



ANNUAL REPORT

2019

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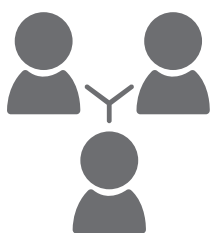
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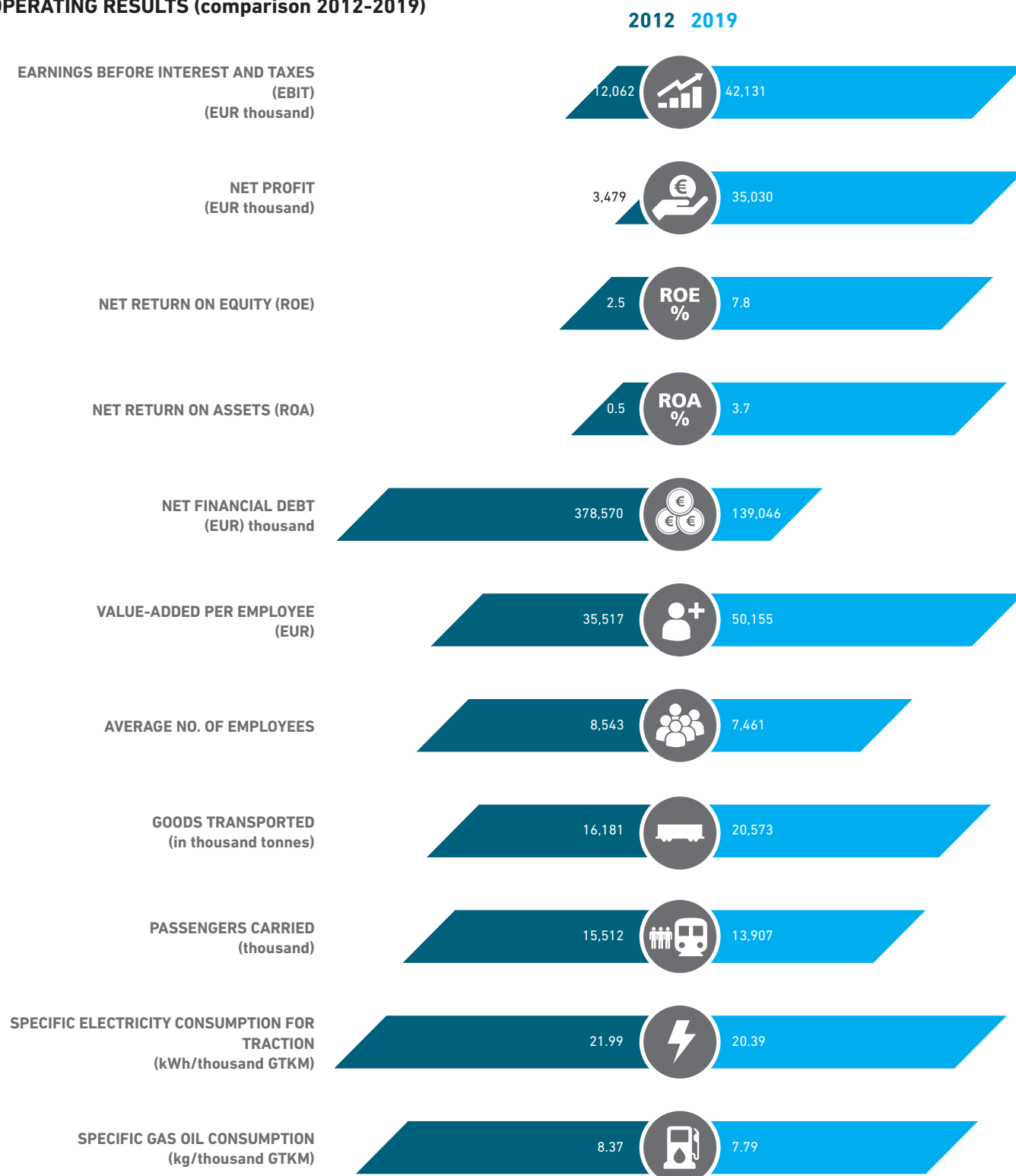


ABOUT SLOVENSKE ŽELEZNICE



> KEY PERFORMANCE INDICATORS OF THE SLOVENSKE ŽELEZNICE GROUP FOR 2019

OPERATING RESULTS (comparison 2012-2019)



SIGNIFICANT EVENTS IN 2019

January

The share capital of Slovenske železnice, d. o. o. was increased by EUR 154.3 million and the Company's new Articles of Association were adopted (change entered in the companies register on 11 January 2019).

The Forum Train Europe (FTE) conference on 2019–2020 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.

Silvo Berdajs was elected as employee representative on the Supervisory Board of SŽ Infrastruktura, d. o. o.

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. 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

Slovenske železnice, d. o. o. undertook to increase the share capital of SŽ-Potniški promet, d. o. o. by EUR 154.3 million and adopted new Articles of Association of SŽ-Potniški promet, d. o. o. (change entered in the companies register on 5 February 2019).

Slovenske železnice, d. o. o. 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.

SŽ-Potniški promet, d. o. o. and the Trieste-based bus company Trieste Trasporti signed an agreement that serves as the basis for establishing the sale of an integrated ticket on the Ljubljana-Trieste line, which will link

rail transport from Ljubljana to Opicina with bus transport 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. That annex defined the value and scope of services planned for 2019.

Representatives of SŽ-Tovorni promet, d. o. o. attended the international Transport and Logistics of South-East Europe and the Danube Region conference held in Belgrade. The conference was attended by more than 400 participants from South-East Europe, other European countries, Turkey, Russia, China and elsewhere. The company received the Brand Leader Award 2019, which 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.

April

Slovenske železnice, Prometni institut Ljubljana and the International Union of Railways (UIC) hosted the general meeting of the international initiative for development and innovation in the railway sector SEESARI (South-East Europe Strategic Alliance for Rail Innovation). They discussed the signing of an agreement between SEESARI and Shift2Rail and the planned related activities. The draft plan for SEESARI was presented, and possibilities and plans were analysed for forming a separate group within the UIC.

The modernisation of the Kočevje line was completed, so that freight transport was re-established on the renovated section between Kočevje and Ribnica.

This year's first Optima Express car shuttle ran from Villach, Austria to Edirne, Turkey.

The members of the Slovenske železnice Olimpija ice hockey club, whose main sponsor is Slovenske železnice,

d. o. o., became the first and only Slovenian team to win the title of champion of the Alps Hockey League. They also became national champions.

May

Darja Kocjan, MSc became Managing Director of SŽ-Potniški promet, d. o. o.

One hundred participants in the Start Up Train project travelled to Sofia via the Optima Express car shuttle, which connects Villach and Ljubljana with Edirne, Turkey. This was the most exclusive entrepreneurial event of the year, at which young people had the opportunity to develop their ideas. It was attended by 50 future entrepreneurs and 30 experienced business mentors. At the end they presented their ideas in the Bulgarian capital to the investment fund Launchub.

We began the season of heritage train rides on the Bohinj line. The ride on the heritage train on the Bohinj line, with its entertainment programme and parallel programme in Brda, is one of Slovenia's highest-visibility tourism products at European level.

We hosted the 23rd round table of internal auditors of European rail companies, which was attended by 27 internal auditors from 14 countries. The main purpose of the round table was the exchange of experiences, best practices, information and ideas in the area of internal auditing.

The manager of the public rail infrastructure, SŽ-Infrastruktura, d. o. o., concluded an agreement on access to the public rail infrastructure, together with the prescribed accompanying agreements with two new operators: InRail S.p.A. and Primol-Rail, d. o. o.

The Slovenian government concluded a concession agreement with 2TDK, Company za razvoj projekta, d. o. o. for the construction and operation of a second track on the Divača–Koper line.

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 2018.

SŽ-Potniški promet, d. o. o. signed an agreement on the purchase of 26 additional passenger cars with a total value of EUR 151 million, excluding VAT.

SŽ-Tovorni promet, d. o. o. received the first of twelve shunting locomotives being reconditioned at the SŽ-VIT workshop in Maribor.

On 27 May 2019, SŽ-Infrastruktura, d. o. o. (the manager of the public rail infrastructure) received a new safety authorisation for the period from 1 June 2019 to 31 May 2024.

June

Since 1 June 2019, integrated public transport services, which allow travel by train or bus using a single ticket, have also been available to holders of transferable monthly and annual passes.

In cooperation with the local government, we held the official opening of the new KRskOLESOM bike rental station at the Kranj railway station, thus offering passengers expanded mobility capacities as part of the provision of "last mile" services.

As part of our cooperation with the Ljubljana Festival, to which we invite passengers to take the train, we participated in the festival programme with an appearance by the Slovenian Railways Brass Band at a concert at Križanke in Ljubljana.

In May and June, pilot GSM-R devices were installed in six locomotives, for which SŽ Tovorni promet, d. o. o. has already obtained an operating permit.

SŽ-Tovorni promet, d. o. o. took delivery of a container manipulator and a terminal tractor.

SŽ-Tovorni promet, d. o. o. presented its services at the Transport Logistics exhibition in Munich, the largest European transport and logistics event. Slovenske železnice, d. o. o. and SŽ-Tovorni promet, d. o. o. signed a letter of intent with the German rail company DB Cargo AG in order to increase cooperation in the areas of transport and logistics services, research and development, and

training of operational staff for work in Germany at the Slovenske železnice training centre.

Six tank cars were derailed in the Hrastovlje tunnel on the Ljubljana–Koper line on 25 June. Approximately ten thousand litres of kerosene leaked uncontrollably from two of the damaged tankers, which continues to pose a threat to the groundwater. Slovenske železnice employees managed to repair the line in an exceptionally short time and in extremely inclement weather conditions. Traffic was disrupted for 93.8 hours.

July

The Slovenian government adopted a resolution to conclude Annex 3 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 with SŽ-Potniški promet, d. o. o. That annex defined the value and scope of services to be provided by the provider of services under the PSO for the period 1 January 2019 to 31 December 2019.

The Slovenian Environment Agency issued a decision that monitoring the water in the area of Hrastovlje, where the train derailment led to the kerosene spill, shall be taken over by SŽ-Infrastruktura, d. o. o.

August

In its role as founder of Slovenske železnice, d. o. o., Slovenski državni holding, d. d. was briefed on the annual report of Slovenske železnice, d. o. o. and the Slovenske železnice Group for 2018, adopted a resolution on the use of distributable profit as at 31 December 2018, conferred official approval on the members of the Management Board and Supervisory Board of Slovenske železnice, d. o. o., and appointed Deloitte revizija, d. o. o. to audit the financial statements for the period 2019 to 2021.

Amendments to the Articles of Association of Slovenske železnice, d. o. o. were adopted.

SŽ-Potniški promet, d. o. o. and the Italian bus company Trieste Trasporti signed an annex to their agreement on integration of various transport types with both

cross-border and local public transport services. They also continued online sales of CONNECT2CE passes, with which passengers first travel by rail to Opicina, and then by Trieste Trasporti buses to the Trieste bus station and back.

The manager of the public rail infrastructure, SŽ-Infrastruktura, d. o. o., signed an agreement on access to the public rail infrastructure, together with two new operators: Train Hungary Magánvasút Kft and Ten Rail, železniški tovarni promet, d. o. o.

The second part of the 2018/2019 timetable entered into force.

A public procurement contract was published in order to obtain an external contractor for the project of job evaluation, overhauling the wage system and drafting an HR plan within the Slovenske železnice Group.

September

At its inaugural session on 18 September, the Supervisory Board of Slovenske železnice, d. o. o., comprising Bojan Brank, Aleksander Nagode, Aleksander Mervar, Adam Vengušt, Igor Janez Zajec, Tanja Bolte, Silvo Berdajs, Zlatko Ratej and Jože Pavšek, elected Bojan Brank as chair and Aleksander Nagode as deputy chair. An audit committee and a human resources committee were also appointed at the session.

In Koper, representatives of RFC (Rail Freight Corridor) 11 and Slovenske železnice held a conference on the opening of the Amber corridor, which connects Koper to Warsaw. It began operating in the middle of January with the publication of a train schedule. The conference was attended by key representatives of the European Union, ministerial representatives of the countries the corridor runs through, carriers and other stakeholders.

During Rail Action Week, an international campaign to increase rail safety, employees in the Slovenske železnice Group and the Police in cooperation with Railpol increased their surveillance of unlawful and prohibited crossing of railway tracks outside of the official crossings, crossing railway tracks at level crossings and breaches of the internal rules on trains and at stations.

At the Divača station we held a large-scale training exercise, the "Divača Rescue Training Exercise", which included training in civil protection and disaster relief in the event of a train accident, and which focused on the rescue operations and elimination of the consequences of the disaster. The exercise was organised and participated in by the professional staff of Slovenske železnice, eight fire departments under the Karst Firefighting Association, the Police and the Emergency Medical Assistance Department.

The commercial building of Fersped, d. o. o. in Koper was renovated (energy rehabilitation and reconstruction).

October

In accordance with indent 1 of paragraph 2 of Article 16 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 2020, including a forecast of operations for the period 2021–2022.

In October, the audit committee of Slovenske železnice, d. o. o.'s Supervisory Board began the process of appointing the Director General of Slovenske železnice, d. o. o. In December, it proposed that the Supervisory Board appoint Dušan Mes to a new four-year term of office, effective 24 March 2020.

A joint conference was held in Ljubljana among the neighbouring railway operators SŽ, ÖBB and Trenitalia on maintaining the established international route by direct train between Ljubljana and Trieste and the establishing of a route to Venice by extending the route of the EC Emona train which runs between Vienna and Ljubljana.

A resolution was adopted to introduce a new two-part network schedule due to the upgrading of the section between Zidani Most and Celje.

The government drew up the text of a draft Act Regulating the Guarantees of the Republic of Slovenia, through which it granted a government guarantee to 2TDK, d. o. o.

in order to fund the construction of the second track on the Divača–Koper line up to a total of EUR 417 million.

At the beginning of October, representatives of SŽ-Tovorni promet attended a workshop in Belgrade called Regional Rail Connectivity in the Danube Macro-Region, which was organised as part of the Danube Strategy which is being coordinated by the Ministry of Infrastructure of the Republic of Slovenia together with the United Nations Economic Commission for Europe (UNECE). The conference was attended by high-level representatives of ministries, carriers, railway infrastructure administrators, terminal operators and ministries from all of the countries in the Danube region.

November

As part of the regular training courses that Slovenske železnice holds with the Police, we held an exercise with a special police unit on various passenger trains in Ljubljana. The members of the special police unit received training in emergency train boarding, tested the operation of the doors and other systems and tested the strength of the glass windows on ICS trains.

In London we attended the Digital Rail Revolution conference, at which experts from the most influential companies in the rail sector meet once a year. This year was the first year that representatives of Slovenske železnice attended.

Slovenske železnice hosted a meeting of the G4 Directors General in Ljubljana. The G4 Group is a regional interest group of the International Union of Railways (UIC) and the Community of European Railway and Infrastructure Companies (CER).

In the 20th competition for best annual report for 2018, organised by Akademija Finance, we received a plaque for best annual report for the analysis of operations and plans for 2018.

December

In December, a heritage train toured around Slovenia, on which Santa Claus visited children and handed out gifts.

The new schedule came into force on December fifteenth.

At its fifth regular session, the Supervisory Board appointed Dušan Mes to his third four-year term as the CEO of the Slovenske železnice Group.

Slovenske železnice participated in the Chain of Good People event for the second year in a row. We took 200 children and their parents on a heritage train trip to the Postojna Cave.

In research conducted by MojeDelo.com and the Swedish firm Universum Global in 2019, Slovenske železnice was awarded the title of Most Reputable Employer in the logistics and passenger transport sector, and ranked in the Top 10 companies with the best overall reputations amongst all sectors.

SIGNIFICANT EVENTS AFTER THE END OF THE 2019 FINANCIAL YEAR

January

SŽ-Tovorni promet, d. o. o. sold the 'SŽ-Express' small consignment brand on 1 January 2020.

The upgrading of sections of the Rimske Toplice–Laško and Laško–Celje lines was completed.

SŽ-Potniški promet, d. o. o. had an exhibit at the Alpe Adria fair in Ljubljana.

February

SŽ-Potniški promet, d. o. o. signed a cooperation agreement with Croatian Railways as part of the European project CONNECT2CE.

The renovation works on the right-hand track on the line between Zidani Most and Rimske Toplice were completed at the beginning of February.

Igor Janez Zajec, member of the Supervisory Board of Slovenske železnice, d. o. o., and former Director General of the aforementioned company, passed away.

March

On 11 March 2020, the first new diesel train arrived at the Hodoš station.

Pursuant to the Republic of Slovenia decree, all traffic to and from Italy was temporarily suspended on 11 March. From that day onward, passenger trains ran only to and from the Sežana station.

The new passenger tariff entered into force.

A pandemic and epidemic were declared due to the outbreak of the COVID-19 coronavirus disease.

On 16 March 2020, the Slovenian government issued a decree stopping all public rail transport in the country.

More information regarding events in connection with COVID-19 can be found in the financial report in section 6.6.4 Events after the end of the accounting period.

April

Tomaž Kraškovic was appointed to a new four-year term of office as member of the Management Board and Director.

May

Public transport was re-established on 11 May 2020.

June

A shunting locomotive and electric wagon collided at the Ljubljana train station on 4 June. A great deal of material damage was incurred. There were no injuries.

Bojan Brank, Chairman of Supervisory Board of Slovenske železnice, d. o. o., passed away. The Supervisory Board lost two members with extensive knowledge in the area of logistics in 2020.

Deputy Chairman Aleksander Nagode took temporary control of the Supervisory Board.

Melita Malgaj was appointed to the Slovenske železnice Supervisory Board.

Annex 1 to the agreement of 2018 was concluded between the contractual partners Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. and the bidder Stadler Polska Sp. Z. o. o. and STADLER Bussnang AG. The scope of the additional unpaid benefits was set out

in the annex, which was Slovenske železnice, d. o. o.'s objective. Despite the tendered price and the status of the public contract award procedure, the supplier was prepared to offer additional benefits amounting to EUR 30 million due to its perception of the importance of entering the Balkan market in the area of passenger and freight transport.





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> STATEMENT OF THE DIRECTOR GENERAL

Dear founders, members of the Supervisory Board, business partners and other stakeholders,

Behind us is another in a series of successful years, marked by good short-term performance, numerous successful strategic activities aimed at the continued growth of the Group, together with increased activities in the area of computerisation, digitalisation and a complete overhaul of business processes.

New records and increased user satisfaction

We finished 2019 with EBIT of EUR 42 million, or EUR 35 million in profit with a 7.8% return on equity. This is 3.5 times the EBIT, 10 times the profit and 3 times the return with nearly one thousand fewer employees compared to 2012, when I assumed the leadership of the company and the Group.

All of these record figures are the result of a well-designed strategy and its successful implementation, timely responses to challenges, and a constructive dialogue with our social partners and with the state as the owner, which believed in our ambitious plans.

We are aware that all of these results are not directly reflected in an increase in the level of our services, but the fact that our user satisfaction surveys (in both freight and passenger transport, as our two key activities) are already showing positive developments, and that the largest movements are occurring in areas where we have a direct impact, indicates that we are on the right path.

Management of challenges in freight and passenger transport

We saw clear signs of the cooling economy in the freight transport segment during the final quarter of the year. In addition to major infrastructure obstacles, operating conditions tightened further due to the aggressive approaches of other railway operators, competition from ports and road transport providers, and thus a significant drop in prices. Although we recorded a slight increase in the volume of goods carried relative to 2018 in those conditions, we were unable to fully offset the drop in revenues. The situation is driving us to accelerate all activities for the



successful completion of the strategic partnership project, in the scope of which we are expecting major synergies for further growth and development in this area.

We also face stiff competition in passenger transport. The main competitors in inland transport are private and public road transport, and low-cost airlines and low-cost bus service operators in international transport. The main reason for the weaker competitive position of rail transport lies in the fact that the rail infrastructure that we use still lags significantly behind the comparable infrastructure of more developed areas of Europe, despite accelerated investment in recent years. Despite the above-described problems, we increased the number of passengers in 2019 through various innovative marketing activities, which resulted in higher revenues and improved operating results. Extensive investments in new rolling stock, the digitalisation of sales channels and the integration all public transport mean an additional guarantee for the increased attractiveness of travel by train and thus for the realisation of ambitious long-term objectives in this area.

RECORD FIGURES ARE THE RESULT OF A WELL-DESIGNED STRATEGY AND ITS SUCCESSFUL IMPLEMENTATION, TIMELY RESPONSES TO CURRENT CHALLENGES, AND A CONSTRUCTIVE DIALOGUE WITH OUR SOCIAL PARTNERS AND WITH THE STATE AS THE OWNER, WHICH BELIEVED IN OUR AMBITIOUS PLANS.

Key activities implemented for further growth

Once again, 2019 was marked by important activities for the further growth and development of the Group. Most worthy of note amongst those activities are the following:

- > the strategic partnership project in the freight transport segment, which is in its final phase;
- > M&A activities with the aim of integrating smaller domestic logistics service providers into the Slovenske železnice Group;
- > the upgrading of freight and passenger transport rolling stock;
- > computerisation and digitalisation;
- > business process re-engineering,
- > the start of activities in the job evaluation project, the redesigning of the wage system and the drafting of an HR plan within the Slovenske železnice Group;
- > the establishment of a new organisational unit to upgrade the system for charging mutual services within the Group; and
- > the further development of key support functions (internal auditing, risk management, compliance and the project office).

Ensuring transparent operations and protecting the Company's reputation

Slovenske železnice was one of the first domestic non-financial organisations in Slovenia to establish compliance and risk management functions as stand-alone organisational units, as well as a whistleblowing function for reporting breaches of corporate integrity. The transparency of operations is improved significantly with the development of those functions. We protect Company's reputation, maintain a proper working relationship with the media and provide well-argued responses to their statements.

The positive reputation of the Slovenske železnice Group is confirmed by the many recognitions we received in 2019, including the title of Reputable Employer in the logistics and passenger transport sector, ranking in the top 10 companies with the best overall reputations amongst all sectors, and the title of Most Respected Employer, awarded by the MojeDelo.com employment portal.

We also received a plaque for best annual report for the analysis of operations and plans for 2018.

A new term of office with a clear strategy

In December, the Supervisory Board approved a new term of office (my third) to lead the Company and thus the entire Slovenske železnice Group. For me, this represents recognition of my previous work and an obligation to continue with the successful realisation of clear and ambitious strategic objectives. Growth in the volume of freight transported on European corridors that pass through Slovenia, to become the largest operator in integrated public transport in Slovenia and the region, to ensure the mobility of the population through the effective and reliable management of integrated public transport, to effectively and reliably maintain and manage the rail infrastructure and the control of rail traffic on the infrastructure, to become a reliable and effective provider of maintenance services for rolling stock and train traction services, and to develop effective support activities within the Group and other sustainable development activities remain the key strategies to which all ongoing activities will be subordinated.

Ambitious plans for 2020, despite difficult working conditions

The COVID-19 pandemic will leave a significant mark on our operations in 2020. We assess that we responded appropriately to the pandemic and used that time to complete certain tasks that would have otherwise been difficult in the course of regular operations due to extensive ongoing activities.

The business plan for 2020 will be amended, but will remain ambitious. Our key tasks will include:

- > the upgrading of rolling stock with the delivery of the first new passenger cars;
- > the completion of the strategic partnership project in the freight transport segment;
- > the continuation of M&A activities to accelerate the integration of public rail and bus transport services;
- > the continued computerisation and digitalisation of business processes;

- > organisational business process re-engineering through staff restructuring (reduction of the number of Group employees by more than 700 via an employee redundancy programme);
- > the start of the comprehensive redesigning of the wage system with a selected foreign consultant with the requisite references in this sector; and
- > the upgrading of the internal pricing system via a special organisational unit with the aim of defining clear criteria for charging mutual services.

Belief in the continuity of management

I would like to continue my new term of office with the previous management team, with minor changes. At the beginning of the year, we sent all directors of subsidiaries and department heads at the controlling company a draft of selected long-term financial and non-financial objectives for the new term of office. After coordination, those objectives will serve as the basis of our

cooperation. During the new term of office, we would like to place increased emphasis on the succession policy at all organisational levels, as the continuity of management (with minor changes) has led to important results and is of particular importance in the period of increased uncertainty that we are now entering.

We believe that we are prepared for new challenges and that we will become the most advanced provider of integrated public transport services and a reliable partner for other logistics services through all planned activities.

In the hope that we will continue to write new success stories together, I would like to thank all stakeholders for their constructive cooperation.

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 2019. 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 2019.

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 Slovenski državni holding, d. d. 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 5 August 2020.

Dušan Mes
Director General



Tomaž Kraškovič
Member of the Management Board



Nina Avbelj Lekić
Workers' Director



Nina Avbelj Lekić



Dušan Mes



Tomaž Kraškovic



> 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 comprised six members until 30 August 2019, four of whom were appointed and recalled by the founder, while the remaining two members were appointed and recalled in accordance with the Workers' Participation in Management Act. On 29 August 2019, Slovenski državni holding in the role of founder adopted a resolution on the amendment of the Articles of Association of Slovenske železnice, d. o. o., pursuant to which the Supervisory Board shall include nine members, where the ratio between the representatives of the founder and the employee representatives shall remain unchanged. By resolution of the founder, on 29 August 2019 the members of the Supervisory Board were also appointed for a new four-year term of office (12 September 2019 – 11 September 2023).

The Supervisory Board functioned in the following composition in 2019:

- > 1 January to 11 September:
 - > appointed by the founder: Bojan Brank, Aleksander Nagode, Mitja Križaj and Jože Oberstar;
 - > appointed by the Works Council: Jože Pavšek and Zlatko Ratej;
- > 12 September to 31 December:
 - > appointed by the founder: Bojan Brank, Aleksander Nagode, Aleksander Mervar, Igor Janez Zajec, Adam Vengušt and Tanja Bolte;
 - > appointed by the Works Council: Silvo Berdajs, Jože Pavšek and Zlatko Ratej.

The leadership of the Supervisory Board was unchanged in 2019. The Supervisory Board was led for the entire year by Bojan Brank and his deputy, Aleksander Nagode.

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 its own sessions and at sessions of 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.

The Supervisory Board and the audit committee carried out a procedure of assessing the effectiveness of its work in accordance with the Manual for Assessing the Effectiveness of Supervisory Boards (Slovenian Directors' Association), and on the basis of the results and discussions adopted an action plan (development of introductory programme for new members of the Supervisory Board, publication of rules of procedure on the company's website, publication of statement of independence of the external member of the audit committee, succession plan, professional development, determination of criteria and profiles for selection of candidates).

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 2019.

The Supervisory Board held sixteen sessions in 2019, of which twelve were ordinary and four were correspondence. No extraordinary sessions were held in 2019. All sessions were held at the Company's registered office. Communications regarding the preparations for and convening of the sessions were conducted electronically.

All members of the Supervisory Board attended all the sessions held in 2019.

MOST IMPORTANT TOPICS OF SUPERVISORY BOARD SESSIONS IN 2019

Below we set out the key topics discussed by the Supervisory Board in the form of independent items on the agenda at its sessions in 2019, where if an individual topic was discussed in advance in committee, it was marked AC for audit committee or HRC for human resources committee:

- > the monitoring of the ordinary operations of the Company and Group in the form of regular reports in the scope of individual points on the agenda;
- > ongoing reporting:
 - > report on the implementation of the Supervisory Board's resolutions;
 - > report on work of the Supervisory Board's committees;
 - > information regarding current events with the Group (AC);
 - > current report on the Group's operating results (AC);
 - > report of the main project office regarding the status of strategic projects within the Group (AC);
 - > report on agreements published on the websites of Group companies in accordance with the Public Information Access Act (AC);
- > quarterly reporting:
 - > report on the Group's operating results (AC);
 - > report on risk management within the Group, with a separate report on financial risks (AC);
 - > register of internal and external auditing recommendations (AC);
 - > overview of changes to received and filed lawsuits (AC);
 - > report on transactions with suppliers who generate more than 50% of their revenues with Group companies (AC);
 - > report on the review of suppliers from which Group companies hire contracted labour (AC);
- > semi-annual reporting:
 - > report on the work of the Internal Audit Department during the first half of the year, including a revised work plan (AC);
 - > report on the sale of the Group's obsolete assets (AC);
 - > report on reports of suspected breaches of corporate integrity (AC);
- > annual reporting:
 - > report on the work of the Internal Audit Department for 2018 (AC);
 - > work plan of the Internal Audit Department for 2019, including an indicative long-term work plan for the period 2020 to 2021 (AC);
 - > work plan of the Internal Audit Department for 2020, including an indicative long-term work plan for the period 2021 to 2022 (AC);
 - > the 2020 work plan in the area of corporate integrity (AC);
 - > work plan of the personal data protection officer for 2020 (AC);
 - > letter to the management following the pre-audit of the financial statements for 2018 (AC);
 - > discussion of the unaudited report and confirmation[®] of the audited annual report of the Company and Group for 2018 (AC);
 - > letter to the management following the audit of the financial statements for 2018 (AC);
- > proposal to the founder on the appointment of an auditor of the financial statements of the Company and Group for the period 2019 to 2021 (AC);
- > presentation of the main strategic objectives and policies of the Slovenske železnice Group until 2024, and a proposal of the long-term development vision and modernisation of the public rail network in Slovenia;
- > decisions regarding investments and the monitoring thereof;
 - > the issue of consent for the signing of the agreement on the purchase of new diesel shunting locomotives;
 - > the issue of consent for the signing of the agreement on the purchase of new rolling stock for rail passenger transport based on the exercising of option from the first round of purchases;
 - > briefing on the amendments to the investment programme for the project to introduce stand-alone points of sale for tickets;
 - > briefing on the initiation of another public invitation to tender for the sale of the commercial building of the subsidiary Fersped, with the appertaining land;

- > ongoing monitoring of activities in the search for a strategic partner for SŽ-Tovorni promet, d. o. o. and the discussion of other proposed capital investments;
- > discussion of the draft strategy for managing the Group's strategic, non-strategic and development real estate, and the tasking of the Management Board with the verification of the feasibility of optimising the management of real estate based on the practices of other railways administrations;
- > the issue of consent to extend the guarantee line to short- and long-term external financing transactions and to the mutual financing transactions of Group companies;
- > monitoring of the implementation of corrective measures and recommendations of the Court of Audit based on the latter's report on the operational efficiency of Slovenske železnice with respect to mutual transactions between Slovenske železnice Group companies:
 - > ongoing reporting regarding the implementation of the corrective measures and recommendations of the Court of Audit (AC);
 - > information regarding the post audit report issued by the Court of Audit with respect to corrective measures (AC);
- > the upgrading of business processes:
 - > final report regarding training completed in the scope of the business process re-engineering project;
 - > reporting on activities in digitalisation programmes;
 - > report on the internal audit of the penetration test performed on the Group's information system (AC);
- > upgrading of the corporate governance system:
 - > completion of a self-assessment of the work of the Supervisory Board, and the drafting of an action plan for improvements thereto;
 - > supplementation of the rules of procedure of the Internal Audit Department (AC);
 - > supplementation of the Internal Audit Department's charter (AC);
 - > adoption of new rules of procedure of the audit committee (AC);
 - > the 2019 work plan in the area of corporate integrity (AC);
 - > the 2020 work plan of the audit committee (AC);
- > human resources:
 - > appointment and recall (chronological):
 - consent to the recall and appointment of the director of SŽ-Potniški promet, d. o. o. (HRC);
 - briefing on the appointment of the director of Kamnolom Verd, d. o. o. (HRC);
 - information regarding the recall of the representative with special power-of-attorney of SŽ-Potniški promet, d. o. o. (HRC);
 - consent to the appointment of the Director of SŽ-ŽIP, storitve, d. o. o. (HRC);
 - consent to the appointment of the Workers' Director of SŽ-VIT, d. o. o. (HRC);
 - appointment of the Company's Director General (HRC);
 - > information regarding average wages within the Group, and definition of the basis for the calculation of wages under individual contracts (HRC);
 - > performance criteria for setting the variable component of remuneration for 2019 (HRC);
 - > confirmation of payment of the variable component of remuneration to members of the Management Board for 2018, and the payment of the stimulative component of wages to employees on individual contracts;
 - > proposed change to the rules and elements for entering into individual contracts, and briefing on proposed changes to the Rules on the Internal Organisation of Companies and the Group; and
 - > employee development strategy within the Group (HRC).

The Company's Management Board drafted additional clarifications and reports at the request of individual members of the Supervisory Board regarding potential ambiguities and unresolved matters in connection with operations.

The above-described activities contributed significantly to the Slovenske železnice Group's status as one of the most successful state-owned groups, and to the fact that the internal organisational structure of individual Group companies is continuously in line with the development of the scope operations and portfolio of products and services, new legislation and the development of corporate standards.

THE SUPERVISORY BOARD ASSESSES THAT THE MANAGEMENT BOARD MANAGED THE COMPANY SUCCESSFULLY, PRUDENTLY AND IN ACCORDANCE WITH REGULATIONS AND THE COMPANY'S BYLAWS, AND THAT THE COMPANY EXCEEDED THE OBJECTIVES SET OUT IN THE BUSINESS PLAN FOR 2019, DESPITE DIFFICULT CONDITIONS.

The COVID-19 pandemic has brought new, very demanding challenges. We believe that we have sufficient knowledge and experience to find the optimal solutions for all stakeholders, together with management staff, even in such conditions.

WORK OF THE SUPERVISORY BOARD'S COMMITTEES

The Supervisory Board of Slovenske železnice, d. o. o. has an audit committee and HR committee. Those committees serve as advisory bodies, and reach conclusions in the course of their work, which they report to the Supervisory Board.

The topics discussed by the Supervisory Board's committees in the scope of their competences can be broken down into two categories:

- > topics that were independent points on the agendas of Supervisory Board sessions; and
- > topics that were discussed in more detail only by a specific committee, with the results of those discussions reported by the committee chair under a separate point in the committee's report to the Supervisory Board.

Because the first category of topics was presented above, the primary emphasis in the committees' reports below is on the topics from the second category.

AUDIT COMMITTEE

The Supervisory Board's audit committee has functioned in the following composition from 1 January until 11 September 2019:

- > Mitja Križaj (chair),
- > Aleksander Nagode,
- > Zlatko Ratej, and
- > Barbara Nose (external member).

The audit committee constituted on 18 September 2019 was supplemented with an external member on 26

September 2019, and functioned in the following composition during its new term of office:

- > Aleksander Mervar, MSc (chair),
- > Aleksander Nagode,
- > Tanja Bolte,
- > Silvo Berdajs, and
- > Barbara Nose (external member).

The audit committee met at ten sessions in 2019, nine regular sessions and one correspondence session.

Key topics:

- > monitoring of the ordinary operations of the Company and Group in the form of regular reports;
- > monitoring of the Company's business plans and the work plans of key support functions (internal auditing, risk management and corporate integrity);
- > the updating of certain bylaws governing the work of the audit committee and the Company's functions that are subject to monitoring by the audit committee;
- > monitoring of external audit of the financial statements:
 - > discussions with representatives of the audit firm Deloitte Revizija, d. o. o. with respect to areas and the progress of the external audit of financial statements for 2018;
 - > the conclusion of an agreement with Deloitte svetovanje, d. o. o. regarding the confidentiality and non-disclosure of data;
 - > monitoring of the independence of the external auditor;
 - > assessment of external auditing work for 2018 based on the discussion of the external auditor's reports in accordance with the Guidelines for Monitoring the Quality of Auditing drawn up by the Agency for the Public Oversight of Auditing and the Slovenian Directors' Association;
 - > discussions with the external auditor regarding areas subject to auditing at the start of the pre-audit of the financial statements for 2019;
- > formulation of a proposal on the appointment of an auditor of the financial statements for the period 2019 to 2021:

- > the formulation of criteria for selecting the auditor of the financial statements, where the price is not key, but rather the quality of the audit team (planned number of hours of work performed by certified auditors and references for those persons in the auditing of large enterprises in the transport sector and/or infrastructure activities, and references in the auditing of large groups with the status of public-interest entity);
- > the creation of sample agreements on the provision of audit services in the period 2019 to 2021, which serve as an integral part of the criteria referred to in the previous indent;
- > briefing on the completion of the public procurement procedure for the selection of the auditor of the financial statements and the formulation of proposal for appointment;
- > proposal to task the Management Board with preparing a draft procedure for the selection of the auditor, particularly in terms of resolving potential conflicts between the Public Procurement Act (ZJN) and the Companies Act (ZGD) in that procedure;
- > responsibility for ensuring the independence of actual and potential auditors of the financial statements;
 - > confirmation of proposed changes to the Guidelines for Ensuring the Independence of the Auditor of the Financial Statements of the Slovenske železnice Group;
 - > proposal to task the Management Board with appointing an administrator of the guidelines referred to in the previous indent;
 - > monitoring of the conclusion of agreements with audit firms, in terms of the type and scope of their services;
- > the discussion of reports on internal audits performed and the discussion of other regular reports, plans and bylaws governing the work of the Internal Audit Department;
- > other:
 - > discussion of the Act Amending the Auditing Act (ZRev-2a), under which Slovenske železnice, d. o. o. and its subsidiaries were assigned the status of

public-interest entities and are thus subject to higher reporting and auditing standards;

- > briefing on the updating of the Accounting Rules of the Slovenske železnice Group;
- > discussion of the accounting disclosure or property, plant and equipment upon initial recognition, and the methodology for valuing capitalised own production services;
- > review of open conclusions of the audit committee; and
- > the performance of a self-assessment of the audit committee's work and the adoption of an action plan.

WORK OF THE SUPERVISORY BOARD'S HR COMMITTEE

The Supervisory Board's HR committee functioned in the following composition until 11 September 2019:

- > Jože Oberstar (chair),
- > Bojan Brank, and
- > Jože Pavšek.

The HR committee constituted on 18 September 2019 functioned in the following composition during its new term of office:

- > Adam Vengušt (chair),
- > Bojan Brank,
- > Igor Janez Zajec, and
- > Zlatko Ratej.

The Supervisory Board's HR committee met at ten sessions, including eight ordinary sessions and two correspondence sessions.

The most significant matters discussed by the HR committee related to the powers of the Supervisory Board in the appointment of members of the Management Board, the approval of the appointment and recall of the management staff of subsidiaries, the approval of the rules on the conclusion of individual employment contracts and confirmation of the payment of variable remuneration to the Management Board for 2019. It discussed

the explanation regarding Workers' Director's failure to fulfil the conditions for the payment of a bonus for 2017, and drafted a proposal for the payment of the variable component of wages for 2018 to the Management Board.

In October, the HR committee began the process of appointing the Director General. In December, it proposed that the Supervisory Board appoint Dušan Mes to a new four-year term of office, effective 24 March 2020. It justified its proposal with its findings regarding the positive key performance indicators achieved by the Company and the implementation of systemic and internal measures by the Slovenske železnice Group during the previous term of office, and with the presentation of Slovenske železnice Group's strategic policies in the period until 2024.

ASSESSMENT OF THE WORK OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

We assess the work of the Management Board as very successful. The Management Board and Supervisory Board worked constructively together at sessions, while the Chairman of the Supervisory Board and Director General communicated regularly between sessions.

The Supervisory Board dedicates special attention to the management of potential conflicts of interest of its members. The Supervisory Board discussed five points in 2019 from which one member of the Supervisory Board was excluded for the purpose of managing conflicts of interest. Four points related to financing transactions and one point to the discussion of a potential capital investment.

APPROVAL OF THE ANNUAL REPORT AND THE PROPOSED USE OF DISTRIBUTABLE PROFIT FOR 2019

The unaudited annual report of Slovenske železnice, d. o. o. and the Slovenske železnice Group for 2019 was discussed by the Supervisory Board's audit committee on 3 August 2020.

The certified audit firm Deloitte Revizija, d. o. o., which audited the financial statements for 2019 for Slovenske železnice, d. o. o., its subsidiaries and the Slovenske železnice Group as a whole, reported its findings and the progress of the audit for 2019.

On the basis of the above-described continuous monitoring and supervision of the operations and management of Slovenske železnice, d. o. o. and the Group during the 2019 financial year, and based on the consolidated annual report of the Slovenske železnice Group for 2019, compiled and submitted by the Management Board, the Supervisory Board assesses that the annual report and the disclosures contained therein reflect the actual situation and position of Slovenske železnice, d. o. o. and the Group.

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 2019 at its session of 5 August 2020, and submitted them to the audit committee and Supervisory Board for review and verification on 5 August 2020 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 2019 at their sessions held on 7 August 2020. 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 2019, 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 2019, the Supervisory Board found, based on the findings of the audit committee, that the audited annual report and the consolidated

annual report for the 2019 financial year were compiled in a clear and transparent manner, and in accordance with the provisions of the Companies Act. The business report is in line with the audited financial statements. After 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 21,424,750.83 as at 31 December 2019. It is proposed that the founder adopt a resolution leaving distributable profit undistributed. Taken into account in the proposed creation and use of distributable profit was new emergency legislation, under which profit may not be distributed during the year and for 2020 due to the application of the intervention measures set out in Article 99 of the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy and in Article 18 of the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences. In the event of the breach of the law, all funds received due to COVID-19 must be repaid to the state.

Based on its review of the annual report and the proposed use of distributable profit for 2019, 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 2019, in accordance with the provisions of Article 282 of the

Companies Act and the Articles of Association of Slovenske železnice, d. o. o.

CONCLUSION

The Supervisory Board assesses that the Management Board managed the Company successfully, prudently and in accordance with regulations and the Company's bylaws, and that the Company exceeded the objectives set out in its business plan for 2019, despite difficult conditions. It is proposed that the founder adopt a resolution conferring official approval on the Management Board and Supervisory Board for their work in 2019.

When adopting the annual report, the Supervisory Board took a position regarding the corporate governance statement and the statement of compliance with the reference code, and assessed that they reflect the actual state of corporate governance in 2019.

Ljubljana, 7 August 2020

Aleksander Mervar, MSc
Chairman of the Supervisory Board



> GENERAL INFORMATION

General information regarding the controlling company as at 31 December 2019

Company name:®

Slovenske
železnice, d. o. o.

Address:®

Kolodvorska ulica 11
1000 Ljubljana
Slovenia

Tel:

+386 (01) 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:

Silvo Berdajs
Tanja Bolte
Aleksander Mervar
Jože Pavšek
Zlatko Ratej
Adam Vengušt
Igor Janez Zajec



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:®

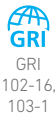
Slovenske železnice, d. o. o.,
Kolodvorska ulica 11,
1000 Ljubljana
Corporate Marketing
Department



GENERAL INFORMATION REGARDING SUBSIDIARIES AS AT 31 DECEMBER 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 Savić (Workers' Director)	Jožef Petrovič	Dean Peršić Daniel Tomljanović	Darja Kocjan Cinac Remzija (Workers' Director)
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
/	Matej Čepeljnik Anita Goršek 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 Slovenski državni holding, 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 starting points 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 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 PSO transactions.

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 concluded for the period 2017–2031. Excessive borrowing means that the purchase of new rolling stock requires recapitalisation or the entry of a strategic partner in the ownership structure.

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 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, and thus contribute to an increase in the proportion of public transport and a reduction in the burden on the environment. To manage

A LIST OF SYSTEMIC AND INTERNAL MEASURES, WHICH REPRESENT FUNDAMENTAL MECHANISMS FOR THE ACHIEVEMENT OF OBJECTIVES, WAS ADOPTED IN ACCORDANCE WITH THE STRATEGIC POLICIES AND OBJECTIVES SET OUT IN THE SLOVENSKE ŽELEZNICE GROUP'S STRATEGIC BUSINESS PLAN FOR THE PERIOD 2016–2020.

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, to manage and operate integrated public transport in Slovenia, and thus create more attractive public transport for passengers.

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 on the infrastructure, inland and cross-border regional passenger transport by rail), and tasks as the manager of the public rail infrastructure. It thus ensures the efficient supply of the economy, and contributes to increasing public mobility in a safe, reliable and environmentally acceptable manner.



Strategic activities of the Slovenske železnice Group®

Logistics and mobility

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

Passenger transport: rail passenger transport, bus transport; and

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

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

Maintenance of the infrastructure, rail transport management and 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, Baltic–Adriatic RFC 5, Alpine–Western Balkans 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: upgrade of rolling stock, development of international, regional and local lines with optimal combination of rail and bus transport, renovation and upgrade of stations, additional services for passengers such as the single ticket, comprehensive

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

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

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

IMPLEMENTATION OF SYSTEMIC MEASURES

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, 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.

Slovenske železnice, d. o. o.'s Management Board verifies and assesses the implementation of measures, draws up monthly and quarterly reports on the operations of the Slovenske železnice Group, and supplements the above-mentioned list with new measures.

Type of measure	Indicative implementation deadline	Assessment of implementation until March 2020
The conclusion of a long-term agreement with the government to secure stable funding for PSO services 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 out 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> <p>On 13 August 2019, the Slovenian government and SŽ-Potniški promet, d. o. o. concluded Annex 3 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 2019 to 31 December 2019.</p>
Development of a harmonised model and all bases for the establishment of a strategic partnership in freight transport and the diversification of operations through corporate M&As.	2017–2020	<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 assessment of the appropriateness of bids was organised in 2018. In 2019, one potential partner performed due diligence, while a second potential partner withdrew its bid due to concerns regarding commitments to the European Union. A third potential partner showed renewed interest, but withdrew due to the condition that it enter the ownership structure as a minority shareholder. Additional interviews, and the coordination of a shareholder agreement (SHA) and the scope of investments in the freight transport segment in future years were conducted with a potential strategic partner. A decision regarding the strategic partnership in the freight transport segment will be submitted to decision-making bodies during the second half of 2020.</p> <p>We acquired the forwarding company VV-Log, d. o. o. in 2017 and continued discussions with other potential strategic partners on markets where SŽ-Tovorni promet cannot on its own provide the comprehensive services required to expand the company's market presence. In 2019, we drafted an extensive list and a short list of potential takeover targets amongst forwarding companies in Slovenia, and drew up a preliminary assessment of operations for two companies. We are planning to complete our selection in 2020 and propose the acquisition of the optimal combination.</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>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. That annex defined the value and scope of services planned for 2019.</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 track load capacity (22.5 t/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 2020/2021 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 included in the timetable, as was the Šmihel station in Novo Mesto.</p>

IMPLEMENTATION OF KEY INTERNAL MEASURES

Type of strategic project	Indicative deadline	Assessment of implementation until March 2020
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 2019.</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. We reduced the number of maintenance locations in the construction sector from 20 to 10, while the merging of locations in the area of electricity and signalling devices in the field is in its final phase. The drafting of a plan for the optimisation of machinery maintenance is in the final phase. Implementation of that plan will begin in 2020.</p> <p>Processes in the freight transport sector are continuously optimised with the aim of adapting services to the needs of the market and improving revenue and cost efficiency, primarily in cost-inefficient areas (i.e. the optimisation of main and side lines) 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 crew. In addition to the above, logistics solutions are developed in cooperation with buyers, which enable a faster flow of goods, lower inventories and increased efficiency. We constantly strive to introduce new products on different markets, in different goods classes and for different customers. We also provide solutions for long and heavy trains via our logistics centres, at which we add or remove wagons. In addition, we are also optimising individual consignments and redirecting road freight onto rail, taking account of the limited infrastructure capacities.</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. 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 the increased scope of transport volumes). Using new shift assignment software for engineering staff, which will be implemented by the end of 2020, 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 2019, we continued with the intensive upgrading of the business information system of Slovenske železnice Group companies and other digitalisation programmes based on Slovenske železnice's digitalisation strategy adopted in September 2017. Activities included: digitalisation of the transport-logistics activity (transport information system or TIS), the passenger transport activity (ticket sale system, Wi-Fi signal on trains and preparations for the set-up of ticket vending machines), preparation of an extensive new digitalisation programme for rail traffic control, a programme for the management of operational efficiency, project systems, electronic operations, cooperation platforms, information technology and information security, and a programme in the area of document and archive systems. The majority of activities were carried out on projects to establish a system for managing rolling stock and rail infrastructure assets. See the section Digitalisation for more information.</p>
Investments in the upgrade of freight transport rolling stock	2016–2020	<p>In 2019, we began the purchase of four diesel shunting locomotives that will be intended for work in Koper, which is one of SŽ-Tovorni promet's key production points. All locomotives will be delivered by the end of 2020. A study was prepared in 2019 of market supply for the second phase of the purchase of traction vehicles – electric and diesel locomotives. Project and investment documentation will be drafted in 2020.</p>
Investments in the upgrading of passenger transport rolling stock	2016–2031	<p>Following the receipt of consent from Slovenski državni holding, d. d., the capital of SŽ - Potniški promet, d. o. o. was increased in 2019, while the option for the second lot of the investment in the modernisation of passenger transport rolling stock was exercised. That lot comprised the purchase of 26 new passenger trains (delivery in the period 2022–2023), for a total of 52 trains. The first train will be tested in Slovenia during the second half of 2020. The drafting of investment documentation for the project to purchase additional traction vehicles and passenger cars for SŽ-Potniški promet, d. o. o. continues.</p>

Type of strategic project	Indicative deadline	Assessment of implementation until March 2020
Programme of integrated public transport projects	2015–2020	<p>IPT services and the possibility of travel by train or bus using a single ticket have also been available to the holders of transferable monthly and annual IPT passes since 1 June 2019. 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 2019, the IPT system was expanded to other products that will be intended for passengers not included in the subsidised ticket system. In 2020, the range of services will be further expanded with the single ticket, which will be available to all users of public passenger transport services. We see an opportunity to promote the use of public rail transport in the expansion of the IPT system to a new circle of users.</p>
Emonika project and business office project	2016–2022	<p>The project originally comprised a public-private partnership in 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 at the end of 2018 by a successful court-brokered settlement and the transfer of the superficieses 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 was thus separated from the private element. At the beginning of 2020 a proposal was submitted to the government to annul the agreement on the public-private partnership from the commencement of the project, with a proposal for a new method of co-financing and regulating relationships with respect to the Ljubljana Passenger Centre. The adoption of a government resolution is a precondition for the continuation of work on the project, i.e. the initiation of the procedure for selection of a firm to develop the project documentation. At the beginning of 2019, the business office complex (BOC) and Emonika projects were combined into the Ljubljana Passenger Centre project, with the bus station, accompanying parking places and BOC.</p> <p>In 2019, the bank OTP with its Mendota Invest unit entered the commercial part of the Emonika project as a new landowner. Joint cooperation on the project was agreed and the signing of a letter of intent is currently underway with regard to cooperation and further steps (timetable, sale of superficieses, arrangement of Slovenske železnice's new business premises in the commercial facilities, management of car parks, etc.).</p> <p>Negotiations are continuing between SŽ-Infrastruktura, d. o. o. and DRI about the continuation of the project of construction of a new railway station and installation of tracks and platforms. At the beginning of 2020, DRI also submitted an application to obtain funding from European Union cohesion funds for the drafting of the tender dossier for the development of an implementation plan for the Ljubljana Passenger Centre – rearrangement of tracks and platforms.</p>
Relocation of activities – Moste Terminal	2016–2020	<p>The project involves the relocation of activities and employees due to the sale of the Moste logistics terminal at Kajuhova 51. Buildings were arranged at alternative locations for the relocation of the employees. A tender was prepared for the arrangement of tracks and track devices for the relocation of activities. The aforementioned process was unsuccessful several times in 2018. Procedures continued in 2019 for drafting documentation and searching for land in order to transfer certain products to alternative locations. 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 2020.</p>

Type of strategic project	Indicative deadline	Assessment of implementation until March 2020
European Railway Traffic Management System (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–Dobova corridors is underway. <p>Equipping of vehicles:</p> <ul style="list-style-type: none"> – GSM-R cab radio: a tender for the installation of GSM-R devices on passenger and freight rolling stock was successfully completed in 2018. Installation proceeded according to plans in 2018 and 2019. Various changes were made due to the arrival of the new passenger rolling stock, and the equipment was redistributed among vehicles within the Slovenske železnice Group. A revision of the project and investment documentation is underway in 2020, while the fitting work continues. – ETCS (European Train Control System) equipping of vehicles: freight and passenger rolling stock that will still be in use after 2023 must be equipped with ETCS safety devices. The project is in the design phase. The initial investment project identification document (IPID) and pre-investment plan (PIP) have been approved, while the coordination and adjustment of deadlines for equipping rolling stock at the national level, as apply to other EU Member States, are underway.





