o. o.'s credit portfolio are denominated in euros, while 23.11% 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		Trade receivables	Loan liabilities (curr. and non-curr. – principal)	Trade payables
31 December 2018	EUR	3,173,426	95,326,923	4,509,937
	CHF		28,655,604	
	HRK	7,999	0	25
31 December 2017	EUR	6,431,460	92,846,154	5,999,588
	CHF	0	27,595,283	2,422
	HRK	7,225	0	17,086

Concluded FX forward contracts:

in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
NLB, d. d.	28,655,604	27,595,283

Concluded FX forward contracts by maturity:

Maturity	in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
25. september 2020		28,655,604	27,595,283

Concluded FX forward contracts by fair value:

Fair value FX Forward transaction:	in EUR	Balance as at 31 December 2018	Balance as at 31 December 2017
NLB, d. d.		744,140	-145,602

Total effects of exchange differences on trade receivables and trade payables:

in EUR	2018	2017
Loan liabilities in CHF	-1,060,321	2,473,908
Other operating receivables and liabilities	-875	-17,862
Total expenses from foreign exchange differences	-1,061,196	2,456,046

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 2018, 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, a policy has been implemented on the regular management of its liquidity and solvency of both the Group and Slovenske železnice, d. o. o. 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 a cash-pooling agreement for the purpose of managing and balancing liquidity within the Group), and the securing and availability of the necessary short-term credit lines in the amount of EUR 50 million, which are regularly rolled over, ensured that the liquidity of the Slovenske Železnice Group was controlled and ensured in 2018, and that liquidity risk was well-managed. This also applies to Slovenske železnice, d. o. o.

Maturity breakdown of liabilities:

in EUR	Carrying amount of liabilities	Contractual cash flows				
		Liabilities	0 to 6 months	6 to 12 months	From 1 to 3 years	More than 3 years
Non-current financial liabilities	40,249,354	41,057,197			36,019,996	5,037,201
Non-current liabilities within the Group	45,285,628	46,583,060		1,168,078	44,246,904	1,168,078
Other non-current operating liabilities	5,892	6,684		1,671	5,013	
Current financial liabilities	83,733,173	84,831,076		84,831,076		
Current financial liabilities within the Group	118,226,503	119,526,995	119,526,995			
Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances)	159,420,404	159,420,404	159,420,404			
Balance as at 31 December 2018	446,920,954	451,425,416	278,947,399	86,000,825	80,271,913	6,205,279

in EUR	Carrying amount of liabilities	Contractual cash flows				
		Liabilities	0 to 6 months	6 to 12 months	From 1 to 3 years	More than 3 years
Non-current financial liabilities	109,672,206	110,881,686	0	0	110,881,686	0
Non-current liabilities within the Group	6,233,387	6,794,392	0	0	0	6,794,392
Other non-current operating liabilities	7,563	7,941	0	0	0	7,941
Current financial liabilities	11,970,805	12,449,637	0	12,449,637	0	0
Current financial liabilities within the Group	87,068,877	88,636,117	88,636,117	0	0	0
Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances)	6,019,096	6,019,096	6,019,096	0	0	0
Balance as at 31 December 2017	220,971,934	224,788,869	94,655,213	12,449,637	110,881,686	6,802,333

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 2018, 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 and 2018 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).

Maturity of trade receivables (gross amount):

in EUR	Maturity					Total
As at	Past-due					
	Non-past-due	up to 30 days	31 to 90 days	91 to 365 days	more than 365 days	
31 December 2018	2,888,684	96,968	68,653	55,765	71,355	3,181,425
31 December 2017	5,976,646	183,478	99,306	56,574	122,681	6,438,685

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 owner, which is reflected in part in stable dividends.

in EUR	2018	2017
Non-current financial liabilities	80,469,673	109,672,206
Current financial liabilities	356,870,119	99,039,683
Total financial liabilities	437,339,792	208,711,889
Total equity	307,342,908	289,420,112
Debt/equity	1.42	0.72
Cash and cash equivalents	156,253,339	21,197,320
Net financial liabilities	281,086,453	187,514,569
Net debt/equity	0.91	0.65

The debt-to-equity ratio was up, as funds transferred by the owner of Slovenske železnice, d. o. o. to the Company's transaction account at the end of December 2018 as an increase in capital were disclosed in current financial liabilities (EUR 154,255,500). The aforementioned increase in capital was entered in the companies register on 11 January 2019.