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, regular participation of the investment manager at Supervisory Board meetings.	Justification of the owner's trust through monthly and quarterly reports on operating results.
Employees	Notification of employees regarding the objectives of and current events at the Company, notification regarding changes at the Company, wage system and remuneration for performance, relations between employees, work-life balance, education and additional training, and occupational health and safety.	Personal contact, email, participation in management (workers' directors, Works Council, trade unions, employee representatives on the Supervisory Board), measurement of the organisational climate, the <i>Nova praga</i> 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 <i>Nova praga</i> 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, quick resolution of complaints and claims for damages, notification regarding anticipated and unanticipated impediments to traffic and the associated measures, and the expansion of contractual cooperation.	Direct relations, via telephone, email, the websites of Slovenske železnice Group companies and sales conferences.	Permanent contact that is based on respect, trust and 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 for 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.



102-12,
102-16,
102-45,
102-46,
103-1,
205-1,
405-1

> CORPORATE GOVERNANCE STATEMENT

In accordance with the provision of the fifth paragraph of Article 70 of the Companies Act and the recommendations of the Corporate Governance Code for Companies with Capital Assets of the State, Slovenske železnice, d. o. o. hereby issues its corporate governance statement for 2019.

1. Reference to the Corporate Governance Code

Slovenske železnice, d. o. o. is under the 100% ownership of the State. In its work, it applies the Corporate Governance Code for Companies with Capital Assets of the State (hereinafter: the SDH Code) and the Recommendations and Expectations of Slovenski državni holding. The two aforementioned documents are key governance documents of Slovenski državni holding, d. d. and are accessible on the website <https://www.sdh.si/>.

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

The Company continuously monitors all changes and amendments to both of the aforementioned documents. At least once a year we verify compliance with both documents following the principle of "comply or explain".

The Company endeavours to comply with both documents to the greatest possible extent, taking account of the specifics of its operations (activity, size, single-owner enterprise, etc.).

Below we provide point-by-point explanations of deviations from the individual recommendations of both documents, following the "comply or explain" principle, for 2019. If we were not entirely in compliance with an individual provision in 2019 and we intend to change this policy in 2020, this is specially stated in accordance with Recommendation 3.4.1 of the SDH Code.

Corporate Governance Code for Companies with Capital Assets of the State

Corporate governance framework for companies with capital assets of the state

Recommendation 3.2: Corporate governance policy

The Company has no governance policy in place, and operates in accordance with the applicable regulations, the Company's Articles of Association and the State Assets Management Strategy. The governance policy of the Slovenske železnice Group is being drafted.

Recommendation 3.6: Diversity policy

The Company did not adopt a diversity policy in 2019. That policy has been drafted for discussion at the session of the Supervisory Board to be held in August 2020, and includes certain measurable objectives for selected aspects of diversity. The diversity policy will be accessible of the Company's website (<https://www.slo-zeleznice.si/>) after it has been adopted.

Relationship between shareholders or partners, Slovenski državni holding, the state and companies with capital assets of the state

Recommendation 4.3: The limitation of communication between a company's management and supervisory bodies and representatives of ministries and the government regarding matters that relate to the exercising of membership rights arising from the capital assets.

Slovenske železnice, d. o. o. is a company that requires comprehensive and varied information for the performance of its core activities. 'Non-public contacts' are thus a part of its everyday activities and communication. The Company also performs public service obligations (PSO) under agreements with the Slovenian government. Regular contacts with representatives of the competent ministries and the Infrastructure Directorate of the Republic of Slovenia are thus required.

In 2019, the Company's Management Board and members of its Supervisory Board had contacts with representatives

of the competent ministries and government at various internally organised public events, and at local and state events. That communication never related directly to the decisions of management and supervisory bodies. The members of the Management Board and Supervisory Board make entirely independent decisions.

Supervisory Board

Recommendation 6.1.5: Transactions that require the consent of the Supervisory Board

Slovenske železnice, d. o. o.'s Articles of Association do not specify the mandatory consent of the Supervisory Board for the establishment or closure of branches, nor is that consent specified in a resolution of the Supervisory Board. 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.

Recommendation 6.2: Succession policy

The Supervisory Board has not formally developed a succession plan for members of the Management Board, although it has begun discussions in that regard. The Company has had new Supervisory Board members since September 2019. Thus a succession plan that takes into account, in particular, the Company's status and duties set out in applicable regulations and the Articles of Association will be discussed in that composition.

Recommendation 6.5: Heterogeneity and complementarity of the Supervisory Board's composition

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. That body, however, is not balanced in terms of representation by gender and international composition. By appointing two new female members of the Supervisory Board (in September 2019 and June 2020), the founder made a significant contribution to the gender

diversity of the board's composition, and this criterion was also applied to the formation of the audit committee through the appointment of a female external member.

Recommendation 6.5.1: Competence profile

The Supervisory Board did not adopt a competence profile in 2019 for its members, in terms of the optimal size and composition of the Supervisory Board. A competence profile has been drafted for discussion at the session of the Supervisory Board to be held in August 2020, and takes account of findings from the self-assessment of the work of the Supervisory Board. The competence profile will be accessible of the Company's website (<https://www.slo-zeleznice.si/>) after it has been adopted.

Recommendations 6.8 and 6.9: Appointment of Supervisory Board members

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.

Recommendation 6.14.2: Number of sessions of the audit committee

Prior to the adoption of the Auditing Act (ZRev-2), the Supervisory Board set the objective that the work of the audit committee should be conducted in accordance with Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities, despite the fact that pursuant to the definition of public-interest entities as set out in the Companies Act (ZGD), Slovenske železnice, d. o. o. did not yet have such status. The ZRev-2 expanded the definition of public-interest entities to all companies under majority state ownership, such that Slovenske železnice, d. o. o. obtained that status on 1 January 2020. This means a higher reporting standard, and in particular that the audit committee monitors the work of the auditor of the financial statements more closely. This is the main reason that the audit committee met for ten sessions in 2019, which exceeds the recommended maximum number of meetings for this committee (eight).

Management Board

Recommendation 7.3.2: Positions of Management Board members on supervisory boards outside of the Group

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 functions in order to ensure that the interests of the Slovenske železnice Group are taken into account by all parties.

Recommendation 7.4: Employee development plans

The Company does not 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

Recommendation 8.2: Reporting on the composition of the Management Board and Supervisory Board

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

Recommendation 8.3: Disclosure of the employment earnings and other rights of individual members of management and supervisory bodies

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

Recommendation 8.5: Financial calendar

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 Slovenski državni holding, d. d., and the Company is unable to anticipate when they will be convened.

Recommendations and Expectations of Slovenski državni holding

Procurement of goods and services, and sponsorships and donations

Recommendation 3.3: Public announcements

In accordance with the requirements of the Access to Public Information Act and the Public Procurement Act, the Company only discloses information regarding agreements.

Recommendation 3.7: Publication of information regarding the total value of transactions relating to the ordering of services

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.

Recommendation 3.11: Maximum scope of sponsorships and donations

Sponsorship and donation activities are defined in the Rules on the Treatment and Approval of Sponsorships and Donations, adopted in August 2018. On this basis, the Marketing and Public Relations Department drafts an annual plan that defines the scope and basic guidelines of sponsorship and donation activities. The annual amounts for sponsorships and donations may not exceed 0.13% and 0.06% of planned revenues, respectively. All plans define measurable objectives taking into account

efficiency. A donations committee makes decisions regarding recipients based on clear criteria, separately for sponsorships and donations. Sponsorships and donations are approved by the Company's Director General based on the aforementioned committee's proposal.

Achieving quality and excellence in the operations of a company/group

Recommendation 5.1: Self-assessment according to the EFQM's tested excellence model

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. Compliance and integrity system (corporate integrity)

Slovenske železnice, d. o. o. is one of the first unregulated Slovenian (non-financial) companies to introduce a compliance and risk function. An independent central corporate office that reports directly to the Management Board was established in 2016. In accordance with the guidelines of the Code of Slovenski državni holding and the Slovenian Sovereign Holding Company Act, the aforementioned office is a centrally organised compliance and risk management function for the entire Group.

Key bylaws that govern the work of the aforementioned office are as follows:

- > Rules of procedure of the Central Corporate Office for Compliance and Risk Management,
- > Personal Data Protection Rules,
- > Instructions on the Acceptance of Gifts,
- > Code of Ethics of the Slovenske železnice Group, and
- > Rules on the Reporting and Treatment of Suspected Breaches of Corporate Integrity within the Slovenske železnice Group.

All the above-described documents were adopted at the level of the controlling company and apply to all Slovenske železnice Group companies.

The system of corporate integrity within the Slovenske železnice Group is built on four fundamental building blocks, 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 the necessary internal control mechanisms in business processes, and ensuring the segregation of responsibilities and powers in all business processes;
- > the management of risks through the systematic and independent control over the effectiveness of the implementation of risk management measures; and
- > an established and functioning system for reporting suspected breaches of corporate integrity that ensures anonymity and the protection of whistleblowers.

The Group has adopted a corporate integrity plan that clearly defines specific tasks by key element, including responsible persons and deadlines.

We also dedicate special attention to employee training in the aforementioned area. In 2019, the Group:

- > dedicated special attention to the awareness and prevention of conflicts of interest, and to personal data protection;
- > introduced corporate governance days within the Slovenske železnice Group that we organised quarterly with external experts;
- > organised internal training from specific areas of corporate governance and a comprehensive lecture regarding the work of the central corporate office; and
- > organised separate workshops for members of the Management Board and other management staff with the aim of promoting an approach to the interactive formulation of a code of conduct and to the

identification of key values for the individual as a whole.

Work in the area of corporate integrity is described in detail in the section Risk management and opportunities.



4. 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 assurance for the identification and assessment of significant risks, the definition of risk management measures and reporting on risks.

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

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

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

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

- > ensures the transparent organisational structure of the Slovenske železnice Group;

- > is introducing a standardised accounting and business information system at the controlling company and at subsidiaries;
- > ensures the standardised management of the books of account through a largely centralised accounting function;
- > reports on operations in accordance with the International Financial Reporting Standards (clear and transparent accounting policies have been adopted for the entire Slovenske železnice Group);
- > conducts regular internal audits;
- > is responsible for the independent approval of the fair presentation of the financial position and operating results 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.

On account of the sector in which the Slovenske železnice Group operates, its ownership structure and adopted vision, a conservative approach to risks has been defined in all activities. That approach is reflected in a low risk appetite with respect to all risks. The management and assessment of risks by individual area are described in detail in the section Risk management and opportunities.

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.

5. 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, 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.

In accordance with an amendment to the Articles of Association of Slovenske železnice, d. o. o. of 29 August 2019, the Supervisory Board of Slovenske železnice, d. o. o. comprises nine members since 12 September 2019 (six members until that change). Six members (four until the change) are appointed and recalled by the founder, while three (two until the change) are appointed and recalled by the Works Council in accordance with the Workers' Participation in Management Act.

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.

6. Functioning of the General Meeting of Shareholders and its key powers, description of the rights of shareholders and the manner in which those rights are exercised®

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

The founder holds all the powers of the general meeting and makes independent decisions regarding the following:

- > amendments to the Articles of Association;
- > the adoption of the annual report and the consolidated annual report if the Supervisory Board has not approved the annual report or if the Management Board and the Supervisory Board cede the decision to adopt the annual report to the founder;
- > the use of the distributable profit and the coverage of losses;
- > the conferral of official approval on the Supervisory Board and Management Board or the individual members of those two bodies;
- > the reimbursement of subsequent payments;
- > the remuneration policy for members of the Management Board based on the proposal of the Supervisory Board;
- > status changes and the winding-up of the Company;
- > changes to the Company's share capital;
- > the appointment and recall of members of the Supervisory Board, except those elected by the Works Council;
- > payments to members of the Supervisory Board for their work;
- > the appointment of the Company's auditor based on the proposal of the Supervisory Board;
- > the representation of the Company in court procedures against management staff; and
- > other matters in accordance with its powers, as derived from the applicable laws and Articles of Association.

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

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, THE RULES OF PROCEDURE OF THE AUDIT COMMITTEE, THE RULES OF PROCEDURE AND REMUNERATION OF THE SUPERVISORY BOARD'S COMMITTEES AND THE RULES OF PROCEDURE OF THE MANAGEMENT BOARD.



7. 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, the Rules of Procedure of the Audit Committee, the Rules of Procedure and Remuneration of the Supervisory Board's Committees and the Rules of Procedure of the Management Board

Work of the Supervisory Board

The Supervisory Board exercises its powers and performs its duties at sessions and via its committees.

The most important powers of the Supervisory Board are as follows: the supervision of the operations of Slovenske železnice, d. o. o., the review and verification of the Company's books of account and documentation, its cash drawers, securities in safekeeping and inventories of merchandise and other items, the supervision of the activities of the Slovenske železnice Group and the implementation of the adopted annual and strategic plan based on Management Board reports, verification and approval of the annual report and review of the proposed use of distributable profit, the appointment and recall of the Management Board of Slovenske železnice, d. o. o., the appointment and recall of the Workers' Director on the Company's Management Board based on the proposal of the Works Council, the appointment of the audit committee and other Supervisory Board committees, the conclusion of employment contracts with Management Board members, the submission of proposals to the founder for the adoption of resolutions in the scope of its powers, the adoption of the Rules of Procedure of the Supervisory Board, the monitoring of the appropriateness of procedures and the effectiveness of internal controls and internal auditing, and the approval of the following: the business plan and the strategic business plan of the Slovenske železnice Group, the purchase or sale of capital assets and real estate above the amount set out in Slovenske železnice, d. o. o.'s Articles of Association, the

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

The Supervisory Board also makes decisions and gives its consent in the matters set out in Article 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 2019.

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 until 11 September 2019: Mitja Križaj (chair), Aleksander Nagode and Zlatko Ratej (members), and Barbara Nose (external member). The audit committee comprised the following members after 18 September 2019 and 26 September 2019: Aleksander Mervar, MSc (chair), Aleksander Nagode, MSc, Tanja Bolte, MSc, Silvo Berdajs and Barbara Nose (external member).

The Supervisory Board's audit committee met at nine regular and one correspondence session in 2019, where it discussed matters in the scope of its powers.

The HR committee comprised the following members until 11 September 2019. Jože Oberstar (chair), Bojan Brank and Jože Pavšek. After 18 September 2019, it functioned in the following composition: Adam Vengušt (chair), Bojan Brank, Igor Janez Zajec, MSc and Zlatko Ratej.

Composition of the Supervisory Board

Composition of the Supervisory Board and its committees during the 2019 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	6 June 2020	S
Aleksander Nagode	Deputy Chairman	Master's of science	11 September 2015	12 September 2023	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	12 September 2023	E
Jože Pavšek	Member	Primary school education	11 September 2015	12 September 2023	E
Zlatko Ratej	Member	Secondary vocational education	24 April 2018	12 September 2023	E
Igor Janez Zajec	Member	Master's of science	12 September 2019	26 February 2020	S
Aleksander Mervar	Member	Master's of science	12 September 2019	12 September 2023	S
Adam Vengušt	Member	Master's degree in international business and sustainable development	12 September 2019	12 September 2023	S
Tanja Bolte	Member	Master's degree in the field of technical security and environmental protection	12 September 2019	12 September 2023	S
Barbara Nose	External member of the audit committee	Specialised auditing	19 October 2015	12 September 2023	S

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

The HR committee met at eight regular sessions and two correspondence sessions in 2019. The most important matters that it discussed related to the Supervisory Board's power 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 and liability insurance for Supervisory Board members) amounted to EUR 12.4 thousand in 2019 (EUR 22.7 thousand in 2018). The remuneration

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
16/16	YES	NO	/	HR committee	Member	10/10
16/16	YES	YES	/	Audit committee	Member	10/10
8/8	YES	NO	/	HR committee	Chair (until 11 September 2019)	6/6
8/8	YES	NO	SIJ, d. d., DUTB, d. d.	Audit committee	Chair (until 11 September 2019)	8/8
8/8	YES	NO	SŽ-ŽGP Ljubljana, d. d. SŽ-Infrastruktura, d. o. o.	Audit committee	Member (since 18 September 2019)	2/2
16/16	YES	NO	/	HR committee	Member (until 11 September 2019)	6/6
16/16	YES	NO	/	Audit committee HR committee	Member (until 11 September 2019) Member (since 18 September 2019)	8/8 4/4
8/8	YES	NO	/	HR committee	Member (since 18 September 2019)	4/4
8/8	YES	YES	Kapitalska družba, d. d.	Audit committee	Chair (since 18 September 2019)	2/2
8/8	YES	NO	Slovenj Gradec Business Centre	HR committee	Chair (since 18 September 2019)	4/4
8/8	YES	NO	Infra, d. o. o.	Audit committee	Member (since 18 September 2019)	2/2
/	YES	NO	Luka Koper, d. d.	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.

of Supervisory Board members is disclosed in point 2.3.3 of the consolidated financial report.

Management Board

In accordance with the valid Articles of Association of Slovenske železnice, d. o. o., the Company's operations are managed by its Management Board comprising the

Director General, who represents the Company independently and without limitations, two members of the Management Board (managing directors), who only represent the Company in concert with the Director General, and the Workers' Director, who is appointed in accordance with the Workers' Participation in Management Act and who is vested with the power to represent the interests of employees regarding human resource and social issues.

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.

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.

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

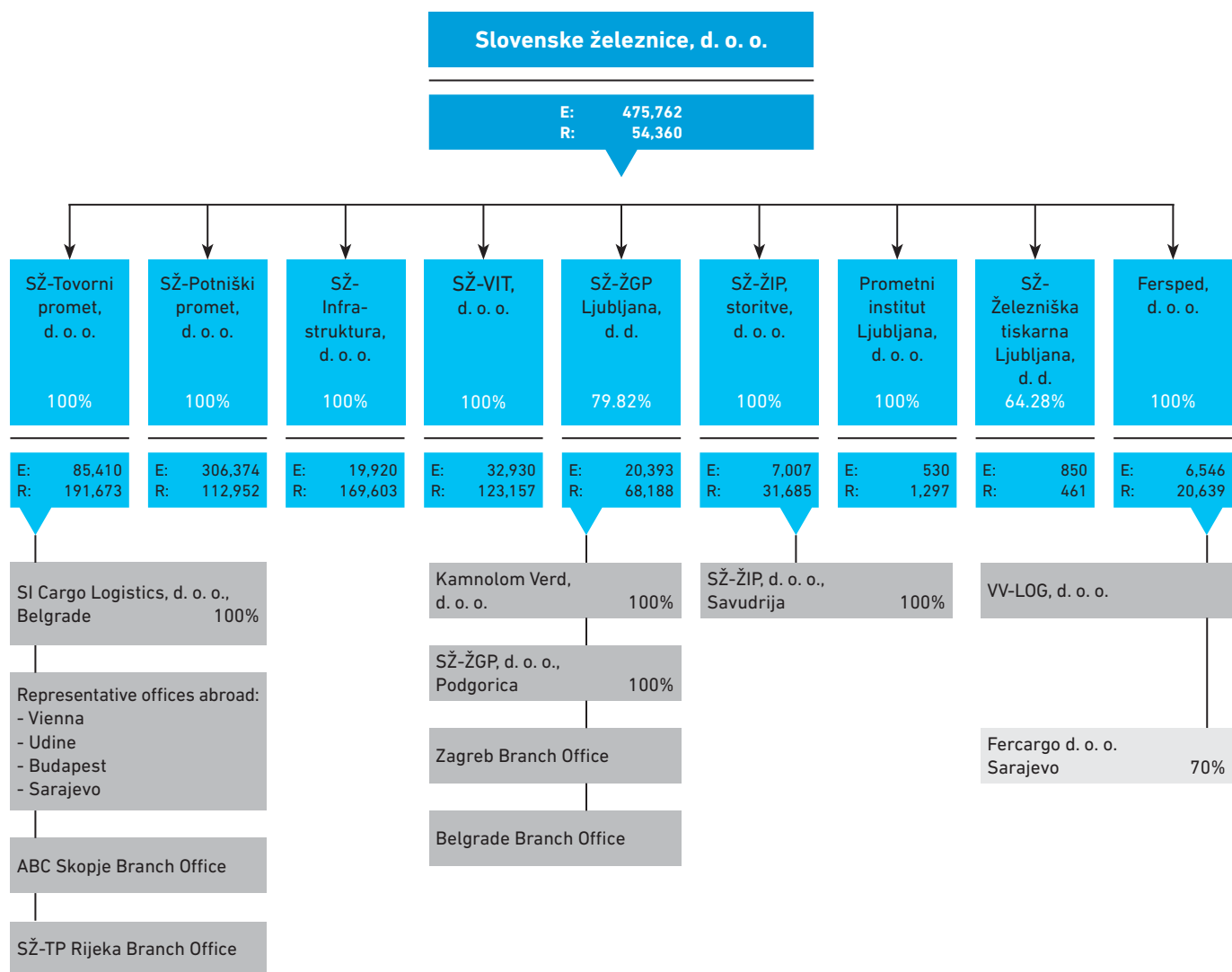


Governance of subsidiaries®

The Management Board and Supervisory Board play key roles in the governance of subsidiaries.

Composition of the Management Board during the 2019 financial year:

Name and surname	Position	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	24 March 2024	/
Tomaž Kraškovič	Member of the Management Board (Director)	Master's of science	Finance, accounting and controlling, IT, compliance and risk management	1 April 2016	2 April 2024	/
Nina Avbelj Lekić	Workers' Director	Bachelor's degree in law	HR and social issues	21 March 2018	21 March 2022	/



Key:

E: total equity as at 31 December 2019 (EUR thousand)

R: operating revenues in 2019 (EUR thousand)

- controlling company
- subsidiaries in the Group 100% or majority owned by the controlling company
- subsidiaries in the Group owned by subsidiaries
- companies excluded from consolidation

Notes:

- VV-LOG d. o. o. is 2/3 owned by Fersped, d. o. o. (1/3 owned by the company itself)
- Slovenske železnice, d. o. o. holds participating interests in the following associates: Adria Kombi, d. o. o. (33.72%) and Terme Olimia, d. d. (23.87%), and indirectly in CKTZ Zagreb, d. d. (29.41%).
- SŽ-ŽGP, d. o. o., Belgrade was deleted from the companies register on 8 March 2019.

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).

Dušan Mes
Director General



mag. Tomaž Krašković
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 Companies Act (Directive 2014/95/EU), the annual report of the Slovenske železnice Group for 2019 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 2019 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 signed 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

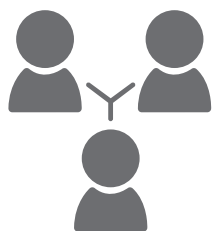


mag. Tomaž Kraškovc
Member of the Management Board



Nina Avbelj Lekić
Workers' Director





BUSINESS REPORT





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> OPERATING ENVIRONMENT¹

Economic growth (real growth in gross domestic product or GDP) in Slovenia was notably lower in 2019 than in the previous year. Annual economic growth reached 2.4% (compared with 4.5% in 2018), which was 0.9 percentage points higher than the EU average and 1.2 percentage points higher than the euro area, where Slovenia's most important trading partners recorded growth ranging from 0.3% (Italy) to 1.6% (Austria).

Despite the slowdown in the growth of exports and investments, the largest contribution to this growth was again accounted for by the stable increase in household spending, which was accompanied by a relatively high employment growth and the growth in wages and social transfers. The growth in exports slowed in the context of very weak growth in global trade and the waning growth in GDP of Slovenia's trading partners. This, together with significant uncertainty in the international environment affected the pronounced slowdown in the growth of investments in equipment and machinery. Growth was also lower than in the previous year for construction investments. Growth in GDP in 2019 dropped below the long-term average (2.7%¹), a result of lower growth in investments (including construction investments), lower growth in private consumption and lower growth in the export-oriented sector.

IMAD's spring economic forecast was drafted during the period when the coronavirus spread to several countries and the first cases of infection were confirmed in Slovenia. The spread of the coronavirus across Europe required emergency and extensive measures already in mid-March 2020 for the protection of health and lives in Slovenia and in most European countries, which significantly affected economic activity. It is clear that these effects will be substantial and will result in a lower gross domestic product this year. The extent of that drop depends primarily on the continued spread and duration of the epidemic, which is a big unknown according to epidemiologists. Assuming that the adverse conditions and significantly hindered operations of the production and service sector will continue until the end of May 2020 (and then gradually return to the level prior to the outbreak of the epidemic), we can expect a more than 5% decline in GDP. Taking into account that assumption,

estimates range from a 6% to 8% drop in GDP. If economic activity remains crippled for an extended period (which is an increasingly likely assumption), the impacts will, of course, be greater and more far-reaching. The further slowing of growth in 2021 and 2022 will be, to a great extent, the result of the further cooling of economic growth in Slovenia's trading partners and the continuation of significant uncertainty at the global level. Growth in exports and imports will be nearly halved in 2020. Investments in equipment and machinery are also expected to be lower, as are investments in non-residential buildings, while growth in housing investments will continue. Following this year's decline, investments will rise again over the next two years. Contributing to that rise will be growth in demand and waning uncertainty, as well as the continuation of very favourable financing conditions. Private and government consumption will continue to contribute to growth. Growth in household consumption will be slower than in previous years due to lower growth in employment and increased uncertainty. In addition to a further slowdown in growth in the manufacturing sector, this will all be reflected in declining growth in value-added in services. In transport and certain business services, the decline in orders, and severed or hindered purchasing and sales channels while strict protective measures remain in place will likely lower the value-added figure by at least half.

Inflation stood at 1.6% in 2019 (average for the year) or 1.9% in year-on-year terms from December to December. (2018: average for the year of 1.7% and 1.4% in year-on-year terms from December to December 2017). Inflation this year will be similar to the last two years (average for the year = 1.7%), primarily on account of lower expected prices of refined petroleum products and electricity, and is expected to increase slightly over the coming two years (2021: average for the year = 2.2%; 2022: average of the year = 2.0%), as the negative contribution of energy product prices is no longer expected.

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.

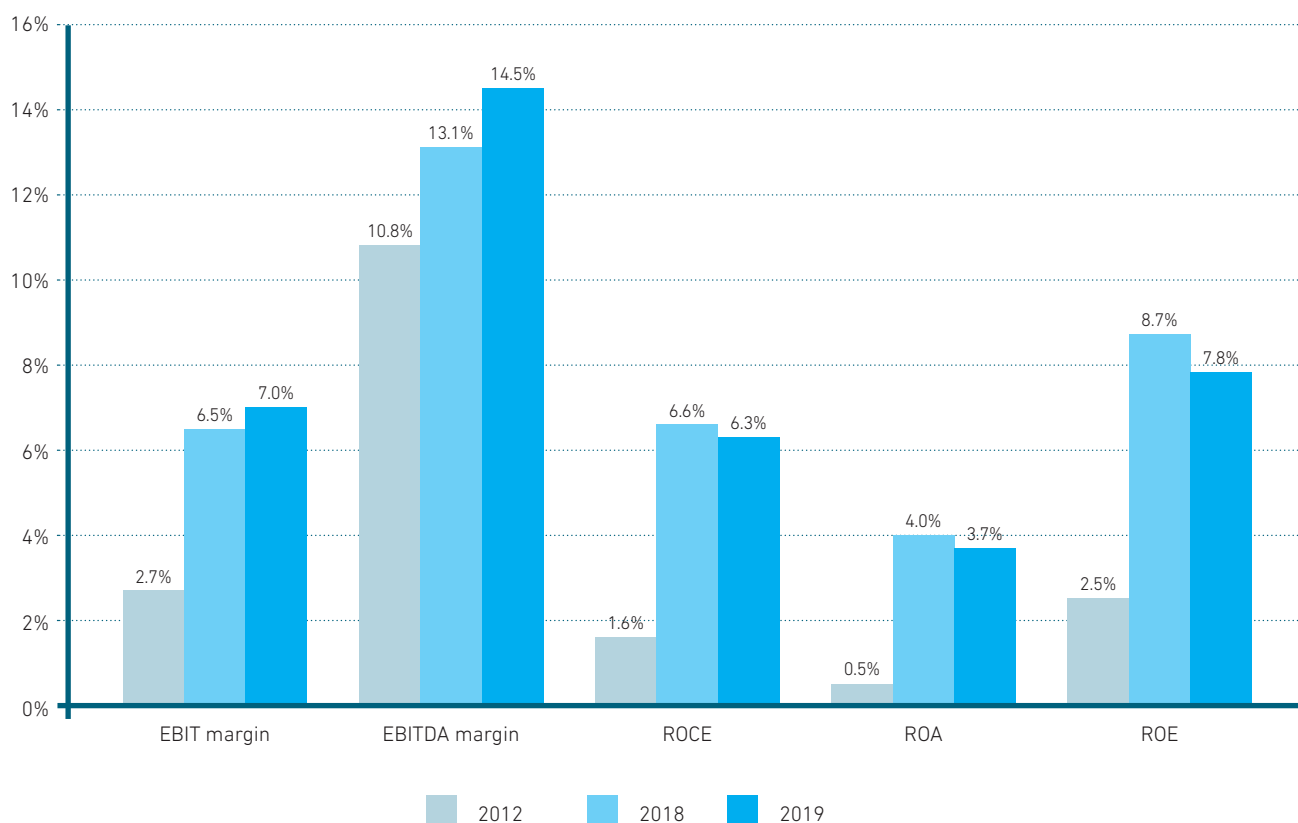
¹ Average annual real GDP growth for the period 1996–2019.



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.

Performance indicators – Slovenske železnice Group



> PERFORMANCE ANALYSIS[®]

The key performance indicators of the Slovenske železnice Group have been improving since 2012. EBIT generated in 2019 in the amount of EUR 42,131 thousand was up by EUR 30,069 thousand relative to 2012, while EBITDA and value-added per employee were up by EUR 34,995 thousand and EUR 16,639 respectively. The number of employees was down by 950 at the end of 2019.

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 7.8% in 2019, which is an increase of 5.3 percentage points relative to 2012. Excluding recapitalisations in 2015 and 2019, that difference would have been 10.9 percentage points.

	Unit	2012	2018	2019
Financial indicators				
EBIT – operating profit or loss	EUR thousand	12,062	36,270	42,131
EBIT – normalised ¹	EUR thousand		29,874	29,458
EBITDA	EUR thousand	52,133	73,644	87,128
Net profit or loss	EUR thousand	3,479	29,736	35,030
Operating efficiency	ratio	1.027	1.069	1.075
EBIT margin	%	2.7	6.5	7.0
Proportion of operating revenues accounted for by revenues under contracts with the Slovenian Government	%	36.4	32.0	32.2
Return on equity – ROE	%	2.5	8.7	7.8
Return on equity – ROE – normalised ²	%	2.5	12.8	13.4
Return on assets – ROA	%	0.5	4.0	3.7
Financial liabilities/equity	ratio	2.673	0.792	0.290
Value-added per employee	EUR	33,517	45,176	50,155
Net financial debt/EBITDA/EBITDA	ratio	7.3	1.4	1.6
Leverage (assets/equity)	ratio	4.5	2.5	1.8
Labour costs as a proportion of operating revenues	%	50.1	46.1	45.9
Non-financial indicators				
No. of employees as at 31 December		8,279	7,540	7,329
Average no. of employees		8,543	7,490	7,461
No. of extraordinary events		46	36	22
Renovation and upgrading of lines	in km	18.65	50.08	62.55
Freight transport delays	min/100 km	49.1	122.1	94.7
Passenger transport delays	min/100 km	2.0	4.5	2.2
Volume sold				
Goods transported	in thousand tonnes	16,181	20,463	20,573
Net tonne kilometres	in million NTKM	3,538	4,966	4,990
Passengers carried	in thousand	15,512	13,554	13,907
Passenger kilometres	in million PKM	742	656	698
Specific energy consumption for traction	kWh/thousand GTKM	21.99	21.17	20.39
Specific gas oil consumption	kg/thousand GTKM	8.37	7.86	7.79

Notes:

¹ Excluding the effect of extraordinary revenues and expenditures (2018 termination benefits and sale of property, plant and equipment, 2019 termination benefits, impairment of claims against migrants, sale of property, plant and equipment and Annex 1 on additional benefits on the purchase of new rolling stock).

² Without capital increases (EUR 110.2 million in 2015 and EUR 154.3 million in 2019).

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



A detailed commentary regarding performance in 2019 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	Slovenske železnice Group			Slovenske železnice, d. o. o.		
	2019	2018	Index	2019	2018	Index
EUR thousand						
Operating revenues	601,009	561,945	107.0	54,360	31,302	173.7
Transport revenues	184,547	187,614	98.4			
Revenues under contracts with the Slovenian Government	193,787	180,018	107.6			
Other operating revenues	222,675	194,313	114.6	54,360	31,302	173.7
Operating expenses	558,878	525,675	106.3	40,386	27,250	148.2
EBITDA	87,128	73,644	118.3	15,741	5,501	286.1
Earnings before interest and taxes – EBIT	42,131	36,270	116.2	13,974	4,052	344.9
Pre-tax profit or loss – EBT	40,548	31,403	129.1	19,745	20,964	94.2
Net profit or loss – E	35,030	29,736	117.8	17,206	20,967	82.1

Statement of financial position items	31.12.2019	31.12.2018	Index	31.12.2019	31.12.2018	Index
EUR thousand						
Assets	984,548	895,349	110.0	738,444	759,531	97.2
Equity	541,145	356,024	152.0	475,762	307,343	154.8
Financial liabilities	156,854	281,990	55.6	235,707	437,339	53.9
non-current financial liabilities	115,849	42,663	271.5	136,443	80,469	169.6
current financial liabilities	41,005	239,327	17.1	99,264	356,870	27.8
Net financial debt/EBITDA	139,046	100,468	138.4	90,931	140,732	64.6
Current operating receivables	204,571	132,638	154.2	35,802	4,102	872.8
Current operating liabilities	120,945	91,726	131.9	20,884	7,595	275.0
Investments	40,426	58,202	69.5	5,593	12,567	44.5

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.

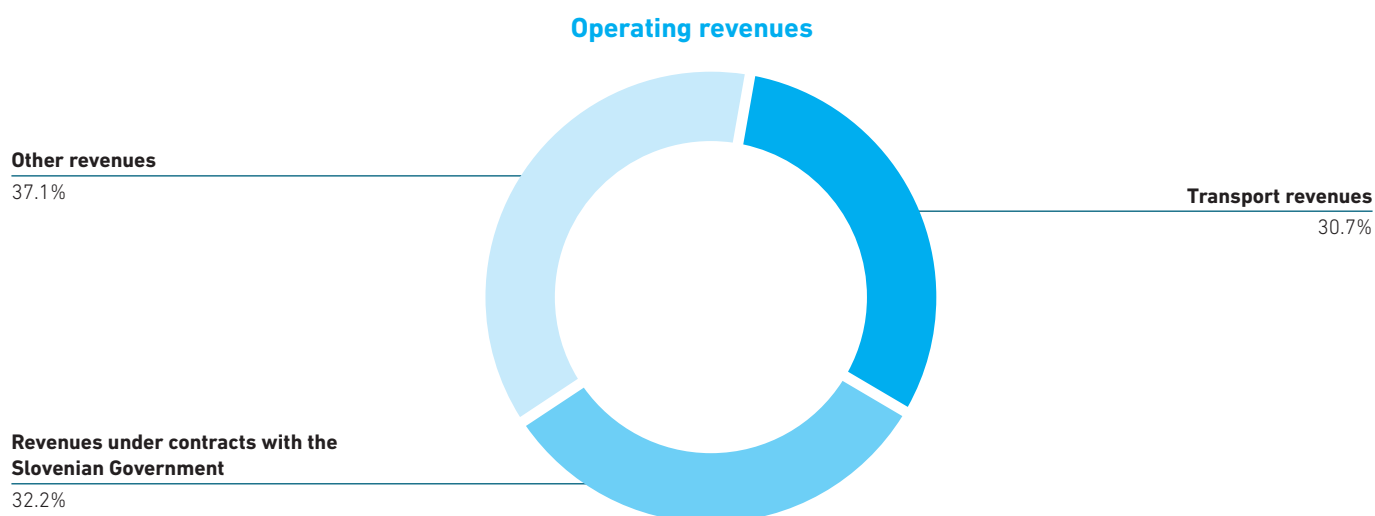
The Slovenske železnice Group generated EUR 601,009 thousand in operating revenues in 2019 and EUR 558,878

thousand in operating expenses. Net profit for the accounting period amounted to EUR 35,030 thousand. This figure comprised an operating profit of EUR 42,131 thousand, a negative net financial result of EUR 1,583 thousand, current tax of EUR 4,472 thousand and deferred taxes in the amount of EUR 1,046 thousand.

Profit or loss

EUR thousand	Slovenske železnice Group			Slovenske železnice, d. o. o.		
	2019	2018	Index	2019	2018	Index
Operating revenues	601,009	561,945	107.0	54,360	31,302	173.7
Operating expenses	558,878	525,675	106.3	40,386	27,250	148.2
Operating profit or loss	42,131	36,270	116.2	13,974	4,052	344.9
Finance income	2,718	2,560	106.2	13,508	24,122	56.0
Finance costs	4,301	7,427	57.9	7,737	7,210	107.3
Net finance income/costs	-1,583	-4,867	32.5	5,771	16,912	34.1
Pre-tax profit or loss	40,548	31,403	129.1	19,745	20,964	94.2
Current tax	4,472	1,602	279.1	1,647	0	
Deferred taxes	1,046	65		892	-3	
Net profit or loss for the accounting period	35,030	29,736	117.8	17,206	20,967	82.1

ANALYSIS OF REVENUES



The operating revenues of the Slovenske železnice Group were up by 7.0% relative to the previous year and amounted to EUR 601,009 thousand (EUR 561,945

thousand in 2018). The highest growth in revenues was recorded in the construction activity, primarily as the result of higher revenues on the domestic market.



Operating revenues by strategic activity EUR thousand		2019	2018	Index
Logistics and mobility	SŽ-Tovorni Promet Group	191,763	193,120	99.3
	Fersped, d. o. o.	20,639	23,190	89.0
	VV-LOG, d. o. o.	3,485	3,910	89.1
	SŽ-Potniški promet, d. o. o.	112,952	103,329	109.3
	SŽ-Vleka in tehnika, d. o. o.	123,157	122,700	100.4
PRI management	SŽ-Infrastruktura, d. o. o.	169,603	179,454	94.5
Construction	SŽ-Železniško Gradbeno Podjetje Group	71,000	49,919	142.2
Support activities	Support activities	88,004	63,079	139.5
Consolidation		-179,594	-176,756	101.6
Slovenske železnice Group		601,009	561,945	107.0

The highest proportion of the Slovenske železnice Group's revenues was generated in the logistics and mobility sector (57.9% of unconsolidated revenues), with SŽ-VIT, d. o. o. providing the majority of services for Group companies. The management of the public rail infrastructure generated 21.7% of total unconsolidated revenues, while the construction activity generated 9.1% of those revenues. Support activities primarily provide their services for Slovenske železnice Group companies.

Logistics and mobility

SŽ-Tovorni Promet Group

EUR thousand	2019	2018	Index
Goods transported (in thousand tonnes)	20,573	20,463	100.5
Operating revenues	191,763	193,120	99.3
transport revenues	156,327	160,702	97.3
revenues on the domestic market	7,339	7,466	98.3
revenues on the foreign market	148,988	153,236	97.2
other operating revenues	35,436	32,418	109.3

The volume of goods transported was up by 0.5% relative to the previous year, while the associated operating revenues were down by 0.7%. Transport revenues were down by 1.7% and 2.8% on the domestic and foreign markets, respectively. Other operating revenues were up by 9.3%. Lower transport revenues on the domestic market were the result of a decrease in the transport of small consignments and scrap iron, while the drop on the foreign market was driven by a decrease in the transport of iron and steel, coal,

logs and containers, which was partly offset by an increase in the transport of ores, agricultural products, sand, paper and cellulose. The main impact is an exceptional increase in competition, resulting in a sharp drop in prices. Closures of the public rail infrastructure that required operators to use longer train paths, which customers do not accept as a reason for higher prices, also had a significant impact.

Fersped, d. o. o.

EUR thousand	2019	2018	Index
Operating revenues	20,639	23,190	89.0
revenues on the domestic market	8,200	8,394	97.7
revenues on the foreign market	12,244	14,720	83.2
other operating revenues	195	76	256.6

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 down by 16.8% on the foreign market and by 2.3% on the domestic market.

VV-LOG, d. o. o.

EUR thousand	2019	2018	Index
Operating revenues	3,485	3,910	89.1
revenues on the domestic market	2,453	2,785	88.1
revenues on the foreign market	1,009	1,121	90.0
other operating revenues	23	4	

VV-Log, d. o. o. generates revenues through the organisation of combined container transport by road, warehousing and additional logistics services. It generated 70.4% of its revenues on the domestic market and 29.0% of revenues on the foreign market. The company generates the majority of revenues on the foreign market within the EU.

SŽ-Potniški promet, d. o. o.

EUR thousand	2019	2018	Index
Passengers carried (in thousand)	13,907	13,554	102.6
Operating revenues	112,952	103,329	109.3
contracts with the Slovenian Government	68,978	56,695	121.7
transport revenues	34,301	33,228	103.2
other operating revenues	9,673	13,406	72.2

The operating revenues generated by SŽ-Potniški promet, d. o. o. were up by 9.3% relative to the previous year. Revenues under contracts with the Slovenian Government for the performance of PSO activities were higher. Transport revenues were up on both the domestic and foreign markets. The company recorded a 2.6% increase in the number of passengers carried in 2019.

SŽ-VIT, d. o. o.

EUR thousand	2019	2018	Index
Operating revenues	123,157	122,700	100.4
revenues on the domestic market	108,463	104,723	103.6
revenues on the foreign market	11,157	9,948	112.2
other operating revenues	3,537	8,029	40.1

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 tank cars.

Management of public rail infrastructure

SŽ-Infrastruktura, d. o. o.

EUR thousand	2019	2018	Index
Operating revenues	169,603	179,454	94.5
contracts with the Slovenian Government	124,809	123,323	101.2
other operating revenues	44,794	56,131	79.8

Management of the public rail infrastructure includes the maintenance of the public rail infrastructure and traffic control. Revenues were down by 5.5% in 2019 primarily due to a decrease in other operating revenues.

Construction

SŽ-ŽGP Ljubljana Group

EUR thousand	2019	2018	Index
Operating revenues	71,000	49,919	142.2
revenues on the domestic market	68,683	49,439	138.9
revenues on the foreign market	1,699	207	
other operating revenues	618	273	226.4

The SŽ-ŽGP Group recorded a 42.2% increase in operating revenues in 2019 relative to the previous year. An increase of 38.9% was recorded on the domestic market, primarily as the result of the completion of project phases.



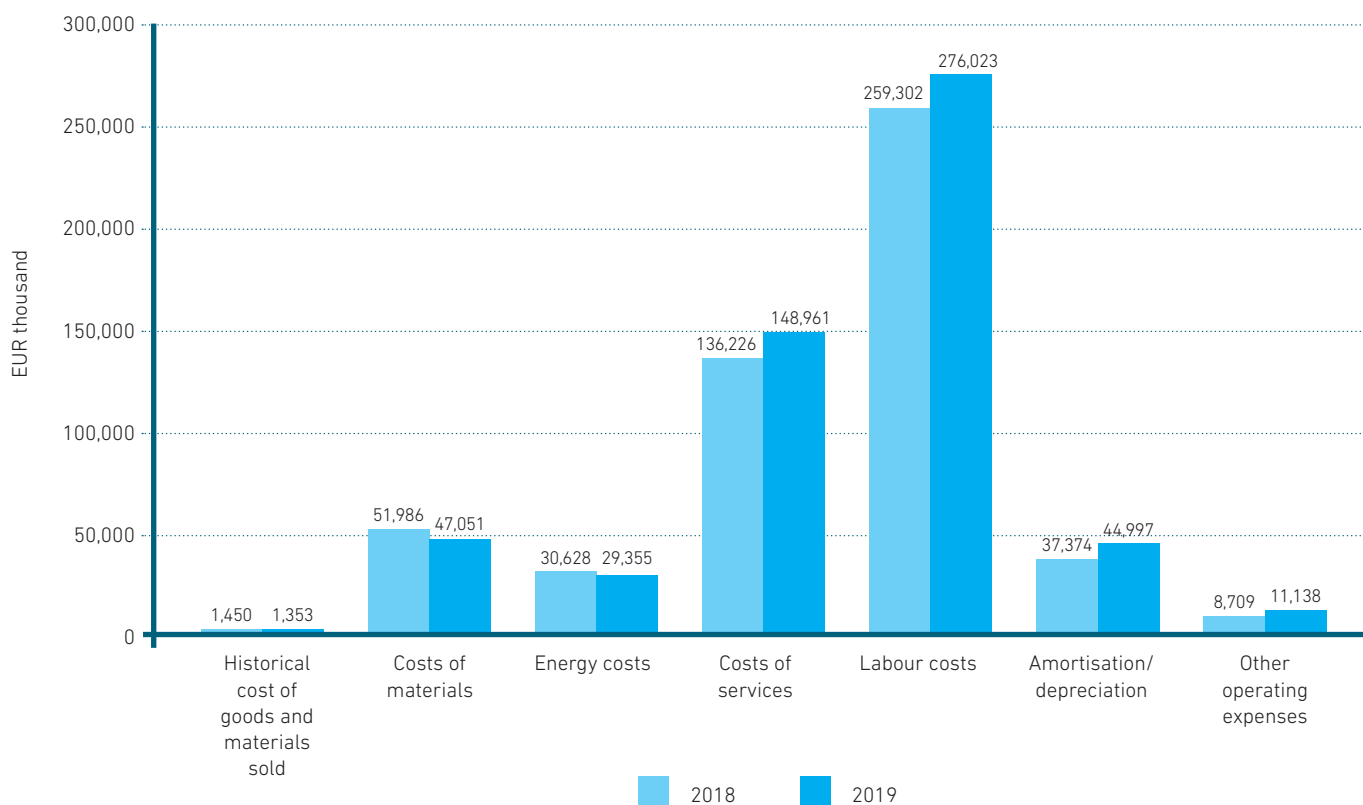
ANALYSIS OF EXPENSES

Operating expenses were up by 6.3% relative to 2018, which is 0.7 percentage points less than the growth recorded in revenues. Labour costs as a proportion of operating revenues totalled 45.9%, a decrease of 0.2 percentage points relative to the previous year.

The costs of services were up on the previous year, primarily due to the increased scope of construction works.

Net finance income/costs were negative in the amount of EUR 1,583 thousand. Finance income primarily comprised revenues from participating interests in associated companies and from other investments, 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




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	2019	2018	Index
Operating revenues	191,763	193,120	99.3
Operating expenses	184,354	182,844	100.8
EBIT	7,409	10,276	72.1
EBIT margin, in %	3.9	5.3	73.6
EBITDA	29,408	26,384	111.5
EBT	4,852	8,757	55.4
ROE, in %	5.8	11.4	50.9
ROA, in %	1.9	3.8	50.0



102-15

Competitive position of freight transport

SŽ-Tovorni promet is geographically positioned at the cross-roads of three Rail Freight Corridors (RFC) that only apply to rail freight transport and pass through the territories of EU member states. Three RFCs pass through Slovenia: RFC 6 (Mediterranean) that links Spain with the Ukrainian border, RFC 5 (Baltic-Adriatic) that links Poland to Northern Italy and RFC 10 (Alpine-Western Balkans) that runs through the countries located along the former X corridor.

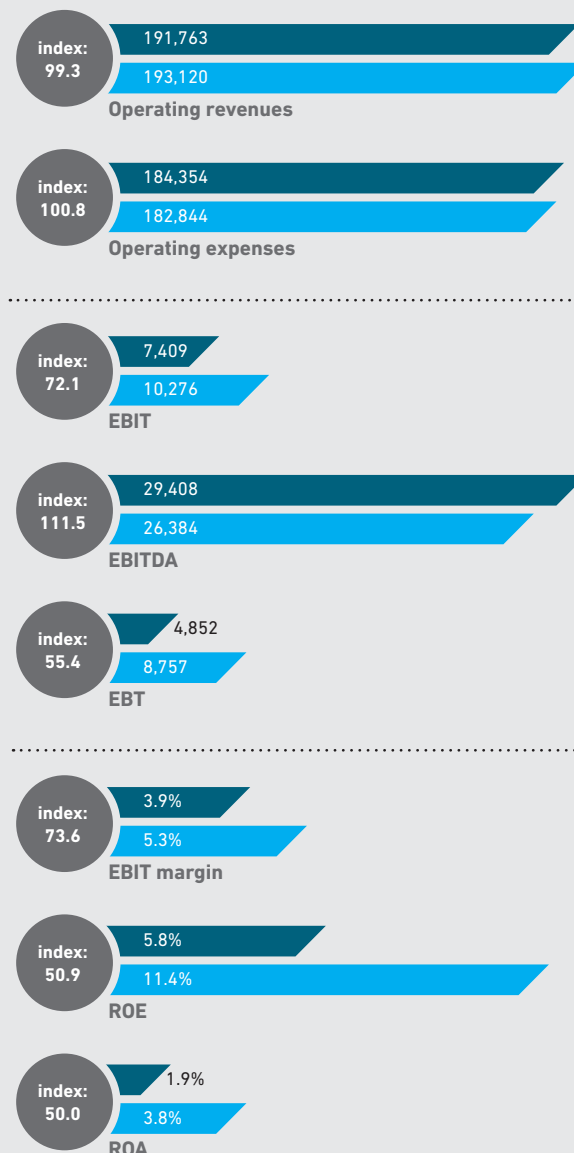
South-East Europe is linked with North Europe by RFC 7 (Orient/East-Med), but the link via the Balkans is one of the most crucial, as it links Central Europe with the external members of the EU along a significantly shorter route.

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

The competitive environment in Slovenia and other countries in the region is changing rapidly and is increasingly more demanding, as new private railway operators are entering the market with modern means of transport. Bypass routes equipped with a modern rail and road infrastructure are making our operations more difficult and represent an additional challenge. New operators who will have a significant impact on market shares also



OPERATING RESULTS OF THE SŽ-TOVORNI PROMET GROUP



EUR thousand 2019 2018



THE TRANSPORTED AMOUNTS OF ORE, AGRICULTURAL PRODUCTS, SAND AND AGGREGATES, PETROLEUM AND DERIVATIVES WERE UP IN INTERNATIONAL TRANSPORT.

started running on Slovenske železnice's lines in 2019. There are currently seven operators registered, while another is in the process of obtaining a licence. It should be emphasised that two of these were among the first three largest strategic partners of SŽ-Tovorni promet, both in terms of revenues and freight transported.

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. Responses to stiffening competition in other forms of transport lie in the continuous modernisation of the rail infrastructure, the prompt construction of a second track between Koper and Divača, and the elimination of bottlenecks in the railway network.

A total of 20.6 million tonnes of goods were carried in 2019, an increase of 0.5% relative to 2018. Gross transport revenues in the amount of EUR 156,327 thousand were down by 2.7% relative to 2018, while net transport revenues (as the difference between gross transport revenues and the costs of services of foreign operators) were down by 1.8% on the figures generated in 2018. Operating revenues in the amount of EUR 191,763 thousand were down by 0.7% relative to 2018, while operating expenses in the amount of EUR 184,354 thousand were 0.8% higher than in 2018.

Development of activities and results in 2019

Given the increasingly difficult situation caused by increasingly aggressive competition and the limited throughput of the infrastructure (planned and unplanned infrastructure disruptions), we achieved encouraging results. The SŽ-Tovorni Promet Group transported 20.6 million tonnes of freight and travelled 4,990.1 million net tonne-kilometres in 2019. The volume of freight transported was up by 0.5% relative to 2018, while the amount of work performed was also up by 0.5%.

The length of the average transport route was 242.8 kilometres and did not change significantly relative to 2018, despite certain changes in the structure of freight and changes to certain transport routes.

The reduced availability of the public rail infrastructure due to frequent maintenance works and the reduced availability of rolling stock had a negative effect on the operations of the SŽ-Tovorni Promet Group.

We transported less freight in the final quarter due to the economic slowdown, which was particularly evident in the automotive industry.

We adapt to changing market demands as follows:

- > by adjusting the length of trains to specific track sections and thus improving services and facilitating the planning of transport via longer trains;
- > by facilitating transport via heavier trains;
- > by offering alternative transport routes and comprehensive services on longer transport routes that include own traction abroad; and
- > the elimination of unprofitable transactions.

SŽ-Tovorni Promet Group in thousand tonnes	2019	2018	Index
Goods transported	20,572.6	20,462.7	100.5
Wagon consignments	20,550.0	20,436.2	100.6
inland transport	1,331.6	1,248.0	106.7
international transport	19,218.4	19,188.2	100.2
Small consignments	22.6	26.5	85.3

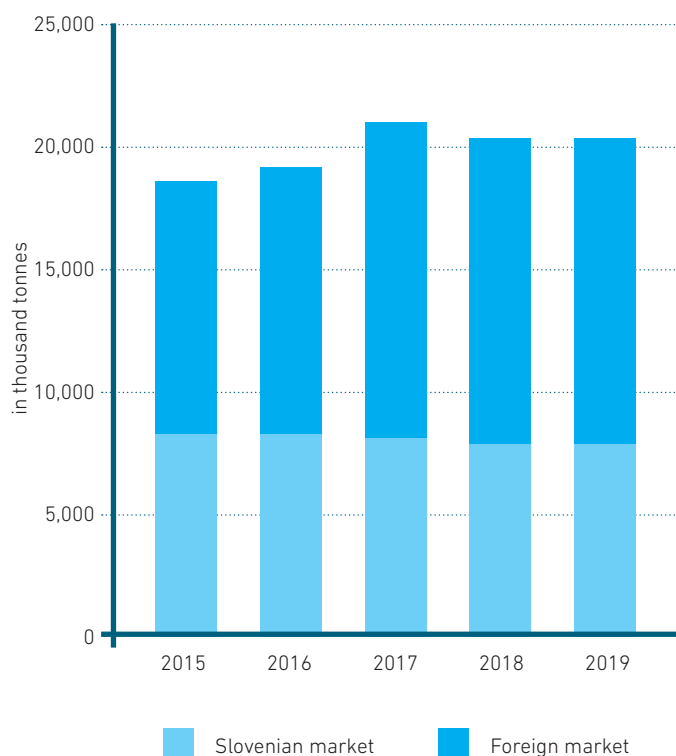
Includes unconsolidated quantities.

In terms of wagon consignments, the inland transport of logs, sawn wood and vehicles was up relative to the previous year.

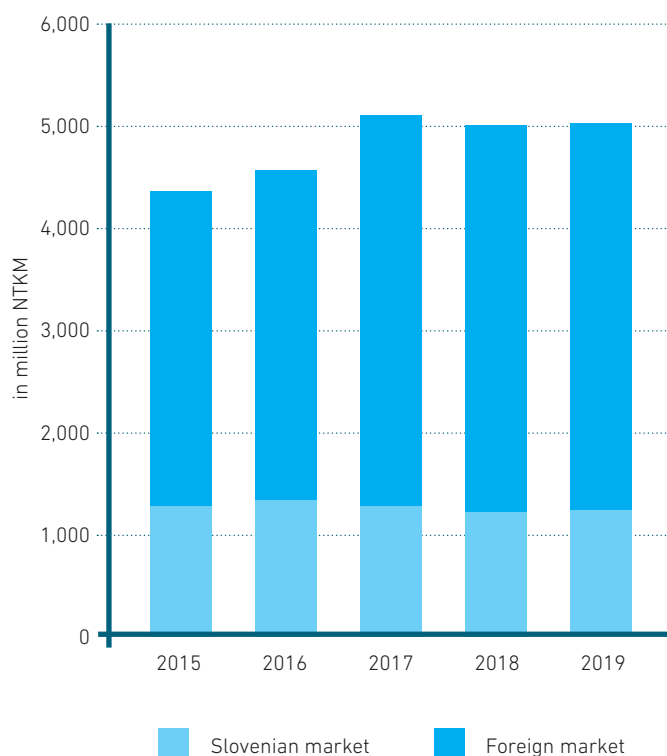
In the international transport segment, transported amounts of ore, agricultural products, sand and aggregates, petroleum and derivatives, and groupage cargo were up, while transported amounts of iron and steel, coal, logs, chemical products and scrap iron decreased.

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 0.1 percentage points relative to the previous year and amounted to 37.8%.

Goods transported



Volume sold



Wagon consignments

Transport mode in thousand tonnes	2019	2018	Index
Conventional transport	15,196.8	15,115.0	100.5
Multimodal transport	5,318.2	5,281.6	100.7
SI-Cargo (transport not taking place in Slovenia)	35.0	39.6	88.4
Total wagon consignments	20,550.0	20,436.2	100.6

Includes unconsolidated quantities

Volume sold in million NTKM	2019	2018	Index
Volume sold on SŽ lines	4,868.6	4,843.6	100.5
Volume sold abroad	121.5	122.4	99.3
Total	4,990.1	4,966.0	100.5

The transport of wagon consignments is performed 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 contributes to the competitiveness of the SŽ-Tovorni Promet Group. Through our own haulage in Austria and Croatia, we increased our competitiveness through long-haul freight management and thus secured new business.

Conventional transport of wagon consignments

The conventional transport of wagon consignments accounted for 74.1% of wagon consignments transported on Slovenske železnice lines in 2019. That proportion did not change significantly relative to 2018 (74.2%). More than 80% of goods comprise raw materials or primary products and semi-products such as ore, coal, petroleum and derivatives, agricultural products, sand and stone aggregates, iron and steel, scrap iron, paper and cellulose, processed and unprocessed wood, and chemical products.



Combined transport

A total 99% 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, while the remaining 1% of goods transported are in individual wagons primarily to the Balkan countries (Serbia, Croatia and Bosnia and Herzegovina).

A total of 5,318 thousand tonnes in combined consignments was carried in 2019, an increase of 0.7% (36 thousand tonnes) relative to 2018. There would have been even more goods transported, were there no redirections of shipping companies to the Port of Trieste, a slowdown in economic growth, a decline in production in the automotive industry and certain takeovers by foreign operators. The greatest impact was attributed to the redirection of ships, which caused a decline in container transport at the Port of Koper for the first time since the crisis in 2009. Problems were also caused by frequent closures of public rail infrastructure that led to a deterioration in the quality of services, and by insufficient resources to carry out these services.

SI-Cargo Logistics

The increase in transport to and from Serbia, and to countries in transit through Slovenia continued in 2019, while the volume of freight organised by SI-Cargo Logistics and bypassing Slovenia was down. The volume of freight transported from and to Serbia (including through Serbia) to and through Slovenia was up by 12% relative to 2018, while revenues generated were also up by 9%. 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. Increasing competition from private operators in the region resulted in a drop in prices per NTKM, while a decline in transported volumes of sheet metal products for import into Slovenia had a negative impact on the result.

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. In the small consignments segment (SŽ-Express Profit Centre) a total of 218,307 consignments were transported in inland and international transport in 2019 (22.6 thousand tonnes), a decrease of 15.5% relative to 2018.

The transport of small consignments was part of SŽ-Tovorni promet's range of services, but was not its core activity. The product was unprofitable and high investments would be required to ensure the long-term successful operations of SŽ-Express. An agreement was signed in November 2019 on the sale of the product and brand to a strategic partner. The SŽ-Express product was excluded from SŽ-Tovorni promet's portfolio on 31 December 2019. The warehousing activity and customs services were not part of the sale and will continue to be performed by SŽ-Tovorni promet.

Significant limitations and opportunities®

We encountered several infrastructure limitations in 2019. 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. Major infrastructure works in neighbouring countries (Croatia, Austria and Hungary), which meant additional difficulties in the provision of transport services, also had a major impact.

Analysis of customer satisfaction

We carried out a survey of the users of wagon transport services in August 2019 with the aim of verifying their satisfaction. Measures to improve the quality and range of services were adopted on the basis of assessments. Included in the survey were 36 customers, of which 23 from Slovenia and 13 from foreign markets. Users gave an average rating of "service was in line with my expectations".

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 frequent 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 considerable competition are bypass routes equipped with a modern rail and road infrastructure.

Fundamental changes on the domestic and foreign transport markets characterised 2019. In addition to existing operators an increasing number of new operators are appearing on the market, the goods available on the market are limited, with customers encountering problems during operations due to the slowdown in economic growth, with competitors offering higher quality and an updated rolling stock.

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 share on foreign markets in the future through the owners of

goods and wagons. This will facilitate the comprehensive management of transactions on long-haul routes. We will expand the range of services with the development of high-quality, targeted products and services for strategic freight, customers and routes, through which we will link the beginning and end of the supply chain with a network of direct trains. We will search for opportunities on the Slovenian and foreign markets by entering into business and strategic partnerships that will ensure the volume and value of sales.

The volume of freight on the Slovenian market is limited. We will therefore enhance our strategic cooperation with foreign partners, while 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.

Entry on foreign markets is essential for SŽ-Tovorni promet. We are also planning 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. In cooperation with other SŽ Group companies and customers, we will optimise production processes, rationalise costs and provide high-quality services, despite the lower number of employees. Work efficiency will be further improved through the introduction of new information technologies. We established an electronic waybill in 2019 that facilitates the fast and simple exchange of transport documents in electronic form. An extensive package of planned and in-progress IT projects focuses on support for the sales and billing process, IT support for core processes, business analysis, and the planning and monitoring of operations. Support for the SAP MM purchasing process and the SAP-IN investment management process are in their final phases.



FERSPED

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

EUR thousand	2019	2018	Index
Operating revenues	20,639	23,190	89.0
Operating expenses	19,671	22,229	88.5
EBIT	968	961	100.7
EBIT margin, in %	4.7	4.1	114.6
EBITDA	1,355	1,127	120.2
EBT	1,720	1,764	97.5
ROE, in %	28.9	47.3	61.1
ROA, in %	13.3	16.0	83.1

Net profit comprises an operating profit of EUR 968 thousand and finance income of EUR 752 thousand.



Competitive position®

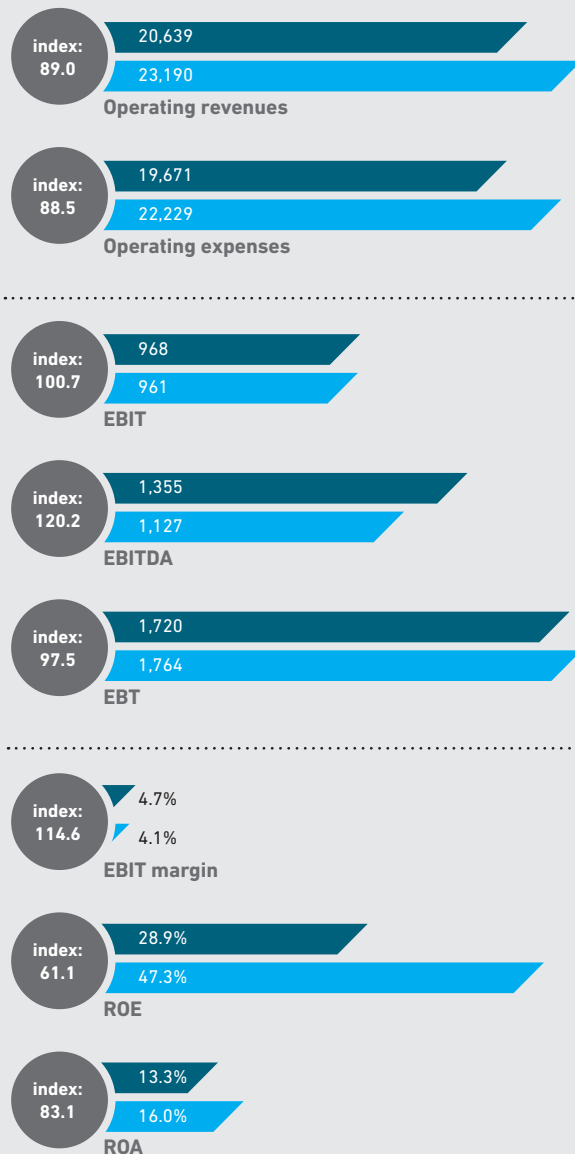
Growing global trade is bringing change to the flow of goods model. The logistics process is thus becoming an important process for every manufacturing company and is resulting in the establishment of new, complex business relationships. On the other hand, logistics companies are striving for global 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.

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



OPERATING RESULTS FERSPED, d. o. o.



EUR thousand 2019 2018

(bulk goods such as coal, waste, general cargo, container transport and cars). 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, i.e. Poland, the Czech Republic, Switzerland, Germany and Italy.

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

Development of activities and results in 2019

Revenues by activity

Activity EUR thousand	2019	2018	Index
Rail logistics	6,143	6,414	95.8
Road logistics	8,332	10,657	78.2
Maritime logistics	2,653	2,517	105.4
Air logistics	201	144	139.6
Customs services	1,302	1,224	106.4
Storage services	1,632	1,976	82.6
Other	376	258	145.7
Total	20,639	23,190	89.0

Land transport logistics

Activity EUR thousand	2019	2018	Index
Rail logistics	6,143	6,414	95.8
Road logistics	8,332	10,657	78.2
Total	14,475	17,071	84.8

The land transport product, which accounts for 70.1% of total revenues, combines two segments: rail and road logistics. Revenues in this product segment in 2019 were down by 15.2% relative to 2018, primarily due to a decline in road transport.

Rail logistics

Revenues generated by rail logistics segment were down by 4.2% in 2019 relative to the previous year. The aforementioned segment accounts for 29.8% of total revenues.

Actual revenues from transactions with logistics companies that are involved in the automotive industry were also lower. The aforementioned sector recorded a sharp drop in production.

A warmer winter resulted in the reduced consumption and thus a reduction in the transport of coal. The volume transported for energy companies was thus down by 100 thousand tonnes.

We nevertheless succeeded in maintaining revenues from rail transport and financial results at the level recorded in 2018 by offsetting the aforementioned reduction with other products.

Due to limitations in the transport of specific wagon consignments, the majority of transport services are provided using full trains. Our analysis therefore shows that the ten largest customers account for 90% of annual turnover.

Road logistics

The sharpest drop in revenues in 2019 was recorded in the road logistics segment, where revenues totalled EUR 8.3 million and were down by 21.8% relative to the previous year. The road logistics segment accounts for 40.4% 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. The re-direction of goods flows and currency exchanges also results in lower revenues.

We provide an average of five thousand different types of transport services annually, which translates to an average of 400 transport services a month. The majority of transport services are provided from our warehouse at the Port of Koper, while we organise transport to all European countries, most notably Poland, Hungary and



Romania. 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.

Maritime logistics

Activity EUR thousand	2019	2018	Index
Maritime logistics	2,653	2,517	105.4

Revenues generated by maritime transport were up by 5.4% relative to the previous year, and account for 12.9% of total revenues. The majority of goods were transported by container, where we provide the additional logistics services of transport, transshipment, customs clearance and delivery. More than 8,500 containers were handled in 2019, 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 we are developing operations in an agency network with foreign partners, where we have significantly increased our presence.

We are exposed to fluctuating prices in the maritime transport segment, and the resulting unstable cooperation with players on the market. 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 storage services

Activity EUR thousand	2019	2018	Index
Air logistics	201	144	139.6
Customs services	1,302	1,224	106.4
Storage services	1,632	1,976	82.6

Air logistics

The revenues generated by the air logistics segment were up by 39.6% in 2019. It should be noted that this segment enjoys positive synergistic effects with customs clearance, storage and road transport services.

With regard to imports, we are amongst the top six forwarding companies in terms of the volume of goods transported at the Ljubljana Airport. The majority of goods (in particular pharmaceutical products) originate from India and China.

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 fastest growing activity in 2019. The aforementioned services were up by 6.4% relative to 2018 and account for 6.3% 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 the constant training of employees in customs matters. Such training prevents or reduces the possibility of operational errors and helps eliminate work-related cases of non-compliance in work processes. Appropriately qualified employees represent a market opportunity given the continuous increase in demand.

Storage services

Revenues from storage services were down by 17.4% relative to 2018, and accounted for 8% of total revenues.

These services do not comprise traditional warehousing, but involve so-called stuffing and stripping services. The

CUSTOMS SERVICES WERE THE FASTEST GROWING ACTIVITY IN 2019, AS THE AFOREMENTIONED SERVICES WERE UP BY 6.4% RELATIVE TO 2018. THEY ACCOUNTED FOR 6.3% OF TOTAL REVENUES.

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 300 containers and 350 trucks a month in 2019. The majority of goods were accounted for by LCD screens, batteries, powdered cellulose, wires for the tyre industry, plastic granulate, and large and small household appliances. Demand for warehousing and handling service continues to rise, as there is a lack of warehousing capacities. Growth in terminal services has a positive impact on other support services for goods (customs clearance, and road and railway transport).

Fersped has identified storage services as a strategic development project. The priority task 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 primary focus in 2019 was on increasing sales of services with a greater synergistic effect and higher value-added. Here we see a major opportunity in our presence at the Port of Koper, which represents an entry point not only for Slovenia, but primarily for transport to the hinterland countries of Europe.

Although we are aware 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

Pregled rezultatov poslovanja VV-LOG, d. o. o.

EUR thousand	2019	2018	Index
Operating revenues	3,485	3,910	89.1
Operating expenses	2,832	3,141	90.2
EBIT	653	769	84.9
EBIT margin, in %	18.7	19.7	94.9
EBITDA	723	784	92.2
EBT	652	773	84.3
ROE, in %	65.1	64.1	101.6
ROA, in %	27.2	36.5	74.5



Competitive position®

Customs services (import, export and transit services) are at the core of VV-Log, d. o. o.'s operations. The company also organises transport services and other logistics services.

The company's long-term objective is to attract a larger number of permanent 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, storage and transport services, to introduce an effective sales and marketing policy, and to expand its presence on the European market.

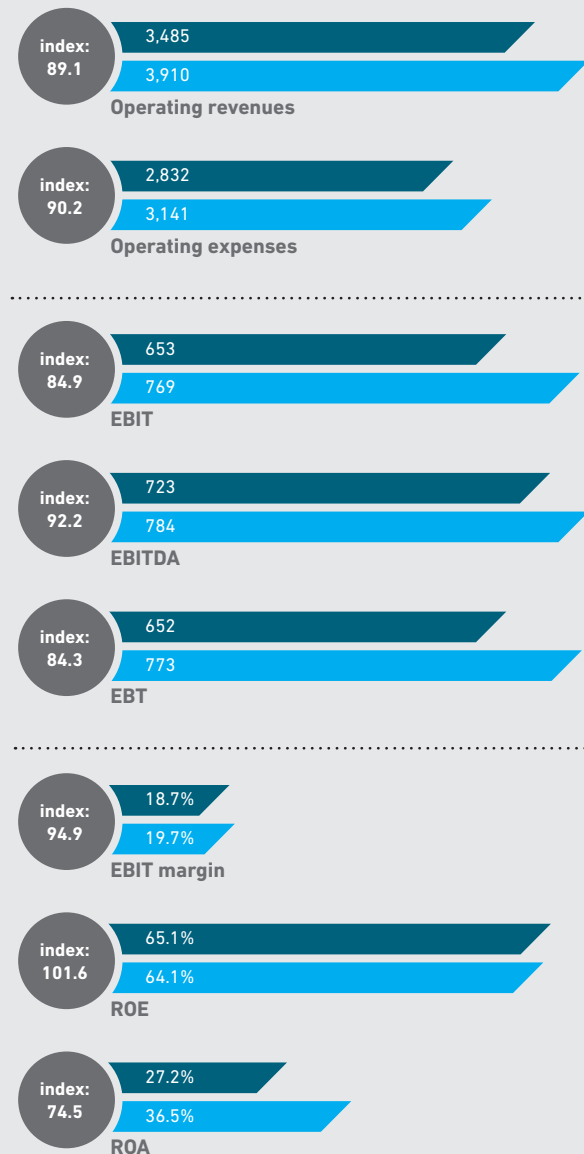
Development of activities and results in 2019

Customs services

The largest share of operating revenues at VV-LOG, d. o. o. are generated by procedures associated with customs services, which are the core of the company's operations. One of their business advantages is their familiarity with customs law and regular monitoring of changes to procedures planned for the 2019–2021 period. By joining the Slovenske železnice Group, the company acquired a higher transit guarantee, which is crucial to the existence



OPERATING RESULTS VV-LOG, d. o. o.



EUR thousand 2019 2018

and expansion of the company's operations. 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 and offer improved and comprehensive services to end-customers.

Organisation of transport services

The majority of transactions in this segment are accounted for by the transport of cars and the associated spare parts. Revenues were down in 2019 as a result of reduced demand in the auto industry. The negative trends in the auto industry were predicted and expected, and therefore the Company adopted strategic guidance and increased activities in the area of customs services and fuel sales.

The objective is to maintain the current structure of customers and provide them professional support in logistics services, while attracting new customers who require comprehensive logistics services. Expected growth is in line with the growth of existing partners where, given current trends and the general global economic situation, no significant increase is expected.

Other

The category 'Other' includes fuel sales, which were up in 2019. An increase in revenues is planned in 2020, 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.



PASSENGER TRANSPORT

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

EUR thousand	2019	2018	Index
Operating revenues	112,952	103,329	109.3
Operating expenses	101,978	92,117	110.7
EBIT	10,974	11,212	97.9
EBIT margin, in %	9.7	10.9	89.0
EBITDA	23,938	23,786	100.6
EBT	10,845	10,886	99.6
ROE, in %	4.0	6.8	58.8
ROA, in %	2.3	4.2	54.8

Primarily higher revenues on the domestic and foreign markets, and higher revenues under the contract signed with the Slovenian government (compensation for the discharge of the PSO) contributed to the improvement in key performance indicators relative to 2018. Expenses were up by 10.7% primarily due to the costs of maintaining rolling stock, the maintenance of computers and systems due to the adaptation of the information system for IPT products, the leasing of locomotives, the costs of traction services, amortisation and depreciation, and increased costs due to additional traction work as the result of traffic disruptions.

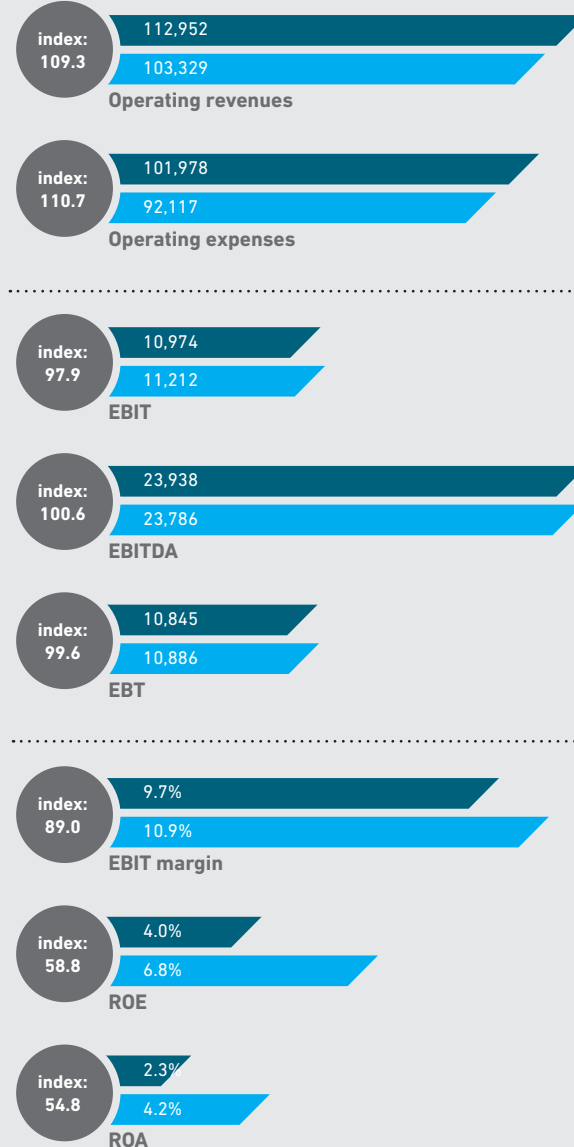
Pursuant to the Railway Transport Act and the Maintenance of Separate Accounts for Different Activities Act, separate accounting records are kept for PSO activities and other activities, where all revenues and expenses are consistently allocated to individual activities in accordance with the Criteria 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 2018/2019 timetable period, valid from 9 December 2018 to 14 December 2019, covered 591 train routes, including



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



EUR thousand 2019 2018

496 routes in inland rail transport and 95 routes in the territory of Slovenia in cross-border regional rail transport with Austria, Hungary, Croatia and Italy.



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.

In 2019, the methodology used for monitoring the market shares of public transport operators changed, since as of September 2019 the Statistical Office of the Republic of Slovenia (SORS) no longer monitors air traffic data due to the winding up of Slovenia's only airline. Only rail and public road traffic are taken into account when calculating market share. The proportion of the public operator market accounted for by railway transport stood at 56.8% (measured in PKM) in 2019, and was up slightly relative to 2018, primarily due to significantly fewer passenger kilometres in scheduled public road transport.

Despite accelerated investment in recent years, the rail infrastructure that we use is still not comparable with the 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 and other passenger segments resulted in a change in the monitoring of transport routes, which affects the number of 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 2018. There were 549 registered cars¹ per 1,000 inhabitants in 2018, 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 2019. 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.

Development of activities and results in 2019

The number of passengers carried was up by 2.6% relative to 2018, while there was a 6.5% increase in passenger kilometres.

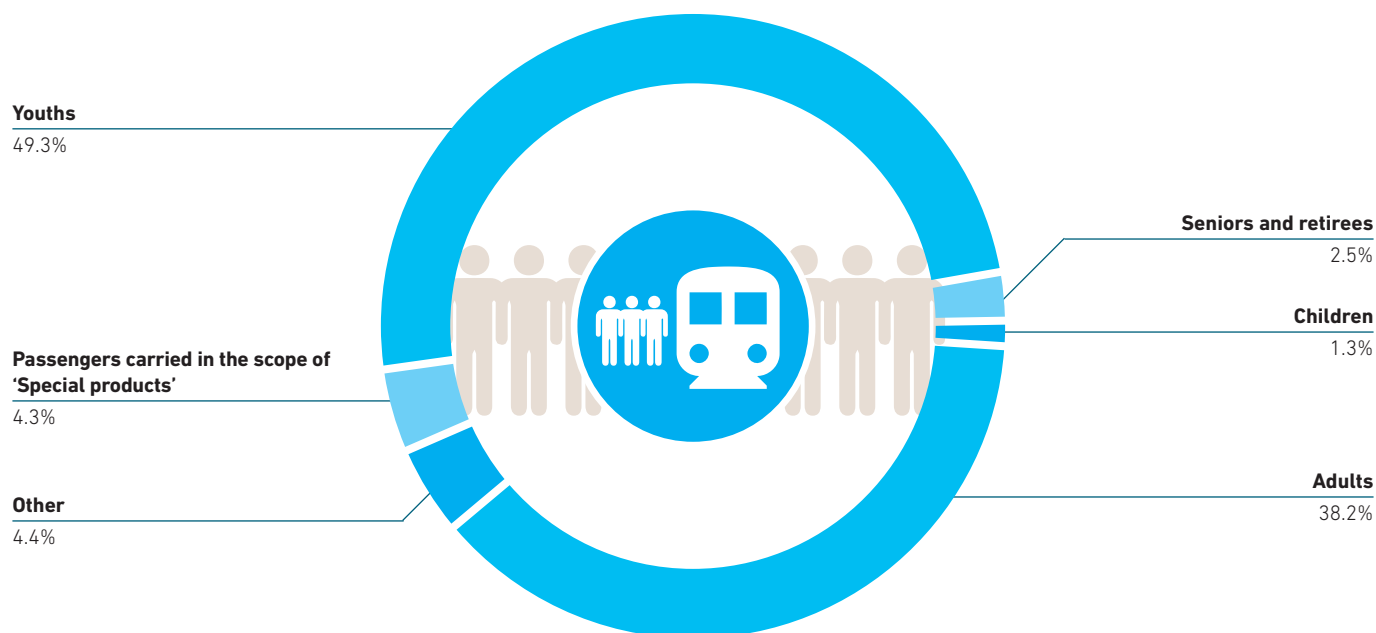
	2019	2018	Index
Number of passengers carried (thousand)	13,906.7	13,554.4	102.6
PSO	13,329.3	12,984.1	102.7
other activities	577.4	570.3	101.2
- inland transport	12,836.8	12,677.4	101.3
- international transport	1,069.9	877.0	122.0
Passenger kilometres (million)	698.3	655.9	106.5
PSO	688.3	645.9	106.6
other activities	10.0	10.0	100.0
- inland transport	530.9	523.7	101.4
- international transport	167.4	132.2	126.6
Train kilometres (thousand)	9,942.1	9,985.3	99.6
PSO	9,900.1	9,943.9	99.6
other activities	42.0	41.4	101.4
- inland transport	7,924.9	7,934.8	99.9
- international transport	2,017.2	2,050.5	98.4
Average distance travelled (km)	50.2	48.4	103.7
- inland transport	41.4	41.3	100.2
- international transport	156.5	150.7	103.8

Passengers carried in inland passenger transport accounted for 92.3% 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.

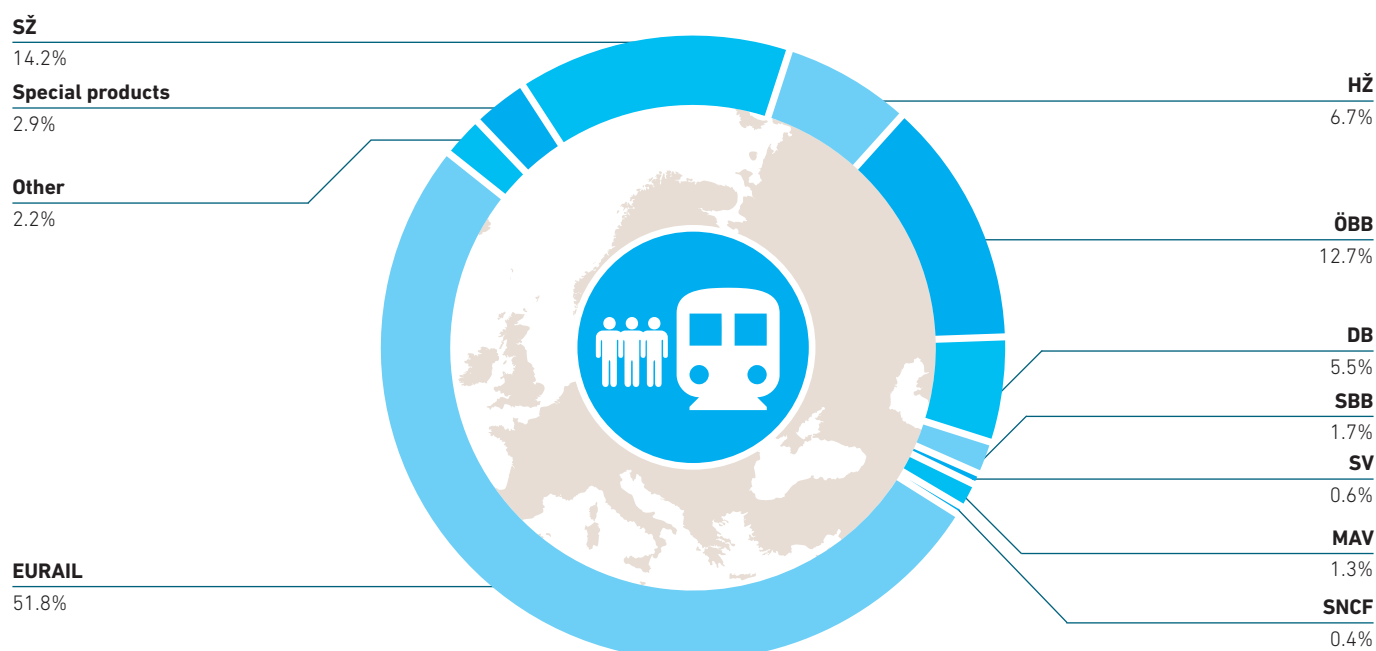
¹ Source: SORS; data for 2019 not yet available.



Passengers carried



Proportion of passengers carried by operator



A total of 13.3 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 51.6 kilometres for a total of 9,900.1 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 2019 due to alternative transport at the request of the public rail infrastructure manager, the closure of lines due to investment and maintenance works, and extraordinary events.

A total of 92.2% of all passengers were carried in the scope of the public service obligation 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 (7.8% of passengers carried) were Slovenia (dispatch of passengers from Slovenia) and Austria (ÖBB), followed by Croatia, Germany, Switzerland and Hungary.

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 Ministry of Infrastructure, as the contracting authority. The highest proportion of passengers carried comprises youths with seasonal rail passes (48.7% 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, which covers sales, assumed responsibility for the billing of all Inter-rail 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 2019 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. Particularly notable were offers featuring a limited number of low-price fares starting at EUR 8 for certain trains and times to Budapest, Vienna, Zurich, Prague, Munich and Frankfurt. On other lines there were an unlimited number of tickets to Trieste, Zagreb, Opatija, Rijeka, Pula, Belgrade, Skopje, Split, Šibenik and Zadar.

New developments – travel between Slovenia and Italy with an integrated cross-border online pass

In September 2018, direct trains began running again between Ljubljana and Trieste, with continuing service to the Trieste airport and Udine. On 1 March 2019, online sales began of the CONNECT2CE pass, an integrated cross-border pass that can be used to travel to Trieste using a single ticket. We developed the CONNECT2CE pass with Italian partners CEI and Trieste Trasporti in the scope of the European CONNECT2CE, INTERREG Central Europe project.

Presentation of services at trade fairs

In 2019, we attended the International Trade Fair in Celje, the international Natour Alpe Adria trade fair, the Third Age Festival, the All-Slovenian Trade Fair, Student Arena and the Children's Bazaar. We presented the current range of products and services, and benefits to passengers at the aforementioned fairs.

A wider range of services during the extended summer tourist season

Cross-border trains ran between Ljubljana and Pula every day during the summer, while the international 'Istra' train ran on Saturdays and Sundays from 20 April to 16 June, and every day from 22 June to 29 September. On the Koroška line, we introduced the possibility of transporting bicycles on Saturdays on all trains during June. The summer timetable included additional beach trains to Koper, and a night train also ran between Ljubljana and Maribor.

In international traffic, a night train ran between Budapest and Koper again during the summer, while a night train with a sleeper carriage ran between Ljubljana and



Belgrade. 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.

To several events by train

In cooperation with event organisers and local communities, visitors to various concerts, trade fairs, cultural and other events are encouraged to travel to those events by train. For organisers, this manner of transport means a reduced burden in organisational terms, and a contribution to environmental protection and the sustainable development of the local community on the one hand, while on the other hand, the extensive railway network in Slovenia allows visitors to travel to the direct vicinity of events in many places. Through two-way communication with event organisers and via 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.

Contributing to traffic safety and raising the awareness of children

At the beginning of the school year we increased the strictness of our safety measures, paying particular attention to those who were taking the train to school for the first time. We began the school year with two preventive campaigns on the first day of school: 'Safe Way to School by Train' and 'Correct Crossing of Railway Tracks', which included the Dunking Devils acrobatic team.

Trains with a rich animation programme

High-profile events that were organised in 2019 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, d. o. o. included:

- > rides to the Chocolate Festival with the Chocolate Queen;
- > rides to Thermana Laško with Little Mr and Miss Kingfisher;

- > rides to the Chocolate and Wine Festival in Podčetrtek with Little Lion from the Aqua Safari at the Aqualuna water park;
- > rides to the Medvode Festival with a mermaid;
- > rides with fairy-tale fairies to Fairy-Tale Land in Celje; and
- > rides on Slovenian rails with Santa Claus and the heritage train.

Travel by train to major festivals

In cooperation with major festivals in Slovenia, we organised and promoted train rides to festival events again in 2019. 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. Our traditional cooperation with Turizem Radovljica (the Chocolate Festival) was enhanced by the running of a "chocolate" heritage train between Ljubljana and Radovljica, including animation – the Chocolate Queen, who handed out sweet surprises to the passengers. At the Festival of Wine and Chocolate at Terme Olimia in Podčetrtek, the passengers were joined by Little Lion from the Aqua Safari at the Aqualuna water park.

Travel by train to several sporting events

We continued train rides in 2019 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 2019 in the scope of the transport of athletes and fans to sporting events included:

- > in May we were the official carrier for the pan-Slovenian women's running holiday, at the DM run for women;
- > in June we were the official carrier for Slovenia's largest recreational sports event, the Tuš Colour Run, which is intended for people of all ages and carries the message "live healthy through having fun";
- > 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

We continued in 2019 with a wide range of train rides under the slogan *Grem z vlakom* (I'm Taking the Train). Our range of comprehensive tourism programmes for groups is complemented by daily offers intended for all passengers. Links to destinations in Slovenia and Europe are available to users: trains travel non-stop every day directly from Slovenia to Zagreb, Belgrade, Graz, Vienna, Zurich, Munich, Salzburg, Villach, Innsbruck, Trieste, Trieste airport, Udine, Rijeka and Opatija.



Significant limitations and opportunities[®]

Prices and tariffs

The prices for inland passenger transport, which are state-controlled, were unchanged in 2019. 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.

Rolling stock

An agreement was signed in April 2018 on the purchase of new trains as follows: ten single-deck multi-system electric trains, ten double-deck, single-system electric trains and five diesel passenger trains with a total value of EUR 169 million, excluding VAT. An agreement was signed in 2019 on the purchase of twenty single-deck single-system electric trains and five diesel passenger trains with a total value of EUR 151 million, excluding VAT.

The oldest trains in the rolling stock fleet will be replaced by new trains. The latter will allow us to significantly improve the quality of products and services, as they will be more comfortable, 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.

In the autumn of 2019 we participated in the test operation of new passenger trains on a special track in Poland, and began training the train driving instructors and drafting the documentation for driver training and for maintenance and upkeep of the new units.

The first of twelve series 312 electric motor units (EMU) with newly installed retractable stairs was put into service in December 2019. The retractable stairs allow passengers easier entry to and exit from the stations. 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. The aforementioned agreement 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. Wi-Fi was installed in these units until the end of 2019, while work on the portal has continued in 2020.

Responsibility to passengers

Competition among the individual public transport operators is becoming increasingly stiff. The various limiting factors are associated with major investments, such as rolling stock. However, there are areas in which the Company could obtain a competitive advantage in the future without any major investments, particularly through good relations of staff with passengers, keeping the passenger cars and railway stations clean, simplifying access to purchasing digital tickets, reservations and other dimensions of ticketing, protection of privacy in public transport and digital operations, providing preventive health measures, etc.



USER SATISFACTION IMPROVED RELATIVE TO 2018, AS INDICATED BY THE HIGHER AVERAGE SCORE, WHICH WAS 3.58 IN 2019. ALL ELEMENTS OF THE QUALITY OF TRANSPORT SERVICES RECEIVED HIGHER SCORES, WHILE THE QUALITY OF STAFF STANDS OUT IN TERMS OF THE HIGHEST SCORES.

Ticketing

The upgrading and development of the rail ticketing system were completed in 2019. The upgrading of the ticketing system includes a comprehensive software solution for the implementation and maintenance of the ticketing system, comprising system and application software for the sale of tickets via mobile terminals and fixed points of sale, system integration and hardware.

In addition to the sale of various types of tickets online, in 2019 we introduced ticket sales via mobile phones using both Android and iOS operating systems.

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.

Activities are continuing in accordance with the Passenger Transport Strategy until 2031, which 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. The upgrading of the ticketing system is being completed, and will include the newly confirmed passenger tariffs. In addition to 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 – and thus further expand and improve the range of services provided to customers.

The integrated public transport (IPT) system, which allows users to use various types of transport and includes the use of both intracity and intercity public passenger transport, began operating in 2016 with the introduction of subsidised tickets for students. In 2019, the holders of

general seasonal passes were given the option to begin using IPT, while that option will be expanded in the future to other products, meaning that the single ticket will be available to all users of public transport services.

SŽ-Potniški promet, d. o. o. is participating in two European projects together with Slovenske železnice and Prometni institut Ljubljana, d. o. o. As part of the CONNECT2CE project, Interreg Central Europe, on 1 March 2019 an online integrated/multimodal cross-border ticket for trains and buses was introduced for the route between Ljubljana and Trieste. A cooperation agreement was signed with Croatian Railways under the CONNECT2CE project in order to promote rail traffic between Slovenia and Croatia.

The IN2STEMPO project continued in 2019 with the aim of improving access to trains through the use of new ticketing technologies to ensure the faster boarding of trains and the optimisation of work at stops.

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 conducted 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 the Slovenske železnice website from 28 October to 6 December 2019. We analysed 1,877 surveys completed by our passengers, of whom 333 stated that they had never travelled by train or do so very rarely. The latter were processed separately.

The responses indicated that a little less than a fifth of passengers take the train every day, and slightly more a few times a month. A full half of passengers take the train a few times a year. In terms of purpose, 56.5% of respondents take the train in their free time for excursions, travel, visiting others, to go shopping, etc., while a fifth travel to and from work by train and slightly less travel to and from school and university. The majority, or 67.6% of respondents, use a one-way or round-trip ticket, and 7.6% use a standard seasonal pass, while 14.4%



use a subsidised IPT pass for secondary school and university students. In terms of age structure the majority of respondents (47.2%) are between 31 and 50 years of age, while slightly more than 70% of respondents were women. The Central Slovenia region stands out in terms of population.

A total of 82.5% of respondents rated our services as good, very good and excellent in 2019.

Assessment of services (Ratings of good, very good and excellent expressed in %)	2015	2016	2017	2018	2019
Passenger transport	73	76	59	72	82

User satisfaction improved relative to 2018, as indicated by the higher average score, which was 3.58 in 2019. 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, and if tickets were more affordable.

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



TRACTION AND TECHNICAL SERVICES

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

EUR thousand	2019	2018	Index
Operating revenues	123,157	122,700	100.4
Operating expenses	122,780	122,455	100.3
EBIT	377	245	153.9
EBIT margin, in %	0.3	0.2	150.0
EBITDA	2,848	2,413	118.0
EBT	0	20	0.0
ROE, in %	0.0	0.1	0.0
ROA, in %	0.0	0.0	0.0

Operating revenues were up by 0.4% relative to the previous year. The primary objective of SŽ-VIT (Traction and Technical Services), which generated 88.6% 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 2019

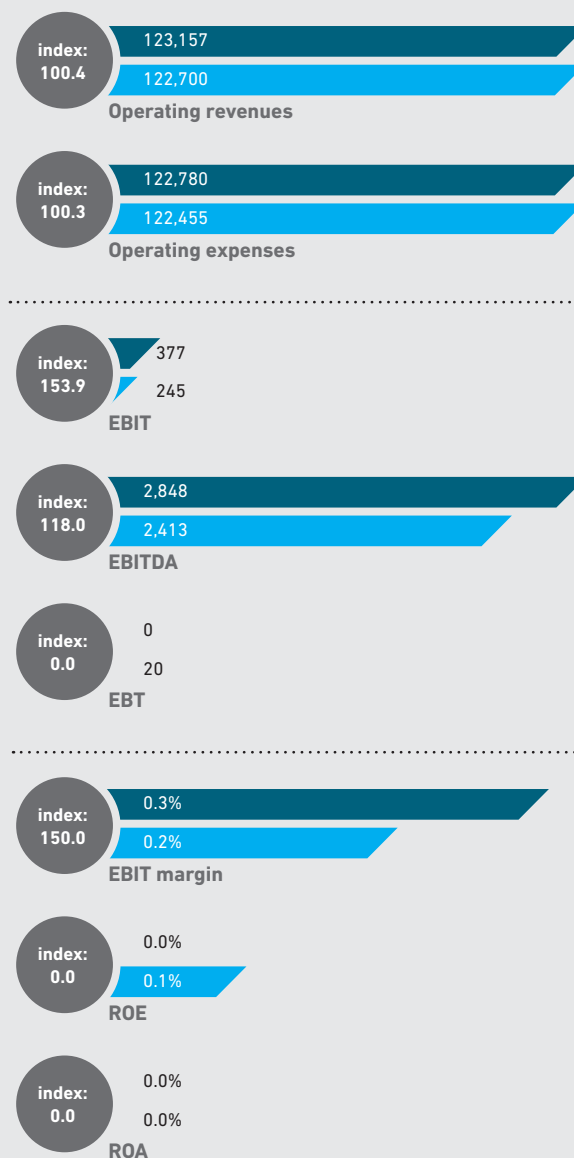
Maintenance activities

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 (74.8%). The largest customers for maintenance services for rolling stock were SŽ-Tovorni promet, d. o. o. (52.1%) and SŽ-Potniški promet, d. o. o. (43.1%).

Similar to the previous years, we again strove to increase our competitiveness and raise our profile on the wider European market and attract new customers in 2019. The proportion of sales accounted for by customers outside the Slovenske železnice Group was 25.2%. Of the aforementioned customers, more than 78.7% of sales were realised abroad, the majority on Western European markets. Revenues were up by 12.6% relative to the previous year. The main product for customers outside the Slovenske železnice Group in 2019 was again wheelset repair, followed by the periodic maintenance of freight wagons and tank cars.



OPERATING RESULTS SŽ-VIT, d. o. o.



EUR thousand 2019 2018

Traction

The main activity in this segment 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 54.6% and SŽ-Potniški promet, d. o. o. accounting for 45.4%). 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 in freight transport remained at the 2018 level, while the amount of work using diesel traction decreased. The amount of work using electric motor units in passenger transport increased, while work using diesel motor units decreased. This led to a significant decrease in greenhouse gas emissions and reduced adverse impacts on the environment.

Wagon Technical Services (WTS)

Wagon Technical Services is one of the rail activities in which we participate directly in the provision of rail transport. Its primary tasks 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.

All wagon technical services are provided for the needs of operators in the Slovenske železnice Group (SŽ-Tovorni promet, d. o. o. accounting for 82.5 % and SŽ-Potniški promet, d. o. o. accounting for 17.5%).

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 and the age structure of employees.

The company's opportunities lie in growth in the scope of 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	2019	2018	Index
Operating revenues	169,603	179,454	94.5
Operating expenses	166,749	175,533	95.0
EBIT	2,854	3,921	72.8
EBIT margin, in %	1.7	2.2	77.3
EBITDA	5,858	6,294	93.1
EBT	2,901	3,606	80.4
ROE, in %	13.5	16.9	79.9
ROA, in %	2.7	4.1	65.9

Pursuant to the Railway Transport 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, while the validity of the safety certificate was extended in 2019 until 31 May 2024.

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.

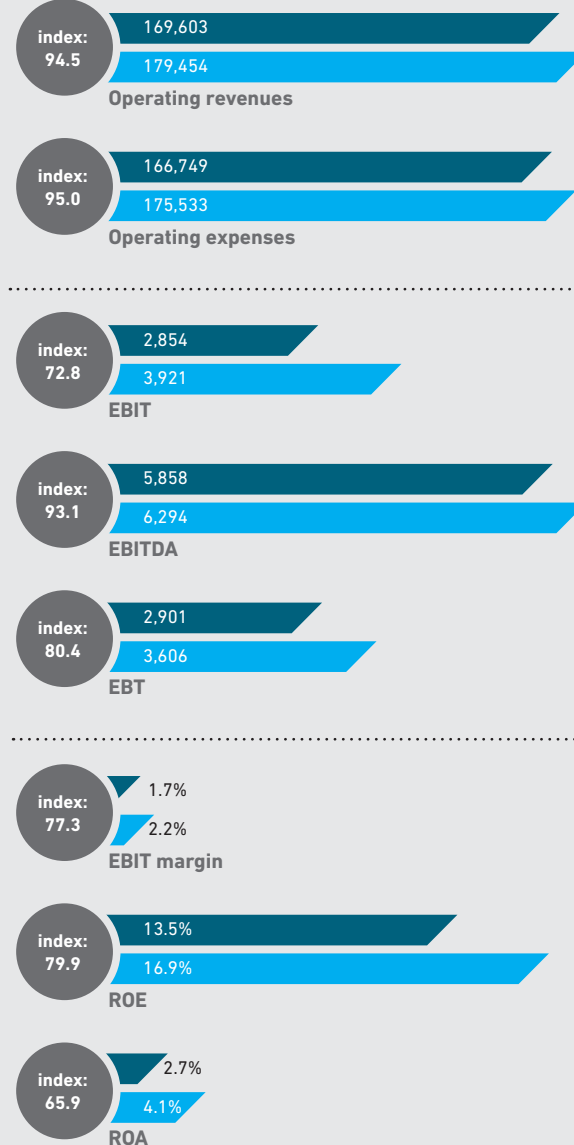


Competitive position[®]

The development of a sustainable transport system is a precondition for the development of a modern society. Mobility significantly impacts the competitiveness of national economies and the quality of life of citizens. Transport is



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



EUR thousand 2019 2018

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. All of the above-described findings also apply to the EU. 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.

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

The basis for the strategy for the development of the public rail infrastructure in the Republic of Slovenia was established by the Resolution on the National Programme for the Development of Transport of the Republic of Slovenia until 2030 (Official Gazette of the Republic of Slovenia, No 75/2016), based on which a six year sliding operational plan for investments in the rail infrastructure was drafted taking into account the main requirements of Regulation (EU) No 1315/2013 of the European Parliament and of the Council of 11 December 2013 on Union guidelines for the development of the trans-European transport network. 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 redirect 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 Slovenske železnice'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 allow complete accessibility, interoperability and thus high-quality public transport services, as clock-face timetabling and thus more frequent passenger transport is not facilitated on certain frequently used sections. There is still a risk of a shift in transit flows of goods to parallel networks through Italy, Austria, Hungary or Croatia. However, the pace of the upgrading of the railway network gives us an encouraging signal that this will not happen. There is also an increased risk of an outflow of freight goods via port transit to North Sea ports. Due to the inadequate maximum axle load on certain sections of the tracks, some cargo is already being redirected to routes bypassing Slovenia. In the rail freight corridors (RFC) that run through Slovenia (Mediterranean, Baltic–Adriatic and Amber rail freight corridors), track load class D4 (with an axle load of 225 kN) has yet to be ensured on a particular section of the line between Židani Most and Šentilj. However, current investments on this section promise an improvement in the situation by 2020. The level of electrification of the public rail infrastructure 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.

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.

We signed a multi-year agreement with the government in 2016 on the provision of services by the manager of the public rail infrastructure for the period from 1 January 2016 to 31 December 2020, which is a requirement of EU regulations. The agreement also includes the amount of funds earmarked for financing the public service obligation of the maintenance and operation of the public rail infrastructure during the aforementioned period. This enabled the harmonisation of the technical and financial planning that is required for more effective and rational operations of the performers of public service obligations.

Investments in the public rail infrastructure are proceeding according to plan, while current and planned investments in the coming years and the implementation thereof will allow the Republic of Slovenia to provide a high-capacity, interoperable, safe, competitive, intermodal and environmentally-friendly railway network.

Development of activities and results in 2019

Maintenance works on the public rail infrastructure

Maintenance of the public rail infrastructure in 2019 primarily included maintenance in order to preserve normal operating capacities and ensure traffic safety. We performed maintenance of railway stations and stops, monitored the status of the public rail infrastructure, made provisions for ensuring the usability of tracks in the event of natural and other disasters, took measurements of infrastructure elements and parts of the system, and conducted phased technical inspections of all of the components of the public rail infrastructure. The infrastructure manager participated in the setting out and preparation of the worksites so that the maintenance work on the public rail infrastructure could be carried out to the extent specified in the annual maintenance plan, and provided safe and well-regulated rail traffic.