9. CARRYING AMOUNT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below only includes information regarding classification to the fair value hierarchy for assets and financial liabilities measured at fair value and for which fair value is disclosed.

in EUR	31 December 2018				
	Carrying amount	Fair value	1st level	2nd level	3rd level
Non-current financial assets					
Non-current financial receivables from Group companies	40,249,354	40,249,354			40,249,354
Investments in shares and participating interests measured at fair value through profit or loss that are not quoted on a regulated market	2,090,592	2,090,592			2,090,592
Non-current financial receivables from the sale of receivables	40,220,319	40,220,319			40,220,319
Other non-current financial assets	2,403,283	2,403,283			2,403,283
Current financial assets					
Current financial receivables from Group companies	100,105,173	100,105,173			100,105,173
Financial instruments measured at fair value through profit or loss that are not quoted on a regulated market	744,140	744,140			744,140
Current financial receivables from the sale of receivables	55,317,200	55,317,200			55,317,200
Other current assets	4,210,000	4,210,000			4,210,000
Non-current financial liabilities					
Non-current financial liabilities to Group companies	40,220,319	40,220,319			40,220,319
Liabilities from loans	40,249,354	40,249,354			40,249,354
Current financial liabilities					
Current financial liabilities to Group companies	118,226,503	118,226,503			118,226,503
Liabilities from loans	83,733,173	83,733,173			83,733,173
Liabilities for interest-rate swaps	429,968	429,968			429,968
Liabilities from recapitalisation	154,255,500	154,255,500			154,255,500
Other financial liabilities	224,974	224,974			224,974

in EUR	31 December 2017				
	Carrying amount	Fair value	1st level	2nd level	3rd level
Non-current financial assets					
Non-current financial receivables from Group companies	111,043,576	111,043,576			111,043,576
Investments in shares and participating interests measured at fair value through profit or loss that are not quoted on a regulated market	4,117,175	4,117,175			4,117,175
Other non-current financial assets	2,403,283	2,403,283			2,403,283
Current financial assets					
Current financial receivables from Group companies	24,905,451	24,905,451			24,905,451
Other current assets	816,791	816,791			816,791
Non-current financial liabilities					
Liabilities from loans	109,672,206	109,672,206			109,672,206
Current financial liabilities					
Current financial liabilities to Group companies	87,068,877	87,068,877			87,068,877
Liabilities from loans	10,769,231	10,769,231			10,769,231
Liabilities for interest-rate swaps	980,947	980,947			980,947
Other financial liabilities	220,627	220,627			220,627

Slovenske železnice, d. o. o. did not record any transitions between fair value levels in 2018. Slovenske železnice, d. o. o. did not include operating receivables and liabilities in the above table, as they are both primarily of a short-term nature, meaning they are typically settled within 180 days.

> **AUDIT REPORT OF SLOVENSKE ŽELEZNICE, D. O. O. FOR 2018**

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**INDEPENDENT AUDITOR'S REPORT
to the owners of SLOVENSKE ŽELEZNICE, d. o. o.**

Opinion

We have audited the enclosed financial statements of Slovenske železnice, d. o. o. (hereinafter: the Company), which include the statement of financial position as at 31 December 2018, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the enclosed financial statements present fairly, in all material aspects, the financial position of the Company as at 31 December 2018, and its operating results and cash flows for the year then ended, in accordance with the International Financial Reporting Standards, as adopted by the European Union (hereinafter: the IFRS).

Basis for our opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities on the basis of those standards are described in detail in the paragraph *Auditor's responsibilities for the auditing of the consolidated financial statements*. In accordance with the Code of Ethics for Accounting Professionals issued by the International Ethics Board for Accountants (IESBA Code) and the ethical requirements relating to the auditing of financial statements in Slovenia, we hereby confirm our independence from the Company and our fulfilment of all other ethical obligations in accordance with those requirements and the IESBA Code. We believe that the auditing evidence obtained is a sufficient and appropriate basis for our opinion.

Other information

The Management Board is responsible for other information. Other information comprises information presented in the annual report, except the financial statements and the auditor's report regarding those statements.

Our opinion regarding the financial statements does not relate to the other information referred to above, and we do not provide any assurance whatsoever in connection with that information.