In 2019 we complied with 15 inspection decisions, of which 11 were decisions of the forestry inspectorate ordering the clearing of dead and damaged trees in the

forests within the public rail infrastructure, one decision of the infrastructure inspectorate, which ordered clearing of vegetation in the railway track zone, two decisions of the food safety, veterinary and plant safety inspectorate relating to the removal of ragweed along the track and one decision of the labour inspectorate relating to the use of helmets at a worksite.

The regular maintenance of signalling and safety devices in 2019 included the elimination of irregularities in station signalling devices (mechanical, electromechanical, electrical relay and electronic), automatic block signalling (ABS) and automatic level-crossing (ALC) safety devices, switch-point heating systems, European Train Control System (ETCS) devices, shunting equipment, remote control systems, rail vehicle detectors, electronic alarms and corresponding construction elements. Worn equipment was replaced in the scope of maintenance.

The regular maintenance of telecommunications devices in 2019 included railway telephone equipment and switchboards, 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.

Maintenance of electrical power installations in 2019 included maintenance of the overhead line system, power supply system and electrical installations, and inspections of the elements of the overhead line system, landslide warning equipment and the overhead line.

Maintenance of the power supply system included inspections of the transmission lines, the feeder stations and the control centres for fixed electrical traction installations.

The regular maintenance of electrical installations included the maintenance of electrical power systems and lines, exterior lighting, lightning conductors, inspections of transformer stations, inspections of electrical equipment, the conducting of prescribed measurements and smaller-scale emergency repairs.

Renovation of the public rail infrastructure

In the scope of renovating the public rail infrastructure in 2019, we as the manager repaired and upgraded individual public rail infrastructure subsystems or parts thereof, without changing their operating methods or purposes.

As manager, we renovated the public rail infrastructure structures 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 technical tasks linked to those works.

Major works aimed at the renovation of the public rail infrastructure continued in 2019 and included the following:

- > replaced 10 switch points with new 60E1 switch point systems on concrete sleepers;
- > on the Brežice–Krško section we partially renovated the track through machine seeding of the track bed;
- > replaced the bridge ties on the left-hand track on the steel bridge in Litija;
- > facilitated category D4 on the Zidani Most–Šentilj no. 30 line;

- > protected slopes in the Zagorje–Sava inter-station section against falling materials and rocks using a rock-fall protection system;
- > built additional main signals on tracks 71, 72 and 73 at the Ljubljana Zalog station (Phase 2);
- > refurbished the worn safety signalling devices at the Prvačina station (Phase 1);
- > replaced the mechanical signals with light signals at the Prevalje station;
- > replaced the telephone switchboards in Ljubljana, Zalog and Kranj;
- > upgraded control centres for fixed electrical traction installations;
- > partially renovated the overhead line system at the Ilirska Bistrica station and replaced the fastening elements in the tunnels on the Prešnica–Koper line;
- > replaced the overhead line between the Novo Mesto and Mirna Peč stations.

Management, control and maintenance of passenger stations and stops on the public rail infrastructure

The public rail infrastructure manager provided the optimal performance of works in 2019 relating to cleaning, security, landscaping, regular and emergency maintenance, management (operating costs) and maintenance of auxiliary equipment of structures at railway stations and stops.

Volume sold

	2019		2018	
	Hours	Structure	Hours	Structure
Number of maintenance hours				
- PRI maintenance work	1,502,769	89.0	1,500,636	89.9
- replacements in the scope of PRI maintenance work	19,618	1.2	29,370	1.8
- other activities	166,336	9.8	137,467	8.3
Total	1,688,723	100.0	1,667,473	100.0
Number of hours worked by department				
- track maintenance	882,044	52.2	863,094	51.8
- maintenance of SS and TC devices	545,042	32.3	540,789	32.4
- electrical system maintenance	261,637	15.5	263,590	15.8
Total	1,688,723	100.0	1,667,473	100.0



Breakdown of costs by maintenance activity

EUR thousand	2019	2018	Index
Public service obligation	91,920	88,221	104.2
Track maintenance	52,173	49,891	104.6
Maintenance of SS and TC devices	27,414	25,805	106.2
Maintenance of overhead lines and electrical system structures	12,333	12,525	98.5
Housing and buildings without the status of PRI	415	479	86.6
PRI management	1,127	1,300	86.7
Total	93,462	90,000	103.8

Management of the public rail infrastructure

Public rail infrastructure management tasks included marketing services that comprise: the marketing of commercial premises in public rail infrastructure buildings and stations, the sale of land, the sale of advertising space in the public rail infrastructure, the sale of apartments in public rail infrastructure buildings and stations, the marketing of the telecommunications system, the sale of materials and spare parts, and easements. Public rail infrastructure management includes real estate management and the keeping of records regarding all real estate owned by the Republic of Slovenia (public rail infrastructure), the keeping of land records and the granting of approvals for work in the protected area of the track bed.

Scope of engineering services

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 the aforementioned company is hired for the implementation of works by the Ministry of Infrastructure as contracting authority.

In the area of engineering in 2019 we continued with:

- > the upgrading of the railway line on the Zidani Most–Celje section;
- > field work in the project to modernise the Kočevje line (2nd phase/2nd stage);

- > work in the implementation of remote traffic control on public rail infrastructure lines for the national border–Dobova–Zidani Most–Ljubljana and Zidani Most–Šentilj–national border sections;
- > works as engineer for the agreement on the provision of engineering services in the upgrading of a section of the Poljčane–Slovenska Bistrica line;
- > construction work on “Upgrading a section of the Poljčane–Slovenska Bistrica railway line” – relocation of a regional road in Spodnja Brežnica pri Poljčanah and preparatory works for the renovation of the Slovenska Bistrica railway station;
- > work on the project “Installation of ERTMS/ETCS on the national border–Dobova–Zidani Most and Prager-sko–Maribor lines”;
- > work on the project “Implementation of noise-reducing measures on the existing Divača–Koper line”;
- > participation in the design for the upgrade to the Ljubljana–Borovnica and Rakek–Postojna sections, and outside the exterior level crossings at the Borovnica, Prestranek and Pivka stations;
- > participation in the design for the upgrade to the Kranj–Jesenice section, including the renovation of the Slovenski Javornik and Žirovnica stations;
- > participation in the preparation of technical bases for the upgrading of regional lines and the LUR.

Scope of services in connection with the functioning of the public rail infrastructure

In terms of the functioning of the public rail infrastructure, all tasks deriving from the public service obligation

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.

of traffic control 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 operating fees;
- > 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.

On the basis of the adopted and approved 2018/2019 network timetable, the rail 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.

Number of training hours for operational staff for the PSO of traffic control

Traffic control	Number of training hours		
	2019	2018	Index
Traffic control and coordination from TMC	2,660	2,376	112.0
Local traffic control at stations	17,964	17,994	99.8
Securing of train paths	1,914	1,856	103.1
Securing of level crossings	164	152	107.9
Management of train paths and levying of infrastructure charges	0	0	0
Total	22,702	22,378	101.4

Actual occupancy of service points – number of hours

Upravljanje železniškega prometa	Occupancy of service points – number of hours		
	2019	2018	Index
Traffic control and coordination from TMC	122,483	122,499	100.0
Local traffic control at stations	861,981	866,915	99.4
Securing of train paths	177,655	182,674	97.3
Securing of level crossings	18,388	19,107	96.2
Management of train paths and levying of infrastructure charges	13,944	0	0
Total	1,194,451	1,191,195	100.3

Significant limitations and opportunities[®]

Significant limitations in the management of the public rail infrastructure primarily include the low level of mechanisation in maintenance work and the low level of computerisation of 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 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 public rail infrastructure 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 public rail infrastructure 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.

CONSTRUCTION

Breakdown of operating results of the SŽ-Železniško gradbeno podjetje, d. d. Group

EUR thousand	2019	2018	Index
Operating revenues	71,000	49,919	142.2
Operating expenses	66,384	47,502	139.7
EBIT	4,616	2,417	191.0
EBIT margin, in %	6.5	4.8	135.4
EBITDA	7,078	4,257	166.3
EBT	4,477	2,364	189.4
ROE, in %	16.7	9.7	172.2
ROA, in %	8.7	5.3	164.2



Competitive position®

Given its core activity, the company's position in Slovenia is very specific, as it has only two major customers for works on the rail infrastructure: SŽ-Infrastruktura, d. o. o., which assumed the role of manager of the public rail infrastructure from the Republic of Slovenia, and the Infrastructure Directorate of the Republic of Slovenia, all of this in the context of stiff competition between domestic service providers who, in response to a lack of work in other areas of construction in recent years, have been drawn to railway projects, and increasingly innovative construction companies from the EU and third countries, in particular from Spain, Croatia, Hungary, Turkey and China. Competition between providers of construction works on the rail infrastructure has increased further recently.

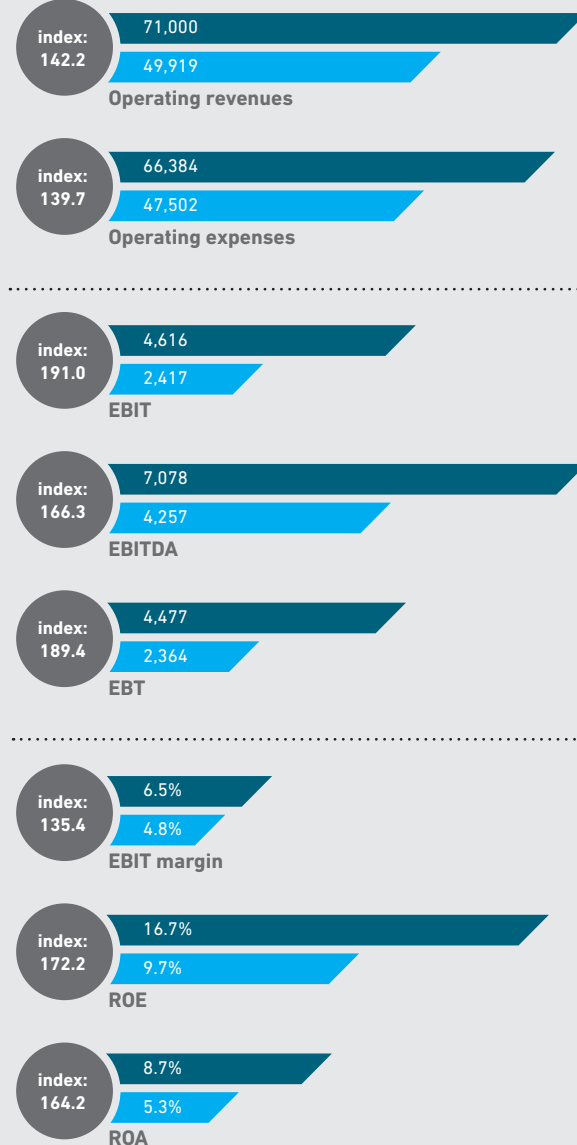
The value of completed construction works has increased in the last few years, and though a slowdown in construction is expected in the coming year, it is expected to remain on a relatively high level.

Development of activities and results in 2019

Growth in construction investments was notably lower than the previous year. After recording high growth at the beginning of the year, growth in investments in the commercial building and civil engineering segments saw the most significant slowdown during the remainder of the year.



OPERATING RESULTS OF SŽ-ŽELEZNIŠKO GRADBENO PODJETJE D.D. GROUP





The value of construction works performed in 2019 was up by 3.3% relative to 2018, while growth was 16.6 percentage points lower than the previous year. The value of construction works performed on buildings was up by 3.4% relative to 2018, while the value of civil engineering works was up by 3.2%.

Despite the expected economic crisis in the coming years and annual fluctuations, we expect sufficient supply of projects and works in Slovenia and the wider region 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.

The company was successful in 2019 in securing business for 2020. A total of 80% of planned work for 2020 was secured. A major portion of those transactions comprises state-sponsored projects that are partially financed through European funds, and a project to modernise the rail and port infrastructure in Rijeka, Croatia.

In terms of investments in the public rail infrastructure, major projects from the current financial perspective for the period 2014–2020 (2023) are expected to be completed by 2023. Of great importance for the long-term stability of SŽ-ŽGP Ljubljana, d. d.'s operations are the scope and timing of projects on the public rail infrastructure from the financial perspective for the period 2020–2027.

Significant limitations and opportunities®

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

- > economic consequences of the coronavirus epidemic;
- > 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 public rail infrastructure maintenance works within the Slovenske železnice Group.

Also representing significant limitations in forecasts are continuous fluctuations in the scope of investments in the rail infrastructure, the qualifications required to operate on foreign markets, stiff competition in rail infrastructure transactions, and the associated drop in prices and the resulting deterioration in the commercial and financial position of the company.

Opportunities lie in expansion to foreign markets and complementary activities, the rationalisation of operations, 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	Slovenske železnice, d. o. o.		SŽ-ŽIP Group		Prometni institut, d. o. o.		Železniška tiskarna, d. d.	
	2019	2018	2019	2018	2019	2018	2019	2018
Operating revenues	54,360	31,302	31,886	29,883	1,297	1,378	461	516
Operating expenses	40,386	27,250	31,692	29,829	1,039	1,076	520	506
EBIT	13,974	4,052	194	54	258	302	-59	10
EBIT margin, in %	25.7	12.9	0.6	0.2	19.9	21.9	-12.8	1.9
EBITDA	15,741	5,501	1,198	688	294	319	-11	41
EBT	19,745	20,964	64	4	258	302	-60	12
ROE, in %	4.4	7.0	0.8	0.1	39.2	45.5	-6.6	1.2
ROA, in %	2.3	3.3	0.3	0.0	22.0	25.4	-5.4	1.0

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-effective services for the needs of Slovenske železnice Group companies as customers.

Development of activities and results in 2019

The main 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 largest part of the revenues generated by Slovenske železnice, d. o. o. in the 2019 financial year were revenues associated with products and services (on the basis of Annex 1 to the agreement between Slovenske železnice, d. o. o., SŽ-Potniški promet, d. o. o. and a consortium comprising Stadler Polska Sp. Z. o. o. and Stadler Bussnang AG) regarding outstanding benefits, which was Slovenske železnice, d. o. o.'s objective. Despite the tendered price and the status of the public contract award procedure, due to its perception of the importance of entering the Balkan market in the area of passenger and freight transport, the supplier was prepared to offer additional benefits amounting to

EUR 29,996 thousand. Also representing a significant proportion are revenues from support services for the Management Board, charged to companies in the Slovenske železnice Group on the basis of SLAs, revenues from real estate management and marketing (rent from storage premises, land, advertising space, rent from non-profit flats, rent from holiday homes, workers' hostels and other buildings) and revenues from the sale of real estate.

Slovenske železnice, d. o. o.'s operating revenues were up by EUR 23,058 thousand relative to 2018. By excluding the effect of one-off events in both comparative years (in 2019 Annex 1 regarding unpaid benefits between Slovenske železnice, d. o. o. and Stadler, amounting to EUR 29,996 thousand, and in 2018 EUR 7,563 thousand in revenues from products and services – returned superficies on land for the Emonika project), operating revenues increased by EUR 625 thousand.

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.

employees, and in the optimisation of business processes in the context of the use of an integrated 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 in the context of the continuous changing of business processes, and the implementation of other projects in connection with the implementation of the digitalisation programme. 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.



Significant limitations and opportunities®

Significant limitations in support activities currently lie in the inappropriate age and education structure of



> ANALYSIS OF FINANCIAL POSITION

ASSETS, EQUITY AND LIABILITIES

The total assets of the Slovenske železnice Group amounted to EUR 984,548 thousand at the end of December 2019, an increase of 10.0% relative to the previous year. Assets were up primarily due to the payment

of a non-current advance and contractual obligations for fixed assets (upgrading of passenger transport rolling stock) by the subsidiary SŽ-Potniški promet, d. o. o. in the amount of EUR 187,265 thousand. Explanations in this regard are also provided in individual balance-sheet items presented below and in the financial report.

Assets (EUR thousand)	2019	2018	Difference	Index
ASSETS	984,548	895,349	89,199	110.0
Non-current assets	719,258	487,927	231,331	147.4
Intangible assets; property, plant and equipment; investment property	390,032	368,070	21,962	106.0
Investments	15,709	15,328	381	102.5
Non-current receivables	313,517	104,529	208,988	299.9
Current assets	265,290	407,422	-142,132	65.1
Assets held for sale	333	117	216	284.6
Inventories	35,862	32,873	2,989	109.1
Current financial receivables	6,716	60,272	-53,556	11.1
Current operating receivables	204,571	132,638	71,933	154.2
Cash and cash equivalents	17,808	181,522	-163,714	9.8

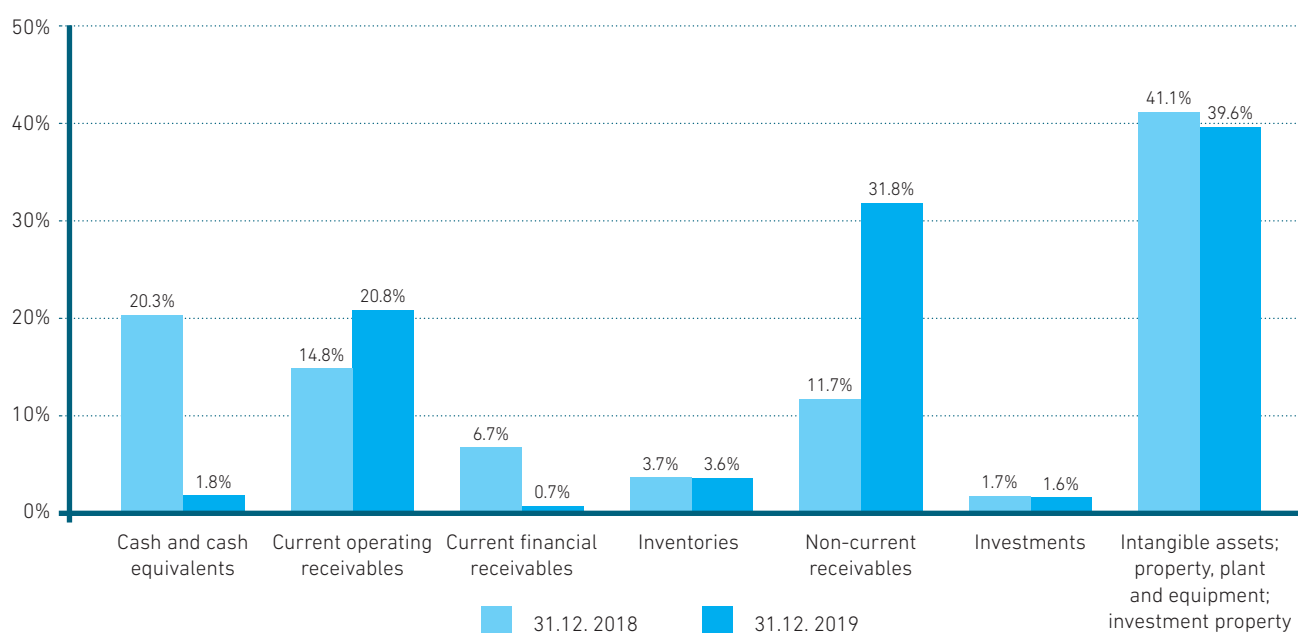
Note:

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 332,219 thousand accounts for the largest proportion of non-current assets (46.2%). Rolling stock accounts for

EUR 195,848 thousand of the aforementioned amount. Property, plant and equipment was up by 8.1% or EUR 24,785 thousand relative to the previous year.



Non-current receivables account for 43.6% of non-current assets. Non-current financial receivables amounted to EUR 61,153 thousand. EUR 40,152 thousand of that amount related to the agreement on the assignment of claims for consideration and a deposit by SŽ-Potniški promet, d. o. o. in the amount of EUR 17,990 thousand.

The majority of non-current operating receivables are accounted for by receivables in connection with passenger transport in the amount of EUR 238,263 thousand that relate to the payment of an advance and contractual obligations to the supplier for the purchase of new rolling stock. Of that amount, EUR 50,998 thousand was paid in 2018, while the remainder (EUR 187,265 thousand) was paid in 2019.

Current operating receivables account for 77% of current assets and were up by EUR 71,933 thousand relative to

2018. That increase relates primarily to other current operating receivables, which were up by EUR 30,492 thousand (transfer of the benefits of negotiations) and an increase in current accrued income of EUR 15,207 thousand (the majority from traffic disruptions), while domestic and foreign trade receivables, current operating receivables based on advances and receivables from state and other institutions were up by EUR 13,285 thousand, EUR 7,363 thousand and EUR 3,197 thousand respectively.

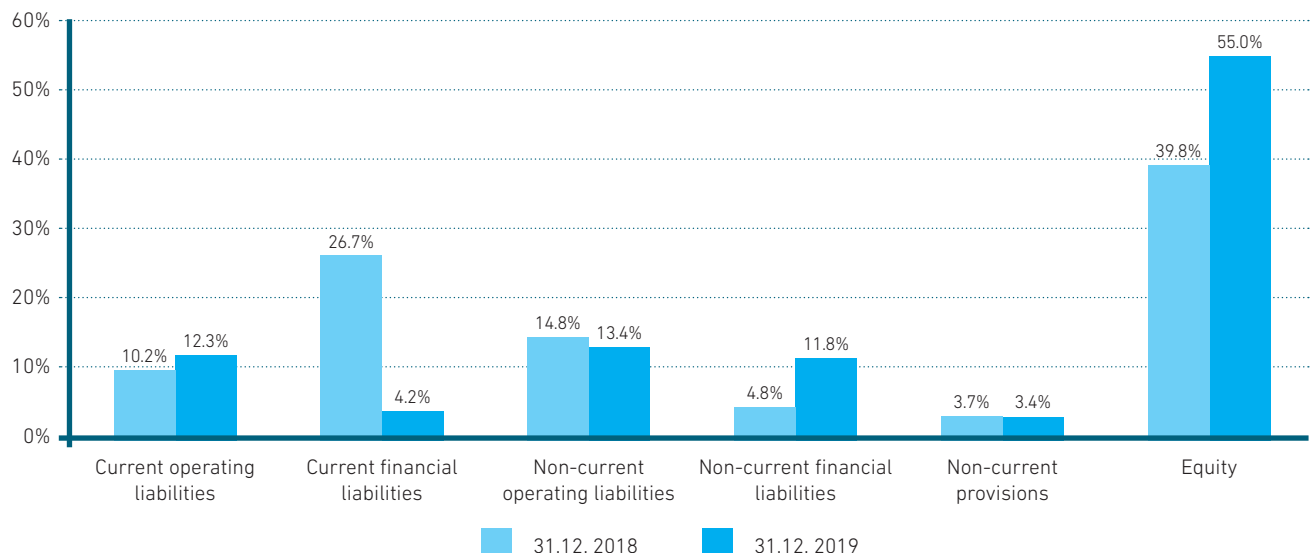
Cash and cash equivalents, which account for 6.7% of current assets, were down by EUR 163,714 thousand, primarily due to the payment of an advance and contractual liabilities to the supplier for the purchase of new passenger transport rolling stock. Inventories accounted for 13.5% of current assets and amounted to EUR 35,862 thousand.

Equity and liabilities (EUR thousand)	2019	2018	Difference	Index
EQUITY AND LIABILITIES	984,548	895,349	89,199	110.0
Equity	541,145	356,024	185,121	152.0
Non-current liabilities	281,452	208,272	73,180	135.1
Non-current provisions	33,399	33,111	288	100.9
Non-current financial liabilities	115,849	42,663	73,186	271.5
Non-current operating liabilities	132,204	132,498	-294	99.8
Current liabilities	161,951	331,053	-169,102	48.9
Current financial liabilities	41,006	239,327	-198,321	17.1
Current operating liabilities	120,945	91,726	29,219	131.9

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 35,030 thousand), the payment of a share in profits for 2018 (EUR 3,000 thousand) and an actuarial loss from the calculation of provisions for termination benefits at retirement (EUR 653 thousand) and a capital increase (EUR 154,255 thousand).

Long-term and current financial liabilities amount to EUR 156,855 thousand, down EUR 125,135 thousand on the previous year (in 2018 they stood at EUR 281,990 thousand, where EUR 154,255 thousand were current financial liabilities from the payment of capital until entry in the companies register). Current financial liabilities therefore fell by EUR 198,321 thousand, while long-term financial liabilities increased by EUR 73,186 thousand, primarily due to the drawdown of two new loans (amounting to EUR 15,000 thousand for the redundant worker programme and EUR 74,000 thousand taken out on behalf of SŽ-Tovorni promet, d. o. o.). Long-term financial liabilities also increased as a consequence of the new IFRS 16

standard, since as of 1 January 2019 loans are accounted on the liabilities side under financial liabilities (the largest amount of loans in the Slovenske železnice Group relates to SŽ-Tovorni promet, d. o. o., EUR 13,892 thousand).

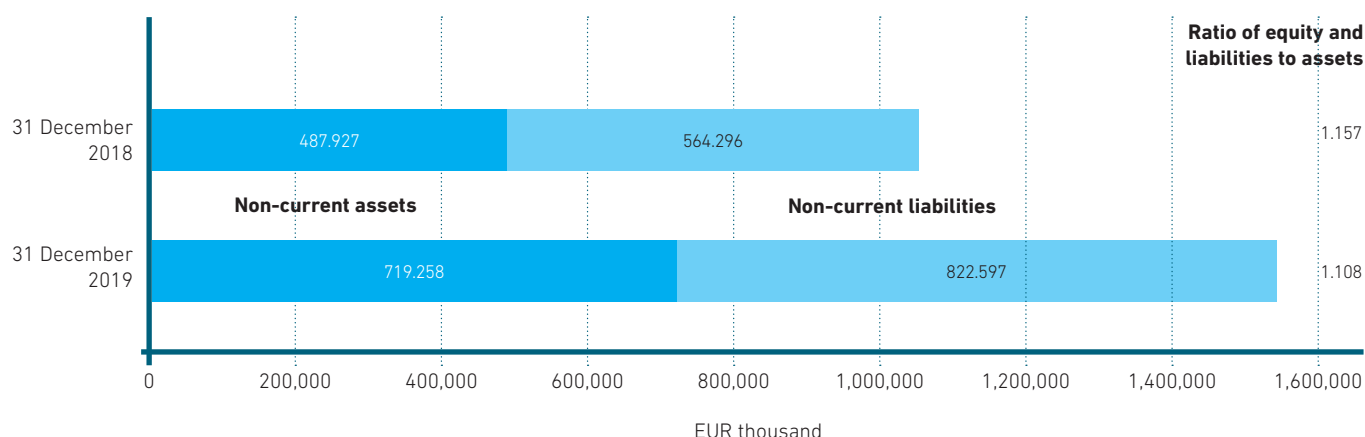
Financial liabilities changed under repayment of loans (EUR 84,564 thousand), negative exchange rate differences (EUR 1,096 thousand) and liabilities for interest (EUR 76 thousand).

Current operating liabilities were down by EUR 294 thousand, primarily due to lower other non-current operating liabilities, while current operating liabilities were up by 31.9% or EUR 29,219 thousand. According to the situation at the end of the year, more than one-quarter of current operating liabilities was accounted for by trade payables (EUR 35,608 thousand), one quarter by liabilities to employees (EUR 30,900 thousand) and nearly one sixth by accrued costs and deferred income (EUR 18,508 thousand), the majority of which were accrued costs (unused leave).

FINANCING OF NON-CURRENT INVESTMENTS

EUR thousand	2019	2018	Difference	Index
Current assets	265,290	407,422	-142,132	65.1
Current liabilities	161,951	331,053	-169,102	48.9
Working capital	103,338	76,369	26,969	135.3

Ratio of non-current assets to equity and liabilities





WORKING CAPITAL AMOUNTED TO EUR 103,338 THOUSAND AT THE END OF 2019 AND WAS UP BY EUR 26,969 THOUSAND RELATIVE TO THE END OF 2018.

The debt ratio expressed as the ratio of net debt to material assets stood at 27.0% at the end of 2019, and was down relative to 2018 (11.2%).

Working capital amounted to EUR 103,338 thousand at the end of 2019 and was up by EUR 26,969 thousand relative to the end of 2018. The results of financing are also expressed by the ratio of current assets to current liabilities, which amounted to 1.638 at the end of 2019, compared to 1.231 at the end of 2018.

Cash flows

The Slovenske železnice Group generated a positive cash flow from operating activities in the amount of EUR 35,813 thousand in 2019, which was positively affected by net profit (EUR 35,030 thousand) and adjustments (EUR 50,140 thousand), primarily due to amortisation/depreciation, and negatively by changes in net working capital in the amount of EUR 49,357 thousand (of which EUR 73,296 thousand was accounted for by an increase in operating receivables and EUR 328,439 thousand by an increase in operating liabilities).

Cash flow from investing activities was negative in the amount of EUR 192,614 thousand due to outflows from investing activities of EUR 260,308 thousand (most of which was accounted for by acquisition of property, plant and equipment) and inflows from investing activities of EUR 67,694 thousand (most of which was accounted for by the disposal of financial assets).

Cash flow from financing activities was negative in the amount of EUR 6,913 thousand due to outflows from financing activities of EUR 339,063 thousand (the payment of financial liabilities in the amount of EUR 326,898 thousand, the payment of lease liabilities in accordance with IFRS 16 in the amount of EUR 5,632 thousand and the payment of dividends and shares in profits in the amount of EUR 3,465 thousand) and inflows from financing activities of EUR 332,150 thousand (inflows from the increase in financial liabilities).

The balance of cash and cash equivalents fell from EUR 181,522 thousand to EUR 17,808 thousand on account of an increase in capital in the form of a cash contribution.





> PROFIT AND LOSS BY INDIVIDUAL COMPANY/ACTIVITY

EUR thousand	Slovenske železnice Group			SŽ-Tovorni Promet Group		
	2019	2018	Index	2019	2018	Index
Operating revenues	601,009	561,945	107.0	191,763	193,120	99.3
Net sales revenue	443,472	422,888	104.9	174,124	178,061	97.8
- Revenues on the domestic market	259,591	235,316	110.3	19,797	18,919	104.6
: Transport revenues on the domestic market	33,199	32,895	100.9	7,339	7,466	98.3
: Other revenues on the domestic market	101,583	79,098	128.4	12,458	11,453	108.8
: Contracts with the Slovenian government	124,809	123,323	101.2	0	0	
- Revenues on the foreign market	183,881	187,572	98.0	154,327	159,142	97.0
: Transport revenues on the foreign market	151,348	154,719	97.8	148,988	153,236	97.2
: Other revenues on the foreign market	32,533	32,853	99.0	5,339	5,906	90.4
Changes in values of inventories of finished goods and work in progress	-1,240	-67		0	0	
Capitalised own products and services	27,777	36,262	76.6	15	121	12.4
Other operating revenues	131,000	102,862	127.4	17,624	14,938	118.0
of which: contracts with the Slovenian government	68,978	56,695	121.7		0	
Operating expenses	558,878	525,675	106.3	184,354	182,844	100.8
Historical cost of goods and materials sold	1,353	1,450	93.3	39	37	105.4
Costs of materials	47,051	51,986	90.5	2,640	2,692	98.1
Energy costs	29,355	30,628	95.8	14,516	15,395	94.3
Costs of services	148,961	136,226	109.3	93,989	101,235	92.8
Labour costs	276,023	259,302	106.4	44,807	41,142	108.9
Amortisation/depreciation	44,997	37,374	120.4	21,999	16,108	136.6
Other operating expenses	11,138	8,709	127.9	6,364	6,235	102.1
Operating profit or loss (EBIT)	42,131	36,270	116.2	7,409	10,276	72.1
Finance income	2,718	2,560	106.2	458	384	119.3
Finance costs	4,301	7,427	57.9	3,015	1,903	158.4
Net finance income/costs	-1,583	-4,867	32.5	-2,557	-1,519	168.3
Pre-tax profit or loss	40,548	31,403	129.1	4,852	8,757	55.4
Current tax	4,472	1,602	279.2	6	7	85.7
Deferred taxes	1,046	65		18	-10	
Corporate income tax	5,518	1,667	331.0	24	-3	
Net profit or loss	35,030	29,736	117.8	4,828	8,760	55.1



Fersped, d. o. o.			VV-LOG, d. o. o.			SŽ-Potniški promet, d. o. o.		
2019	2018	Index	2019	2018	Index	2019	2018	Index
20,639	23,190	89.0	3,485	3,910	89.1	112,952	103,329	109.3
20,444	23,114	88.4	3,462	3,906	88.6	37,236	36,196	102.9
8,200	8,394	97.7	2,453	2,785	88.1	30,201	29,772	101.4
0	0		0	0		28,110	27,565	102.0
8,200	8,394	97.7	2,453	2,785	88.1	2,091	2,207	94.7
0	0		0	0		0	0	
12,244	14,720	83.2	1,009	1,121	90.0	7,035	6,424	109.5
0	0		0	0		6,191	5,663	109.3
12,244	14,720	83.2	1,009	1,121	90.0	844	761	110.9
0	0		0	0		0	0	
0	0		0	0		77	371	20.8
195	76	256.6	23	4	575.0	75,639	66,762	113.3
0	0		0	0		68,978	56,695	121.7
19,671	22,229	88.5	2,832	3,141	90.2	101,978	92,117	110.7
0	0		360	239	150.6	6	8	75.0
74	38	194.7	7	7	100.0	2,291	2,287	100.2
52	65	80.0	13	9	144.4	6,716	6,986	96.1
16,567	19,297	85.9	1,587	2,114	75.1	54,017	49,195	109.8
2,500	2,186	114.4	717	737	97.3	18,436	18,461	99.9
387	166	233.1	70	15	466.7	12,964	12,574	103.1
91	477	19.1	78	20	390.0	7,548	2,606	289.6
968	961	100.7	653	769	84.9	10,974	11,212	97.9
809	832	97.2	10	5	200.0	46	237	19.4
57	29	196.6	11	1		175	563	31.1
752	803	93.6	-1	4		-129	-326	39.6
1,720	1,764	97.5	652	773	84.3	10,845	10,886	99.6
79	125	63.2	136	151	90.1	1,901	951	199.9
-12	-241	5.0	-13	-4	325.0	1	-4	
67	-116		123	147	83.7	1,902	947	200.8
1,653	1,880	87.9	529	626	84.5	8,943	9,939	90.0



EUR thousand	SŽ-Potniški promet, d. o. o. PSO			SŽ-Potniški promet, d. o. o. other activities		
	2019	2018	Index	2019	2018	Index
Operating revenues	111,022	101,395	109.5	2,212	2,242	98.7
Net sales revenue	35,742	34,589	103.3	1,776	1,915	92.7
- Revenues on the domestic market	28,938	28,397	101.9	1,545	1,683	91.8
: Transport revenues on the domestic market	27,728	27,187	102.0	382	378	101.1
: Other revenues on the domestic market	1,210	1,210	100.0	1,163	1,305	89.1
: Contracts with the Slovenian government	0	0		0	0	
- Revenues on the foreign market	6,804	6,192	109.9	231	232	99.6
: Transport revenues on the foreign market	5,960	5,431	109.7	231	232	99.6
: Other revenues on the foreign market	844	761	110.9	0	0	
Changes in values of inventories of finished goods and work in progress	0	0		0	0	
Capitalised own products and services	77	371	20.8	0	0	
Other operating revenues	75,203	66,435	113.2	436	327	133.3
of which: contracts with the Slovenian government	68,978	56,695	121.7	0	0	
Operating expenses	99,899	90,159	110.8	2,361	2,266	104.2
Historical cost of goods and materials sold	6	8	75.0	0	0	
Costs of materials	2,288	2,285	100.1	13	11	118.2
Energy costs	6,670	6,916	96.4	69	95	72.6
Costs of services	52,401	47,451	110.4	1,679	1,806	93.0
Labour costs	18,436	18,461	99.9	129	140	92.1
Amortisation/depreciation	12,954	12,564	103.1	64	63	101.6
Other operating expenses	7,144	2,474	288.8	407	151	269.5
Operating profit or loss (EBIT)	11,123	11,236	99.0	-149	-24	620.8
Finance income	45	237	19.0	0	2	0.0
Finance costs	174	562	31.0	0	3	0.0
Net finance income/costs	-129	-325	39.7	0	-1	0.0
Pre-tax profit or loss	10,994	10,911	100.8	-149		596.0
Current tax	1,901	951	199.9	0	0	
Deferred taxes	1	-4		0	0	
Corporate income tax	1,902	947	200.8	0	0	
Net profit or loss	9,092	9,964	91.2	-149	-25	596.0



SŽ-Vleka in tehnika, d. o. o.			SŽ-Infrastruktura, d. o. o.			PRI maintenance		
2019	2018	Index	2019	2018	Index	2019	2018	Index
123,157	122,700	100.4	169,603	179,454	94.5	130,198	141,366	92.1
119,620	114,671	104.3	157,093	153,092	102.6	118,150	115,464	102.3
108,463	104,723	103.6	157,093	153,092	102.6	118,150	115,464	102.3
0	0		0	0		0	0	
108,463	104,723	103.6	32,284	29,769	108.4	30,676	28,141	109.0
0	0		124,809	123,323	101.2	87,474	87,323	100.2
11,157	9,948	112.2	0	0		0	0	
0	0		0	0		0	0	
11,157	9,948	112.2	0	0		0	0	
-1,211	34		0	0		0	0	
165	70	235.7	0	0		0	0	
4,583	7,925	57.8	12,510	26,362	47.5	12,048	25,902	46.5
0	0		0	0		0	0	
122,780	122,455	100.3	166,749	175,533	95.0	126,373	135,935	93.0
62	75	82.7	0	1	0.0	0	1	0.0
19,494	21,121	92.3	9,534	10,435	91.4	9,319	10,172	91.6
1,423	1,485	95.8	17,897	18,230	98.2	17,575	17,895	98.2
17,126	19,523	87.7	42,277	43,555	97.1	38,877	40,081	97.0
80,842	77,092	104.9	81,098	74,953	108.2	45,461	39,982	113.7
2,471	2,168	114.0	3,004	2,373	126.6	2,815	2,177	129.3
1,362	991	137.4	12,939	25,986	49.8	12,326	25,627	48.1
377	245	153.9	2,854	3,921	72.8	3,825	5,431	70.4
5	7	71.4	279	35	797.1	279	35	797.1
382	232	164.7	232	350	66.3	150	277	54.2
-377	-225	167.6	47	-315		129	-242	
0	20	0.0	2,901	3,606	80.4	3,954	5,189	76.2
0	0		0	0		0	0	
0	0		215	350	61.4	215	350	61.4
0	0		215	350	61.4	215	350	61.4
0	20	0.0	2,686	3,256	82.5	3,739	4,839	77.3



EUR thousand	Traffic control			SŽ-Infrastruktura, d. o. o. PSO – PRI maintenance		
	2019	2018	Index	2019	2018	Index
Operating revenues	40,298	38,868	103.7	90,967	87,841	103.6
Net sales revenue	39,835	38,408	103.7	90,303	87,318	103.4
- Revenues on the domestic market	39,835	38,408	103.7	90,303	87,318	103.4
: Transport revenues on the domestic market	0	0		0	0	
: Other revenues on the domestic market	2,501	2,408	103.9	4,762	2,399	198.5
: Contracts with the Slovenian government	37,334	36,000	103.7	85,541	84,919	100.7
- 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 revenues	463	460	100.7	664	523	127.0
of which: contracts with the Slovenian government	0	0		0	0	
Operating expenses	41,269	40,378	102.2	91,921	88,221	104.2
Historical cost of goods and materials sold	0	0		0	1	0.0
Costs of materials	215	264	81.4	9,009	9,879	91.2
Energy costs	322	334	96.4	2,715	2,988	90.9
Costs of services	4,294	4,254	100.9	35,050	35,929	97.6
Labour costs	35,638	34,971	101.9	41,028	36,620	112.0
Amortisation/depreciation	189	196	96.4	2,588	2,021	128.1
Other operating expenses	611	359	170.2	1,531	783	195.5
Operating profit or loss (EBIT)	-971	-1,510	64.3	-954	-380	251.1
Finance income	0	0		269	34	791.2
Finance costs	82	72	113.9	141	276	51.1
Net finance income/costs	-82	-72	113.9	128	-242	
Pre-tax profit or loss	-1,053	-1,582	66.6	-826	-622	132.8
Current tax	0	0		0	0	
Deferred taxes	0	0		0	0	
Corporate income tax	0	0		0	0	
Net profit or loss	-1,053	-1,582	66.6	-826	-622	132.8



SŽ-Infrastruktura, d. o. o. PSO – Traffic control			SŽ-Infrastruktura, d. o. o. Housing and buildings			SŽ-Infrastruktura, d. o. o. PRI management		
2019	2018	Index	2019	2018	Index	2019	2018	Index
37,334	36,000	103.7	359	408	88.0	1,574	1,996	78.9
37,334	36,000	103.7	359	408	88.0	1,574	1,996	78.9
37,334	36,000	103.7	359	408	88.0	1,574	1,996	78.9
0	0		0	0		0	0	
0	0		0	0		0	0	
37,334	36,000	103.7	359	408	88.0	1,574	1,996	78.9
0	0		0	0		0	0	
0	0		0	0		0	0	
0	0		0	0		0	0	
0	0		0	0		0	0	
0	0		0	0		0	0	
0	0		0	0		0	0	
0	0		0	0		0	0	
38,913	37,938	102.6	415	479	86.6	1,127	1,300	86.7
0	0		0	0		0	0	
207	253	81.8	25	27	92.6	0	0	
305	317	96.2	8	9	88.9	0	0	
4,062	4,014	101.2	253	301	84.1	1,127	1,300	86.7
33,577	32,853	102.2	122	137	89.1	0	0	
185	187	98.9	3	2	150.0	0	0	
577	314	183.8	4	3	133.3	0	0	
-1,579	-1,938	81.5	-56	-71	78.9	447	696	64.2
0	0		0	0		0	0	
82	72	113.9	0	0		0	0	
-82	-72	113.9	0	0		0	0	
-1,661	-2,010	82.6	-56	-71	78.9	447	696	64.2
0	0		0	0		0	0	
0	0		0	0		20	41	48.8
0	0		0	0		20	41	48.8
-1,661	-2,010	82.6	-56	-71	78.9	427	655	65.2



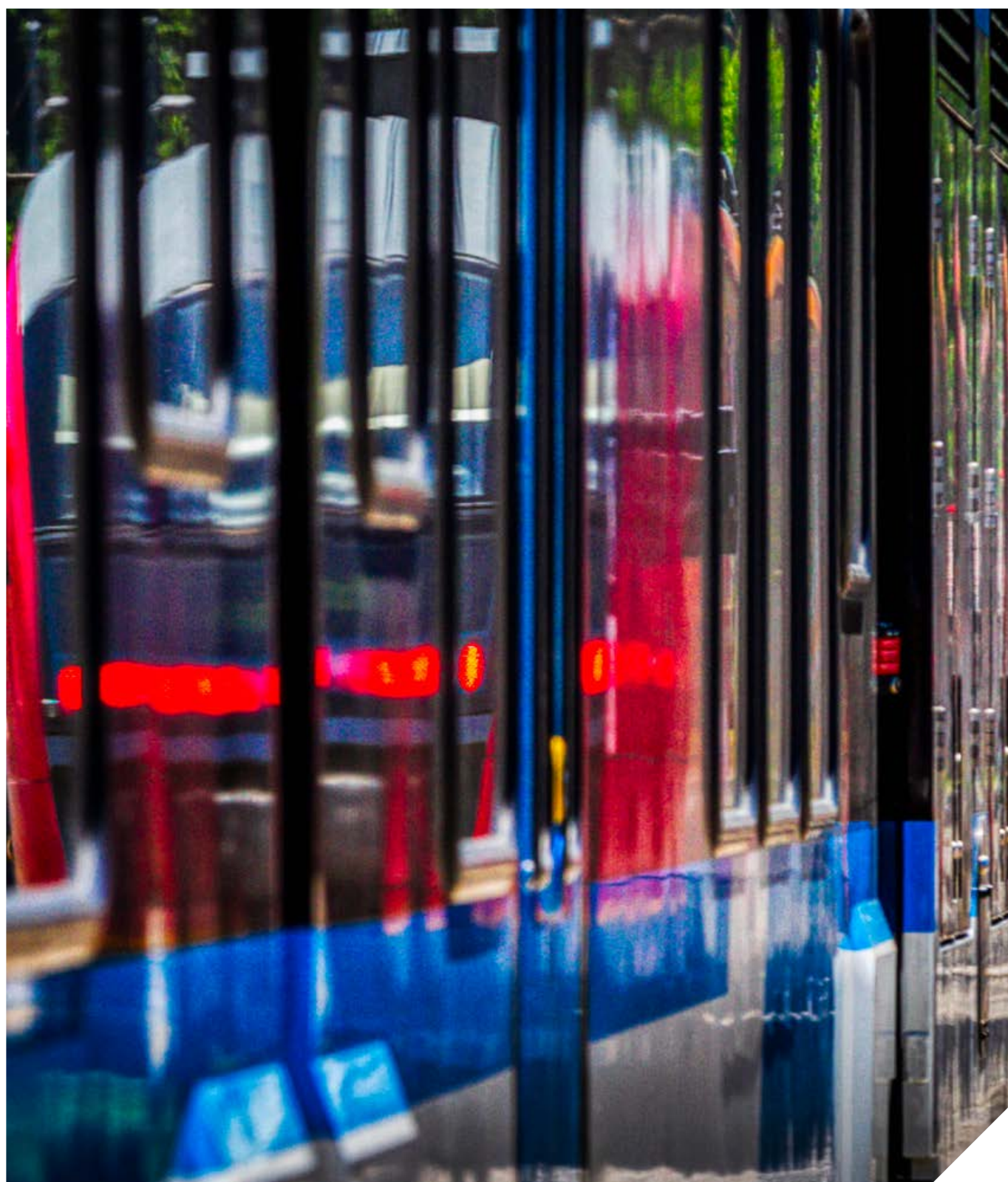
EUR thousand	SŽ-Infrastruktura, d. o. o. Other activities – PRI maintenance			SŽ-Infrastruktura, d. o. o. Other activities – traffic control		
	2019	2018	Index	2019	2018	Index
Operating revenues	37,298	51,121	73.0	2,964	2,868	103.3
Net sales revenue	25,914	25,742	100.7	2,501	2,408	103.9
- Revenues on the domestic market	25,914	25,742	100.7	2,501	2,408	103.9
: Transport revenues on the domestic market	0	0		0	0	
: Other revenues on the domestic market	25,914	25,742	100.7	2,501	2,408	103.9
: 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 revenues	11,384	25,379	44.9	463	460	100.7
of which: contracts with the Slovenian government	0	0		0	0	
Operating expenses	32,910	45,935	71.6	2,356	2,440	96.6
Historical cost of goods and materials sold	0	0		0	0	
Costs of materials	285	266	107.1	8	11	72.7
Energy costs	14,852	14,898	99.7	17	18	94.4
Costs of services	2,447	2,551	95.9	232	240	96.7
Labour costs	4,311	3,225	133.7	2,061	2,118	97.3
Amortisation/depreciation	224	154	145.5	4	9	44.4
Other operating expenses	10,791	24,841	43.4	34	44	77.3
Operating profit or loss (EBIT)	4,388	5,186	84.6	608	428	142.1
Finance income	10	1		0	0	
Finance costs	9	1		0	0	
Net finance income/costs	1	0		0	0	
Pre-tax profit or loss	4,389	5,186	84.6	608	428	142.1
Current tax	0	0		0	0	
Deferred taxes	195	309	63.1	0	0	
Corporate income tax	195	309	63.1	0	0	
Net profit or loss	4,194	4,877	86.0	608	428	142.1



SŽ-Železniško gradbeno podjetje Group			SŽ-ŽIP Group			Prometni institut, d. o. o.		
2019	2018	Index	2019	2018	Index	2019	2018	Index
71,000	49,919	142.2	31,886	29,883	106.7	1,297	1,378	94.1
70,382	49,647	141.8	23,430	23,477	99.8	1,025	1,026	99.9
68,683	49,440	138.9	23,234	23,309	99.7	946	969	97.6
0	0		0	0		0	0	
68,683	49,440	138.9	23,234	23,309	99.7	946	969	97.6
0	0		0	0		0	0	
1,699	207	820.8	196	168	116.7	79	57	138.6
0	0		0	0		0	0	
1,699	207	820.8	196	168	116.7	79	57	138.6
-100	-161	62.1	62	51	121.6	0	0	
32	63	50.8	143	66	216.7	0	0	
686	370	185.4	8,251	6,289	131.2	272	352	77.3
0	0			0		0	0	
66,384	47,502	139.7	31,692	29,829	106.2	1,039	1,076	96.6
670	1,023	65.5	216	73	295.9	0	0	
12,321	14,514	84.9	1,371	1,452	94.4	3	2	150.0
1,224	1,086	112.7	513	474	108.2	5	4	125.0
39,371	18,096	217.6	10,115	9,741	103.8	292	296	98.6
9,629	9,249	104.1	17,877	17,120	104.4	683	744	91.8
2,462	1,840	133.8	1,004	634	158.4	36	17	211.8
707	1,694	41.7	596	335	177.9	20	13	153.8
4,616	2,417	191.0	194	54	359.3	258	302	85.4
78	90	86.7	6	9	66.7	2	2	100.0
217	143	151.7	136	59	230.5	2	2	100.0
-139	-53	262.3	-130	-50	260.0	0	0	
4,477	2,364	189.4	64	4		258	302	85.4
643	308	208.8	11	0		50	59	84.7
-53	-23	230.4	0	0		1	0	
590	285	207.0	11	0		51	59	86.4
3,887	2,079	187.0	53	4		207	243	85.2



EUR thousand	SŽ-Železniška tiskarna, d. d.			Slovenske železnice, d. o. o.		
	2019	2018	Index	2019	2018	Index
Operating revenues	461	516	89.3	54,360	31,302	173.7
Net sales revenue	452	491	92.1	20,843	20,366	102.3
- Revenues on the domestic market	452	491	92.1	20,752	20,276	102.3
: Transport revenues on the domestic market	0	0		0	0	
: Other revenues on the domestic market	452	491	92.1	20,752	20,276	102.3
: Contracts with the Slovenian government	0	0		0	0	
- Revenues on the foreign market	0	0		91	90	101.1
: Transport revenues on the foreign market	0	0		0	0	
: Other revenues on the foreign market	0	0		91	90	101.1
Changes in values of inventories of finished goods and work in progress	9	9	100.0	0	0	
Capitalised own products and services	0	0		0	1,373	0.0
Other operating revenues	0	16	0.0	33,517	9,563	350.5
of which: contracts with the Slovenian government	0	0		0	0	
Operating expenses	520	506	102.8	40,386	27,250	148.2
Historical cost of goods and materials sold	0	0		0	0	
Costs of materials	47	56	83.9	139	153	90.8
Energy costs	8	9	88.9	171	169	101.2
Costs of services	92	118	78.0	7,426	6,608	112.4
Labour costs	321	289	111.1	19,250	17,475	110.2
Amortisation/depreciation	48	31	154.8	1,767	1,449	121.9
Other operating expenses	4	3	133.3	11,633	1,396	833.3
Operating profit or loss (EBIT)	-59	10		13,974	4,052	344.9
Finance income	3	3	100.0	13,508	24,122	56.0
Finance costs	4	1	400.0	7,737	7,210	107.3
Net finance income/costs	-1	2		5,771	16,912	34.1
Pre-tax profit or loss	-60	12		19,745	20,964	94.2
Current tax	0	0		1,647	0	
Deferred taxes	-2	1		892	-3	
Corporate income tax	-2	1		2,539	-3	
Net profit or loss	-58	11		17,206	20,967	82.1





> COLLECTION OF STATEMENTS OF FINANCIAL POSITION OF GROUP COMPANIES AS AT 31 DECEMBER 2019

DESCRIPTION				
EUR thousand	SŽ Group	SŽ TP Group	Fersped	VV-LOG
ASSETS	984,548	263,910	12,653	2,295
A. Non-current assets	719,258	154,911	7,600	487
Intangible assets	14,765	99	176	5
Property, plant and equipment	332,219	148,185	3,148	465
Investment property	43,048	2,707	155	0
Investments in subsidiaries	0	0	3,003	0
Investments in joint ventures	0	0	0	0
Investments in associates	13,616	0	374	0
Other financial assets	2,093	0	0.924	0
Financial receivables	61,153	28	10	0
Operating receivables	243,497	3,426	28	0
Deferred tax assets	3,293	464	701	17
Other non-current assets	5,574	0	5	0
B. Current assets	265,290	109,000	5,053	1,808
Assets held for sale	333	1	215	0
Inventories	35,862	1,322	0	0
Financial assets	0	0	0	0
Financial receivables	6,716	39,903	1,230	390
Trade receivables	65,089	30,921	3,157	1,369
Other operating receivables	138,549	36,476	320	19
Receivables for corporate income tax	933	103	33	3
Cash and cash equivalents	17,808	274	97	26
EQUITY AND LIABILITIES	984,548	263,910	12,653	2,295
A. Equity	541,145	85,625	6,546	687
Called-up capital	359,530	36,861	3,139	11
Share premium account	45,002	4,720	0	0
Legal reserves	3,497	3,686	173	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	46,448	0	785	0
Fair value reserves	-3,540	-472	-44	-2
Retained earnings	85,036	40,830	2,494	677
Translation differences	-1	0	0	0
Non-controlling interest	5,173	0	0	0
B. Non-current liabilities	281,452	100,792	2,048	398
Provisions for jubilee benefits and termination benefits	30,630	4,422	278	58
Other provisions	1,124	258	0	0
Non-current deferred income	1,645	9	0	0
Financial liabilities	115,849	96,026	1,471	340
Operating liabilities	132,204	77	298	0
Deferred tax liabilities	0	0	0	0
C. Current liabilities	161,951	77,493	4,060	1,210
Financial liabilities	41,005	39,686	266	48
Trade payables	35,608	27,005	2,761	1,004
Other operating liabilities	81,514	10,801	1,032	158
Liabilities for corporate income tax	3,824	0	0	0



GROUP COMPANIES							
SŽ PP	SŽ VIT	SŽ INFRA	ŽGP Lj Group	ŽIP Lj Group	PI Lj	ŽT Lj	SŽ, d. o. o.
471,135	92,120	109,085	49,392	20,226	964	1,129	738,444
392,717	31,214	14,603	20,611	13,185	177	603	643,909
363	262	100	222	37	5	2	9,925
84,649	30,253	13,123	17,756	12,952	74	532	21,598
5,534	617	0	387	0	84	64	45,179
0	0	0	0	0	0	0	426,810
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	3,080
0	2	0	0	0	0	0	2,090
58,142	0	0	570	0	0	0	130,441
238,727	80	163	1,384	196	5	0	3,934
253	0	1,217	293	0	10	5	333
5,048	0	0	0	0	1	0	519
78,419	60,906	94,482	28,781	7,042	787	527	94,535
0	51	0	0	0	0	0	66
1,477	18,699	6,115	8,059	320	0	73	0
0	0	0	0	0	0	0	0
14,968	1	11,924	80	723	78	316	55,713
7,903	40,931	22,908	10,281	5,337	239	105	3,590
52,997	1,205	45,407	4,585	441	464	6	32,212
766	0	0	23	0	5	0	0
308	18	8,129	5,753	220	1	27	2,954
471,135	92,120	109,085	49,392	20,226	964	1,129	738,444
306,374	32,930	19,920	24,128	7,055	530	850	475,762
285,940	26,068	15,828	3,152	6,073	162	265	359,530
0	6,608	0	0	0	112	498	45,002
2,693	804	1,583	315	1,209	16	59	3,778
0	0	0	0	0	0	95	0
0	0	0	0	0	0	-48	0
0	0	0	3,913	227	0	0	46,448
-229	-992	-908	5	-465	-10	-3	-421
17,970	441	3,416	16,743	13	250	-16	21,425
0	0	0	0	-2	0	0	0
0	0	0	0	0	0	0	0
134,628	15,281	10,935	6,673	8,384	86	177	142,533
2,236	8,873	9,216	751	2,466	76	54	2,199
153	0	117	597	0	0	0	0
1	39	15	152	1,428	0	0	2
476	6,216	1,215	5,114	4,461	0	123	136,443
131,762	153	371	59	30	10	0	3,889
0	0	0	0	0	0	0	0
30,134	43,910	78,231	18,592	4,787	348	102	120,148
71	19,748	202	1,207	481	13	17	99,264
23,292	5,480	12,177	9,084	1,285	29	16	15,088
4,976	18,682	65,852	7,918	3,022	307	68	4,150
1,795	0	0	382	0	0	0	1,647



> 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 all 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 heavy 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 2019[®]



Slovenske železnice Group companies continued personnel restructuring activities in 2019 with the aim of improving operational efficiency. The number of Group employees was down by 2.8% relative to 2018 as the result of the optimisation of work processes. The following companies hired the most new employees: SŽ-Infrastruktura, d. o. o., SŽ-Tovorni promet, d. o. o., SŽ-Potniški promet, d. o. o. and SŽ-ŽGP, d. d. Given the type of activities performed by Slovenske železnice Group companies in 2019, 83% 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. Although men account for the majority of employees in line with the nature of the activities of individual Slovenske železnice Group companies, 27.9% 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 staff) was attended by 4,583 employees, while functional training was attended by 5,003 employees in 2019. We are making improvements in occupational safety, which can be seen in the falling number of workplace injuries.

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 of 22 accidents in 2019: three accidents were railway-related, while the causes of 19 incidents were non-railway-related. The Company was not responsible for any fatalities or injuries in 2019.

In cooperation with the wider environment, we continued to improve the safety of all participants in railway transport in 2019. We organised a campaign to raise awareness about the safe crossing of railway tracks in

THE SOCIAL RESPONSIBILITY OF SLOVENSKE ŽELEZNICE BEGINS WITH THE CREATION OF A STABLE AND SAFE WORK ENVIRONMENT FOR OUR EMPLOYEES.

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.

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 will use less fuel and produce fewer emissions will also be introduced in the freight transport segment.



102-7

EMPLOYEES[®]

Družbeno odgovorno ravnanje Slovenskih železnic se začne pri ustvarjanju stabilnega in varnega delovnega okolja za zaposlene. Na teh temeljih v skupini Slovenske železnice omogočamo razvoj, izobraževanje, skrb za nasledstvo ključnih zaposlenih kot dejavnik upravljanja tveganja in možnosti napredovanja zaposlenih.



401-1

Restructuring of personnel in 2019[®]

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.

In 2019, Slovenske železnice Group companies continued their personnel restructuring activities in connection with the optimisation of work processes. Pursuant to Article 99 of the Employment Relationships Act, we conducted a joint consultation with our social partners on the reasons and procedure for the cessation of the need for the labour of a large number of redundant workers. On this basis, a redundant worker rehabilitation programme was adopted, about which the Employment Service of Slovenia was notified in accordance with the law. The

programme envisages a smaller number of redundancies in 2019, and a larger number in 2020.

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 Labour Market Act and Employment Relationship Act, 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 164 workers hired through agencies performed work at the end of 2019 (which translates to a monthly average of 153 employees), while the associated annual costs amounted to EUR 3,382 thousand.

These measures allowed us to improve the structure of employees in the Slovenske železnice Group, and also 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).



Number and structure of employees[®]

The total number of employees in the Slovenske železnice Group was 7,329 at the end of 2019, which is

211 employees fewer than at the end of 2018. The proportion of employee departures in 2019 was up relative to 2018. A total of 465 employees left the Group in 2019, an increase of 125% relative to 2018.

> by individual Slovenske železnice Group company

Company	2019	2018	Index
SŽ-Tovorni Promet Group	1,182	1,202	98.3
Fersped, d. o. o.	64	65	98.5
VV-LOG, d. o. o.	21	20	105.0
SŽ-Potniški promet, d. o. o.	571	570	100.2
SŽ-Vleka in tehnika, d. o. o.	1,947	2,028	96.0
SŽ-Infrastruktura, d. o. o.	2,152	2,191	98.2
SŽ-ŽGP Group	288	290	99.3
SŽ-ŽIP Group	644	693	92.9
Prometni institut Ljubljana, d. o. o.	13	15	86.7
SŽ-Železniška tiskarna Ljubljana, d. d.	10	10	100.0
Slovenske železnice, d. o. o.	437	456	95.8
Total	7,329	7,540	97.2

> 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	1,182	38	71	98	113	135	217	264	204	42
Fersped, d. o. o.	64	2	1	4	6	9	13	9	14	6
VV-LOG, d. o. o.	21	3	4	6	1	4	1	1	1	
SŽ-Potniški promet, d. o. o.	571	12	33	53	53	36	108	134	122	20
SŽ-Vleka in tehnika, d. o. o.	1,947	23	70	152	199	185	394	537	346	41
SŽ-Infrastruktura, d. o. o.	2,152	46	74	137	178	198	394	551	469	105
SŽ-ŽGP Group	288	10	14	50	45	38	39	36	44	12
SŽ-ŽIP Group	644	7	16	23	28	59	85	169	198	59
Prometni institut Ljubljana, d. o. o.	13				6	3		2	2	
SŽ-Železniška tiskarna Ljubljana, d. d.	10					1	1	4	4	
Slovenske železnice, d. o. o.	437	5	19	16	41	38	65	96	121	36
Total	7,329	146	302	539	670	706	1,317	1,803	1,525	321

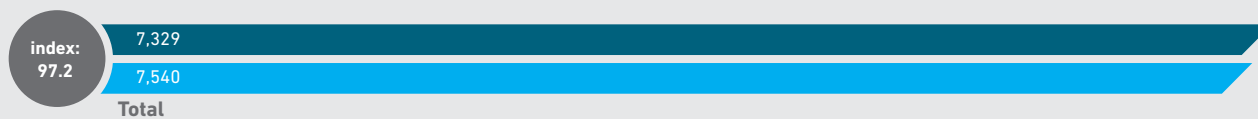
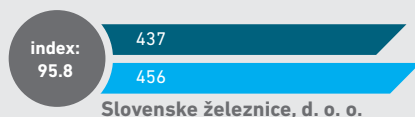
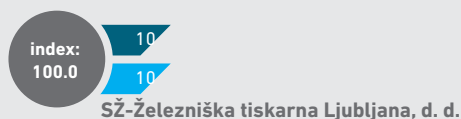
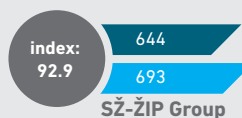
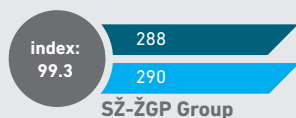
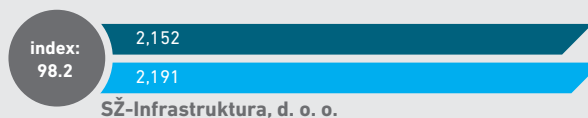
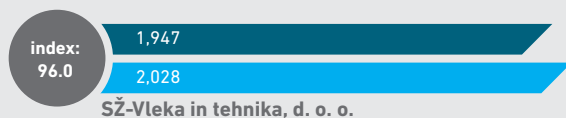
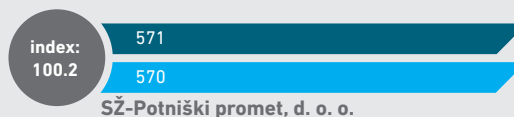
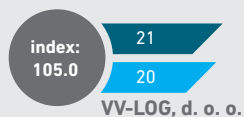
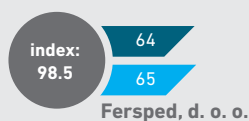
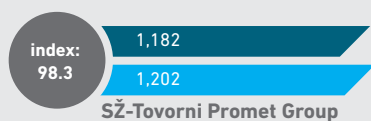
The average age of employees in the Slovenske železnice Group was 47.2 years as at the end of December 2019.

Because we primarily employ workers in production activities that require the appropriate medical fitness and good mental and physical condition, new hires in 2019 primarily comprised younger workers (67% of newly hired workers were less than 34 years old).

With regard to the age structure of management staff, we find that the older the age group, the higher the proportion of management staff. The majority of management staff, both men and women, fall into the age category of 50 to 59 years. That finding is comparable with the age structure of all employees.



STRUCTURE OF EMPLOYEES BY INDIVIDUAL SLOVENSKE ŽELEZNICE GROUP COMPANY





> by gender

Company	Men	%	Women	%
SŽ-Tovorni Promet Group	1,008	85.3%	174	14.7%
Fersped, d. o. o.	32	50.0%	32	50.0%
VV-LOG, d. o. o.	12	57.1%	9	42.9%
SŽ-Potniški promet, d. o. o.	352	61.6%	219	38.4%
SŽ-Vleka in tehnika, d. o. o.	1,864	95.7%	83	4.3%
SŽ-Infrastruktura, d. o. o.	1,960	91.1%	192	8.9%
SŽ-ŽGP Group	268	93.1%	20	6.9%
SŽ-ŽIP Group	394	61.2%	250	38.8%
Prometni institut Ljubljana, d. o. o.	6	46.2%	7	53.8%
SŽ-Železniška tiskarna Ljubljana, d. d.	5	50.0%	5	50.0%
Slovenske železnice, d. o. o.	161	36.8%	276	63.2%
Total	6,062	82.7%	1,267	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 82.7%). 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 27.9% (39.3% at Slovenske železnice, d. o. o.) which, given the proportion of all women employed and the specific nature of the activities of Slovenske železnice Group companies, is a significant step towards achieving the target gender diversity set out in initiative 40/33/2026 published by the Slovenian Directors' Association. 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	1,182	216	2	60	407	326	77	88	6	
Fersped, d. o. o.	64	1			2	23	10	26	2	
VV-LOG, d. o. o.	21				1	11		9		
SŽ-Potniški promet, d. o. o.	571	17		5	180	264	50	47	7	1
SŽ-Vleka in tehnika, d. o. o.	1,947	51	62	53	766	808	108	87	12	
SŽ-Infrastruktura, d. o. o.	2,152	312	9	61	497	869	193	189	22	
SŽ-ŽGP Group	288	24	1	3	133	81	20	24	2	
SŽ-ŽIP Group	644	293	7	28	165	104	22	21	4	
Prometni institut Ljubljana, d. o. o.	13						1	5	5	2
SŽ-Železniška tiskarna Ljubljana, d. d.	10	3			5	1	1			
Slovenske železnice, d. o. o.	437	5			18	137	61	176	39	1
Total	7,329	922	81	210	2,174	2,624	543	672	99	4

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, mental and physical capacities and employee satisfaction through:

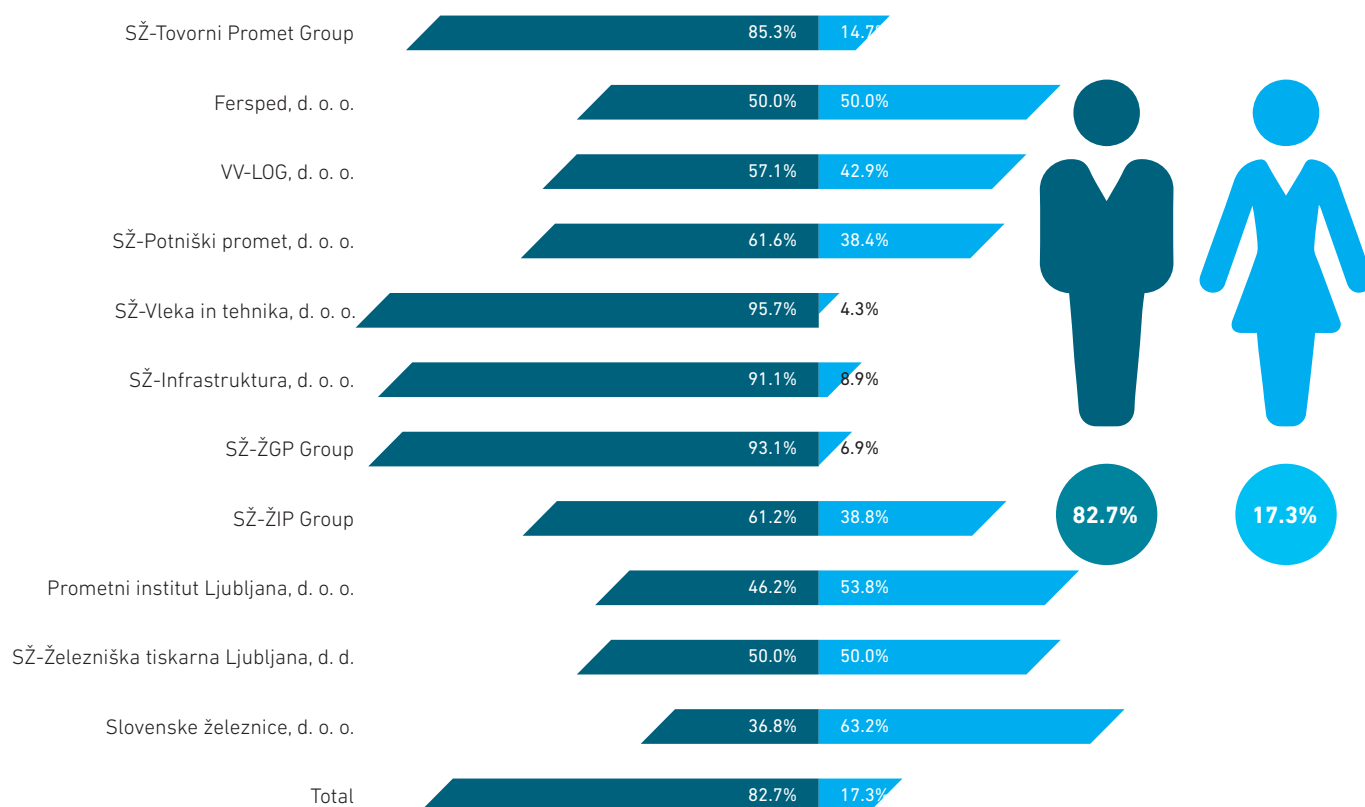
- > organised forms of obtaining additional professional knowledge, through functional education and

mentorship (particular attention is paid to the area of work transformation and computerisation);

- > promoting employee health and safety;
- > providing for the quality use of leisure time; and
- > 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 68 labour-related legal proceedings were in progress in 2019, 18 of which were completed. A total of 12 requests for the protection of rights were filed and resolved.

Structure of employees by gender (as at 31 December 2019)



Developmental HR activities

In parallel with the implementation of staff streamlining measures, we increased our efforts aimed at the introduction of developmental HR activities. The Slovenske železnice Group's employee development strategy was adopted in 2019. Also in 2019, a public procurement contract was published in order to obtain an external contractor for the project of job evaluation, overhauling the wage system and drafting an HR plan within the Slovenske železnice Group, which included the following phases:

- > coordination of job evaluation methodologies among all stakeholders (contractors, the contracting authority and the trade unions);
- > inventory of the work process for all organisational units;
- > preparation of a job classification model with job evaluation;
- > overhaul (simplification) of the wage system;
- > implementation of the new wage system; and
- > drafting an HR plan.

Following the adoption of the HR Development Strategy, activities were carried out in the following areas in 2019:

- > list of additional requirements and intensive verification of the possibility of providing information support to all HR processes, with an emphasis on development activities;
- > comparing best practices in comparable organisations, i.e. at other railway administrators;
- > development of an approach and framework content for continuous education and training of management personnel;
- > providing conditions for the modernisation of various HR processes (e.g. online job application forms);
- > in order to simplify the implementation throughout the entire Slovenske železnice Group at the beginning of 2020, tools were developed in 2019 for holding annual interviews and monitoring new hires and unwanted departures.



Training and education®

A total of 9,586 employees took part in training courses within the Slovenske železnice Group in 2019.

In 2019, Slovenske železnice, d. o. o. maintained its status of training and testing centre for train drivers. A total of 194 candidates took part in professional training for safety critical workers for 12 operations positions in 2019, while 264 safety critical workers took part in training to acquire the next certificate. A total of 3,870 safety critical workers took part in professional training, while 55 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.	827	860
Fersped, d. o. o.	0	39
VV-LOG, d. o. o.	0	3
SŽ-Potniški promet, d. o. o.	461	138
SŽ-VIT, d. o. o.	1,447	1,486
SŽ-Infrastruktura, d. o. o.	1,753	852
SŽ-ŽGP, d. d.	95	206
SŽ-ŽIP, storitve, d. o. o.	0	846
Prometni institut Ljubljana, d. o. o.	0	1
SŽ-Železniška tiskarna, d. d.	0	0
Slovenske železnice, d. o. o.	0	572
Total	4,583	5,003

A total 4,583 employees were included in professional training for safety critical 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 232,531 hours were earmarked for the theoretical and practical training of railway operations staff.

A total of 5,003 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. We earmarked 32,709 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 464 practical training courses were held in 2019.

Promotion of employee health and safety®

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

In the scope of the Slovenske železnice Group, we worked with the occupational health and safety committee of the works councils of companies linked through capital investments, and adopted a common health promotion programme, through which we implemented many activities. Employees were able to attend two-day preventive health retreats for workers at the Vitalis Centre and/or six-day preventive health retreats at a thermal spa, active breaks from work were introduced on a pilot basis,



teams of employees at Slovenske železnice participated in various running and other sports events, we held lectures on current topics relating to healthy lifestyles, etc.

The Slovenske železnice Group continued to offer psychological first aid in 2019 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) in the form of relief talks.

The primary healthcare provider is the Ljubljana Railway Health Centre, which provides railway staff with comprehensive healthcare. Due to our geographical dispersion we also cooperated with other preventive healthcare providers in Slovenia.

We pay particular attention to workers with disabilities who are no longer able to perform their former jobs. In cooperation with SŽ-ŽIP, d. o. o. and other Group companies, we provided employment for 682 disabled persons and ten workers with physical impairments.

Ensuring the quality use of leisure time

The Slovenske železnice Group facilitates the quality use of leisure time for its employees. SŽ-ŽIP, storitve, d. o. o. manages several 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. 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 74 secondary-school and college students in 2019, primarily in the following study programmes and areas: logistics, mechatronics, electrical engineering, computer science and economics.

In research conducted by MojeDelo.com and the Swedish firm Universum Global in 2019, Slovenske železnice was awarded the title of Most Reputable Employer in the logistics and passenger transport sector, and ranked in the Top 10 companies with the best overall reputations amongst all sectors. The aforementioned survey measures knowledge of companies as employers, whether respondents would consider a company as a potential employer, companies' desirability or reputation as employers, whether respondents would apply for a job at a specific company, and the most common associations respondents made with certain employers.

Given the number of applications for employment we received in 2019, 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 95% of all employees have concluded permanent employment contracts);
- > a varied work environment that offers the possibility of career development in various fields; and
- > the possibility of maintaining employees' work-life balance.



WE HOLD NUMEROUS EVENTS THROUGHOUT THE YEAR FOR EMPLOYEES, THEIR FAMILIES AND TRAIN ENTHUSIASTS IN GENERAL, THROUGH WHICH WE PROMOTE A HEALTHY LIFESTYLE AND THE USE OF PUBLIC TRANSPORT.

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 22 accidents occurred within the Slovenske železnice Group in 2019, which is 14 fewer than in 2018. The causes of three accidents were railway-related, while the causes of 19 incidents were non-railway-related.

The total number of extraordinary events excluding incidents in 2019 was 38.9% lower than in 2018. The number of incidents and other events that affect traffic safety was up by 3.0%.

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	2015	2016	2017	2018	2019
Serious accidents	0	0	0	0	1
Accidents	7	13	5	3	3
Accidents at level crossings	16	24	14	29	17
Natural disasters	0	1	0	1	1
Other accidents	5	1	2	3	0
Incidents	689	537 ¹	691 ¹	603 ¹	621 ¹

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

The serious accidents category includes the derailment of six wagons in the Hrastovlje tunnel on 25 June 2019.

Three accidents occurred due to technical irregularities on infrastructure buildings and rolling stock, one due to force majeure and 18 due to incorrect actions by third parties.

There were two fatalities in serious accidents and other accidents (three fewer than in 2018), while 14 people were injured (four more than in 2018). All accidents leading to fatalities or injuries occurred at level crossings. In 2019, 17 accidents occurred at level crossings due

to failure to obey road traffic regulations (there were 11 more accidents in 2018). The Company was not responsible for any fatalities or injuries in 2019.

The next cause of death on tracks was suicide, with 17 people taking their lives in that manner, while four cases fortunately ended as merely suicide attempts (four incidents more than in 2018).

In 2019, two accidents occurred in which employees of SŽ-Potniški promet, d. o. o. were injured.

Damage was incurred on 25 June when freight train no. 47882 derailed in the Hrastovlje tunnel due to broken track at switch point 1. Six tank cars carrying kerosene derailed. One of the cars hit the tunnel portal and spilled kerosene. Around 100 metres of track, switch no. 1 and all of the safety signalisation equipment in the area of the derailment were damaged in the incident. Traffic was disrupted for 5,630 minutes. Environmental damage was also incurred due to the leaching of kerosene into the soil. Material damage amounted to EUR 1,799 thousand.

On the sixth of August, a train derailed at switch no. 1 at the Rimske Toplice station. The first two cars in the train derailed at the switch, which also damaged the third car in the train. Material damage to infrastructure assets and the train was incurred in the amount of EUR 143 thousand.

On the fourteenth of August, train no. 41914 derailed at the same switch at the Rimske Toplice station. The locomotive derailed at the switch, thus damaging the first car behind the locomotive. Traffic was disrupted for 1,072 minutes. Material damage to infrastructure assets and the train was incurred in the amount of EUR 161 thousand.

Due to causes outside the Company's influence, on 24 August a natural disaster occurred, where due to the erosion of the slopes between the Vuhred and Vuzenica stations, a land and rockslide completely covered the tracks, and tore up and destroyed a level crossing. Traffic was disrupted for 12,620 minutes. Material costs were assessed at EUR 130 thousand.



ENGAGEMENT WITH THE WIDER ENVIRONMENT[®]

Slovenske železnice strives to foster an awareness at all levels of the great responsibility that we bear towards society and the environment in which we operate. We are a key element in the provision of mobility for the population, and our work affects passengers' travel habits. We are logistics operators who supply the Slovenian economy and unite key European markets. We are aware that our work places a burden on the environment, and that trains make noise and cause a certain amount of disruption to the lives of our fellow citizens, and therefore we try to give back as much as possible to local communities, associations and individuals throughout Slovenia.

Supporting top Slovenian athletes

Our extremely successful involvement with the HK Olimpija ice hockey team, which we have been the main sponsor of since 2017, reached its peak in 2019 with the winning of a historic treble in all of the tournaments it competes in. We are extremely proud of our team's treble in the 2018/2019 season: The Slovenian Cup, the national championship and the Alps Hockey League. They are the first and only Slovenian team to win the title of champion of the Alps Hockey League. Through providing direct and indirect support, we have brought momentum back into Ljubljana hockey, and consequently also Slovenian hockey, created solid foundations and stable leadership for the development and training of new young players who will represent Slovenia in the highest level tournaments abroad. By supporting a key hockey team, we are providing development opportunities for a new generation of players and consequently contributing to the development of this sport in Slovenia.

Slovenske železnice mainly provides direct support to sports associations and other umbrella national sports organisations. We have sponsored the Slovenian Basketball Federation, Ski Association, Ice Hockey Federation, Athletics Association, Handball Association, Chess Association and many others for many years. In addition to cooperation in the form of main sponsorship and the sponsoring of sports associations, we also provide regular support for the operations of all types of smaller sports associations. In 2019 we therefore provided direct financial

support to football, handball, volleyball and judo clubs, and many other clubs all over Slovenia. We also provide facilities for their operation and assistance in the form of free train tickets and logistics services. By supporting the development of sport in Slovenia, such as e.g. providing financial support to a youth football academy, assistance for the organisation of tournaments, support for promising young athletes and numerous other projects that we participate in, we are given a feeling of satisfaction that we can also contribute to the development of Slovenian sport and healthy lifestyles. By supporting sports, we contribute indirectly to improving the health of society as a whole and mitigating the negative effects of contemporary life.

Concern for the health of employees and their families

We hold numerous events for employees, their families and train enthusiasts in general, through which we promote healthy lifestyles and the use of public transport. We have held the 1,000 rail workers above 1,000 metres event for several years in a row. In May, railway staff, retirees, Slovenske železnice scholarship holders, members of railway sports and cultural associations and family members made their way by train into the mountains or on foot from railway stations to mountain lodges at several locations in Slovenia. In cooperation with the Railway Workers Sports Association, we formed a team of runners who regularly participate in major running events in Slovenia. Slovenske železnice Group companies provided transport services, equipment, food and drinks at events.

In 2019 we also held a week of promotion of health at work, and participated in numerous activities as part of European Week of Sports in September. The main purpose of health week is to encourage employees to learn about a healthy lifestyle and to continuously improve their health, well-being and performance in the workplace. We also held activities all over Slovenia this year, including classes in Nordic walking, stretching exercises, relaxation exercises, rhythmic dance classes, talks and workshops on stress management, healthy lifestyles and even biotherapy.



We are enriching and preserving Slovenian culture and heritage

We are expanding our mission into the area of culture, in which we are the main sponsor of two cultural associations that have significant connections with railways in Slovenia. The Tine Rožanc Railway Workers' Cultural and Arts Society features exceptional dancers and musicians, and has represented our company at home and abroad for many years. The Slovenian Railways Brass Band is an amateur ensemble of more than 70 members, which primarily includes promising young musicians. By providing direct and indirect support to the ensemble, in 2019 we helped them once again achieve top honours in the two most important national competitions in Slovenia, and to present the rich heritage of Slovenian railways abroad.

We ensure a link between cultural and technical heritage by intertwining unique events at the Slovenske železnice Rail Museum. The latter has been organising monthly 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.

Participating in humanitarian projects

Slovenske železnice provides regular financial support to non-profit and humanitarian organisations and organises numerous individual charitable projects. We thus organised numerous individual charitable train rides throughout the year, and participated as a partner in numerous other projects that bring positive returns. For the fifth year in a row, we took great pleasure in joining the Santa Claus for a Day campaign in mid-December, in which volunteers gave gifts to socially disadvantaged children throughout Slovenia. Our employees helped the volunteers to deliver the gifts. We continued our exceptionally successful cooperation with the Friends of Youth Association, and participated in the Child Sponsorship Project and the Chain of Good People again this year. As part of the Chain of Good People campaign, we took more than 200 children and their families on a heritage train ride to Postojna Cave.

And once again we did not forget about the Santa's Trains this December. Santa Claus rode the train all over Slovenia, and brought joy to children and their parents. In addition to the train rides that we put on for employees' children every year, we also organised other charitable rides.

Raising the level of safety

Safety comes first at Slovenske železnice, so we participate regularly in all preventive campaigns, such as the Safe Across the Tracks and Safe Way to School campaigns. We cooperate with the Police and other partners in the area of safety in carrying out preventive campaigns, and provide financial and professional support for various projects, conferences and events to promote traffic safety.

Continuously reducing our environmental footprint

Every day, Slovenske železnice Group companies ensure the 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. We dedicate a great deal of attention, time and money to ensuring that railways remain the most environmentally friendly form of public transport, and successfully develop their environmental protection role in the modern world, independently and in cooperation with business partners.

At Slovenske železnice, we understand the concept of socially responsible conduct and operations as an important additional advantage that is included in the Company's strategic documents and that employees strive to implement every day in their work. Effective and genuine cooperation with the environment in which we operate allows us to develop our role as a backbone of mobility and logistics in Slovenia for the well-being of everyone, and thereby also contribute to the development of modern society.

ENVIRONMENTAL RESPONSIBILITY[®]

The Management Board of Slovenske železnice, d. o. o. and the management boards of the subsidiaries within the Slovenske železnice Group, in accordance with the

Code of Ethics of the Slovenske železnice Group, the Environmental Policy of the Slovenske železnice Group and the Rules for the Environmental Management System of the Slovenske železnice Group, implement environmental protection measures according to the highest European Union environmental standards.

An environmental management system (EMS) according to the international SIST EN ISO 14001:2015 standard (hereinafter: ISO 14001) and an energy efficiency system (EES) according to the international SIST EN ISO 50001:2011 standard (hereinafter: ISO 50001) were successfully implemented in 2018 at Slovenske železnice, d. o. o. and at certain subsidiaries that are part of the Slovenske železnice Group¹. Through the certificates they have obtained, the management boards of the companies in the Slovenske železnice Group demonstrate that within the management system they also equally value and provide resources for the continued implementation of activities aimed at reducing adverse effects on the environment. Both of these systems require that the company management boards and all employees continually improve processes and all infrastructure² that has a significant impact on the environment and energy efficiency.

The main requirements that Slovenske železnice Group companies must fulfil in terms of the environmental management and energy efficiency system are as follows:

- > the management system at Slovenske železnice Group companies must be in line with the requirements of the ISO 14001 and ISO 50001 standards;
- > all stakeholders within the Slovenske železnice Group must implement their environmental and energy policies and meet the set objectives within the given circumstances with respect to environmental protection and energy efficiency;
- > all stakeholders within the Slovenske železnice Group must meet the applicable legal and other requirements that in any way regulate the area of environmental protection and energy efficiency;
- > successful and effective implementation of the environmental management system and efficient use of energy within processes;

- > continuous improvement of the environmental management and energy efficiency system in different areas.

The main objective in terms of the environmental management and energy efficiency system at Slovenske železnice Group companies is the continuous and systematic management of negative environmental impacts caused by the activities, processes and infrastructure of Slovenske železnice Group companies, as follows:

- > prevention of pollution of the natural environment;
- > the search for technical and technological solutions to reduce the environmental burden;
- > meeting the regulatory and other requirements that regulate the area of environmental protection and energy efficiency;
- > energy efficiency and prudent management of natural resources important to processes within the companies, and
- > continuous monitoring of measures to reduce potential risks of accidents or emergencies that could result in adverse or harmful effects on people and the natural environment.

Within the environmental management and energy efficiency system of the Slovenske železnice Group, various operational activities³ are carried out to reduce negative impacts on the environment and increase energy efficiency:

- > implementation of measures to reduce negative impacts on the environment pursuant to applicable regulations (legal and other requirements);
- > optimisation of energy consumption in activities and processes;
- > gradual energy rehabilitation of buildings (replacement of doors and windows and renovation of roofs and facades);
- > purchase of new vehicles and machinery (replacement of old and energy inefficient vehicles and machinery);
- > redesign of heating devices (replacement of old, energy inefficient heating devices and related equipment with new, energy saving devices);

¹ 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., and SŽ-ŽGP Ljubljana, d. d.

² Buildings, rail and motor vehicles, machinery, devices and other equipment owned and/or managed by Slovenske železnice Group companies.

³ Implementation, monitoring, supervision and improvement of environmental protection activities.



- > transition to an environmentally friendly heating source (replacement of heating system and connection to district heating system);
- > technical regulation of discharge of wastewater (connecting buildings to the public sewage network where possible, installation of small municipal water treatment systems, cleaning cesspools, construction of treatment plants for industrial wastewater);
- > technical adaptation of exterior lighting (replacement of technically non-compliant bulbs);
- > gradual renovation of internal water supply network, including installation of equipment to reduce consumption of hot water (renovation of the worn internal water supply network);
- > replacement of asbestos roof tiles with non-asbestos (prevention of emission of asbestos particles into the environment);
- > gradual replacement of old sources of environmental burden which no longer serve their purpose (removal of buildings planned for demolition, disposal of inoperable vehicles, machinery and devices).

Performance of internal and external assessments of the environmental management system

A control assessment in accordance with ISO 14001 was carried out in 2019 at Slovenske železnice, d. o. o. and at Slovenske železnice Group subsidiaries where an environmental management system has been introduced. That assessment was carried out over 13 days. Due to the size of the business system within the Slovenske železnice Group, the control assessment was carried out in two parts¹ at five different locations.² During the control assessment, external assessors submitted requests for the elimination of two irregularities and 37 recommendations to improve the functioning of the environmental management system.

Results of the control assessment of the environmental management system in 2019:

	SŽ, d. o. o.	SŽ-INF	SŽ-TP	SŽ-PP	SŽ-VIT	SŽ-ŽIP	SŽ-ŽGP	Total
Number of cases of non-compliance identified	-	-	2	-	-	-	-	2
Number of recommendations issued to improve the functioning of the EMS	5	3	7	-	7	10	5	37
Total	5	3	9	0	7	10	5	39

The Internal Control, Quality and Environment Department discussed the recommendations and drafted a programme of measures following a control assessment of the environmental management system. The programme of measures is a binding document for all stakeholders in the Slovenske železnice Group, which they must implement within the set deadlines and at the end submit reports on the realisation of the measures.

At companies that have an environmental management system in place, 27 of the 29 planned internal assessments were conducted in 2019 in accordance with ISO 14001. In 2019, 35% more internal assessments of the environmental management system were conducted relative to 2018.

During the internal assessments, the internal assessors proposed a total of 45 measures (corrections) to the environmental management system in order to eliminate minor deviations from the requirements of the environmental management system, and 42 recommendations to improve the functioning of the environmental management system.

Internal assessments of the environmental management system and proposed corrections and recommendations to improve the functioning of the environmental management system in 2019:

¹ First part of the EMS control assessment 17 and 18 June 2019, second part of the EMS control assessment 5 and 6 November 2019.

² Ljubljana, Maribor, Celje, Postojna and Divača.

	SŽ, d. o. o.	SŽ-INF	SŽ-TP	SŽ-PP	SŽ-VIT	SŽ-ŽIP	SŽ-ŽGP	Total
Number of planned internal assessments of the EMS	2	8	3	1	11	2	2	29
Number of internal assessments of the EMS performed	2	6	3	1	11	2	2	27
Number of measures (corrections) (minor deviations from the requirements of the EMS)	0	7	3	0	31	3	1	45
Number of recommendations issued to improve the functioning of the EMS	3	11	5	0	10	11	2	42
Total number of proposed corrections and recommendations	3	18	8	0	41	14	3	87

The internal assessment report, which includes measures to eliminate the identified deviations from the requirements of the environmental management system and the proposed recommendations to improve the functioning of the environmental management system of the assessed company or organisational unit is reviewed by the Management Board, which on its basis determines the persons responsible for the implementation of those measures.

Accidents and traffic emergencies that impacted the environment

In 2019 there were 28 small fires alongside railway tracks for which the relevant firefighting units were activated, which is five small fires more than in 2018. Most of the fires alongside the tracks occurred during the summer, and the highest number in the area of the Divača–Koper line. The fires did not result in any major economic damage.

One rail traffic emergency occurred in 2019, which resulted in potential harmful consequences for the environment. The emergency occurred in the Hrastovlje tunnel at km 13+990 at switch no. 1 due to the derailling of six cars on freight train no. 47882, which was carrying fuel oil (kerosene). Due to damage of six freight wagons (tank cars), kerosene spilled uncontrolled into the soil. Pursuant to the applicable Rail Accident Civil Protection and Disaster Relief Plan and other internal regulations of the companies in the Slovenske železnice Group governing the area of rail traffic, a rescue operation was launched immediately by the competent services (firefighters, rescue personnel, police, civil protection personnel, the responsible departments within Slovenske železnice, and the chief national rail accident investigator). The

emergency was handled appropriately in accordance with applicable internal regulations.¹

The administrator of the public rail infrastructure began implementing measures immediately to prevent a direct threat of danger of environmental damage, on the basis of regulatory decisions issued by the Slovenian Environment Agency and the Koper unit of the Slovenian Environment and Spatial Planning Inspectorate. In accordance with the regulations governing waste management,² 9,150 m³ of gravel, soil and rock that were contaminated with kerosene were removed, a measurement point was installed to monitor the status of the groundwater, and operational monitoring was conducted of the groundwater in the area of the Rižana aquifer. These measures to prevent the direct threat of environmental damage are still underway, and will continue to be conducted in 2020.

Implementation of regulations relating to the environmental management system

The obligations relating to the implementation of environmental protection measures in Slovenia and in the European Union are precisely defined in primary and secondary legislation (laws, regulations, decrees and EU regulations).

The Internal Control, Quality and Environment Department, in accordance with the Rules for the Environmental Management System of the Slovenske železnice Group, monitors the adoption of legal regulations in Slovenia and the European Union that affect the conducting of the activities of the companies in the Slovenske železnice Group that are in any way associated with the implementation of the environmental management system. It

¹ Committee report on investigation of event no. 287/2019.

² Decree on Waste (Official Gazette of the Republic of Slovenia, Nos. 37/15 and 69/15).



notifies all stakeholders within Slovenske železnice about all changes, amendments and new legal requirements, coordinates and offers support for the implementation of the relevant legal regulations in the work system and the management system, and supervises the implementation of those regulations in the processes.

In accordance with the legal obligations governing the area of environmental protection, the companies in the Slovenske železnice Group are required to manage environmental impacts relating to:

- > emissions of industrial and municipal wastewater and stormwater runoff into waters and the public sewage system (treatment plants, oil separators);
- > emissions into the atmosphere (small and medium-sized heating devices, paint shops and sandblasting facilities);
- > emissions of noise into the natural environment (in the area of railway infrastructure during the loading

of goods, in areas where various production or service activities are provided and construction sites);

- > light pollution (exterior lighting);
- > emissions of fluorinated greenhouse gases and ozone-depleting substances into the atmosphere (A/C devices, heat pumps, fire extinguishing systems);
- > emissions of electromagnetic radiation (radio dispatch and GSM-R transmitters);
- > the use of plant protection products (pesticides) for controlling vegetation on the rail infrastructure;
- > storage and use of hazardous substances (hazardous fluids storage of heating oil, waste oil, fuel oil, other hazardous substances used for maintenance);
- > transport of dangerous goods (wagons and vehicles for transporting dangerous goods).

Regulations that govern the management of the environmental management system at Slovenske železnice Group companies:

	Area	Number of regulations	Legal basis
Regulations relating to the EMS at Slovenske železnice Group companies	Waste management	26	Environment Protection Act (ZVO-1) (Official Gazette of the Republic of Slovenia No. 39/06 [official consolidated text] with all amendments)
	Air protection	18	Environment Protection Act (ZVO-1); Chimney Sweeping Services Act (ZDimS) (Official Gazette of the Republic of Slovenia No. 68/16)
	Waste water	6	Environment Protection Act (ZVO-1)
	Water protection and water protection areas	4	Water Act (ZV-1) (Official Gazette of the Republic of Slovenia No. 67/02 with all amendments)
	Management of hazardous substances	4	Chemicals Act (ZKem) (Official Gazette of the Republic of Slovenia No. 110/03 [official consolidated text] with all amendments)
	Plant protection agents	4	Plant Protection Products Act (ZPfS-1) (Official Gazette of the Republic of Slovenia No. 83/12)
	Noise	2	Environment Protection Act (ZVO-1)
	Other environmental protection regulations	9	Environment Protection Act (ZVO-1)
	Transport of dangerous goods	10	Transport of Dangerous Goods Act (ZPNB) (Official Gazette of the Republic of Slovenia No. 83/12 [official consolidated text] with all amendments)
	Energy consumption	11	Energy Act (EZ-1) (Official Gazette of the Republic of Slovenia No. 60/19 [official consolidated text])
	Fire Safety	13	Fire Safety Act (ZVPoz) (Official Gazette of the Republic of Slovenia No. 3/07 [official consolidated text] with all changes)
	Protection and rescue	6	Protection against Natural and Other Disasters Act (ZVNDN) (Official Gazette of the Republic of Slovenia No. 51/06 [official consolidated text] with all changes)
	Total number of legal requirements governing the area of the EMS	113	

The area of the environmental management and energy efficiency system at Slovenske železnice Group

companies is governed by nine individual laws that regulate individual areas in the Republic of Slovenia in detail.¹

¹ Waste management, air protection, waste water, water and groundwater protection, noise, handling chemicals and plant protection products, hazardous goods storage, hazardous goods transport, energy consumption, fire safety, civil protection and disaster relief.

THERE WAS A 0.1% DECREASE IN NET TONNE-KILOMETRES IN RAIL FREIGHT TRANSPORT IN 2019 RELATIVE TO 2018, WHILE ENERGY CONSUMPTION WAS DOWN BY 4.9% AND THE CARBON FOOTPRINT PER NET TONNE-KILOMETRE WAS REDUCED BY 2.8% (FROM 18 g/NTKM TO 17 g/NTKM).

Owing to the complex nature of the legal regulations, the area of the Slovenske železnice Group's environmental management and energy efficiency system is highly complex and difficult to manage. In the area of legal regulations in 2019 that in any way affect the functioning of the environmental management and energy efficiency system, there were 21 newly adopted or in any way amended legal requirements that had to be implemented in the processes and/or management system of the companies in the Slovenske železnice Group.

Noise

Amongst the main environmental issues faced by the operator of the public rail infrastructure and the operator of rail freight transport is the noise generated by freight trains rail traffic in some of the most heavily trafficked rail sections (within the City of Ljubljana and on the Ljubljana–Kranj section). Environmental noise is any unwanted or harmful exterior sound caused by human activity, including noise emitted by road, rail and air transport vehicles and equipment in industrial areas.

One of the main reasons for the increased number of complaints due to noise generated by rail traffic in this area is the closure of traffic in urban centres and the redirection of road traffic from the city centre onto thoroughfares that run adjacent to the city centre.

A total of 28 complaints were filed with various Slovenske železnice Group companies in 2019 due to noise generated by rail traffic. Slovenske železnice Group companies handle complaints relating to environmental protection individually 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 that will be purchased in the period 2020–2023 according to plans 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 of the railway operators and the subsidiary which is the provider of traction services within the energy management system¹ systematically carry out activities relating to the improved energy efficiency of rail transport. Measures to increase energy efficiency in rail transport also reduce negative impacts on the environment, which is reflected in reduced emissions of CO₂ and other emissions into the air that are harmful to health (nitrogen oxides – NO_x, particulate matter – PM₁₀).

The scope of train traction services was down by 0.7% in 2019 relative to 2018, resulting in a reduction in total energy consumption by 6.3%. As a result, the total carbon footprint² of rail transport was down 5.2% (6,500 tonnes less CO₂ emitted). The results regarding the energy efficiency of rail transport in the period 2012–2019 are even more encouraging, as the traction volume (total passenger and freight traffic) increased by 18.7%, while the quantity of energy consumed for traction decreased by 1.3%.

There was a 6.5% increase in passenger kilometres in rail passenger transport in 2019 relative to 2018, while energy consumption was down by 9.3% and the carbon footprint per passenger kilometre was reduced by 15.9% (from 55 g/PKM to 46 g/PKM). In comparison with the period 2012–2019, the volume of work performed in rail passenger transport decreased by 5.8%, while the quantity of energy consumed for traction decreased by 10.5%. The quantity of CO₂ fell by 8%, and the quantity of CO₂ per passenger kilometre fell by 2.3%.

There was a 0.1% decrease in net tonne-kilometres in rail freight transport in 2019 relative to 2018, while energy consumption was down by 4.9% and the carbon footprint per net tonne-kilometre was reduced by 2.8% (from 18 g/NTKM to 17 g/NTKM). The results for the period 2012–2019 are even more encouraging, as the volume of work performed increased by 41%, while the quantity of energy consumed for traction increased by just 3.3%. The quantity of CO₂ fell by 10.2%, and the quantity of CO₂ per net tonne kilometre fell by 21.8%.

¹ ISO 50001:2011.

² 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.

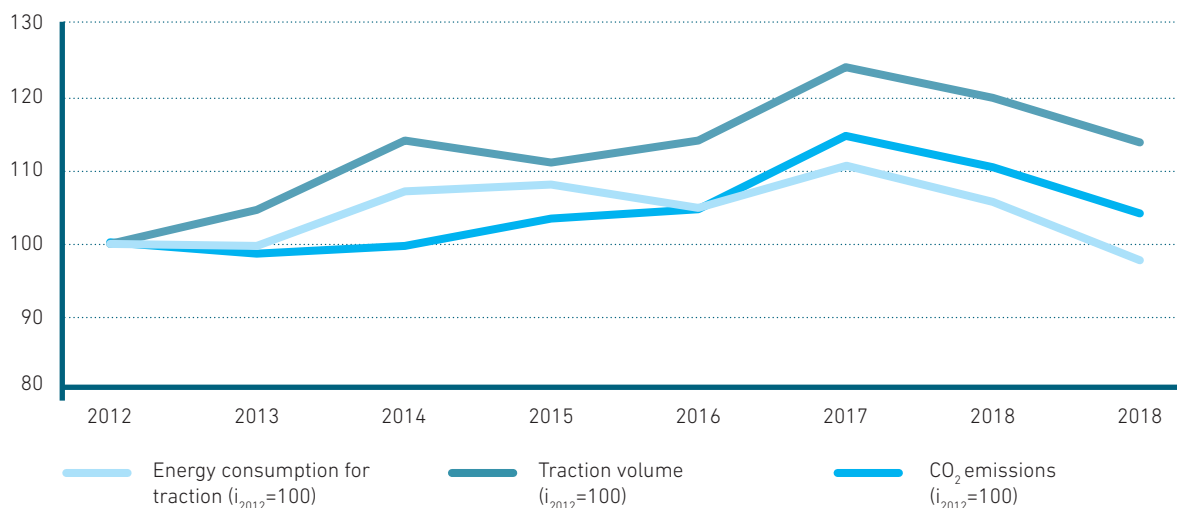


Environmental/energy targets	2019	Index 2019/2018	Index 2019/2012
1. Increasing the energy efficiency of rail transport			
a. Total energy consumption in rail transport (kWh thousand)	261,075	93.7	98.7 ↗
a.1 Total electricity consumption in rail transport (kWh thousand)	173,810	96.6	123.0 ↗
a.2 Total consumption of D2 in rail transport (kWh thousand)	87,266	88.3	77.5 ↗
b. Specific electricity consumption for traction per unit of work performed (passenger and freight transport; kWh/thousand GTKM)	20.39	96.3	82.9 ↗
c. Specific consumption of D2 for traction per unit of DMU work performed (passenger transport; kg/thousand GTKM)	11.45	106.9	114.7 ↘
d. Specific consumption of D2 for traction per unit of diesel locomotive work performed (freight transport; kg/thousand GTKM)	6.66	111.7	92.0 ↗
e. Total train traction (thousand GTKM)	9,314,788	99.2	118.7 ↗
f. Passenger transport (GTKM thousand)	698,332	106.4	94.1 ↘
g. Freight transport (GTKM million)	4,990	99.9	141.0 ↗
2. Reduction of greenhouse gas emissions generated by rail transport			
a. Total CO ₂ emissions (thousand kg)	118,895	94.8	104.6 ↘
b. CO ₂ emissions/PKM [kg/PKM]	0.046	84.1	97.7 ↗
c. CO ₂ emissions/NTKM (kg/NTKM)	0.017	97.1	78.2 ↗

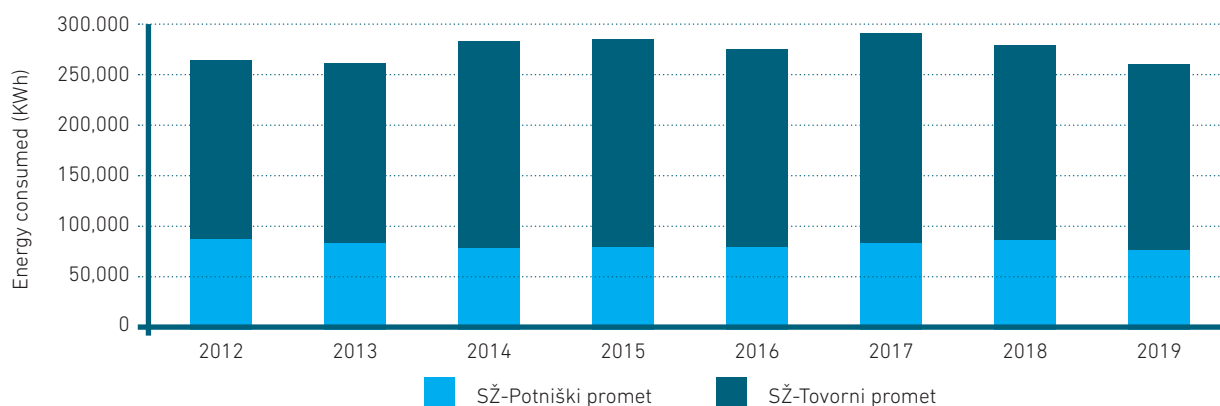
The graphs show that the CO₂ emissions generated by the two rail operators in the Slovenske železnice Group have fallen for the second year in a row, which is partly

the result of the reduced traffic, but mainly the result of measures to reduce energy consumption per kilometre.