In connection with our audit of the financial statements, it is our responsibility to interpret other information and assess whether it fails to conform materially to the financial statements, legal requirements or with the knowledge we have obtained through our audit, and whether that information is otherwise materially misstated. If on the basis of our work we conclude that there exists a material misstatement of other information, we are obliged to report on such circumstances. In that regard and based on the procedures described above, we hereby report that:

- > other information is in line, in all material aspects, with the financial statements;
- > other information has been compiled in accordance with the applicable laws and regulations; and
- > we did not identify any material misstatements based on our knowledge and understanding of the Company and its environment, which we gained during our audit.

Responsibility of the Management Board, Supervisory Board and Audit Committee with regard to the financial statements

The Management Board is responsible for the compilation and fair presentation of these financial statements in accordance with the IFRS, and for the internal controls that it deems necessary to enable the compilation of financial statements that are free from material misstatements due to fraud or error.

In compiling the Company's financial statements, the Management Board is responsible for assessing the ability of the Company to continue functioning as a going concern, for the disclosure of matters associated with the Company as a going concern as the basis for accounting, unless the Management Board intends to liquidate or wind up the Company, or if it has no real choice between one or the other.

The Supervisory Board and audit committee are responsible for control over the financial reporting process within the Company, and for approving the audited annual report.

Auditor's responsibility for the auditing of the financial statements

Our objectives are to obtain acceptable assurance as to whether the financial statements as a whole are free from material misstatements due to fraud or errors, and to issue an audit report that includes our opinion. Acceptable assurance means a high degree of assurance, but no guarantee, that our audit, conducted in accordance with the relevant auditing rules, will uncover all material misstatements should they exist. Misstatements may be the result of fraud or errors, and are deemed material if it is reasonable to expect that they may, individually or collectively, impact the business decisions adopted by users on the basis of the financial statements.

We make use of professional assessments and maintain professional scepticism in conducting audits in accordance with auditing rules. We also:

- > Identify and assess the risks associated with material misstatements in the financial statements due to fraud or errors, formulate and implement audit procedures as a response to assessed risks, and obtain sufficient audit evidence as the basis for our opinion. The risk that we will fail to uncover material misstatements due to fraud is greater than the risk associated with such an error, as fraud may include secret agreements, forgery, intentional omissions, erroneous interpretations or the avoidance of internal controls.
- > Obtain understanding of internal controls relevant to auditing for the purpose of formulating audit procedures appropriate to the environment, but not for the purpose of expressing an opinion regarding the effectiveness of the Company's internal controls.
- > Assess the appropriateness of applied accounting policies, as well as the acceptability of accounting estimates and the associated disclosures by the Management Board.
- > Adopt a decision on the acceptability of the Management Board's application of the assumption of the Company as a going concern as an accounting basis, taking into account audit evidence obtained regarding the existence of significant uncertainties with regard to events or circumstances that raise doubts about the ability of the organisation to continue operating as a going concern. Should we adopt a decision on the existence of significant uncertainties, we are responsible for using the auditor's report as a vehicle to raise concerns regarding the appropriateness of disclosures in the financial statements, and for amending our opinion if those disclosures are inappropriate. The auditor's decisions are based on audit evidence obtained up to the date of issuance of the auditor's report. However, subsequent events or circumstances may cause an organisation to cease functioning as a going concern.
- > Assess the general presentation, structure and content of the financial statements, including disclosures, and assess whether the financial statements present transactions and events in such a way that a fair presentation is achieved.

We notify the Supervisory Board and audit committee, *inter alia*, about the planned scope and timing of the audit, and about significant audit findings, including the lack of internal controls that we identified during our audit.

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Katarina Kadunc
Certified auditor

Ljubljana, 20 May 2019

*For signature please refer to the
original Slovenian version.*

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TRANSLATION ONLY - SLOVENIAN ORIGINAL PREVAILS

Annual Report
Slovenske železnice, d. o. o. and Slovenske železnice Group
for 2018

Issued by:
Slovenske železnice, d. o. o., Kolodvorska 11, 1506 Ljubljana

Text:
Slovenske železnice, d. o. o.

Photography:
Miško Kranjec and Slovenske železnice archives

Composition and typesetting:
Consensus, d. o. o.

Translation:
Amidas, d.o.o.

Design:
Klemen Kunaver

Separation and printing:
SŽ-Železniška tiskarna Ljubljana, d. d.

2018