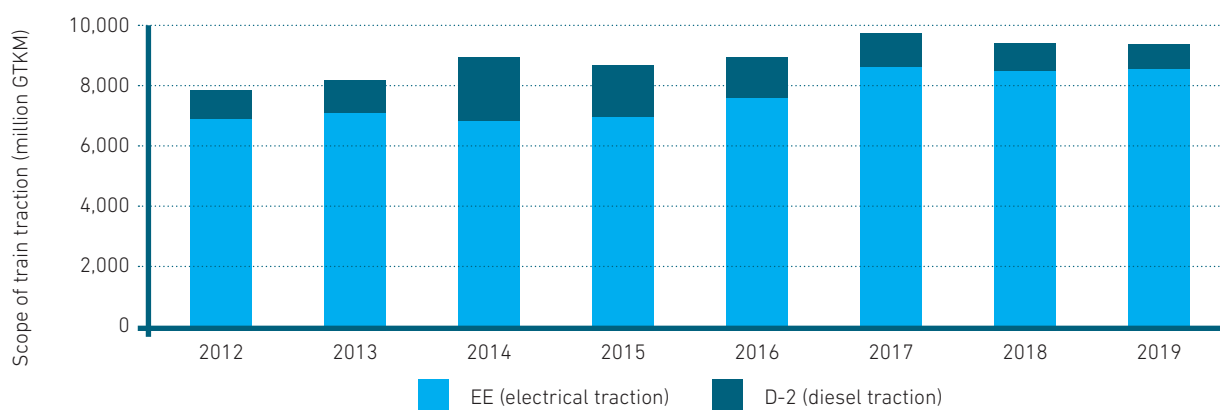
Energy consumption, traction volume and CO₂ emissions in the period 2012–2019 (2012 = 100)



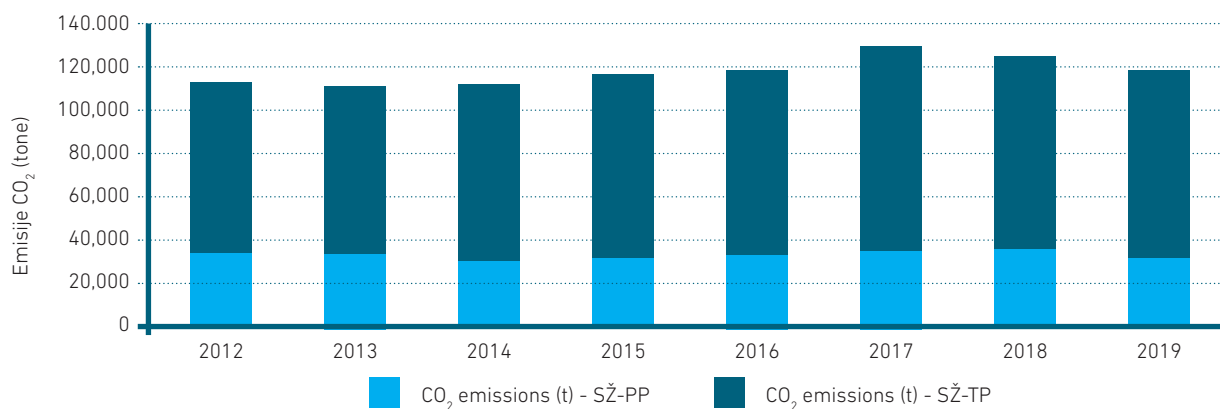
Energy consumed (KWh) in rail transport in the period 2012–2019



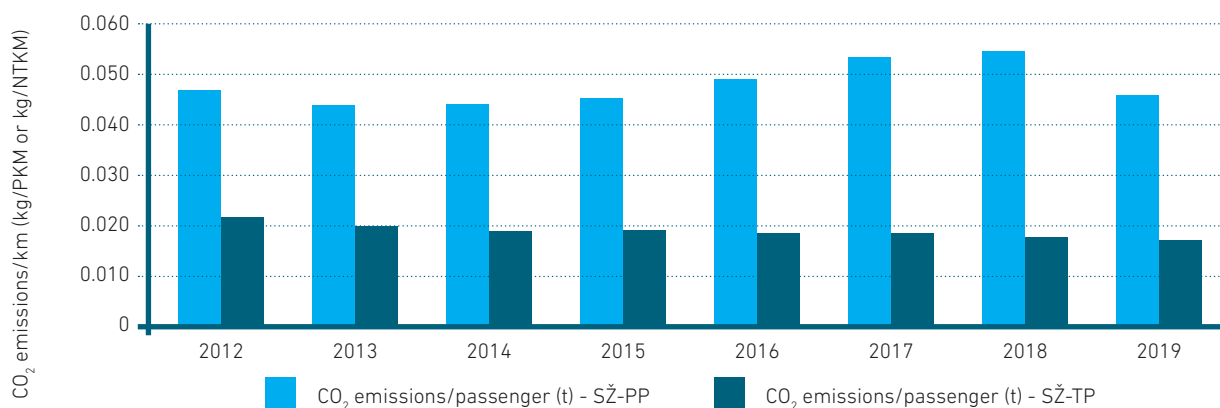
Scope of train traction (million GTKM) with respect to energy source in the period 2012–2019



CO₂ emissions (tonnes) generated by both rail transport operators in the period 2012–2019



CO₂ emissions/km (kg/PKM or kg/NTKM) generated by both rail transport operators in the period 2012–2019





> DISCLOSURES BY KEY ACTIVITY

QUALITY MANAGEMENT SYSTEM

A number of activities were carried out in 2019 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. SŽ-VIT, d. o. o., which previously managed its system independently, was included in the systematic development and management of the quality management system and associated processes in 2019.

OBJECTIVE

ACHIEVED IN 2019

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

ISO 9001:2015 internal assessments

A total of 39 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 38 observations were made and 45 recommendations were issued.

Company	Number of cases of non-compliance identified	Number of observations made	Number of recommendations issued
SŽ-Tovorni promet, d. o. o.	0	0	7
Fersped, d. o. o.	0	0	7
SŽ-Potniški promet, d. o. o.	0	4	7
SŽ-VIT, d. o. o.	0	3	2
SŽ-Infrastruktura, d. o. o.	0	22	6
Prometni institut Ljubljana, d. o. o.	0	1	3
Slovenske železnice, d. o. o.	0	8	13
Total	0	38	45

ISO 9001:2015 external assessment

Findings of the external assessment:

- > The policy, vision and strategy have been defined, as have the objectives at the level of the individual company, which are regularly monitored and analysed. Corrective measures are triggered in the event of a failure to achieve an objective. The operating results of the Group and the individual companies indicate good performance. The company vision, strategy and policy indicate progress in all areas. The companies have operated successfully and achieved the set objectives.



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

The first control assessment was carried out from 27 to 28 November 2019 as part of the 8th recertification assessment. An external assessment was conducted at SŽ-VIT, d. o. o. in May 2019.

OBJECTIVE

ACHIEVED IN 2019

- > Monitoring and measuring of efficiency is carried out systemically and operationally at all levels and at all companies. The internal assessment was conducted with a critical approach and a positive attitude. No non-compliances were found, while 38 observations were made, which were correspondingly addressed.
- > The quality management system is in place at the level of the individual companies and the Group. A process orientation allows the monitoring and prevention of system errors.
- > The system indicates a steady improvement in quality due to a practical approach to the implementation of the requirements set out in the reference standards at all levels of the companies and the Group.

External assessors did not identify any cases of non-compliance, but made 21 observations and issued 18 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-Tovorni promet, d. o. o.	-	-	-
Fersped, d. o. o.	0	0	4
SŽ-Potniški promet, d. o. o.	0	2	1
SŽ-VIT, d. o. o.	0	9	5
SŽ-Infrastruktura, d. o. o.	0	1	3
Prometni institut Ljubljana, d. o. o.	0	0	2
Slovenske železnice, d. o. o.	0	9	3
Total	0	21	18



OBJECTIVE	ACHIEVED IN 2019
Education of employees about work objectives and procedures, and preventive and corrective measures	<p>In 2019, Slovenske železnice, d. o. o. maintained its status of training and testing centre for train drivers. A total of 194 candidates took part in professional training for safety critical workers for 12 operations positions in 2019, while 264 safety critical workers took part in training to acquire the next certificate. A total of 3,870 safety critical workers took part in professional training, while 55 sat for regular and special assessments of their professional qualifications pursuant to the law and implementing regulations.</p> <p>Functional training courses were held 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.</p> <p>Details regarding employee training and education in 2019 are given in the section Traffic safety and regulation.</p>
Continue the trend of improving traffic safety	<p>There were 14 fewer accidents in 2019 than in 2018. In terms of cause, there was one more railway-related accident and 15 fewer non-railway accidents. The biggest impact was seen in a significant reduction in the number of accidents at level crossings. There were also no accidents in the Other accidents category in 2019.</p> <p>The number of incidents and other events that affect traffic safety increased by 18 cases.</p>
Achieve a score of good (3) or higher for 65% of services (services are rated on a scale of 1–5) at SŽ-Tovorni promet, d. o. o. and 85% at SŽ-Potniški promet d. o. o.	<p>Data from the survey are presented in Performance analysis by individual area in the sections Passenger transport and Freight transport.</p>

OBJECTIVE

ACHIEVED IN 2019

Reducing the number of complaints, reclamations and claims for damages

Passenger transport

	2015	2016	2017	2018	2019
Grievances	441	403	504	654	635
Compliments	192	236	261	318	313
Complaints	1,597	1,072	807	690	508
Claims for damages	56	17	23	58	35

The target number of grievances was exceeded by 5.8% 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 of rolling stock.

The target number of compliments was surpassed by more than 4% due to an increased number of compliments in the timetable and station category (services and technical deficiencies).

The number of complaints was significantly lower than expected in 2019, primarily due to fewer exchanges of multiple units when running ICS trains.

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

Freight transport

	2015	2016	2017	2018	2019
Grievances	11	23	9	6	1
Comments on the state of affairs	694	922	485	507	548
Complaints (number per charged consignments in %)	1.17	0.89	1.00	1.63	1.85
Complaints (receivables turnover ratio in %)	0.44	0.27	0.56	0.23	0.34
Claims for damages (number)	39	49	186	167	82
Claims for damages (value over transport revenues in %)	0.013	0.024	0.010	0.017	0.011

The number of grievances in freight transport was down, as only one grievance was received.

The number of formal reports about the actual situation (CIT20) was up (index 2019/2018 = 108.1).

The majority of the CIT20 reports issued were at the request of customers regarding the transport of individual goods (scrap iron, waste, cars), due to differences in the weights of the goods and damage to the shipments through the fault of the customer.

We received and handled 82 claims for damages in 2019 (from users and foreign railway operators):

- > 79 claims from users of transport services; and
- > 3 claims from foreign railway operators (for the joint and several coverage of damages).

**OBJECTIVE****ACHIEVED IN 2019****Reduction of train delays kov*****Passenger transport***

	2015	2016	2017	2018	2019
Passenger train delays (min./100 km)	4.4	2.3	4.0	4.5	2.2

In 2019, delays amounted to 2.2 min/100 km, due to adjustments to the timetable (due to several planned track closures and taking account of slower train speeds, the train travel times in the timetable are longer).

Freight transport (all operators)

	2015	2016	2017	2018	2019
Freight train delays (min./100 km)	103.3	84.0	110.7	121.6	94.3

Delays to freight trains were reduced due to the completion of the renovation of the Maribor–Šentilj line and the renovation of the Maribor Tezno station. There were fewer expected and unexpected track closures relative to 2018.

INVESTMENTS

The Slovenske železnice Group's total investments in fixed assets amounted to EUR 40,426 thousand in 2019, which was 57.6% of the annual investment plan. Investments were down by 30.5% in 2019 relative to 2018.

Investments by the Slovenske železnice Group in 2019

EUR thousand	2019	2018	Index
SŽ-Tovorni promet, d. o. o.	13,356	22,427	59.6
Fersped, d. o. o.	211	142	148.6
VV-LOG, d. o. o.	82	0	
SŽ-Potniški promet, d. o. o.	11,600	14,596	79.5
SŽ-Vleka in tehnika, d. o. o.	1,849	1,726	107.1
SŽ-Infrastruktura, d. o. o.	2,571	3,010	85.4
SŽ-ŽGP Group	4,216	2,929	143.9
SŽ-ŽIP, storitve, d. o. o.	922	730	126.3
Prometni institut Ljubljana, d. o. o.	22	47	46.8
SŽ-Železniška tiskarna, d. d.	4	28	14.3
Slovenske železnice, d. o. o.	5,593	12,567	44.5
Total	40,426	58,202	69.5

Investments by the Slovenske železnice Group in 2019 by purpose

EUR thousand	2019	Structure	2018	Index
Rolling stock	24,385	60.3	38,019	64.1
Construction machinery	1,771	4.4	511	346.6
Road vehicles	1,834	4.5	1,587	115.6
Information technology	4,795	11.9	6,260	76.6
Property	4,103	10.1	9,486	43.3
Production equipment	3,213	7.9	1,687	190.5
Communications equipment	143	0.4	121	118.2
Other	182	0.5	531	34.3
Total	40,426	100.0	58,202	69.5



Investments by purpose in 2019

Investments (EUR thousand)	SŽ Group	Tovorni promet	Fersped	VV-LOG
A. ROLLING STOCK	24,385	12,023	0	0
1. Tractive vehicles	15,083	6,058	0	0
1.1 New acquisitions	1,634	108	0	0
1.2 Periodic maintenance	6,801	1,864	0	0
1.3 Adaptations	6,648	4,086	0	0
2. Unpowered rolling stock	7,922	5,965	0	0
2.1 New acquisitions	46	2	0	0
2.2 Periodic maintenance	7,876	5,963	0	0
2.3 Adaptations	0	0	0	0
3. Special-purpose rail vehicles	1,380	0	0	0
3.1 New acquisitions	92	0	0	0
3.2 Periodic maintenance	1,167	0	0	0
3.3 Adaptations	121	0	0	0
B. CONSTRUCTION MACHINERY	1,771	495	0	0
1. Heavy machinery	1,763	495	0	0
2. Light machinery	8	0	0	0
C. ROAD VEHICLES	1,834	231	0	69
1. Passenger transport vehicles	233	0	0	0
2. Goods vehicles	692	183	0	0
3. Transport vehicles	0	0	0	0
4. Cars	909	48	0	69
D. INFORMATION TECHNOLOGY	4,795	76	9	11
E. PROPERTY	4,103	463	190	0
1. Holiday capacities	1,240	0	0	0
2. Housing	0	0	0	0
3. Investment maintenance (buildings)	772	202	163	0
4. Maintenance of tracks and switch points	445	183	0	0
5. Facilities for commercial activity	1,001	45	12	0
6. Land	256	0	0	0
7. Equipment	389	33	15	0
F. PRODUCTION EQUIPMENT	3,213	3	0	0
G. COMMUNICATIONS EQUIPMENT	143	7	12	2
H. OTHER	182	58	0	0
TOTAL	40,426	13,356	211	82

A total of 60.3% of all investments (or EUR 24,385 thousand) in 2019 were earmarked for rolling stock that is required for the uninterrupted provision of passenger and freight transport services. Of that amount, EUR 1,526 thousand (6.3%) has been earmarked for the purchase of new passenger trains.

Investments in rolling stock are made continuously and primarily include regular modifications to and maintenance of vehicles after the expiry of their lifecycle, and modification of vehicles. A total of EUR 15,844 thousand (65.0% of investments in rolling stock) was earmarked for periodic maintenance, of which EUR 6,801 thousand for the periodic maintenance of tractive vehicles, EUR



Passenger transport	VIT	Infrastruktura	ŽGP Group	ŽIP	Prometni institut	SŽ Tiskarna	SŽ, d. o. o.
10,865	117	1,112	268	0	0	0	0
9,025	0	0	0	0	0	0	0
1,526	0	0	0	0	0	0	0
4,937	0	0	0	0	0	0	0
2,562	0	0	0	0	0	0	0
1,840	117	0	0	0	0	0	0
44	0	0	0	0	0	0	0
1,796	117	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	1,112	268	0	0	0	0
0	0	0	92	0	0	0	0
0	0	991	176	0	0	0	0
0	0	121	0	0	0	0	0
0	0	0	1,276	0	0	0	0
0	0	0	1,268	0	0	0	0
0	0	0	8	0	0	0	0
33	59	472	573	351	0	0	46
0	0	0	0	233	0	0	0
0	0	218	291	0	0	0	0
0	0	0	0	0	0	0	0
33	59	254	282	118	0	0	46
549	84	218	75	11	18	4	3,740
90	772	117	304	393	0	0	1,774
0	16	0	0	0	0	0	1,224
0	0	0	0	0	0	0	0
41	116	0	58	188	0	0	4
0	262	0	0	0	0	0	0
0	299	0	0	158	0	0	487
0	0	0	240	0	0	0	16
49	79	117	6	47	0	0	43
0	799	628	1,645	137	0	0	1
19	11	21	9	30	4	0	28
44	7	3	66	0	0	0	4
11,600	1,849	2,571	4,216	922	22	4	5,593

7,876 thousand for the periodic maintenance of unpowered rolling stock and EUR 1,167 thousand for the periodic maintenance of special-purpose rail vehicles. EUR 6,769 thousand was earmarked for modification of rolling stock, of which EUR 6,648 thousand for the modification of tractive vehicles and EUR 121 thousand for the modification of special-purpose rail vehicles.

Significant investments were also made in the upgrading of the business information system and other digitalisation programmes (EUR 4,795 thousand), in real estate, primarily the renovation of holiday facilities, the modification of buildings to house commercial activities (EUR 4,103 thousand) and the purchase and replacement of production equipment (EUR 3,213 thousand).



IN COOPERATION WITH INTERNATIONAL RAILWAY ORGANISATIONS AND FOREIGN RAILWAY OPERATORS, WE SUBMIT POSITIONS AND PROPOSALS FOR THE FORMULATION OF A COMMON EUROPEAN RAILWAY POLICY AND THUS CONTRIBUTE TO THE IMPROVED OPERATIONAL AND LEGISLATIVE ENVIRONMENT FOR EUROPEAN RAILWAY OPERATORS AND TO THE EFFICIENT FUNCTIONING AND FURTHER DEVELOPMENT OF THE RAIL SECTOR.



PARTICIPATION IN THE INTERNATIONAL ENVIRONMENT

Slovenske železnice actively responds to initiatives from the international environment. In cooperation with international railway organisations and foreign railway operators, we submit positions and proposals for the formulation of a common European railway policy and thus contribute to improved operations and the legislative environment for European railway operators and to the efficient functioning and further development of the rail sector.

Community of European Railways and Infrastructure Companies (CER)

The Community of European Railway and Infrastructure Companies (CER) continued to actively represent the interests of its members, worked to achieve better operating conditions for railway operators and represented the railway sector in relation to EU institutions.

European Union elections

The year 2019 was an important milestone for the European Union, as the European elections saw the election of new deputies to the European Parliament and new commissioners to the European Commission. CER actively monitored the elections to the European Parliament and the composition of the new European Commission. It participated in preparations for the parliamentary hearing of candidates for commissioner, and informed new deputies about its programme and the legislative dossiers which are of key importance to railways and which were not completed during the previous parliamentary session.

Approved policy agenda of the CER for the period 2019–2024

The CER approved its policy agenda for the period 2019–2024 entitled 'Ever better railways for an ever closer Union'. The document addresses previous achievements, the development of European railways and traffic policy, and defines priority tasks that must be the focus of the work of institutional and non-institutional stakeholders in the European Union to ensure that railway traffic becomes the backbone of increasingly sustainable European mobility.

Further efforts will be directed towards digitalisation, the environment and sustainable tourism. The guidelines set out in the CER policy agenda are in many places harmonised with the European Commission's current work programme, which will make it easier to achieve our common objectives.

European Green Deal

The CER welcomed the European Green Deal, which the new European Commission presented at the end of the year. This is an ambitious package of measures designed to achieve European climate neutrality by 2050. Rail transport can play an important role here, as it is capable of making a significant contribution to the reduction of emissions. In order to achieve this, traffic will have to be re-directed from road to rail, and the development of rail is therefore the only path to sustainable mobility.

Slovenske železnice and other railway operators are approvingly following the European Commission's ambitious plans to continue to engage in sustainable financing, strengthen the foundations for sustainable investment and support research and innovation in the area of clean transport.

Multiannual Financial Framework and Connecting Europe Facility

In March 2019, the European Parliament, the Council of the European Union and the European Commission reached a trilateral agreement on the further development of the Connecting Europe Facility (CEF), which provides a large share of transport funding.

CER will continue to endeavour to ensure the highest possible level of funding of the CEF within the framework of negotiations on the European Union's annual budget. It will also advocate for the budgets of other programmes that are of key importance to railways (Horizon Europe, Shift2Rail).

Advocating for increased employment of women in the rail sector

Women account for just over 21% of the workforce at railway operators. In line with European guidance regarding increased inclusion of women, measures are needed

to improve equal opportunities, which will attract more women to employment in the rail sector and improve working conditions for them. To that end, CER together with the European Transport Workers' Federation (ETF) have begun negotiations with social partners in order to promote the employment of women in the rail sector and to monitor the development of their representation in this sector in general.

International Union of Railways (UIC)

The International Union of Railways (UIC), as a global body, represents the rail sector and promotes rail transport. It preserves and develops technical knowledge through its expert working bodies, forums, platforms and project teams. Among other international institutions, it is known as key partner, which advocates and promotes the development of rail transport at high-level conferences and events.

New general manager and strategic plan for 2020–2022

At the general assembly in December, the new general manager of the UIC presented the UIC's strategic plan for the period 2020–2022, based on the values of equality, solidarity and universality, and a mission to share, open and connect. The plan is part of a detailed work programme designed around five key priority areas: promotion of rail transport at the global level, further development of the UIC as a technical platform for addressing the needs of its members, development of innovations via projects, promotion of sustainable carbon-free transport and effective and transparent management to the benefit of its members.

Sustainable development

Since 2010, the UIC has endeavoured to make the rail sector's position with respect to sustainable development heard at the global level, and therefore supports the ambitious goals of railway operators and their responsibility with regard to climate change.

In accordance with the Paris Agreement, the UIC drafted a special statement, the signing of which binds

stakeholders in the rail sector to environmentally responsible operations, with the objective of reducing energy consumption and achieving carbon neutrality by 2050. The purpose of the statement is to strengthen the commitment of railway operators in the fight against climate change. Slovenske železnice became a signatory to the statement at the end of 2019.

Connections between Slovenske železnice and the UIC in the area of security

Slovenske železnice is a member of the international rail security association Colpofer, which operates as a special group within the UIC. The association provides practical connections, exchange of information and cooperation among railway police forces and rail companies' security services. As part of Colpofer, Slovenske železnice heads a working group that deals with the issue of cross-border criminal activity in the area of the Alps – Western Balkans freight corridor.

Slovenske železnice is also active in the UIC's security platforms, particularly in the group for rapid exchange of information in the area of security management. During this year, the group exchanged useful information in various areas of railway security, including corporate security, protection against the threat of various terrorist acts, video surveillance systems, personal data protection, railway worker and passenger safety, illegal migration, etc.

Activities of Slovenske železnice in the UIC Terminology Group

Slovenske železnice has renewed its participation in the UIC Terminology Group. The group's purpose is to harmonise rail terminology, coordinate translation in more than 20 languages, and modernise the multilingual rail term bank RailLexic, which has been published under the auspices of the UIC since the middle of the twentieth century.

Slovenske železnice's activities involve a review of the existing Slovenian translations in the RailLexic term bank, which upon its publication in Slovene will also become the official reference term bank in the area of rail transport for Slovenian users.



Slovenske železnice active in the area of education and training

In the area of education and training of railway staff, Slovenske železnice increased its level of cooperation with foreign partners. The Slovenske železnice training centre is active in various working groups that operate under the auspices of the UIC platform for the development of talent and professional knowledge. In December, the training centre in Ljubljana hosted a group of representatives of rail company educational institutions, whose main objective is to provide effective education and training in the rail sector and to define the competences and skills required to perform railway-related jobs in the future. At the meeting, the members of the working group spoke about closer cooperation in joint education and training activities, quality research in education and the use of the latest online tools to ensure work efficiency in this area.

Establishment of the SEESARI group

At the summer general assembly of the UIC, the organisation approved the organising of the SEESARI special group, which has operated as an initiative for the promotion of research and innovation in the rail sector in South-East Europe under the leadership of Prometni institut Ljubljana since 2016.

The organising of the special group is an excellent opportunity for the development and strengthening of partnerships among rail-related interest groups in the region and the implementation of new solutions and products in the railway system in the region.

International Rail Transport Committee (CIT)

Twenty years since the entry into force of COTIF 99

Transport law based on the Convention concerning International Carriage by Rail (COTIF) and its practical application is the main activity of the International Rail Transport Committee (CIT), headquartered in Bern. Twenty years ago, the COTIF 99 convention was designed as a modern and forward-looking document, and it continues to serve as a high-quality legal basis for the performance of international rail transport. In the light of digitalisation

and technical changes, the CIT, through innovation and the provision of legal certainty, continuously strives to increase the competitiveness of rail transport and to search for legal solutions in the area of multimodality.

At the general assembly, the CIT adopted a new strategic policy to 2025, which includes the following significant objectives: competitiveness, multimodality, implementation of international and national transport law at the company level, promotion and support for transport with Eurasia, harmonisation of agreements regarding access to infrastructure and upgrading to a centre of excellence in the area of transport law. In order to achieve these objectives, the CIT cooperates with other organisations and standardisation bodies, provides legal assistance for its members, provides education in the form of workshops and seminars and keeps its members regularly informed of the latest developments and changes to CIT documents.

As a member of the CIT, Slovenske železnice actively monitors CIT activities and initiatives, and responds to them accordingly.

Annual meeting of G4 Directors General

In Ljubljana in November, Slovenske železnice hosted the annual meeting of Directors General of the Group of Four (G4), which is a regional interest association of the UIC and the CER, which includes rail transport companies and infrastructure managers from neighbouring geographic regions. Members of the G4 Group bring together common interests in the development of railway activities in the region, and discuss current topics and issues at annual meetings, where they also exchange opinions and experiences.

At the meeting in Ljubljana, the European Union's current policy agenda was presented, with an emphasis on rail transport, the activities of the UIC relating to railways within the G4, and current events and projects under the SEESARI initiative.

Among topics in the area of railway infrastructure, plans and investment projects were presented for modernising the Slovenian railway network. The participants talked about noise reduction in rail transport and the planned quieter tracks in view of the requirements of European

law. During the discussion of rail passenger transport, presentations were made of the new rolling stock, integrated public transport services and digitalisation of passenger services at Slovenske železnice. The discussion of rail freight transport also addressed the technical and organisational difficulties and challenges that operators face at border crossings.

Visit of logistics operators from South Africa

In September, Slovenske železnice was visited by a group of businesspeople in a logistics development programme being run by the Gordon Institute of Business Science at the University of Pretoria. The guests included several executive-level managers at various transport and logistics companies in South Africa and representatives of the university. Slovenske železnice presented the organisation of the rail sector in Slovenia, the role of the Slovenske železnice Group and the work and plans of SŽ-Tovorni promet, d. o. o., which plays a key role in Slovenian logistics.

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, ensures information security and provides user support through a service centre open 24/7.

In 2019, we continued with the intensive work on digitalisation programmes, through which we are realising the strategic objectives set out in Slovenske železnice's digitalisation strategy adopted in September 2017.

Significant achievements:

- > we ensured the reliable operation of information systems for the main and support processes within the Slovenske železnice Group;
- > the information environment was used by more than 2,700 users;
- > with a greater emphasis on education and an active employment policy we lowered the risk of staff turnover, which we are continuing in 2020;

- > in the production environment, a new generation of the system for displaying the active timetable on mobile devices was introduced;
- > with regard to the IT infrastructure, the planned results were achieved in terms of the availability of all key IT services, which were provided nearly without interruption, which ensured the smooth flow of the business process;
- > the establishment of high-availability IT services continued, with an alternate location of the computer centre (geo-redundancy). The risks associated with unforeseen failures of the IT infrastructure were thus reduced significantly;
- > major progress was made in the area of IT security, including hacking and security tests. The central firewall was upgraded. We established an identity and access management (IAM) system, in which we are gradually including new services. This allows us to perform appropriate granting and tracking of user accesses. We established a two-tier authentication system in order to increase the security of external accesses of the IT system;
- > no major security incidents were recorded in 2019 in the area of IT services;
- > in December 2019 the Slovenske železnice Group was named an essential service provider by the Slovenian government on the basis of the Information Security Act. In accordance with this, a plan was drafted in the area of IT services for freight and passenger transport and maintenance of the railway infrastructure;
- > the service centre provided end users with support in the elimination of errors on personal computers, tablet computers and mobile phones. It provided assistance with software difficulties and help with IT equipment 24/7/365. We received and processed 13,949 service requests. The first level of support processed and resolved 51% of all requests (7,121).

Digitalisation programmes

Upgrading of the Slovenske železnice Group's business information system

Includes the construction of the central element of the business information system based on standard solutions and on standard registries for all Group companies. The programme will be completed in 2020.



> **Management of human capital**

A uniform, consolidated system of managing human capital (HR records, education and training, pay slips, time management) applies to all Group companies. A high-capacity business analytics system was implemented.

> **Rail infrastructure**

Systems were introduced for monitoring train delays, closures and particularities relating to rail traffic management systems, including a geospatial display (GIS). An information system for consents was implemented, which links the document system with the asset management system. An enterprise asset management (EAM) system will be introduced in the area of rail infrastructure in 2020.

> **Rolling stock**

An enterprise asset management (EAM) system has been introduced in the area of rolling stock. The new system combines various previously unrelated information systems into a single integrated system. At the same time that we introduced the new information system, we updated, automated and optimised important parts of the business process in the area of maintenance of rolling stock.

> **Materials storage operations and purchasing**

By the end of 2019 we had also introduced a uniform and consolidated system of purchasing and materials storage operations for all Group companies except for SŽ-Infrastruktura, d. o. o.

> **Contract management**

In 2019 we continued work on the establishment of uniform consolidated records of all types of contracts within the Group.

Transport and logistics activities

Intensive work was carried out on the project of the implementation of the integrated business information system for transport and logistics activities – this is the main part of the information system that will link all of the components of information support and the business process. An electronic bill of lading (EBL) was introduced, which is already being used by the majority of our customers and various logistics operators.

Document and archiving systems

Includes the integration of business and document systems and the gradual transition to paperless operations. We successfully implemented several integrated solutions between the business information system and the document information system.

Management of operational efficiency

Includes the provision of high-capacity systems for the planning, reporting and monitoring of key performance indicators (KPIs) and the consolidation of financial statements. We began working on projects to provide platforms for planning and reporting, to implement planning systems at all Group companies, and to define key performance indicators.

Passenger transport

Includes the development of a modern ticket sales system, the provision of IPT support, the provision of wireless connectivity on passenger trains and ticket sales via vending machines. In 2020 we will be expanding the programme and transforming it into a mobility programme.

Operation of public rail infrastructure

Includes the establishment of information support for business processes in the area of operation of rail infrastructure, automation of monitoring and management of rail traffic, ordering and construction of train paths, optimisation of timetables and automation of the charging of use fees. Intensive work was carried out in 2019 in searching for appropriate solutions on the market and integrating them into our environment. In 2020 we are planning to conduct public procurement award procedures and to commence work on various key projects within this programme.

RESEARCH AND DEVELOPMENT[®]

Research and development activities play a special role in the Slovenske železnice Group's overall business process, as it serves as the basis for the technological and

commercial development of the Group, which follows technological innovations and contemporary forms of business processes and business cooperation on the Slovenian and European transport markets.

Research and development activities are coordinated by Prometni institut Ljubljana through horizontal cooperation with all Slovenske železnice Group companies.

The following substantive areas are crucial:

- > international development cooperation;
- > technological and commercial development of transport processes;
- > development of the public rail infrastructure; and
- > European tenders and the disbursement of EU funds

International development cooperation

SEESARI

In international terms, Slovenske železnice strengthened its cooperation in the South-East Europe region, where at the initiative of Prometni institut Ljubljana, d. o. o. and with support from the International Union of Railways (UIC), an international initiative was established in 2016 for research and innovation in the area of railways: SEESARI – South-East Europe Strategic Alliance for Rail Innovation.

In 2019, SEESARI increased its international profile, as in June 2019 it became a special group within the International Union of Railways, which was confirmed at the general assembly of members of the UIC by international delegates representing rail operators. Its membership in the UIC is an opportunity to carry out new railway development projects, which will be conducted by SEESARI.

The Director of Prometni institut, as the chair of the SEESARI initiative, participated in various events relating to cooperation and development in the area of railways, such as events organised by the International Union of Railways, the Community of European Railway and Infrastructure Companies and Shift2Rail.

In March 2019, SEESARI was included in a special URID (User Requirements/Implementation and Deployment)

working group, whose duties included the accelerated implementation of Shift2Rail projects, ensuring that the projects and solutions are in compliance with European standards and the Shift2Rail objectives, and further activities in connection with future funding programmes for Shift2Rail, where it will be possible to obtain European Union funding for future European Union projects in the area of railway development. In March, Prometni institut participated in the inaugural meeting of the URID group.

Shift2Rail

We are a significant participant 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.

As part of the EUROCC consortium within the UIC, we were actively involved in the IN2STEMPO, IN2TRACK, IN2TRACK2 and ARCC projects in 2019, and also applied for new Shift2Rail projects.

UIC, ERA, TER and TEM Master plan

Participation in international railway and transport organisations such as the UIC, European Union Agency for Railways (ERA), Trans-European Network for Rail (TER), Trans-European Network for Motorways Master Plan (TEM), etc., is essential for research and development.

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): Prometni institut chairs the group, which held three meetings.



- > Prequalification Group (PreQ): Prometni institut chairs the group, which held two meetings.
- > European Radio Implementors Group (ERIG): 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 drafts 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 transport in Slovenia, which was implemented in 2016 for school children, 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 tool to support decision-makers when selecting measures for the integration of public transport and for the actual implementation of the integration project. A pilot project was conducted to establish a combined ticket for the train between Ljubljana and Opicina and for local traffic in Trieste, and a strategy was developed for the development of cross-border integrated public transport.

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 passenger transport by rail, as passengers will be provided transport in new, air-conditioned, comfortable and contemporarily equipped rolling stock that will also have sufficient space for the transport of bicycles. At the same time, the new rolling stock will contribute to shorter passenger transport times under the condition that the public rail infrastructure is appropriately regulated.

Electronic timetable

A project to establish electronic timetables for operators in the Slovenske železnice Group is being implemented to facilitate the transition from printed timetables to electronic format using tablet computers. Research and development activities to establish electronic timetables are a significant step forward in the use of electronic timetables in the provision of rail transport services. In 2018 we tested the use of the e-timetable for all train drivers in the Slovenske železnice Group, and preparations were made for the use of additional functionalities. Testing was successfully completed in December 2018, and the new 2018/2019 electronic timetable has now replaced printed timetables for train drivers.

Printed forms on locomotives were likewise replaced with electronic forms and displays on tablet computers.

Additional functionalities were added to the electronic timetable in 2019, such as: speed display on wrong track, display of cessation of occupation of operational positions at individual stations, display of data on active trains, change to the display of train delays, proposed changes to the display of milestones and adding GSMR telephone directories to vehicles.

Traffic control 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.

Need for locomotives at SŽ-Tovorni promet

SŽ-Tovorni promet, d. o. o. is planning to upgrade part of its rolling stock for traction of trains, which includes the SŽ 363 and SŽ 664 series. In the report, future needs for traction vehicles were calculated on the basis of the traffic volume in past periods, particularly the differences between four- and six-axle electric locomotives, which have very different loads. From this perspective the number of locomotives is also different, since six-axle locomotives have better technical characteristics on tracks with tall inclines (Koper–Divača) and thus better wheel-to-rail adhesion than four-axle locomotives.

Calculation of compensation due to operators as the result of traffic disruptions on account of investment works on the public rail infrastructure

A calculation of compensation due to operators was drawn up for 2019 based on the model developed for determining compensation recognised and paid to an operator by the infrastructure manager based on an analysis of the causes of limited use of the public rail infrastructure due to investment works (construction and upgrades).

Development of the public rail 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.

Steps towards ensuring the interoperability of railway systems include 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 measurement of the geometric parameters of lines was carried out in the spring and autumn of 2019 using the measurement train of the Hungarian company MAV. In the autumn we also measured the profiles (wear) and corrugation of the rails. Prometni institut Ljubljana participates in data analyses and the drafting of final reports. During the summer we measured and assessed the dynamic parameters of the tracks on the Ljubljana–Maribor line and back, the Pragersko–Hodoš line, the Ljubljana–Sežana line and back, and the Divača–Koper line. Old and new high-frequency accelerometers (sensors) were used to make the measurements.

Existing Divača–Koper line

Two traffic-technological plans were drawn up for the manager of the public rail infrastructure for the existing Divača–Koper line. The first plan, titled “Throughput capacity of the existing Divača–Koper line in the period 2014–2018” analysed the capacity and utilisation of the existing line in the last five-year period, when the utilisation of the line’s capacity exceeded 100% and an urgent need appeared for increased capacities. The second plan, titled “Plan for expansion of capacities of the overloaded infrastructure in the Divača–Koper section”, sets out

proposals for eliminating bottlenecks with the target circumstance of the opening of the new second track on the Divača–Koper line and the abandoning of the existing line on the section between Prešnica and Dekani.

Development of the public rail infrastructure in Slovenia

Two traffic-technological plans were drawn up in 2019. The first entitled 'Shortening the travel times of passenger trains on the Maribor–Ljubljana–Koper corridor' verifies the feasibility of shortening travel times between Koper, Ljubljana and Maribor through the construction of new line sections for speeds of up to 160 km/h, which would significantly reduce travel times. The second is self-explanatory and entitled 'Arrangement of rail lines in the wider Ljubljana region'.

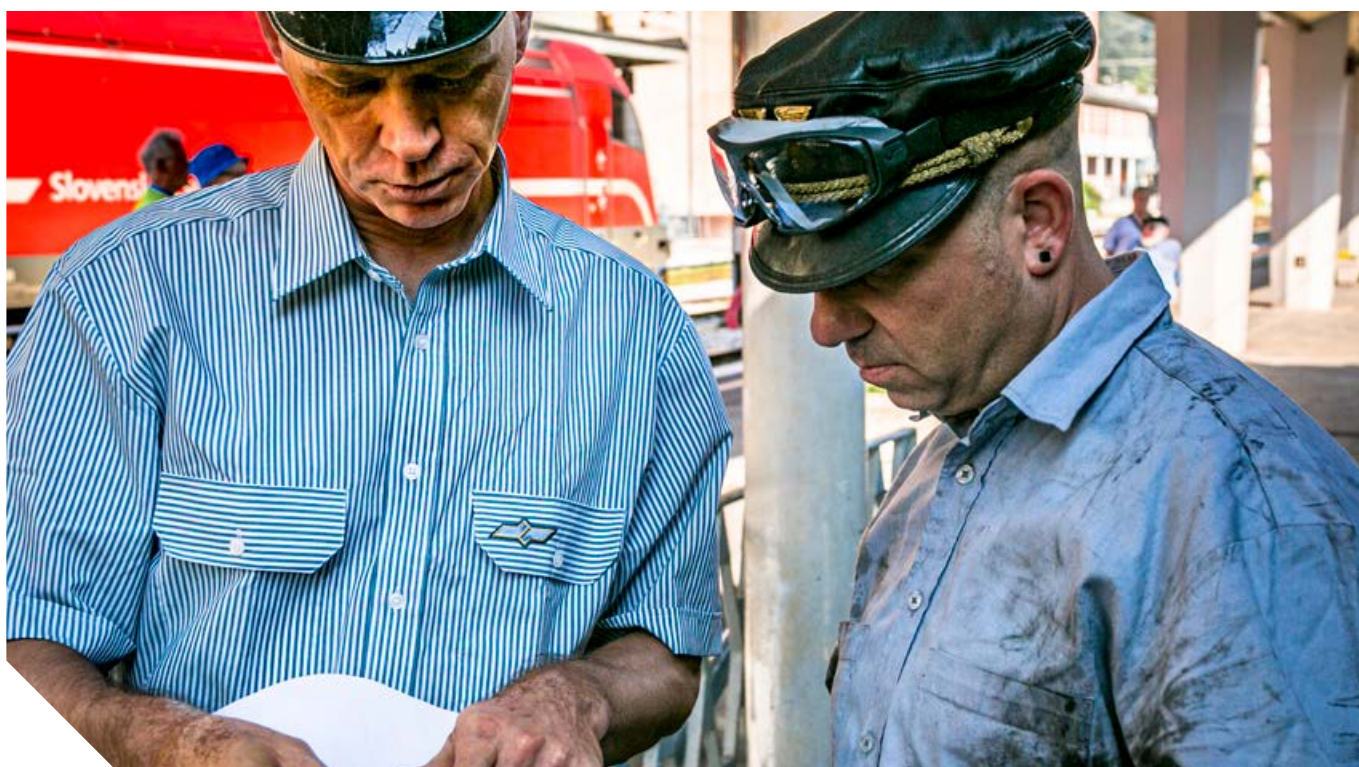
European tenders and the disbursement of EU funds

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, d. o. o. in 2019 in the scope of more than 50 projects, including the following strategic 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; and
- > the technical bases for the implementation of the ERTMS on main and regional lines.



> MANAGEMENT OF RISKS AND OPPORTUNITIES

RISKS

At the end of the year, we updated the catalogue of risks by supplementing the descriptions of certain risks, while some related risks were combined due to the same risk management measures or to prevent the fragmentation of risk assessments. We classified certain risks to

another, more appropriate category and identified one new risk. The activities, measures and risk assessments included in changes were combined or reclassified, and a new risk assessment performed.

The catalogue of risks now comprises 23 different risks (previously 29). Not all companies are exposed to all risks.

Risk register for 2019 prior to changes

S: Strategic risks	O: Operational risks	F: Financial risks	R: Regulatory risks	K: IT risks
S1: Strategy S2: Market risks S3: Investment risks S4: Corporate governance	01: Risks associated with the condition of the rail infrastructure 02: Risks associated with unexpected maintenance 03: Risk of damage/ destruction of property 04: Safety risks 05: Risks associated with business continuity 06: Human resource risks 07: Purchasing risks 08: Production risks 09: Sales risks 010: Process risks 012: Fraud risks 013: Risks in connection with legal proceedings	F1: Credit risk F2: Interest rate risk F3: Currency risk F4: Liquidity risk	R1: Risks in connection with the reimbursement of compensation R2: Risk of legislative changes R3: Compliance risk	K1: Information security risks K6: Risks in connection with the management of communications and operations K7: Risks in connection with the accessibility of the IT environment K8: Risks in connection with the maintenance and development of IT systems K9: Risks in connection with control over security incidents K10: Risks associated with business continuity

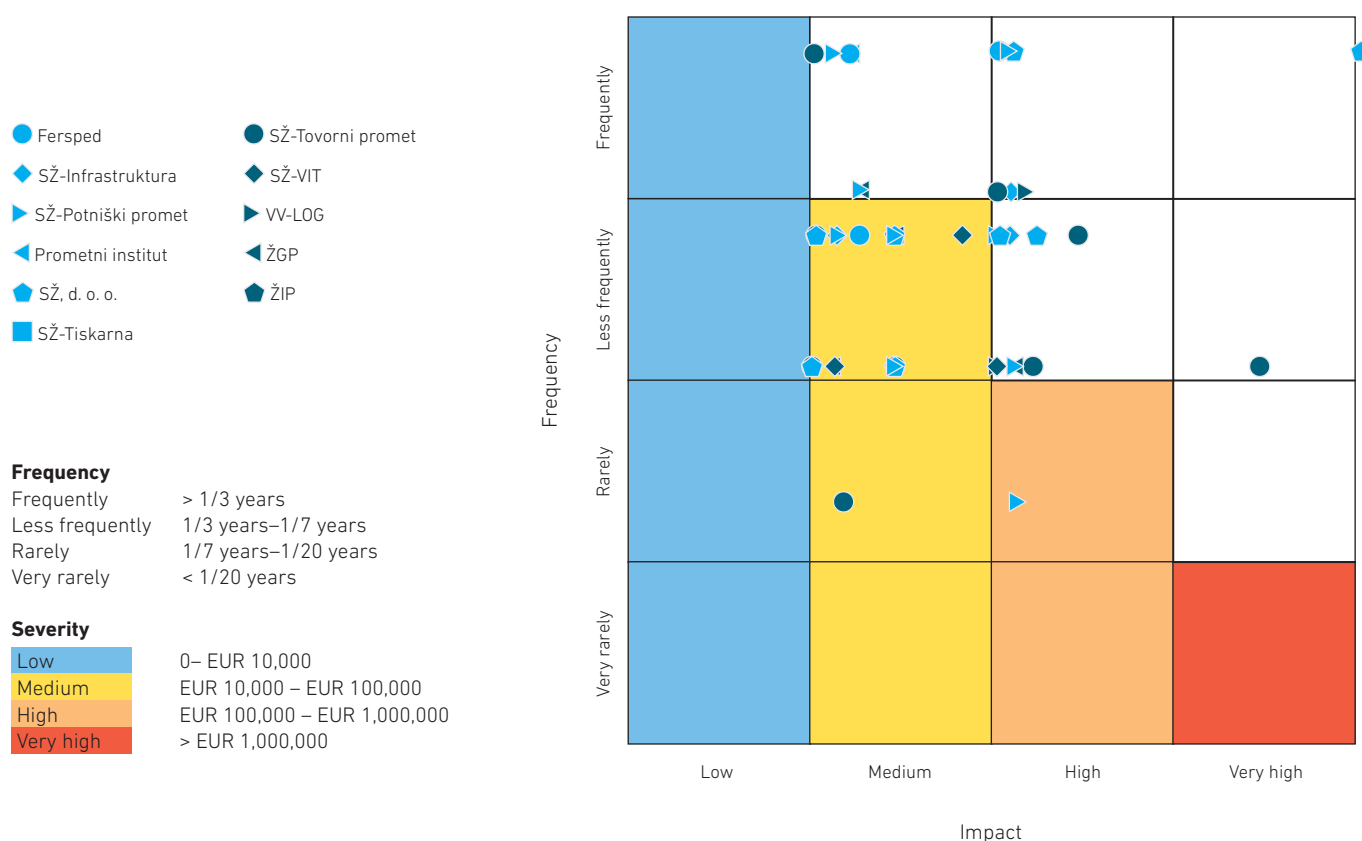
Risk register at the end of 2019 following changes

S: Strategic risks	O: Operational risks	F: Financial risks	R: Regulatory risks	K: IT risks
S1: Strategy	01: Risks associated with the condition of the rail infrastructure 03: Risk of damage/ destruction of property 04: Safety risks 05: Risks associated with business continuity 06: Human resource risks 07: Purchasing risks 08: Proizvodnja tveganja 09: Sales risks 010: Process risks	F1: Credit risk F2: Interest rate risk F3: Currency risk F4: Liquidity risk	R2: Risk of legislative changes R3: Compliance risk R4: Fraud risk R5: Tax-related risks	K1: Information security risks K6: Risks in connection with the management of communications and operations K7: Risks in connection with the accessibility of the IT environment K8: Risks in connection with the maintenance and development of IT systems K10: Risks associated with business continuity



Risk matrix of the Slovenske železnice Group

Risk matrix associated with a typical scenario for the Slovenske železnice Group (January 2020)



Key risks for the Slovenske železnice Group are those that can cause damage in excess of EUR 100 thousand of the assessed typical damage in the event of the realisation of a risk. Such risks are classified as high and very high. In the event of continuous risks, typical damage is not assessed, meaning that the estimated damage of the worst-case scenario is taken into account.

The acceptable level of risk is thus estimated at a EUR 100 thousand effect on net cash flow upon the realisation of a typical risk scenario. A recommendation was put forth to lower the acceptable level of risk for smaller companies (with EBIT of less than EUR 0.5 million).

The Group has identified 29 key risks at six companies that are crucial for the functioning of the Slovenske železnice Group, as they account for 94% of the estimated

damage of a typical scenario or 83% of estimated required annual provisions (the average annual cost of risks is estimated at EUR 7.5 million). This means that all other risks are negligible in terms of the continued existence of the Group, and merely represent concerns relating to individual processes.

The majority of risk management activities in 2019 were focused on the identification of risks in connection with irregularities and inconsistencies in mutual transactions between Group companies, and the management of risks in connection with personal data protection, information security and the information security policy. One key area is constant training regarding awareness of ethics and compliance. Training was organised with internal and external experts in the scope of the project 'Corporate Governance Day within the Slovenske železnice Group'.

Overview of key indicators of individual risk categories (January 2020)

S: Strategic risks Key risk at three companies (Slovenske železnice, SŽ-ŽGP and SŽ-Infrastruktura) Absence of links between business objectives and identified risks 5% contribution	O: Operational risks 14 key risks 7 different risks Predominantly sales and production risks Most significant sales risk at SŽ-Tovorni promet 50% contribution	F: Financial risks 5 key risks (4 risks at Slovenske železnice, one risk at SŽ-ŽGP) Centralised function 13% contribution	R: Regulatory risks 4 key risks (newly included tax-related risks) Significant increase in the impact of regulatory risks 30% contribution	IKT: IT risks 3 key risks (Slovenske železnice and SŽ-Potniški promet) Centralised function with individual exceptions (project management of public transport and infrastructure) 2% contribution

Overview of the highest risks to which the Slovenske železnice Group is exposed

As expected, the controlling company Slovenske železnice, d. o. o. is exposed to the most key risks (10 risks contributing a total of 41% to the Group's risk profile), as the result of the decision that the controlling company will assume the majority of subsidiaries' risks in connection with centralised finance functions, regulatory risks and IT risks.

SŽ-Tovorni promet, d. o. o. is exposed to fewer key risks (six), but has higher estimated damage with a total contribution of 43% to the Group's risk profile. The aforementioned company is followed by SŽ-ŽGP, d. d., where four identified key risks contribute a total of 9% to the Group's risk profile.

The risks to which SŽ-Tovorni promet, d. o. o. is exposed are concentrated amongst operational risks (sales and production risks), while financial and regulatory risks are crucial for Slovenske železnice, d. o. o. given the most recent changes. The contribution of other companies is considerably lower with respect to the Slovenske železnice Group.

The most significant risk for the Slovenske železnice Group is the sales risk to which SŽ-Tovorni promet, d. o. o. is exposed, which contributes 38% to the Group's risk profile. The risk assessment was unchanged in 2019.

The second highest risk for Slovenske železnice, d. o. o. (the function is centralised and the controlling company assumes the risk of the entire Group) is tax-related risk, which is a newly identified risk that is included in the register based on the comments of external auditors. The contribution of the latter is 28%.

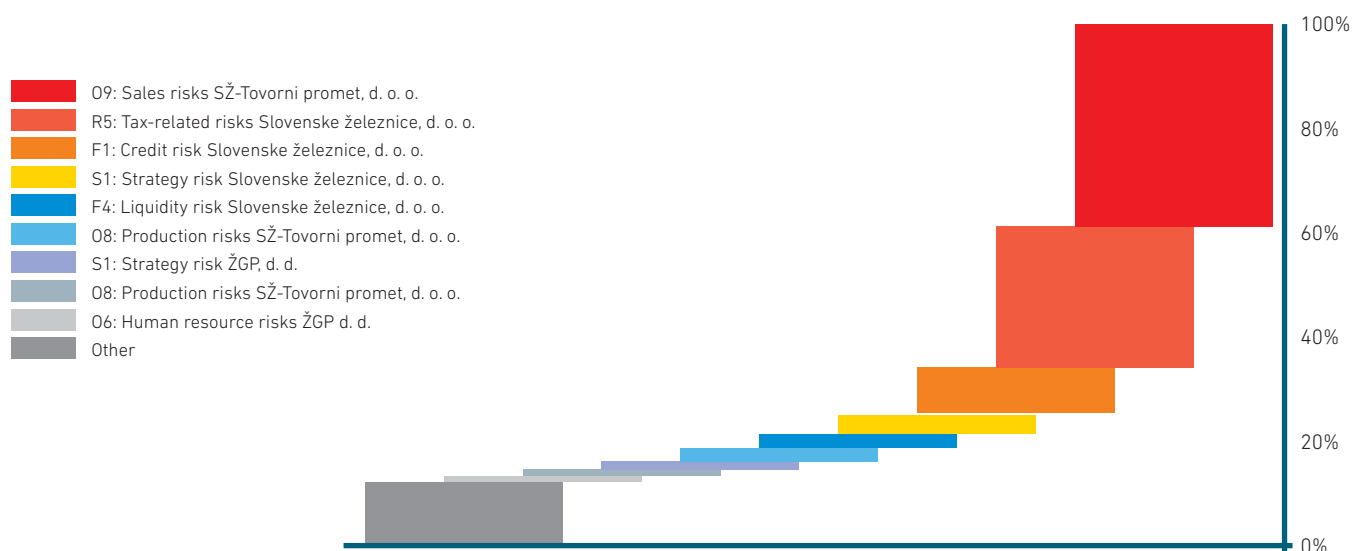
The aforementioned risk is followed by credit risk at Slovenske železnice, d. o. o. (the function is centralised and the controlling company assumes the risk of the entire Group), which was unchanged during the year and accounts for 9% of the risk profile.

Credit risk is followed by two risks at SŽ-ŽGP, d. d. The fourth highest risk to which the Group is exposed is liquidity risk at SŽ-ŽGP, d. d., which was up in year-on-year terms due to the increased intensity of construction activities and accounts for 3% of the risk profile. The fifth highest risk is strategy risk (contribution of 3% to the risk profile) at the aforementioned company, which must adapt rapidly to the market and identify strategies due to the dynamics of the economic sector in which it operates.

The sixth highest risk is production risk at SŽ-Tovorni promet, d. o. o., which includes risks in connection with the timely and appropriate implementation of planned optimisation processes, and contributes 2% to the risk profile.



Risk profile after measures adopted for the Slovenske železnice Group (January 2020)



Other risks contribute less than 2% to the risk profile of the entire Group.

All identified risks are discussed quarterly at meetings of companies' senior management, where the appropriateness of risk management measures and risks assessments are verified. Each risk owner must identify and define key indicators to measure the success of adopted measures. Reports are drafted quarterly for each company separately and for the Group. The Group report is also discussed by the Supervisory Board's audit committee. The risk register is managed using a computer application that facilitates an audit trail of all changes.

Risk profile of the Slovenske železnice Group

The risk profile illustrates the structure of the Slovenske železnice Group's exposure to risks where the contribution to aggregate exposure is calculated for every individual risk.

Aggregate risk exposure is assessed as the worst-case scenario (the negative effect or consequence of the realisation of risks on cash flow) that could be realised every twenty years, and represents the basis for the calculation

of the liquidity reserves required by the Group to cover or hedge against 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, which is crucial for maintaining available cash.

By adopting the appropriate measures and activities, we lowered the risk profile assessment by 35% in 2019 to EUR 27.7 million.

Alleged breaches of corporate integrity

The Slovenske železnice Group has had an anonymous line of reporting for alleged breaches of corporate integrity in place since 2014. The process is centralised for all group companies and is carried out by the Central Corporate Office for Compliance and Risk Management at the controlling company Slovenske železnice, d. o. o.

We handled 37 reports in 2019 across the entire Slovenske železnice Group, of which 32% were filed by known whistleblowers. The percentage of the latter is growing continuously and reached 50% during the first quarter of 2020.

SINCE 2014, THE SLOVENSKE ŽELEZNICE GROUP HAS HAD AN ANONYMOUS LINE OF REPORTING FOR ALLEGED BREACHES OF CORPORATE INTEGRITY. THE PROCESS IS CENTRALISED FOR ALL GROUP COMPANIES AND IS IMPLEMENTED BY THE CENTRAL CORPORATE OFFICE FOR COMPLIANCE AND RISK MANAGEMENT AT THE CONTROLLING COMPANY SLOVENSKE ŽELEZNICE, D. O. O.

Unknown whistleblowers (68%)	Known whistleblowers (32%)
Letters (84%)	Email (75%)
Mostly HR issues (44%)	Reports from all areas
Incomplete reports (20%)	All reports addressed
Measures adopted (16%)	Measures adopted (50%)
Open reports (2)	75% of reports received during the second half of the year
29 days	39 days

The majority of anonymous reports (84%) were submitted by post. The quality of sent reports is assessed according to the number of adopted measures, meaning that the reports contained risks that have allegedly been realised. The proportion of measures according to reports received in 2019 was 27% and is growing annually, meaning that the content of the reports is improving. The majority (70%) of reports were completed within 30 days.

Risks associated with future operations

Material future risks identified by the Company include compliance risks and risks associated with fraud and corruption.

Ensuring compliance with laws and other binding regulations is of current relevance, particularly in terms of a lack of sufficient awareness of cases of non-compliance and the possibility that not all risk assessments are appropriately updated.

The Slovenske železnice Group is already compliant with the EU regulatory framework governing the protection of persons who report breaches of EU law, as we also comply with this regulatory framework when protecting whistleblowers, which is demonstrated by the fact that we have not received to date a complaint regarding the leakage of information, the mobbing of whistleblowers or other retaliatory measures against such individuals.

Steps forward must also be made in the management of fraud and corruption risks in the direction of creating a code of conduct at the level of the Slovenske železnice Group that will include a description of the basic preventive principles of operations and the management of the aforementioned risks. That Group-level code will follow the recommendations of the Corporate Governance Code

for Companies with Capital Assets of the State, which has a new point 11 that relates to compliance and integrity (corporate integrity).

The Slovenske železnice Group will focus on the following with the aim of minimising corruption risks, and unlawful and unethical conduct:

- > the identification of potential risks in connection with corruption, and unethical and illegal acts. We will draft a more detailed plan for managing such risks that will include the definition of permanent and/or one-time measures for that purpose. The compliance and integrity officer will be responsible for drafting an integrity plan and anti-corruption programme and will serve as the primary administrator of the implementation of measures; and
- > the Group's integrity plan and anti-corruption programme will include a more detailed definition of risks and measures in the areas of purchasing, conflicts of interest, the receipt of gifts, insider trading, lobbyist contacts, the protection of trade secrets and recruiting for supervisory and managerial positions, a description of the existing system for reporting irregularities and protecting whistleblowers, and the system of regular reporting to the Management Board and supervisory bodies regarding the receipt and handling of reports and adopted measures.



> INTERNAL AUDIT DEPARTMENT[®]

The Internal Audit Department (IAD) 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 International Standards for the Professional Practice of Internal Auditing, the IAD focused primarily on assessing the success and effectiveness of achieving objectives, and on the preparation of proposals to improve procedures in the following areas:

- > in the governance of the Slovenske železnice Group:
- > the adoption of strategic and implementing decisions,
- > the oversight of risk management and control procedures,
- > the enforcement of ethics and values within the Slovenske železnice Group,
- > ensuring the effective management of the work of the Slovenske železnice Group and responsibilities,
- > the reporting of information regarding risks and control to the competent bodies of the Slovenske železnice Group,
- > the coordination of activities and the reporting of information between the Supervisory Board, external and internal auditors, other providers of assurance, the senior management and management boards of subsidiaries, and the Management Board of SŽ, d. o. o.;
- > in risk management:
- > that organisational objectives support and are aligned with the mission of the Slovenske železnice Group,
- > that significant risks are identified and assessed,
- > that the appropriate responses to risk are selected; those responses harmonise risks with the Slovenske železnice Group's appetite to take up risks,
- > that relevant information regarding risks is captured and reported in a timely manner within the Slovenske železnice Group, so that the employees, senior management and management boards of subsidiaries, and the Management Board and Supervisory Board of the Group can perform their tasks; and
- > with respect to control procedures:
- > 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 2019 in accordance with its adopted work plan and revised work plan for 2019. Through a combination of internal and external resources, a total of twelve audits were conducted in 2019, while five internal audits continued into 2020. The IAD communicated its findings and proposals for improvements that derive from internal audits directly and simultaneously to the Management Board and the Supervisory Board's audit committee. The IAD reports quarterly to management and supervisory bodies on the implementation of measures for improvements, and reports semi-annually and annually on the implementation of its annual work plan.

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

An external assessment of the quality of IAD's work was carried out by an independent external assessor at the end of 2017. That assessment confirmed that the IAD

generally functions in accordance with the International Standards for the Professional Practice of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the definition of internal auditing, the Code of Ethics adopted by the Institute of Internal Auditors (IIA), and the Code of Internal Auditing Principles and the Code of Conduct for Internal Auditors adopted by the Slovenian Institute of Auditors.

> STATUS AND DEVELOPMENT OF CORPORATE REPORTING BY SLOVENSKE ŽELEZNICE



102-46,
103-1,
102-49,
102-50,
102-52,
102-54

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 reports for previous years were already supplemented with reporting according to the Global Reporting Initiative guidelines. For the 2018 annual report, we transitioned to the new GRI Standards for reporting. 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; and
- > 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 2019.

The implementation of sustainable reporting is a process. The fact is that the operations of Slovenske železnice are sustainable. The age of the organisation is not proof of that fact alone; our operating and financial results in recent years are also proof. It is also a fact that the rapidly changing environment, 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.

If you have any questions in connection with the annual report, please contact us at info@slo-zeleznice.si.



> 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 sub- sidiaries as at 31 December 2019	26	The number of countries is covered in part in the 2019 annual report in the section Analysis by activity. In the future, we are planning a separate scheme that will show activities by country.
		Business model and development policies	29	
		Analysis by activity	59	
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	59	
102-5	Ownership and legal form	General information	25	
		Key stakeholders	35	
		Corporate governance statement	41, 45	
102-6	Markets served (geographic and sectoral breakdown, and breakdown by type of customer)	Analysis by activity	59	
102-7	Scale of the organisation (number of employees, number of activities, sales revenue, liabilities/equity, number of products and services)	Employees	109	
		Performance analysis	52	
		Analysis by activity	59	
102-8	Employees by type of employment, type of contract, region and gender	Employees	109, 110	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	40	
		Management of risks and opportunities	143	
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	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	134	
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	12	
102-15	Key impacts, risks and opportunities	Operating environment	51	
		Analysis by activity	59, 62, 64, 67, 68, 71, 75, 79, 80, 85, 87, 88, 90	
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	37	
Governance				
102-18	Governance structure of the organisation, including committees of the highest governance body	General information	25	
		Corporate governance statement	43, 45	



Indicator	Disclosure	Section	Page	Comment
102-22	Composition of the highest governance body and committees	Corporate governance statement	43	
Stakeholder engagement				
102-40	List of stakeholder groups engaged by the organisation	Key stakeholders	35	
102-42	Bases for the identification and selection of stakeholders, including the frequency of engagement by stakeholder group	Key stakeholders	35	
102-43	Approaches to stakeholder engagement, including the frequency of engagement by stakeholder group	Key stakeholders	35	
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	35	
Report profile				
102-45	Entities included in the consolidated financial statements	Corporate governance statement	37	
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	149	
102-49	Significant changes from previous reporting periods in terms of scope and aspect boundaries	Status and development of corporate reporting by Slovenske železnice	149	
102-50	Reporting period	Status and development of corporate reporting by Slovenske železnice	149	
102-51	Date of most recent previous report	Significant events in 2019	7	At its 40th session held on 20 May 2019, 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 2018.
		Report of the Supervisory Board	19	
102-52	Reporting cycle	Status and development of corporate reporting by Slovenske železnice	149	Annual report
102-53	Contact point for questions regarding the report	General information regarding the status and development of corporate reporting by Slovenske železnice	25	
102-54	Claims of reporting in accordance with GRI Standards	Status and development of corporate reporting by Slovenske železnice	149	
		GRI table	150	
102-55	GRI content index	GRI table	150	
102-56	External assurance of reporting according to the GRI Standards			We are planning the external assurance of reporting according to the GRI Standards 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 Slovenske železnice	149	



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 benefits, payments to the holders of equity, payments to the state (taxes), donations and other community investments)	Performance analysis	52	
		Analysis of financial position	91	
		Profit and loss by individual company/activity	96	
GRI 203: Indirect economic impacts				
203-1	Development and impact of infrastructure investments and support activities	Analysis by activity	80	
		Investments	131	
		Research and development	138	
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	37	
		Internal audit	148	
ENVIRONMENTAL IMPACT				
GRI 302: Energy				
302-1	Energy consumption within the organisation	Environmental responsibility	123	
302-4	Reduction of energy consumption within the organisation	Environmental responsibility	123	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	123	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	118	We report on the impact of the rail infrastructure on the environment in which it is located. We planned 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	109	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, with respect to core activities	Employees	110	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	114	
403-5	Worker training on occupational health and safety	Employees	114	We monitor the situation through the number of trainings hours.
403-6	Promotion of worker health	Employees	114	
403-9	Occupational injury rate	Employees	108	



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	114	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	37	
		Employees	110	
405-2	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operations	Employees	110	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	35	
		Engagement with the wider environment	117	



FINANCIAL REPORT



1. CONSOLIDATED FINANCIAL STATEMENTS OF THE SLOVENSKE ŽELEZNICE GROUP

1.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in EUR	Note	Balance as at	
		31 December 2019	31 December 2018
ASSETS		984,548,113	895,348,983
A. Non-current assets		719,258,530	487,926,532
Intangible assets	2.3.1.1	14,765,290	14,310,101
Property, plant and equipment	2.3.1.2	332,219,482	307,433,574
Investment property	2.3.1.3	43,047,874	46,325,721
Investments in associates	2.3.1.4	13,615,619	13,233,615
Other financial assets	2.3.1.4	2,093,464	2,093,564
Financial receivables	2.3.1.5	61,152,906	43,325,489
Operating receivables	2.3.1.6	243,496,628	54,690,958
Deferred tax assets	2.3.1.7	3,293,505	4,339,296
Other non-current assets	2.3.1.8	5,573,762	2,174,214
B. Current assets		265,289,583	407,422,451
Assets held for sale		333,029	117,464
Inventories	2.3.1.9	35,862,289	32,873,197
Financial receivables	2.3.1.10	6,715,601	60,271,385
Trade receivables	2.3.1.11	65,088,521	51,803,986
Other operating receivables	2.3.1.12	138,549,265	80,799,798
Receivables for corporate income tax	2.3.2.10	932,767	34,316
Cash and cash equivalents	2.3.1.13	17,808,111	181,522,305
EQUITY AND LIABILITIES		984,548,113	895,348,983
A. Equity	2.3.1.14	541,144,769	356,023,566
a) Equity of the owner of the controlling company		535,972,121	351,151,059
Called-up capital		359,529,921	205,274,421
Share premium account		45,002,140	45,002,140
Legal reserves		3,497,346	2,917,693
Other profit reserves		46,448,165	38,275,168
Fair value reserves		-3,540,193	-2,985,233
Retained earnings		85,035,974	62,665,641
1. Retained earnings from previous years		59,522,051	45,034,736
2. Undistributed retained earnings from the financial year		25,513,923	17,630,905
Translation differences		-1,232	1,229
b) Non-controlling interest		5,172,648	4,872,507
B. Non-current liabilities		281,452,438	208,271,650
Provisions for jubilee benefits and termination benefits	2.3.1.15	30,629,950	30,507,028
Other provisions	2.3.1.15	1,124,267	640,194
Non-current deferred income	2.3.1.16	1,645,488	1,963,320
Financial liabilities	2.3.1.17	115,848,878	42,663,310
Operating liabilities	2.3.1.18	132,203,855	132,497,672
Deferred tax liabilities		0	126
C. Current liabilities		161,950,906	331,053,767
Financial liabilities	2.3.1.17	41,005,473	239,327,077
Trade payables	2.3.1.19	35,607,685	32,687,478
Other operating liabilities	2.3.1.18	81,513,561	57,786,051
Liabilities for corporate income tax	2.3.2.10	3,824,187	1,253,161

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	2019	2018
1. Net sales revenue	2.3.2.1	443,472,213	422,888,080
2. Change in the value of inventories of finished goods and work in progress		-1,239,678	-66,979
3. Capitalised own products and services	2.3.2.2	27,776,588	36,261,687
4. Other operating revenues	2.3.2.3	131,000,251	102,862,468
5. Costs of goods, materials and services	2.3.2.4	226,720,381	220,290,691
6. Labour costs	2.3.2.5	276,023,024	259,301,555
7. Write-downs	2.3.2.6	49,970,820	38,689,848
8. Other operating expenses	2.3.2.7	6,164,261	7,393,170
9. Operating profit or loss (1 ± 2 + 3 + 4 - 5 - 6 - 7 - 8)		42,130,888	36,269,992
10. Finance income	2.3.2.8	2,717,773	2,559,843
11. Finance costs	2.3.2.9	4,300,359	7,426,773
12. Net finance income/costs (10 - 11)		-1,582,586	-4,866,930
13. Pre-tax profit or loss (9 + 13)		40,548,302	31,403,062
14. Current tax		4,472,386	1,602,017
15. Deferred taxes	2.3.1.7	1,045,791	64,564
16. Corporate income tax	2.3.2.10	5,518,177	1,666,581
17. Net profit or loss for the accounting period		35,030,125	29,736,481
Net profit or loss for the accounting period pertaining to:			
a) owner of the controlling company		34,266,572	29,312,868
b) non-controlling interest		763,553	423,613

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	2019	2018
Net profit or loss for the accounting period		35,030,125	29,736,481
Items that will not be reclassified subsequently to profit or loss		-676,177	-568,241
Actuarial gains/losses		-676,177	-568,241
Items that may be reclassified subsequently to profit or loss		-23,276	-292,113
Exchange rate differences		-2,461	3,104
Other changes		-20,815	-295,217
Other comprehensive income for the financial year		-699,453	-860,354
Total comprehensive income for the reporting period		34,330,672	28,876,127
Total comprehensive income for the reporting period attributable to:			
a) owner of the controlling company		33,565,562	28,426,113
b) non-controlling interest		765,110	450,014

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	2019	2018
A. CASH FLOWS FROM OPERATING ACTIVITIES			
a) Net profit or loss		35,030,125	29,736,481
Pre-tax profit or loss	1.2	40,548,302	31,403,062
Corporate income tax and other taxes not included in operating expenses		5,518,177	1,666,581
b) Adjustments for		50,139,541	36,649,330
Amortisation and depreciation (+)	2.3.2.6	44,996,945	37,374,390
Revaluation operating revenues (-)		-2,984,757	-3,163,509
Revaluation operating expenses (+)	2.3.2.6	4,973,875	1,315,457
Finance income, excluding finance income from operating receivables (-)	2.3.2.8	-2,318,297	-2,022,829
Finance costs, excluding finance costs from operating liabilities (+)	2.3.2.9	4,056,979	7,195,262
Revenues from the acquisition of superfices, property, plant and equipment and investment property		-526,572	-7,562,778
Actuarial calculation of provisions for employee benefits		267,240	1,911,460
Calculation of other provisions		188,453	-537,804
Tax expenses		2,681,112	1,524,008
Reversal of accrued revenues and expenses		-947,751	476,876
Other adjustments to revenues and expenses		-247,686	138,797
c) Changes in net working capital (and provisions and deferred tax assets and liabilities) from balance sheet operating items		-49,356,742	-3,442,160
Opening less closing operating receivables		-73,295,803	-6,633,394
Opening less closing inventories		-3,208,194	824,276
Closing less opening operating liabilities		28,438,679	3,572,576
Closing less opening provisions		-1,291,424	-1,205,618
č) Net cash flows from operating activities (a + b + c + d + e)		35,812,924	62,943,651
B. CASH FLOWS FROM INVESTING ACTIVITIES			
a) Inflows from investing activities		67,694,146	49,333,559
Inflows from interest received and shares in the profit of others		852,170	442,682
Inflows from the disposal of property, plant and equipment	2.3.1.2	1,625,441	1,595,425
Inflows from the disposal of investment property	2.3.1.3	1,433,867	1,590,492
Inflows from the disposal of financial assets		63,782,668	45,704,960
b) Outflows from investing activities		-260,307,799	-114,612,016
Outflows for the acquisition of intangible assets	2.3.1.1	-1,911,078	-1,858,286
Outflows for the acquisition of property, plant and equipment	2.3.1.2	-229,515,240	-98,423,251
Outflows for the acquisition of investment property	2.3.1.3	-1,366,148	-308,154
Outflows for the acquisition of participating interests in subsidiaries		-430,650	-747,180
Outflows for the acquisition of financial assets		-27,084,683	-13,275,145
c) Net cash flows from investing activities (a + b)		-192,613,653	-65,278,457
C. CASH FLOWS FROM FINANCING ACTIVITIES			
a) Inflows from financing activities		332,150,000	418,805,500
Inflows from the increase in financial liabilities for recapitalisation		0	154,255,500
Inflows from the increase in financial liabilities	2.3.1.17	332,150,000	264,550,000
b) Outflows from financing activities		-339,063,036	-269,457,369
Outflows for interest paid on leases		-703,527	0
Outflows for other interest paid		-2,364,504	-3,633,314
Outflows for the repayment of capital	2.3.1.17	-326,897,986	-262,824,055
Outflows for the repayment of lease liabilities	2.3.1.17	-5,632,050	0
Outflows for the payment of dividends and other shares in profit	2.3.1.14	-3,464,969	-3,000,000
c) Net cash flows from financing activities (a + b)		-6,913,036	149,348,131
č. Closing balance of cash and cash equivalents	2.3.1.13	17,808,111	181,522,305
x) Net cash flow in period (sum of Ac, Bc and Cc)		-163,713,765	147,013,325
+/- Calculated exchange rate differences from foreign currency assets		-429	-719
y) Opening balance of cash and cash equivalents	2.3.1.13	181,522,305	34,509,699

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 2019

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	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
Changes in equity – transactions with owners	154,255,500	0	0	0	0	-3,000,000	0	0	151,255,500	-464,969	150,790,531
Entry of additional paid-up capital	154,255,500								154,255,500		154,255,500
Payment of shares in profit and dividends						-3,000,000			-3,000,000	-464,969	-3,464,969
Changes in total comprehensive income for the reporting period	0	0	0	0	-554,960	-143,589	34,266,572	-2,461	33,565,562	765,110	34,330,672
Entry of net profit or loss for the reporting period							34,266,572		34,266,572	763,553	35,030,125
Actuarial gains/losses					-547,584	-128,593			-676,177		-676,177
Exchange rate differences								-2,461	-2,461		-2,461
Other changes					-7,376	-14,996			-22,372	1,557	-20,815
Changes within equity	0	0	579,653	8,172,997	0	17,630,904	-26,383,554	0	0	0	0
Allocation of remaining portion of net profit for the comparable reporting period to other components of equity						17,630,904	-17,630,904				0
Allocation of a portion of net profit from the reporting period to other components of equity			579,653	8,172,997			-8,752,650				0
Closing balance for the reporting period	359,529,921	45,002,140	3,497,346	46,448,165	-3,540,193	59,522,051	25,513,922	-1,231	535,972,121	5,172,648	541,144,769

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 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 the 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.



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 2019 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 2019 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 24 July 2020.

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, intangible assets and assets under lease, 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 of:

- > 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 which is approved by the management board of the controlling company, which 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, except for a change that was the result of the introduction of IFRS 16 in 2019. 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.),
- > 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.

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

Presented below are standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU that had not yet entered into force on the day these financial statements were approved. The possibility of the early application of a specific standard was not taken into account by the Slovenske železnice Group and Slovenske železnice, d. o. o.

Standard/interpretation	Effective from	Expected effect on the financial statements
Amendments to IAS 1 and IAS 8	1 January 2020	No material effect
Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020	No material effect
Conceptual Framework for the IFRS	1 January 2020	Being studied

Amendments to IAS 1 and IAS 8

The amendments clarify the definition of the term 'material' and how it is used. According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence general decisions that the users of financial statements make on the basis of those financial statements, which provide financial information about a reporting entity. The amendments also ensure that the definition of the term 'material' is harmonised with all IFRS. The amendments are effective for annual periods beginning on or after 1 January 2020. The introduction of the amendments to IAS 1 and IAS 8 will not have a material impact on the financial statements of the Slovenske železnice Group and Slovenske železnice, d. o. o.

Amendments to IFRS 9, IAS 39 and IFRS 7

The International Accounting Standards Board published amendments to IFRS 9, IAS 39 and IFRS 7 during the final phase of the response to the effects of interbank offered rate reform on financial reporting by companies. The amendments address matters that could affect financial reporting in the period prior to the replacement of an existing interest rate benchmark with an alternative interest rate, and the implications for specific hedge accounting requirements set out in IFRS 9, IAS 39 and IFRS 7, where the Company must take into account the results of an analysis of future operations. The Company may apply a temporary exemption for recognising all hedges on which the interbank offered rate reform could have a direct effect, and may continue with the recognition of hedge accounting during the period of uncertainty prior to the replacement of an existing interest rate benchmark with an alternative, nearly risk-free interest rate. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Early application is permitted. The introduction of the amendments to IFRS 9, IAS 9 and IFRS 7 will not have a material impact on the financial statements of the Slovenske železnice Group and Slovenske železnice, d. o. o.

Conceptual Framework for the IFRS

The International Accounting Standards Board has published a revised Conceptual Framework for Financial Reporting. That document includes amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37 and IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32. The purpose of the amendments is to offer support in the transition to the revised Conceptual Framework to companies that develop their accounting policies with

the help of that framework, based on the instructions set out therein, when certain transactions are not covered by any IFRS. For companies that adopt their accounting standards based on the Conceptual Framework, the revised version of that framework applies for annual periods beginning on or after 1 January 2020. The Slovenske železnice Group and Slovenske železnice, d. o. o. are studying the effect of the Conceptual Framework of standards, which they will apply when it enters into force.

New standards and amendments to existing standards issued by the IASB but not yet adopted by the EU

Standard/interpretation	Effective from	Effect on the financial statements
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 IFRS 3 Business Combinations

The IASB published amendments to the definition of a business with the aim of eliminating uncertainty when determining whether a transaction involves the acquisition of a business or group of assets. The amendments apply to business combinations for which the acquisition date is in the annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Early application of the amendments to IFRS 3 is permitted.

The amendments have improved the definition of a business, which now states that the purpose of a business is to provide goods or services to customers, while the old definition emphasised returns in the form of dividends, reduced costs and other economic benefits for investors and other stakeholders.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

The amendments address discrepancies between the requirements of IFRS 10 and IAS 28 in the treatment of sales or contributions of assets between an investor and its associate or joint venture. The most important consequence of the amendments is that a company must recognise the full amount of gains or losses when a transaction includes a business (regardless of whether the business is housed in a subsidiary or not). For transactions involving assets that a company does not use in a business, only a partial gain or loss is recognised even when assets are housed in a subsidiary. The International Accounting Standards Board deferred the effective date of the amendments to the aforementioned standards indefinitely while it waits for the results of the research project on the accounting of assets under the equity method.

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 16 Leases	1. januar 2019	Effect on the financial statements
Amendments to IFRS 9 Financial Instruments	1. januar 2019	No material effect
Amendments to IAS 19 Employee Benefits	1. januar 2019	No material effect
Amendments to IAS 28 Investments in Associates and Joint Ventures	1. januar 2019	No material effect
Amendments to various standards – annual Improvements to the IFRS 2015–2017 Cycle	1. januar 2019	No material effect
IFRIC 23 Uncertainty over Income Tax Treatments	1. januar 2019	No material effect

IFRS 16 Leases

The Official Journal of the European Union published Commission Regulation (EU) 2017/1986 of 31 October 2017 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. applied 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.

The following two approaches are offered to lessees for transitioning to the new standard:

- > a retrospective approach for every previous reporting period presented applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; or
- > a retrospective approach with the cumulative effect of the initial application of the IFRS 16 recognised on the date of initial application.

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. did not recalculate comparable data for 2018, but disclosed all changes due to the transition to the new standard as an adjustment to the opening balance in the statement of financial position on the date of initial application.

Effects of the application of new IFRS 16 on the statement of financial position of the Slovenske železnice Group and Slovenske železnice, d. o. o.

in EUR	SŽ Group			Slovenske železnice, d. o. o.		
	31 Dec 2018	Restatements	1 Jan 2019 (rest.)	31 Dec 2018	Restatements	1 Jan 2019 (rest.)
ASSETS	895,348,983	26,271,208	921,620,191	759,530,774	545,778	760,076,552
A. Non-current assets	487,926,532	26,271,208	514,197,740	438,686,163	545,778	439,231,941
Intangible assets	14,310,101	0	14,310,101	9,547,492	0	9,547,492
Property, plant and equipment	307,433,574	26,271,208	333,704,782	15,607,125	545,778	16,152,903
Investment property	46,325,721	0	46,325,721	47,260,151	0	47,260,151
Investments in subsidiaries	0	0	0	272,554,833	0	272,554,833
Investments in associates	13,233,615	0	13,233,615	3,079,623	0	3,079,623
Other financial assets	2,093,564	0	2,093,564	2,090,592	0	2,090,592
Financial receivables	43,325,489	0	43,325,489	82,872,956	0	82,872,956
Operating receivables	54,690,958	0	54,690,958	3,811,552	0	3,811,552
Deferred tax assets	4,339,296	0	4,339,296	1,225,007	0	1,225,007
Other non-current assets	2,174,214	0	2,174,214	636,832	0	636,832
B. Current assets	407,422,451	0	407,422,451	320,844,611	0	320,844,611
Assets held for sale	117,464	0	117,464	112,459	0	112,459
Inventories	32,873,197	0	32,873,197	565	0	565
Financial receivables	60,271,385	0	60,271,385	160,376,513	0	160,376,513
Trade receivables	51,803,986	0	51,803,986	3,072,539	0	3,072,539
Other operating receivables	80,799,798	0	80,799,798	1,029,196	0	1,029,196
Receivables for corporate income tax	34,316	0	34,316	0	0	0
Cash and cash equivalents	181,522,305	0	181,522,305	156,253,339	0	156,253,339
EQUITY AND LIABILITIES	895,348,983	26,271,208	921,620,191	759,530,774	545,778	760,076,552
A. Equity	356,023,566	0	356,023,566	307,342,908	0	307,342,908
a) Equity of the owner of the controlling company	351,151,059	0	351,151,059	307,342,908	0	307,342,908
Called-up capital	205,274,421	0	205,274,421	205,274,421	0	205,274,421
Share premium account	45,002,140	0	45,002,140	45,002,140	0	45,002,140
Legal reserves	2,917,693	0	2,917,693	2,917,693	0	2,917,693
Other profit reserves	38,275,168	0	38,275,168	38,275,168	0	38,275,168
Fair value reserves	-2,985,233	0	-2,985,233	-385,614	0	-385,614
Retained earnings	62,665,641	0	62,665,641	16,259,100	0	16,259,100
1. Retained earnings from previous years	45,034,736	0	45,034,736	6,299,890	0	6,299,890
2. Undist. net profit/loss for the fin. year	17,630,905	0	17,630,905	9,959,210	0	9,959,210
Translation differences	1,229	0	1,229	0	0	0
b) Non-controlling interest	4,872,507	0	4,872,507	0	0	0
B. Non-current liabilities	208,271,650	20,852,128	229,123,778	87,722,531	465,340	88,187,871
Provis. for jub. benef. and termin. benef.	30,507,028	0	30,507,028	2,179,129	0	2,179,129
Other provisions	640,194	0	640,194	0	0	0
Non-current deferred income	1,963,320	0	1,963,320	2,528	0	2,528
Financial liabilities	42,663,310	20,852,128	63,515,438	80,469,673	465,340	80,935,013
Operating liabilities	132,497,672	0	132,497,672	5,071,201	0	5,071,201
Deferred tax liabilities	126	0	126	0	0	0
C. Current liabilities	331,053,767	5,419,080	336,472,847	364,465,335	80,438	364,545,773
Financial liabilities	239,327,077	5,419,080	244,746,157	356,870,119	80,438	356,950,557
Trade payables	32,687,478	0	32,687,478	4,509,962	0	4,509,962
Other operating liabilities	57,786,051	0	57,786,051	3,085,254	0	3,085,254
Liabilities for corporate income tax	1,253,161	0	1,253,161	0	0	0

At the Slovenske železnice Group level, the value of assets under lease and lease liabilities were up by EUR 26,271 thousand due to the transition to the new standard on 1 January 2019.



The value of assets under lease and lease liabilities were up by EUR 545,8 thousand at Slovenske železnice, d. o. o. due to the transition to the new standard on 1 January 2019.

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 of 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 introduction of the amendments to IFRS 9 will not have a material impact on the financial statements of the Slovenske železnice Group and Slovenske železnice, d. o. o.

Amendments to IAS 19 Employee Benefits

Amendments to the accounting standard relate to the requirement to apply updated actuarial assumptions to determine the current service cost and net interest for the remainder of the reporting period after an employee benefit plan amendment, curtailment or settlement. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The introduction of the amendments to IAS 19 will not have a material impact on the financial statements of the Slovenske železnice Group and Slovenske železnice, d. o. o.

Amendments to IAS 28 Investments in Associates and Joint Ventures

The amendments clarify the issue of whether the measurement of non-current assets (primarily as it relates to the requirement for the impairment of long-term interests in associates and joint ventures that, in substance, form a part of a net investment in an associate or joint venture) is covered by IFRS 9, IAS 28 or a combination of

the two. The amendments clarify that companies must apply the provisions of IFRS 9 before they begin to apply IAS 28 in the recognition of non-current assets not measured according to the equity method. In applying IFRS 9, companies do not take into account any adjustments to the carrying amount of non-current interests that otherwise derive from the application of IAS 28. The introduction of the amendments to IAS 28 will not have a material impact on the financial statements of the Slovenske železnice Group and Slovenske železnice, d. o. o.

Amendments to various standards – annual Improvements to the IFRS 2015–2017 Cycle

The amendments to various standards (IFRS 3, IFRS 11, IAS 12 and IAS 23) proceed from the project of annual improvements to the IFRS. Their primary purpose is to eliminate inconsistencies and to provide clarifications. The amendments to IFRS 3 clarify that a company must remeasure a previously held interest in a joint operation when it obtains control over a business; according to IFRS 11, a company that obtains joint control over a business does not remeasure its previously held interest in a joint operation. In accordance with IAS 12, a company accounts for all tax consequences of dividend payments in the same manner; in accordance with the amendment to IAS 23, a company treats all loans that were initially earmarked for the development of an asset as part of its general loans when that asset is fit for its intended use or sale. The amendments to the aforementioned standards apply to annual periods beginning on or after 1 January 2019.

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 introduction of IFRIC 23 will not result in material changes in the financial statements of the Slovenske železnice Group and Slovenske železnice, d. o. o.

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. The financial statements of Slovenske železnice Group companies are compiled for the same reporting period as the parent company and applying the same accounting policies.

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 an asset that represents future economic benefits deriving from assets acquired in a business combination that are not defined individually and recognised separately.

Following initial recognition, the Group verifies once a year whether factors exist that could have a negative impact on the future cash flows of a cash-generating unit obtained in a business combination. A reduction in the value of a cash-generating unit is recognised in the financial statements as the impairment of goodwill or the assets of a cash generating unit, and is charged to current operating results.

Subsidiaries

A subsidiary is a legally independent company that is directly or indirectly controlled by Slovenske železnice, d. o. o.

The Company exercises control over another company when:

- > it holds the majority of voting rights in the other company;
- > it has the right to appoint and recall the majority of members of the Management Board or Supervisory Board of the other, and is also a partner of that company;
- > it has the right to a controlling influence over the other company based on an enterprise agreement or other legal basis;
- > it is a partner of the other company, and it controls the majority of voting rights based on an agreement with the other partners of that company; and
- > it has a controlling influence over the company, i.e. it actually performs the management of that company, or the management of that company is subordinate to it.

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 controlling 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.



The controlling company takes into account the following signs when assessing whether there is any indication that an asset (i.e. investment in a subsidiary) is impaired:

- > from external sources:
 - > significant changes in the technological, market, economic or legal environment;
 - > in a period of rising interest rates, the impact of that rise on the discount rate;
 - > the carrying amount of assets is higher than their market capitalisation;
- > from internal sources:
 - > the commercial success of an investment is lower than expected;
 - > the carrying amount of an investment in the separate financial statements exceeds the value of the net assets of the company in which that investment was made in the consolidated financial statements, including the associated goodwill; and
 - > actual net cash flows or operating results that flow from an investment are significantly lower than planned.

The value of an investment in a subsidiary is assessed using the income-based approach, which requires the identification of returns that are discounted to their present value.

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 2019, with the exception of SŽ-ŽIP, d. o. o. and SŽ-VIT, d. o. o., whose respective losses in the amount of EUR 2,099,557 and EUR 3,498,789 were 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 in the individual financial statements. In the consolidated financial statements, those investments are accounted for according to the equity method. The consolidated financial statements of the Slovenske železnice Group include the latter's share of the profits and losses of associates calculated according to the equity method. If the Slovenske železnice Group's share in the loss of an associate exceeds its investment in the capital of that company, 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

Internal assets and liabilities, equity, revenues, expenses and cash flows in connection with transactions between Group companies are excluded in full when compiling the consolidated financial statements. Gains and losses from internal transactions within the Slovenske železnice Group are excluded in full, and recognised in assets, such as inventories and fixed assets. 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 2019. 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. Otherwise items of small inventory are classified as material. New purchases of property, plant and equipment are classified to small inventory and equipment in accordance with the initial classification of the same types of assets, notwithstanding the value of EUR 500. Replacement parts used

for investments in items of property, plant and equipment are accounted for as inventories of material.

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

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

The historical cost of an item of property, plant and equipment comprises the purchase price plus import duties and other non-refundable purchase taxes, and other costs required to make the asset fit for use. Trade and other discounts are subtracted from the purchase price. Historical cost also includes interest expenses and other costs arising from loans for assets that are acquired over a period of six months or more and for which the expected historical cost 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 term, if the latter is shorter.

Amortisation and depreciation rates applied in 2019 and 2018:

	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 2019 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.

Leases

The Slovenske železnice Group and Slovenske železnice, d. o. o. have various commercial real estate (land, business premises and buildings), equipment and cars under lease. Lease terms are the subject of individual negotiations and vary depending on the term and type of lease. When entering into a contract, the Slovenske železnice Group and Slovenske železnice, d. o. o. assess whether it is a lease agreement or whether it contains a lease. A contract contains a lease if it conveys the right to control of an identified asset for a period of time (typically longer than one year) in exchange for consideration. The Slovenske železnice Group and Slovenske železnice, d. o. o. define the lease term based on the period in which a lease cannot be terminated, taking into account periods covered by an extension option and the period covered by termination options. The Slovenske železnice Group and Slovenske železnice, d. o. o. assess the likelihood of the exercise of the aforementioned options.

The lease term depends on the type of asset and varies as follows:

- > for land: up to 45 years;
- > for business premises and buildings: up to 15 years;
- > for rolling stock: up to 5 years;
- > for other equipment: up to 10 years; and
- > for cars: up to 5 years.

The Slovenske železnice Group and Slovenske železnice, d. o. o. use a standard approach for recognising and measuring all leases, except short-term leases



and low-value leases, which are disclosed as a cost in the period to which a lease relates.

The Slovenske železnice Group and Slovenske železnice, d. o. o. recognise a right-of-use asset at the inception of a lease. Right-of-use assets in connection with leases are measured at historical cost less value adjustments and impairment losses, with an adjustment to historical cost at each remeasurement of lease liabilities. The historical cost of right-of-use assets in connection with leases comprises the amount of the initially measured lease liability, initial direct costs and lease payments that were made at or prior to the commencement of a lease, less lease incentives.

The depreciation rates for right-of-use assets in connection with leases are as follows:

> land	2.22 do 50.00%;
> buildings	6.66 do 50.00%;
> rolling stock	20.00 do 50.00%;
> other equipment	10.00 do 50.00%;
> cars	20.00 do 50.00%.

If, at the conclusion of a lease, ownership of the leased asset is transferred to a Slovenske železnice Group company or a Slovenske železnice Group company exercise the purchase option, depreciation is calculated based on the assessed useful life of the asset.

Liabilities for leased assets are recognised at the present value of remaining lease payments over the entire lease, which is calculated as the discounted value of lease payments that the Slovenske železnice Group and Slovenske železnice, d. o. o. will pay over the lease term in accordance with the lease agreement. Lease payments comprise fixed lease payments less all receivables for lease incentives, and variable lease payments. Lease payments also include the exercise price for the purchase option if it is probable that the Slovenske železnice Group and Slovenske železnice, d. o. o. will exercise that option, as well as the payment of a penalty for the termination of a lease if it is probable that the Slovenske železnice Group and Slovenske železnice, d. o. o. will exercise the termination option.

In calculating the present value of lease payments, the Slovenske železnice Group and Slovenske železnice, d. o. o. apply the incremental borrowing rate on the day a lease commences, as the interest rate cannot be determined in a lease agreement. After the commencement of a lease, the amount of lease liabilities is increased for accrued interest and reduced for all executed lease payments. The carrying amount of lease liabilities is remeasured in the event of an adjustment or change to the lease term, a change in lease payments as the result of a change in the index or rate used to determine those payments, or a change in the assessment of the purchase option.

At the commencement of a lease, lease liabilities are equal to the value of the associated right-of-use asset and is reduced for payments, while the value of the right-of-use asset is reduced by depreciation charged over the lease term. Depreciation rates are set taking into account the lease term. Interest incurred is charged to finance costs in the period in question.

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 for reasons of impairment if their carrying amount exceeds their fair value. 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 determines fair value for material items of investment property in a cycle ranging from three to five years for the purpose of disclosing its fair value with the help of certified real estate valuers. Investment property within the Slovenske železnice Group and at Slovenske železnice, d. o. o. is deemed material when the value of that investment property exceeds EUR 100 thousand.

The straight-line method of depreciation is 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 (i.e. inventories for which the date of the most recent receipt was five to ten years prior to the current year) are revalued on the statement of financial position date in the amount of three, six, nine, twelve, fifteen and up to a maximum of thirty percent (inventories for which the most recent receipt was ten years prior to the current period). Inventories of material replacement parts for which the date of the most recent receipt was more than ten years prior to the current year are assessed individually for the need of potential revaluation.

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. The assessment of impairment is based on expected credit losses in connection with the probability of non-payment of receivables over the next 12 months, unless credit risk has risen significantly since initial recognition. In making a collective impairment assessment, the Slovenske železnice Group and Slovenske železnice, d. o. o. consider past developments in probability of default, the recovery period and the amount of losses adjusted by an assessment of whether, due to current economic and credit conditions, actual losses may in fact be higher or lower than those assumed based on past developments.

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 in arrears between 121 and 150 days in the amount of 20%;
 - f) receivables in arrears between 151 and 180 days in the amount of 30%;
 - g) receivables in arrears 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%;

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.

Cash and cash equivalents

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

Liabilities

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

Non-current liabilities are disclosed as non-current financial liabilities and non-current operating liabilities. Non-current financial liabilities comprise long-term loans received from banks, other companies and individuals,

and non-current lease liabilities, 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 loans raised and current lease liabilities. 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.

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.

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 amount 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 aforementioned 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 revenues from contracts with customers based on contracts concluded with customers when control over goods and services is transferred to customers in an amount that reflects the compensation 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.

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 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 2019	31 December 2018
Long-term property rights	11,177,884	10,712,695
Goodwill	3,568,239	3,568,239
Non-current deferred development costs	19,167	29,167
Total	14,765,290	14,310,101

Computer software and licences account for the majority of long-term property rights.

Changes in intangible assets

in EUR	Long-term property rights	Other intangible assets in acq.	Goodwill	Non-curr. defer. devel. costs	Total
Historical cost					
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
Balance as at 1 January 2019	17,861,479	166,386	3,568,239	189,338	21,785,441
Acquisitions	1,277,920	126,159	0	0	1,404,079
Write-downs	-223,394	0	0	0	-223,394
Balance as at 31 December 2019	18,916,005	292,544	3,568,239	189,338	22,966,126
Value adjustment					
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
Balance as at 1 January 2019	7,315,169	0	0	160,171	7,475,341
Write-downs	-223,334	0	0	0	-223,334
Amortisation	938,831	0	0	10,000	948,831
Balance as at 31 December 2019	8,030,665	0	0	170,171	8,200,837
Carrying amount					
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
Carrying amount as at 1 January 2019	10,546,310	166,385	3,568,239	29,167	14,310,101
Carrying amount as at 31 December 2019	10,885,339	292,544	3,568,239	19,167	14,765,290

The Slovenske železnice Group had no commitments for the acquisition of intangible assets as at 31 December 2019 and 31 December 2018, nor had it pledged intangible assets as collateral.

A total of 33.0% of all intangible assets in use as at 31 December 2019 have been amortised in full (that proportion stood at 33.4% as at 31 December 2018). That proportion is calculated taking into account the historical cost of intangible assets.

2.3.1.2 Property, plant and equipment

in EUR	31 December 2019	31 December 2018
Land	12,367,918	10,042,915
Buildings	53,003,121	52,726,913
Equipment:	218,055,050	226,443,404
– rolling stock	213,422,847	202,610,228
– other equipment	4,632,203	23,833,176
Property, plant and equipment in acquisition	21,285,983	18,220,342
Leases	27,507,409	0
Total	332,219,482	307,433,574

Changes in property, plant and equipment

in EUR	Land	Buildings	Plant and equipment, and investments in the assets of others	Property, plant and equipment in acquisition	Leases	Total PPE
Historical cost						
Balance as at 1 January 2018	9,960,999	125,819,569	811,090,633	15,151,876	5,729,746	967,752,823
Acquisitions	82,030	995,028	42,589,390	3,068,466	1,569,657	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	0	-489,286	-96,318
Exclusion from consolidation	0	0	-737	0	-19,754	-20,491
Balance as at 31 December 2018	10,042,916	125,631,470	821,077,732	18,220,342	6,790,363	981,762,822
Leases	0	0	0	0	26,271,208	26,271,208
Balance as at 1 January 2019	10,042,916	125,631,470	821,077,732	18,220,342	33,061,571	1,008,034,031
Acquisitions	239,404	2,126,931	31,707,146	3,065,641	3,014,525	40,153,647
Disposals	-590,307	-2,344,275	-24,945,847	0	-108,087	-27,988,516
Transfers from investments	2,672,672	0	0	0	0	2,672,672
Transfers from finance leasing and from investment property	0	1,029,421	1,426,808	0	-1,426,808	1,029,421
Balance as at 31 December 2019	12,364,685	126,443,547	829,265,839	21,285,983	34,541,201	1,023,901,255
Value adjustment						
Balance as at 1 January 2018	0	71,565,829	598,859,807	0	1,371,363	671,796,998
Increases	0	0	271,328	0	-243,485	27,844
Decreases	0	-754,175	-32,923,101	0	-18,703	-33,695,979
Amortisation	0	2,092,901	33,519,595	0	594,075	36,206,571
Exclusion from consolidation	0	0	-62	0	-6,124	-6,186
Balance as at 31 December 2018	0	72,904,552	599,727,567	0	1,697,126	674,329,248
Balance as at 1 January 2019	0	72,904,552	599,727,567	0	1,697,126	674,329,245
Increases	0	0	502,987	0	-441,459	61,528
Decreases	-3,233	-1,630,313	-24,661,406	0	-23,655	-26,318,607
Amortisation	0	2,166,187	35,641,640	0	5,801,780	43,609,607
Balance as at 31 December 2019	-3,233	73,440,426	611,210,789	0	7,033,792	691,681,773
Carrying amount						
Balance as at 1 January 2018	9,960,999	54,253,740	212,230,826	15,151,876	4,358,383	295,955,825
Balance as at 31 December 2018	10,042,916	52,726,915	221,350,165	18,220,342	5,093,237	307,433,574
Balance as at 1 January 2019	10,042,916	52,726,918	221,350,165	18,220,342	31,364,445	333,704,786
Balance as at 31 December 2019	12,367,918	53,003,121	218,055,050	21,285,983	27,507,409	332,219,482

Moveable property and real estate valued at EUR 74,602,220 were pledged as guarantees for long-term loans as at 31 December 2019 (EUR 79,672,353 as at 31 December 2018).

The Group had commitments for the purchase of property, plant and equipment in the amount of EUR 159,215,412 as at 31 December 2019 (EUR 129,268,284 as at 31 December 2018).

A total of 41.6% of all items of property, plant and equipment in use as at 31 December 2019 have been depreciated in full (that proportion stood at 45.0% as at 31 December 2018). That proportion is calculated taking into account the historical cost of property, plant and equipment.

Changes in leases

in EUR	Land	Buildings	Plant and equipment	Total
Historical cost				
Balance as at 31 December 2018	0	0	6,790,363	6,790,363
Balance as at 1 January 2019	987,725	3,708,794	28,365,052	33,061,571
Increases	75,058	361,945	2,577,522	3,014,525
Decreases	-10,931	-69,454	-27,702	-108,087
Transfers	0	0	-1,426,808	-1,426,808
Balance as at 31 December 2019	1,051,852	4,001,285	29,488,064	34,541,201
Value adjustment				
Balance as at 31 December 2018	0	0	1,697,126	1,697,126
Balance as at 1 January 2019	0	0	1,697,126	1,697,126
Increases	0	0	-441,459	-441,459
Decreases	-3,581	0	-20,074	-23,655
Amortisation	175,123	480,442	5,146,215	5,801,780
Balance as at 31 December 2019	171,541	480,442	6,381,808	7,033,792
Carrying amount				
Balance as at 31 December 2018	0	0	5,093,237	5,093,237
Balance as at 1 January 2019	987,725	3,708,794	26,667,926	31,364,445
Balance as at 31 December 2019	880,310	3,520,843	23,106,256	27,507,409

2.3.1.3 Investment property

in EUR	31 December 2019	31 December 2018
Investment property	43,047,874	46,325,721
Total	43,047,874	46,325,721

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 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
Balance as at 1 January 2019	39,751,892	25,331,375	65,083,267
Acquisitions	0	1,366,148	1,366,148
Disposals	-179,449	-644,071	-823,520
Transfers for sale	-4,513	0	-4,513
Transfers to property, plant and equipment	-2,672,672	-1,029,421	-3,702,093
Balance as at 31 December 2019	36,895,258	25,024,030	61,919,289
Value adjustment			
Balance as at 1 January 2018	0	18,628,819	18,628,819
Amortisation	0	433,184	433,184
Disposals	0	-304,458	-304,458
Balance as at 31 December 2018	0	18,757,546	18,757,546
Balance as at 1 January 2019	0	18,757,546	18,757,546
Amortisation	0	438,508	438,508
Disposals	0	-324,638	-324,638
Balance as at 31 December 2019	0	18,871,415	18,871,415
Carrying amount			
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
Balance as at 1 January 2019	39,751,892	6,573,829	46,325,721
Balance as at 31 December 2019	36,895,258	6,152,615	43,047,873

The Group has not pledged investment property as collateral.

The Group generated rental income of EUR 1,768,523 in 2019 (EUR 1,692,810 in 2018). Depreciation costs associated with investment property totalled EUR 438,508 (EUR 433,184 in 2018).

The fair value of investment property was determined with the help of certified real estate valuers and amounted to EUR 83,759,901 as at 31 December 2019 (EUR 84,066,214 as at 31 December 2018).

2.3.1.4 Non-current financial assets

in EUR	31 December 2019	31 December 2018
Investments in associates	13,615,619	13,233,615
Other financial assets	2,093,464	2,093,564
Total	15,709,083	15,327,179

Information regarding associates as at 31 December 2019

Business name of associate	Business address of associate	Activity	Ownership as at 31 December 2019	Ownership as at 31 December 2018
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 2019	31 December 2018	2019	2018
Terme Olimia, d. d.	37,663,292	35,765,444	3,078,495	2,336,087
Adria Kombi, d. o. o., Ljubljana	12,199,131	11,297,912	1,878,730	1,382,365
CKTZ, d. d., Zagreb	1,739,221	3,013,942	-1,263,782	516,593
Total	51,601,644	50,077,298	3,693,443	4,235,045

Balance of investments in associates

in EUR	31 December 2019	31 December 2018
Terme Olimia, d. d.	8,990,536	8,537,504
Adria Kombi, d. o. o., Ljubljana	4,113,547	3,809,656
CKTZ, d. d., Zagreb	511,536	886,455
Total investments in associates	13,615,619	13,233,615

Changes in investments in associates

SŽ Group (in EUR)	31 December 2019	31 December 2018
Balance as at 1 January	13,233,615	12,478,349
Attributable profit/loss	996,669	1,175,716
Dividends received	-581,472	-379,199
Attributable changes in equity of associates	-33,193	-41,251
Balance as at 31 December	13,615,619	13,233,615

Other financial assets	Participating interest in %	Amount of investment in EUR	
		31 December 2019	31 December 2018
EUROFIMA	0.42	2,033,709	2,033,709
HIT RAIL		54,439	54,439
Fercargo, d. o. o., Sarajevo	70.00	924	924
Other shares and participating interests		4,392	4,492
Total		2,093,464	2,093,564

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 2019 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 2019	31 December 2018
Other non-current financial receivables	40,152,258	40,220,319
Receivables for funds paid to institution (Železniški zdravstveni dom)	2,401,003	2,401,003
Deposits placed with banks and others	18,585,904	690,653
Other financial receivables	13,741	13,514
Total	61,152,906	43,325,489

Other non-current financial receivables from commercial banks disclosed by the controlling company Slovenske železnice, d. o. o. as the result of 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 40,152,258 and fall due for payment in 2021 (EUR 40,220,319 as at 31 December 2018). Non-current financial receivables are not secured or pledged as collateral.

2.3.1.6 Non-current financial receivables

in EUR	31 December 2019	31 December 2018
Non-current advance for the purchase of property, plant and equipment:	239,390,817	50,998,350
– new passenger cars	239,332,050	50,998,350
– other	58,767	0
Trade receivables	4,227	4,488
Trade credits for the purchase of real estate	3,694,804	3,424,951
Other operating receivables	406,780	263,168
Total	243,496,628	54,690,958

A non-current advance is disclosed based on NAB agreement nos. 40/2018/08INV and 45/2019/08INV on the purchase of new passenger cars, concluded between SŽ-Potniški promet, d. o. o. and a consortium of Stadler Polska companies.

The aforementioned receivables are not pledged as collateral or secured, with the exception of receivables for advances paid to the supplier of new rolling stock, which are fully secured by an advance guarantee.

2.3.1.7 Deferred tax assets

in EUR	31 December 2019	31 December 2018
Deferred tax assets	3,293,505	4,339,296
	Consolidated 31 December 2019	Consolidated 31 December 2018
SŽ, d. o. o.	332,905	1,225,007
SŽ-Infrastruktura, d. o. o.	1,217,084	1,432,286
SŽ-Potniški promet, d. o. o.	253,067	253,703
SŽ-Tovorni promet, d. o. o.	464,413	482,379
SŽ-ŽGP Group	292,546	239,254
Fersped, d. o. o.	701,100	688,674
SŽ-Železniška tiskarna, d. d.	5,158	3,160
Prometni institut, d. o. o.	9,808	10,671
VV-LOG, d. o. o.	17,424	4,160
Total	3,293,505	4,339,296

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 36,228,389 (EUR 31,742,405 in 2018).

Changes in deferred tax assets within the Slovenske železnice Group in 2019

in EUR	Tax loss	Provisions	Tax allowances for investments	Adjustments to the value of receivables	Total
Balance as at 1. 1. 2018	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
Drawn	-2,267,578	-93,474	-321,395	-25,442	-2,707,889
Created	0	611,655	422,338	628,106	1,662,099
Balance as at 31 December 2019	240,511	2,108,404	183,273	761,317	3,293,505

2.3.1.8 Other non-current assets

in EUR	31 December 2019	31 December 2018
Deferred licence maintenance costs	149,127	298,254
Deferred costs relating to passenger cars	5,048,491	1,529,104
Deferred costs for the reserve fund for leased housing	376,144	346,856
Total	5,573,762	2,174,214

The full amount of deferred costs disclosed in connection with passenger cars relates to the discount calculated in the payment of the first two instalments under the agreement on the assignment of claims for consideration (note 2.3.1.5). The cost of the discount will be charged proportionately to the historical cost of the new passenger cars with respect to the value thereof and the timing of delivery of specific wagons.

2.3.1.9 Inventories

in EUR	31 December 2019	31 December 2018
Materials	12,858,971	10,021,601
Replacement parts	18,153,548	16,862,146
Small inventory and packaging	743,731	505,972
Work in progress	1,952,087	3,383,831
Products and merchandise	2,153,952	2,099,647
Total	35,862,289	32,873,197

Write-offs of obsolete inventories and impairments of inventories amounted to EUR 74,757 and EUR 144,345 respectively in 2019 (write-offs of inventories amounted to EUR 34,870, while impairments of inventories totalled EUR 161,592 in 2018). There are no liens on inventories. The carrying amount of inventories did not exceed their realisable value.

2.3.1.10 Current financial receivables

in EUR	31 December 2019	31 December 2018
Financial instruments measured at fair value through profit or loss	1,775,857	744,140
Current financial receivables – sale of receivables	0	55,317,200
Other financial receivables	4,939,744	4,210,045
Total	6,715,601	60,271,385

Financial instruments measured at fair value through profit or loss comprise FX swap instruments in the amount of EUR 1,775,857.

Other financial receivables primarily comprise receivables from banks for deposits placed in the amount of EUR 4,939,744 (EUR 4,210,000 as at 31 December 2018). The largest proportion is accounted for by a deposit placed in the amount of EUR 4,855,000 for the payment of passenger cars when the latter are delivered.

2.3.1.11 Trade receivables

in EUR	31 December 2019	31 December 2018
Current trade receivables from domestic customers	48,100,965	33,733,172
Current trade receivables from foreign customers	16,987,556	18,070,814
Total	65,088,521	51,803,986

in EUR	2019			2018		
	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Current trade receivables from domestic customers	52,378,598	4,277,633	48,100,965	38,564,010	4,830,838	33,733,172
Current trade receivables from foreign customers	19,180,409	2,192,853	16,987,556	20,488,754	2,417,940	18,070,814
Total	71,559,007	6,470,486	65,088,521	59,052,764	7,248,778	51,803,986

Receivables were not pledged as collateral as at 31 December 2019, while secured receivables amounted to EUR 3,557,293 (EUR 4,766,179 in 2018).

Net adjustments to the value of current trade receivables were created as follows:

in EUR	2019	2018
Balance as at 1 January	7,248,778	6,950,451
Reversal of value adjustments	-516,210	-155,683
Creation of value adjustments	134,625	801,307
Reduction for written-off receivables	-396,707	-347,297
Balance as at 31 December	6,470,486	7,248,778

Maturity breakdown of trade receivables

in EUR	31 December 2019	31 December 2018
Non-past-due receivables	61,201,965	45,635,532
Past-due receivables	10,357,042	13,417,232
- up to 30 days	2,915,741	4,181,046
- 31 to 90 days	913,967	1,023,452
- 91 to 365 days	419,191	1,201,512
- more than 365 days	6,108,143	7,011,222
Total	71,559,007	59,052,764

2.3.1.12 Other current operating receivables

in EUR	31 December 2019	31 December 2018
Receivables from government and other institutions	12,026,686	8,829,654
Receivables from employees	1,945,556	615,791
Other receivables associated with finance income	0	22
Current operating receivables based on advances	7,400,776	37,478
Current security deposits	2,487	1,375
Receivables based on the agreement on the transfer of the benefits of negotiations in connection with the purchase of new rolling stock	29,996,400	0
Other current operating receivables	1,139,840	643,775
Deferred costs	711,804	588,108
Accrued income:	85,243,066	70,036,482
– accrued development element of compensation for the discharge of the PSO	24,649,659	21,970,940
– accrued under-compensation for the discharge of the PSO	8,018,594	4,391,875
– accrued compensation due to traffic disruptions	45,249,142	29,070,592
– accrued income as the result of the migrant flow into the Republic of Slovenia	0	3,816,422
– accrued income from traffic management subsidies	0	1,000,000
– accrued income from the maintenance of PRI buildings	0	5,108,386
– accrued income from claims for damages	4,411,716	1,971,369
– other accrued income	2,913,955	2,706,898
VAT on advances received	82,650	47,113
Total	138,549,265	80,799,798

Receivables in the amount of EUR 29,996,400 and the associated other operating revenues are the result of additional benefits in connection with the purchase of new rolling stock at SŽ-Potniški promet, d. o. o. (operator/contracting authority/buyer of new rolling stock) that are, independent of the public contract procedure and independent of the agreements on the purchase of new rolling stock concluded between the contracting authority/buyer and the selected supplier, solely the result of the additional activities, agreements and successful efforts of the controlling company Slovenske železnice, d. o. o. to achieve additional benefits.

In order to avoid potential ambiguities and ensure the transparency of negotiations, a three-party agreement was concluded on 9 January 2018 between Slovenske železnice, d. o. o., SŽ-Potniški promet, d. o. o. and the supplier Stadler Polska Sp. Z. o. o. and Stadler Bussnang AG, in which the parties agreed that they will strive to achieve additional benefits if the public contract in question is awarded to the supplier. Annex 1 to the agreement of 9 January 2018 was concluded between Slovenske železnice, d. o. o., SŽ-Potniški promet, d. o. o. and a consortium comprising Stadler Polska Sp. Z. o. o. and Stadler Bussnang AG, Ernst-Stadler Strasse 4, 9565 Bussnang. The aforementioned annex defined in detail the scope of additional benefits that are the result of the successful efforts of Slovenske železnice, d. o. o. to achieve those benefits, where the latter acted according to the will of SŽ-Potniški promet, d. o. o. and independent of a specific procurement procedure under the ZJN-3. It also defined the manner in which the train supplier will settle its liabilities to Slovenske železnice, d. o. o.

Notwithstanding the tendered price and progress of the public contract award procedure, the supplier was prepared to offer additional benefits due to its perceived importance of entering the Balkan market in the area of passenger and freight transport, where it assessed cooperation with Slovenske železnice, d. o. o. as crucial. For this reason, the Stadler consortium play two roles: as train supplier, where it has performance obligations under the agreements

concluded on the basis of the public tender, and as the buyer/payor of additional benefits, where it has separate performance obligations based on a separate agreement.

Given the current situation, the signatories of the above-described annex are in agreement that Slovenske železnice, d. o. o. will be the recipient of the following benefits in the form of acquired assets:

- > 4 diesel-electric low-floor FLIRT DMU trains (the price of 1 FLIRT DMU train is EUR 5,942,300, excluding VAT); and
- > 1 electric low-floor FLIRT EMU train (the price of 1 FLIRT EMU train is EUR 6,227,200, excluding VAT),

where the total value of all five trains is EUR 29,996,400, excluding VAT.

The supplier, who recognised its obligation in the amount of EUR 29,996,400, excluding VAT, to Slovenske železnice, d. o. o. based on the above-mentioned agreement and annex thereto, will settle that obligation by supplying the five trains in question directly to SŽ-Potniški promet, d. o. o. As a result of this transaction, receivables i.e. liabilities between Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. will be disclosed, which will subsequently be the subject of the recapitalisation of the subsidiary.

In accordance with their accounting policies, Slovenske železnice, d. o. o. and the Slovenske železnice Group recognise the above-described benefits as other revenues. In this case, those benefits will be paid in kind in the form of five trains delivered between 2020 and 2022, which will be recognised as items of property, plant and equipment and depreciated over a period of 20 years.

Write-offs and impairments of trade receivables and other current operating receivables that are disclosed in operating expenses amounted to EUR 3,976,680 in 2019 (EUR 952,103 in 2018).

2.3.1.13 Cash and cash equivalents

in EUR	31 December 2019	31 December 2018
Cash on hand	473,925	346,517
Cash on bank accounts	17,334,186	181,175,788
Total	17,808,111	181,522,305

2.3.1.14 Equity

in EUR	31 December 2019	31 December 2018
Called-up capital	359,529,921	205,274,421
Share premium account	45,002,140	45,002,140
Legal reserves	3,497,346	2,917,693
Other profit reserves	46,448,165	38,275,168
Fair value reserves	-3,540,193	-2,985,233
Retained earnings from previous years	59,522,051	45,034,736
Undistributed retained earnings from the financial year	25,513,923	17,630,905
Translation differences	-1,232	1,229
Non-controlling interest	5,172,648	4,872,507
Total	541,144,769	356,023,566

Changes in equity

in EUR	in EUR
Balance as at 1 January 2018	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
Capital increase (contribution of Slovenian government)	154,255,500
Net profit for the financial year	35,030,125
Payment of shares in profit	-3,464,969
Actuarial gains and losses	-676,177
Exchange rate differences from the conversion of foreign companies' financial statements	-2,461
Other changes	-20,815
Balance as at 31 December 2019	541,144,769

2.3.1.15 Provisions

Provisions for jubilee benefits and termination benefits

in EUR	31 December 2019	31 December 2018
Provisions for termination benefits	27,017,847	26,845,794
Provisions for jubilee benefits	3,612,103	3,661,234
Total	30,629,950	30,507,028

Changes in provisions for jubilee benefits and termination benefits

in EUR	Termination benefits	Jubilee benefits	Total
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
Balance as at 1 January 2019	26,845,794	3,661,234	30,507,028
Used	-854,714	-414,499	-1,269,213
Current employment costs	1,025,287	382,984	1,408,271
Interest (expenses)	417,411	54,573	471,984
Reversal of provisions – closure, rights, etc. (revenues)	-1,068,842	-72,189	-1,141,031
Actuarial gains/losses	652,910	0	652,910
Balance as at 31 December 2019	27,017,847	3,612,103	30,629,950

The following material assumptions were taken into account in the calculation of provisions for termination benefits at retirement and jubilee benefits:

	2019	2018
Average monthly gross wage in Slovenia	1,760 EUR	1,680 EUR
Discount rate	1.58%	1.81%
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 2019	31 December 2018
Provisions for litigation	727,366	329,939
Provisions for guarantees issued	331,826	245,181
Provisions for the clean-up of a quarry	65,075	65,074
Total	1,124,267	640,194

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 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
Balance as at 1 January 2019	329,939	245,180	65,075	640,194
Created	473,004	88,035	0	561,039
Reversed	-19,068	0	0	-19,068
Used	-56,509	-1,389	0	-57,898
Balance as at 31 December 2019	727,366	331,826	65,075	1,124,267

A total of 93 legal proceedings, primarily labour and economic disputes, were in progress against seven companies in the Slovenske železnice Group during 2019. A total of 19 of those proceedings were completed during the course of the year.

Of the remaining 74 cases with a total value of EUR 4,644,163, provisions in the total amount of EUR 727,366 were created for 38 cases as at 31 December 2019 in accordance with assessments of the possible outcomes of specific disputes drawn up on the bases of reports prepared by law firms. 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	Non-current contract liabilities in connection with construction services	Total
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
Balance as at 1 January 2019	1,801,402	42,250	119,668	1,963,320
Created	5,259,837	0	61,587	5,321,424
Used and/or transferred to current portion	-5,606,204	-3,110	-29,943	-5,639,257
Balance as at 31 December 2019	1,455,035	39,140	151,312	1,645,487

2.3.1.17 Financial liabilities

in EUR	31 December 2019	31 December 2018
Non-current financial liabilities to banks	95,885,417	11,593,750
Non-current liabilities - EUROFIMA	0	28,655,604
Non-current financial liabilities from leases	19,963,461	0
Druge non-current financial liabilities	0	2,413,956
Total non-current financial liabilities	115,848,878	42,663,310
Current financial liabilities to banks	4,708,333	9,733,173
Liabilities to banks arising from the fair value of derivatives	0	429,968
Current financial Current financial liabilities from the payment of capital until entry in the companies register	0	154,255,500
Current financial liabilities - EUROFIMA	29,751,244	74,000,000
Current financial liabilities from leases	6,523,519	0
Other current financial liabilities	22,377	908,436
Total current financial liabilities	41,005,473	239,327,077
Total	156,854,351	281,990,387

Changes in financial liabilities

in EUR	2019	2018
Non-current financial liabilities		
Opening balance	42,663,310	0
entry into force of IFRS 16	20,852,128	0
Balance as at 1 January	63,515,438	111,392,771
– increases	93,590,653	15,775,650
– decreases	-41,257,213	-84,505,110
Balance as at 31 December	115,848,878	42,663,310
Current financial liabilities		
Opening balance	239,327,077	0
entry into force of IFRS 16	5,419,080	0
Balance as at 1 January	244,746,157	12,644,474
– increases	285,332,459	491,989,235
– decreases	-489,073,143	-265,306,632
Balance as at 31 December	41,005,473	239,327,077
Total	156,854,351	281,990,387

in EUR	2019	2018
Balance as at 1 January	281,990,387	124,037,245
Inflows from loans raised	332,150,000	264,550,000
Inflows for the recapitalisation of Slovenske železnice, d. o. o.	0	154,255,500
Outflows from loans raised	-326,897,986	-262,824,055
Outflows for the repayment of lease liabilities	-5,632,050	0
Transfer of liabilities – change in share capital of Slovenske železnice, d. o. o.	-154,255,500	0
Recognition of lease liabilities	29,050,597	1,456,204
Changes in liabilities from financial instruments	-429,968	-550,979
Changes in liabilities for interest	-216,769	6,151
Exchange rate differences	1,095,640	1,060,321
Stanje 31. 1.	156,854,351	281,990,387

Changes in lease liabilities

in EUR	Total
Stanje 31.12.2018	0
Balance as at 1 January 2019	26,271,208
Increase	1,041,408
Decrease	-77,531
Payments	-5,419,080
Interest	603,097
Stanje 31.12.2019	22,419,102

Non-current financial liabilities

in EUR	Date of agree. or annex	Date of maturity	Balance as at 31 December 2019	Collateral
Financing of rolling stock purchases	5 April 2018	6 December 2024	9,385,417	Deposit, lien
Financing of locomotive purchases	5 September 2019	5 September 2029	71,500,000	Bills of exchange
Financing of other fixed asset purchases		until 28 December 2026	3,147,128	Bills of exchange
Financing of measures to optimise business processes	23 December 2019	31 December 2023	15,000,000	Bills of exchange
Lease liabilities			16,816,333	
Total			115,848,878	

Current financial liabilities

in EUR	Date of agree. or annex	Date of maturity	Balance as at 31 December 2019	Collateral
Refinancing of liabilities to EUROFIMA	5 September 2019	5 September 2029	2,500,000	Bills of exchange
Financing of rolling stock purchases	5 April 2018	6 December 2024	2,208,333	Pledge of rolling stock as collateral
Financing of locomotive purchases	19 November 2008	29 September 2020	29,751,244	Guarantee, pledged vehicles
Lease liabilities			6,523,519	
Loan from the Eco Fund for property, plant and equipment	12 January 2010	1 July 2020	7,845	Real estate pledged as collateral
Other current liabilities – interest			14,532	
Total			41,005,473	

2.3.1.18 Operating liabilities

in EUR	31 December 2019	31 December 2018
Non-current liabilities	132,203,855	132,497,672
Trade payables	268	136
Non-current operating liabilities	131,738,650	131,738,650
Other non-current operating liabilities	464,937	758,886
Current liabilities	81,513,561	57,786,051
Liabilities based on advances	3,490,156	1,181,402
Liabilities to employees	30,899,878	23,721,142
Liabilities to the state and government institutions	14,260,487	8,599,598
Liabilities to others	14,354,605	7,228,756
Deferred income	4,698,731	3,705,587
Accrued costs and expenses	13,809,704	13,349,566
Total	213,717,416	190,283,723

Non-current operating liabilities to the state 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 131,738,650 in 2018).

Accrued costs and expenses

in EUR	31 December 2019	31 December 2018
Unused annual leave	6,817,715	7,729,707
Use of freight wagons	634,994	1,427,637
Accrued compensation in international freight transport	110,000	150,000
Accrued compensation for the closure of lines (maintenance of the public rail infrastructure)	4,408,331	2,786,466
Accrued cross-border services	6,369	64,587
Contractual obligations for uncompleted works on projects	562,576	80,943
Accrued costs of hours worked	251,180	239,365
Accrued concession fees	137,288	119,836
Accrued positioning costs for individual work orders	49,211	231,518
Other	832,040	519,507
Total	13,809,704	13,349,566

2.3.1.19 Trade payables

in EUR	31 December 2019	31 December 2018
Domestic trade payables	25,801,953	24,314,559
Foreign trade payables	9,805,732	8,372,919
Total	35,607,685	32,687,478

in EUR	31 December 2019	31 December 2018
Non-past-due liabilities	31,693,857	31,400,426
Past-due liabilities	3,913,828	1,287,052
– up to 30 days	3,151,860	737,245
– 31 to 90 days	554,280	63,026
– 91 to 365 days	192,664	54,540
– more than 365 days	15,024	432,241
Total	35,607,685	32,687,478

Contingent receivables and contingent liabilities

in EUR	31 December 2019	31 December 2018
Mortgages and liens received	2,889,228	3,179,753
Bank guarantees received, of which:	292,806,261	79,130,441
– for the purchase of new rolling stock units	277,473,472	71,737,679
– for performance bonds and warranties	11,327,789	6,993,802
– other	4,005,000	398,960
Merchandise on consignment	5,865	5,865
Withheld dividend payments	35,854	23,963
Total contingent receivables	295,737,208	82,340,022
Bank guarantees issued, of which:	19,928,623	21,659,358
– collateral for contractual liabilities, warranties and performance bonds	13,781,360	12,323,730
– Transit insurance	6,000,000	9,250,000
– other	100.000	0
Excise guarantees	47,263	85,628
Liabilities for merchandise on consignment	5,865	5,865
Contingent liabilities from the sale of real estate	7,968,619	0
Contingent liabilities for lawsuits	4,644,163	3,550,520
Total contingent liabilities	32,547,269	25,215,743

2.3.2 Notes to the statement of profit or loss

2.3.2.1 Net sales revenue

in EUR	2019	2018
Revenues on the domestic market	259,590,834	235,316,425
Services and products	258,458,000	234,354,591
– services and products in connection with associates	296,990	293,430
– services and products in connection with others	258,161,010	234,061,161
Merchandise and materials	1,132,834	961,834
– merchandise and materials in connection with others	1,132,834	961,834
Revenues on the foreign market	183,881,379	187,571,655
Services	183,881,379	187,571,655
– services and products in connection with others	183,881,379	187,571,655
Total	443,472,213	422,888,080

Net sales revenue comprises:

in EUR	Consolidated 2019	Consolidated 2018
Slovenske železnice, d. o. o.	1,310,147	1,352,869
SŽ-Tovorni Promet Group	162,164,336	166,797,297
SŽ-Potniški promet, d. o. o.	35,814,439	34,846,183
SŽ-Infrastruktura, d. o. o.	140,493,692	136,553,578
SŽ-VIT, d. o. o.	14,032,627	12,504,948
SŽ-ŽIP Group	4,678,574	4,495,190
Prometni institut Ljubljana, d. o. o.	164,807	149,167
SŽ-Železniška tiskarna Ljubljana, d. d.	42,870	61,670
SŽ-ŽGP Group	61,520,470	39,708,049
Fersped, d. o. o.	19,798,564	22,538,535
VV-LOG, d. o. o.	3,430,437	3,880,594
Total	443,450,963	422,888,080

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 184,546,096 (EUR 187,614,066 in 2018) were generated on the local and foreign markets by the SŽ-Tovorni Promet Group in the amount of EUR 150,679,632 (EUR 154,816,429 in 2018) and SŽ-Potniški promet, d. o. o. in the amount of EUR 33,866,464 (EUR 32,797,637 in 2018).

SŽ-Infrastruktura, d. o. o. generated the majority of its revenues based on agreements with the Slovenian government:

in EUR	2019	2018
Public service obligation of the maintenance of the PRI	85,540,824	84,919,015
Public service obligation of the functioning of the PRI	37,334,339	36,000,000
Performance of tasks as manager of the PRI	1,574,100	1,996,231
Management and maintenance of housing and buildings that are not part of the PRI	359,374	407,369
Total	124,808,637	123,322,615

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	2019	2018
Capitalised own products and services	27,776,588	36,261,687

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 cars.



2.3.2.3 Other operating revenues

in EUR	2019	2018
Income based on the agreement on benefits in connection with the purchase of new rolling stock (note 2.3.1.12.)	29,996,400	0
Revenues from the discharge of the public service obligation of passenger transport by rail	68,977,853	56,695,068
Compensation and fines	19,167,741	27,242,083
<i>of which accrued revenues from the maintenance of PRI lines (traffic disruptions)</i>	<i>16,148,883</i>	<i>26,808,832</i>
Revenues from assigned contributions for the employment of disabled persons	5,263,207	5,290,396
Revenue from other subsidies	1,092,843	1,186,133
Revenues from the reversal of provisions	2,709,671	1,308,801
Revenues from the sale of property, plant and equipment, and the revaluation of receivables and liabilities	3,000,401	3,163,508
Other revenues	792,135	7,976,479
Total	131,000,251	102,862,468

2.3.2.4 Costs of goods, materials and services

in EUR	2019	2018
Historical cost of goods sold and costs of materials used	1,353,323	1,450,439
Costs of materials	39,659,765	44,250,841
Energy costs	29,355,385	30,627,606
Costs of replacement parts	4,708,573	4,679,703
Write-off of small inventory	1,696,060	1,938,414
Costs of office materials	506,769	535,659
Other material costs	479,264	581,733
Total cost of goods and materials sold and cost of materials used	77,759,139	84,064,395
Costs from the manufacture of products and provision of services	56,626,858	39,453,876
Transport services	21,340,308	23,087,856
Maintenance services	21,702,765	19,404,672
Reimbursement of employee expenses	3,048,507	3,634,957
Payment transaction and banking services	606,754	632,771
Intellectual and personal services	3,240,325	3,103,136
Insurance premiums	5,096,551	4,859,373
Advertising, publicity and representation	1,985,998	1,560,934
Costs under the RIV Rules	6,088,642	6,814,938
Costs under the RIC Rules	1,067,021	950,464
Costs of other services:	28,157,514	32,723,319
– rental costs	10,467,957	15,398,617
of which:		
– fee for access to public rail infrastructure	8,819,517	8,650,914
– low-value leases	530,053	0
– costs of municipal services	1,941,287	1,850,384
– costs of services provided by the Port of Koper	3,544,547	3,751,119
– costs of student services and hired labour	5,401,226	5,334,820
– costs of transport services (traction) provided by foreign operators	776,345	424,790
– 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	762,155	644,657
– costs of services associated with contracted work	628,287	637,213
– membership fees and contributions paid to international organisations and other associations	662,827	525,729
– administrative fees, administrative announcements and court fees	436,355	372,553
– engineering services (ancillary activity in the maintenance of the PRI)	287,253	419,072
– border services provided by foreign railway administrations	146,431	144,259
– other costs	1,684,180	1,801,442
Total costs of services	148,961,242	136,226,296
Total	226,720,381	220,290,691

The costs of goods, materials and services comprise:

in EUR	Consolidated 2019	Consolidated 2018
Slovenske železnice, d. o. o.	6,417,642	5,416,794
SŽ-Tovorni Promet Group	50,554,544	58,123,767
SŽ-Potniški promet, d. o. o.	14,116,282	12,650,800
SŽ-Infrastruktura, d. o. o.	47,840,380	49,365,936
SŽ-VIT, d. o. o.	31,532,880	35,628,696
SŽ-ŽIP Group	11,531,596	10,853,014
Prometni institut Ljubljana, d. o. o.	183,811	168,301
SŽ-Železniška tiskarna Ljubljana, d. d.	132,915	151,555
SŽ-ŽGP Group	50,545,849	31,594,665
Fersped, d. o. o.	12,045,452	14,092,182
VV-LOG, d. o. o.	1,819,030	2,244,981
Total	226,720,381	220,290,691

The most significant material costs comprise the electricity and other fuels used to drive rolling stock in the amount of EUR 22,423,620 (EUR 23,462,118 in 2018) and the costs of materials and replacement parts for rolling stock maintenance in the amount of EUR 3,984,826 (EUR 4,081,860 in 2018).

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 2019	Consolidated 2018
SŽ-VIT, d. o. o.	3,292,446	4,843,904
SŽ-ŽIP Group	7,071,000	6,546,205
SŽ-ŽGP Group	33,616,554	12,780,479
Fersped, d. o. o.	11,332,375	13,416,727
VV-LOG, d. o. o.	1,264,664	1,808,207
Total	56,577,039	39,395,522

Costs of auditor

in EUR	2019	2018
Auditing of the annual report	121,400	89,870
Other assurance services	6,500	6,720
Total	127,900	96,590

2.3.2.5 Labour costs

in EUR	2019	2018
Costs of wages and salaries	188,347,215	184,403,122
Pension insurance costs	25,812,621	24,813,777
Other social security costs	14,627,196	13,822,720
Other labour costs	47,235,992	36,261,936
– reimbursements	20,012,724	20,366,261
– annual leave allowance	9,221,262	8,726,782
– termination benefits	16,021,322	3,965,722
– provisions for jubilee benefits and termination benefits (actuarial calculation)	1,408,271	2,186,801
– contractual penalty for unused annual leave for previous year	330,653	774,203
– other costs	241,760	242,167
Total	276,023,024	259,301,555

2.3.2.6 Write-downs

in EUR	2019	2018
Amortisation of intangible assets and depreciation of property, plant and equipment	39,195,165	37,374,391
Depreciation of right-of-use assets	5,801,780	0
Operating expenses for intangible assets and property, plant and equipment	759,671	166,872
Operating expenses for working capital	4,214,204	1,148,585
– revaluation of inventories	222,078	196,462
– revaluation of receivables	3,952,921	763,380
– write-offs of receivables	39,205	188,743
Total	49,970,820	38,689,848

2.3.2.7 Other operating expenses

in EUR	2019	2018
Fees for the use of building land, and other taxes and levies	1,701,512	1,318,715
Accrued costs for damages due to the closure of lines	1,621,866	3,212,484
Fines and compensation for damage incurred by legal and natural persons	1,073,875	877,213
Claim due to an environmental accident above Hrastovlje	818,821	0
Scholarships and awards for pupils and students on compulsory job training	447,380	611,677
Donations (for sporting, cultural and humanitarian activities)	225,213	166,710
Partial reversal of accrued claims for payment of damages (court settlement)	0	945,995
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	80,453	76,057
Other expenses	195,141	184,319
Total	6,164,261	7,393,170

2.3.2.8 Finance income

in EUR	2019	2018
Finance income from participating interests in associates	996,669	1,175,716
Finance income from participating interests in other companies	55,133	38,275
Finance income from other investments	1,165,052	744,510
Total finance income from participating interests	2,216,854	1,958,501
Finance income from loans to others	101,443	64,328
Total finance income from loans granted	101,443	64,328
Finance income from other operating receivables	399,476	537,014
Total finance income from operating receivables	399,476	537,014
Total	2,717,773	2,559,843

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 1,039,655 (EUR 1,180,313 in 2018), and income from other investments, which by their nature are deemed revenues from derivatives in the amount of EUR 1,165,052 (EUR 744,140 in 2018).

Finance income from operating receivables primarily comprises default interest on current receivables in the amount of EUR 359,577 (EUR 471,624 in 2018) and revenues from the revaluation of operating receivables/liabilities in the amount of EUR 30,416 (EUR 15,676 in 2018).

2.3.2.9 Finance costs

in EUR	2019	2018
Finance costs from impairments and write-downs of financial assets at other companies	0	2,018,022
Finance costs from impairments and write-offs of financial assets	0	2,018,022
Finance costs from bank loans	1,211,647	878,337
Finance costs from leases	703,527	74,857
Finance costs from other financial liabilities	2,141,805	4,224,046
Total finance costs from financial liabilities	4,056,979	5,177,240
Finance costs from trade payables and liabilities from bills of exchange	74,295	205,996
Finance costs from other operating liabilities	169,085	25,515
Total finance costs from operating liabilities	243,380	231,511
Total	4,300,359	7,426,773

Finance costs from financial liabilities comprise:

- > expenses from the revaluation of financial liabilities (exchange rate differences) in the amount of EUR 1,095,640 (EUR 1,060,321 in 2018);
- > interest on loans from banks in the amount of EUR 1,211,636 (EUR 878,337 in 2018) and from EUROFIMA in the amount of EUR 505,783 (EUR 338,151 in 2018);
- > interest as the result of an actuarial calculation in the amount of EUR 471,984 (EUR 506,082 in 2018);
- > interest on leases in the amount of EUR 703,527 (EUR 74,857 in 2018);
- > expenses in connection with derivatives in the amount of EUR 239 (EUR 116,504 in 2018); and
- > other expenses in the amount of EUR 68,170 (EUR 2,202,988 in 2018).

2.3.2.10 Corporate income tax

in EUR	2019	2018
Current tax	4,472,386	1,602,017
Deferred tax	1,045,791	64,564
Total corporate income tax	5,518,177	1,666,581
Pre-tax profit	40,548,302	31,403,062
Tax calculated at effective tax rate	8,627,682	9,379,449
Tax from decrease in revenues	-1,385,418	-3,717,814
Tax from increase in revenues	0	531
Tax from decrease in expenses	1,262,732	1,442,271
Tax from increase in expenses	-199,381	-150,781
Tax from decrease in tax base	-22,060	-19,601
Tax from increase in tax base	800,414	195,899
Tax from tax allowances	-4,611,583	-5,527,937
Total corporate income tax	5,518,177	1,666,581
Effective tax rate	13.61	5.31

The Group disclosed corporate income tax receivables in the amount of EUR 932,767 as at 31 December 2019 (EUR 34,316 in 2018) and corporate income tax liabilities of EUR 3,824,187 (EUR 1,253,161 in 2018). 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 2019 and 2018, while tax rates for the Group range from 9% to 19%.

2.3.3 Transactions with associates

Gross earnings of groups of persons

in EUR	2019	2018
Management Board of the controlling company	390,434	366,759
Supervisory Board of the controlling company	143,114	115,873
External members of the committees of controlling company's Supervisory Board	10,075	10,308
Management boards of subsidiaries	1,606,920	1,532,701
Supervisory boards of subsidiaries	101,106	100,701
External members of the committees of subsidiaries' supervisory boards	5,590	5,590
Group employees under individual contracts	6,701,386	6,124,010
Total	8,958,625	8,255,942

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.

Except for the earnings listed above, Slovenske železnice Group companies have no other transactions with the members of their management and supervisory bodies.

Earnings of the Management Board during the 2019 financial year – Slovenske železnice Group

(in EUR)

Name and surname/ company	Position	Fixed remuneration – gross	Variable remuneration – gross		Total	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 to 6)	
Controlling company Slovenske železnice, d. o. o.											
Dušan Mes	Director General	113,878	8,685	5,790	14,475	0	0	10,283	0	138,636	61,502
Tomaž Kraškovic	Member of the Management Board (Director)	108,524	8,251	5,500	13,751	0	0	3,117	0	125,392	63,666
Nina Avbelj Lekič	Workers' Director	109,645	7,233	4,822	12,055	0	0	4,706	0	126,406	61,259
Total		332,047	24,169	16,112	40,281	0	0	18,106	0	390,434	186,427
SŽ-Tovorni promet, d. o. o.											
Melita Rozman Dacar	Director	105,740	0	0	0	0	0	5,632	0	111,372	56,993
Drago Savič	Workers' Director	82,758	0	0	0	0	0	2,851	0	85,609	44,352
Total		188,498	0	0	0	0	0	8,483	0	196,981	101,345
SI Cargo Logistic, d. o. o., Beograd											
Dragan Grujić	Director	50,803	0	0	0	0	0	0	0	50,803	38,927
SŽ-Potniški promet, d. o. o.											
Boštjan Koren	Director (1 Jan to 30 Apr 2019)	32,477	0	0	0	0	0	1,781	0	34,258	17,298
Darja Kocjan	Director (1 May to 31 Dec 2019)	65,716	0	0	0	0	0	1,062	0	66,778	35,746
Remzija Cinac	Workers' Director	78,257	0	0	0	0	0	3,034	0	81,291	42,095
Total		176,450	0	0	0	0	0	5,877	0	182,327	95,139
SŽ-Infrastruktura, d. o. o.											
Matjaž Kranjc	Director	102,928	0	0	0	0	0	6,179	0	109,107	51,304
Matjaž Skutnik	Workers' Director	82,767	0	0	0	0	0	2,097	0	84,864	45,362
Total		185,695	0	0	0	0	0	8,276	0	193,971	96,666
SŽ-Vleka in tehnika, d. o. o.											
Dušan Žičkar	Director	103,156	0	0	0	0	0	8,087	0	111,243	50,708
Zdravko Skrbiš	Workers' Director	82,647	0	0	0	0	0	1,966	0	84,613	45,654
Total		185,803	0	0	0	0	0	10,053	0	195,856	96,362
SŽ-ŽIP storitve, d. o. o.											
Vojka Martinčič	Director	109,484	0	0	0	0	0	3,870	0	113,354	61,305
Vesna Ritlop	Workers' Director	78,242	0	0	0	0	0	2,309	0	80,551	42,470
Total		187,726	0	0	0	0	0	6,179	0	193,905	103,775
Fersped, d. o. o.											
Jožef Petrovič	Director	0	0	0	0	0	0	0	0	0	0
VV-LOG, d. o. o.											
Dean Peršič	Director	76,826	0	0	0	0	0	4,500	0	81,326	42,280
Daniel Tomljanovič	Director	74,647	0	0	0	0	0	4,966	0	79,613	39,933
Total		151,473	0	0	0	0	0	9,466	0	160,939	82,213
Prometni institut, d. o. o.											
Peter Verlič	Director	78,265	0	0	0	0	0	4,411	0	82,676	44,352
SŽ-Železniška tiskarna, d. d.											
Janez Brezovar	Director	74,342	0	0	0	0	0	98	0	74,440	43,019
SŽ-ŽGP, d. d.											
Tine Svoljšak	Director	102,897	0	0	0	0	0	2,214	0	105,111	53,539
Pavel Piškur	Workers' Director	82,933			0			0		82,933	44,488
Total		185,830	0	0	0	0	0	2,214	0	188,044	98,027
Kamnlom Verd, d. o. o.											
Matjaž Komprej	Director	74,783	0	0	0	0	0	3,132	0	77,915	40,413
SŽ ŽGP Podgorica, d. o. o.											
Veljko Flis	Director	9,063	0	0	0	0	0	0	0	9,063	6,072
Total:		1,880,777	24,169	16,112	40,281	0	0	76,296	0	1,997,354	1,032,737
Other employees on individual contracts		6,641,609	0	0	0	0	0	59,777	0	6,701,386	3,985,806

Earnings of the Management Board during the 2018 financial year – Slovenske železnice Group

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 to 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 Lekič	Workers' Director (21 Mar to 1 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
Total		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 Febr 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 Peršič	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 inštitut, d. o. o.										
Peter Verlič	Director	74,872	0	0	0	0	0	4,723	0	79,595
Total		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
Total		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
Kamnomol Verd, d. o. o.										
Matjaž Komprej	Director	72,796	0	0	0	0	0	4,045	0	76,841
Total		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		9,064	0	0	0	0	0	0	0	9,064
Other employees on individual contracts										
		6,067,559	0	0	0	0	0	56,451	0	6,124,010

Remuneration of Supervisory Board members in 2019

(in EUR)

Name and surname/company	Position	Gross annual wages for performance of position 1	Gross annual atten. fees for SB and committee meetings 2	Fringe benefits 3	Total (gross) (1 to 3)	Total (net)	Travel expenses
Slovenske železnice, d. o. o.							
Bojan Brank	Member and Chairman of the Supervisory Board, member of the HR committee	17,896	6,116	48	24,060	17,583	181
Mitja Križaj	Member of the Supervisory Board, member and chair of the audit committee (1 Jan to 11 Sep 2019)	9,874	3,861	36	13,771	10,050	96
Aleksander Nagode	Member and Deputy Chairman of the Supervisory Board, member of the audit committee	13,845	6,336	48	20,229	14,664	0
Jože Oberstar	Member of the Supervisory Board, member and chair of the HR committee (1 Jan to 11 Sep 2019)	9,874	3,465	36	13,375	10,021	453
Tanja Bolte	Member of Supervisory Board, member of the audit committee (12 Sep to 31 Dec 2019)	3,856	2,475	11	6,342	4,601	0
Igor Janez Zajec	Member of the Supervisory Board and member of the HR committee (12 Sep to 31 Dec 2019)	3,856	2,651	11	6,518	5,173	610
Aleksander Mervar	Member of the Supervisory Board, chair of the audit committee (12 Sep to 31 Dec 2019)	4,224	2,475	11	6,710	4,869	0
Adam Vengušt	Member of the Supervisory Board, chair of the HR committee (12 Sep to 31 Dec 2019)	4,224	2,651	11	6,886	5,365	506
Silvo Berdajs	Member and employee representative of the Supervisory Board, member of the audit committee (12 Sep to 31 Dec 2019)	3,856	2,475	11	6,342	4,601	0
Zlatko Ratej	Member and employee representative of the Supervisory Board, member of the audit committee (1 Jan to 11 Sep 2019), member of the HR committee (18 Sep to 31 Dec 2019)	12,832	6,512	48	19,392	14,056	0
Jože Pavšek	Member and employee representative of the Supervisory Board (1 Jan to 31 Dec 2019), member of the HR committee (1 Jan to 11 Sep 2019)	12,095	5,500	48	17,643	12,784	0
Barbara Nose	External member of the audit committee (1 Jan to 11 Sep 2019, 26 Sep to 31 Dec 2019)	7,919	2,156	0	10,075	7,328	0
Total		104,351	46,673	319	151,343	111,095	1,846
SŽ-Infrastruktura, d. o. o.							
Darja Kocjan	Member and Chairwoman of the Supervisory Board (1 Jan to 30 April 2019)	5,150	1,210	19	6,379	4,620	0
Matej Čepeljnik	Member and Deputy Chairman of the Supervisory Board (1 Jan to 30 April 2019), member and Chairman of the Supervisory Board (1 May to 31 Dec 2019)	13,596	4,015	48	17,659	12,796	0
Anita Goršek	Member of the Supervisory Board (7 June to 31 Dec 2019)	5,836	2,530	24	8,390	6,079	0
Silvo Berdajs	Member and employee representative of the Supervisory Board (9 Jan to 31 Dec 2019)	10,079	4,015	43	14,137	10,238	0
Total		34,661	11,770	134	46,565	33,733	0
SŽ-ŽGP Ljubljana, d. d.							
Gorazd Podbevšek	Chairman of the Supervisory Board and member of the audit committee	18,025	2,200	48	20,273	14,697	0
Dušan Mes	Member and Deputy Chairman of the Supervisory Board, member and chair of the audit committee	15,192	2,695	48	17,935	12,997	0
Silvo Berdajs	Member and employee representative of the Supervisory Board, member of the audit committee (29 Jan to 31 Dec 2019)	11,906	2,695	41	14,642	10,608	0
Stanislav Debeljak	Member and employee representative of the Supervisory Board, member of the audit committee (1 Jan to 29 Jan 2019)	1,004	0	7	1,011	728	0
Marjeta Mlinar	External member of the audit committee	5,150	440	0	5,590	4,065	0
Total		51,277	8,030	144	59,451	43,095	0
SŽ-Železniška tiskarna Ljubljana, d. d.							
Boštjan Koren	Chairman of the Supervisory Board	0	215	47	262	144	0
Martina Resnik	Member and Deputy Chairwoman of the Supervisory Board	0	162	47	209	105	0
Miran Parkelj	Member and employee representative of the Supervisory Board	0	162	47	209	105	0
Total		0	539	141	680	354	0
Total		190,289	67,012	738	258,039	188,277	1,846

Remuneration of Supervisory Board members in 2018

(in EUR)

Name and surname/company	Position	Gross annual wages for performance of position 1	Gross annual atten. fees for SB and committee meetings 2	Fringe benefits 3	Total (gross) (1 to 3)	Total (net)	Travel expenses
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 Jan to 11 Apr 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 Apr to 31 Dec 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 Jan to 11 Apr 2018)	2,890	495	44	3,429	2,450	0
Matjaž Hribar	Member and employee representative of the Supervisory Board (25 Apr to 31 Dec 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 Jan to 11 Apr 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 Apr to 31 Dec 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 Svoljšak	Chairman of the Supervisory Board (1 Jan to 8 Aug 2018)	0	195	44	239	130	0
Dušan Žičkar	Member of the Supervisory Board (1 Jan to 8 Aug 2018)	0	150	44	194	97	0
Pavel Piškur	Member and employee representative of the Supervisory Board (1 Jan to 8 Aug 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 Jan to 31 Aug 2018)	0	162	44	206	106	0
Martina Resnik	Member and Deputy Chairwoman of the Supervisory Board (1 Sep to 31 Dec 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

Companies of the Slovenske železnice Group

Transactions with subsidiaries are excluded from the financial statements of the Slovenske železnice Group during consolidation. Transactions with associates are presented below:

in EUR	Sales	Purchases
2019		
Adria kombi, d. o. o., Ljubljana	18,667,068	497,692
Terme Olimia, d. d.	12	210,037
CKTZ, d. d., Zagreb	209,530	67,722
Total	18,876,610	775,451
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

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. The Company did not transact directly with the Republic of Slovenia in 2019 and 2018, except in connection with ordinary transactions that 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	2019	2018
Public service obligation of the maintenance of the PRI	85,540,824	84,919,015
Public service obligation of traffic control	37,334,339	36,000,000
Performance of tasks as manager of the PRI	1,574,099	1,996,231
Management and maintenance of housing and buildings that are not part of the PRI	359,374	407,369
Total	124,808,636	123,322,615

Transactions are executed on the basis of an agreement on the provision of services by the public rail infrastructure manager for the period 2016–2020 and annex 6 to that agreement for the period 1 January 2019 to 31 December 2019.

Revenues from transactions between the government and the subsidiary SŽ-Potniški promet, d. o. o.

V EUR	2019	2018
Revenues from the discharge of the public service obligation provision of passenger transport	68,977,853	56,695,068

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 amendments to the aforementioned agreement concluded with the Slovenian government, and based on Annex 3 to the same agreement, the Company disclosed compensation of EUR 57,946,623 for services rendered in 2019 for the discharge of the PSO. Based on amendments to the aforementioned agreement, it also accrued EUR 11,031,230 in revenues through a development grant for the purchase of new rolling stock. 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	2019	2018
Provision of constructions services for:		
– Ministry of Infrastructure of the Republic of Slovenia	34,552,162	15,367,622
– Municipalities	0	126,604
Total	34,552,162	15,494,226

Transactions with associates of the owner

in EUR	31 December 2019	31 December 2018
Balance of current trade and other operating receivables	2,568,423	1,682,864
Balance of current trade and other operating liabilities	2,102,149	3,363,631

in EUR	2019	2018
Transport – receivables	12,441,020	25,482,894
Transport – liabilities	25,656,196	21,524,584

The disclosure of transactions with associates of the owner 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

Events after the accounting period within the Slovenske železnice Group were characterised by the COVID-19 epidemic and the adoption of the Act Determining Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy.

Immediately after receiving the first information regarding the rapid spread of COVID-19 in neighbouring Italy, the Slovenske železnice Group formed a special working group on 24 February. In cooperation with the competent national bodies, that working group implemented the necessary measures to reduce the probability of the infection of our employees who come into contact with passengers and goods from areas affected by the crisis and, of course, to protect the users of our services. Due to the timely organisation of work and addressing the need for protective equipment following the outbreak of the coronavirus epidemic in Europe and Slovenia, Slovenske železnice, d. o. o. was able to secure all necessary protective equipment for its employees and the users of its services.

We placed posters at railway stations, in passenger trains and in the business premises of Slovenske železnice Group companies with information regarding correct hand-washing and coughing hygiene. We purchased large quantities of disinfectants. We equipped passenger trains with basic hygiene packages (disinfectant, mask and gloves) for trains staff and passengers. All employees in the Slovenske železnice Group received protective masks.

As a socially responsible company, we provided other institutions in Slovenia with protective equipment when masks, gloves and disinfectants were not available anywhere on the market due to major shortages. We donated protective equipment to healthcare institutions (health centres, retirement homes and hospitals), to companies in the food industry (food processing), to government institutions and to other companies that required such equipment to protect their employees and ensure business continuity.

On 24 February 2020, we began the thorough disinfection of passenger cars arriving from Italy. After purchasing

sufficient quantities of disinfectants, we began disinfecting trains at all major stations throughout Slovenia on 5 March 2020. We acquired a new machine for disinfecting wagons during the second half of March.

On 16 March 2020, the Slovenian government issued a decree stopping all public rail transport in the country. The responsible departments drafted several sets of instructions and recommendations for employees regarding the performance of work processes, and regarding responsible behaviour at both work and home.

To further mitigate risks, we furloughed more than half (53%) of all Slovenske železnice Group employees on 16 March 2020. The highest proportions of employees ordered to work from home or furloughed were at SŽ-Potniški promet, d. o. o. (98%), Slovenske železnice, d. o. o. (85%) and SŽ-ŽIP, storitve, d. o. o. (79%). At the end of March, more than 3,850 employees had been furloughed.

Only those employees directly linked to the provision of urgent support services were present in the business premises of Slovenske železnice Group companies. Those ordered to work from home were provided access to the necessary IT systems and services. We optimised and adapted technological transport processes: the train timetable was amended; the capacities of shunter and wagon-keeper teams were reduced; and individual train shipments were only made in line with customer needs and for a larger number of wagons.

We are expecting a drop in freight transport due to the coronavirus pandemic, as important economic sectors (e.g. the car and steel industries) were gradually locked down on the Group's key markets (Czech Republic, Austria, Italy and France), where the transport of goods by rail is needed. Supply chains were interrupted, which caused a drop in traffic, despite the partial shift of goods transport from road to rail.

Based on results achieved to date and an assessment of the Slovenske železnice Group operations until the end of the year, we expect EBIT to be at least EUR 30 million lower than planned. For this reason, a revised business plan will be drafted. The reduced scope of work and

thus lower operating revenues will have the most significant impact on the operations of SŽ-Tovorni promet, d. o. o., SŽ-Potniški promet, d. o. o., SŽ-VIT, d. o. o., and SŽ-ŽIP, d. o. o.

The volume of freight transport transactions was down by between 10% and 15%, while container transport transactions were down by 40%.

The first effects on the supply chain were seen at the end of March, when we encountered numerous problems with the supply of materials for constructions projects at home and abroad. Obstacles were also encountered in the hiring of labour, as foreign citizens were subject to preventive quarantine and mandatory self-isolation when entering the country.

As the supplier of essential services in the area of passenger and freight transport by rail, we dedicated special attention to the area of cyber security. We reviewed the functioning of all established security mechanisms and analysed the state of information systems used in the provision of essential services, implemented general

measures to ensure the security of networks and the information security of systems, ensured business continuity and implemented measures to ensure the necessary capacities and security for work from home.

On account of the adoption of the above-described measures, the Slovenske železnice Group settled its liabilities to all stakeholders (suppliers, employees, banks, the state, etc.) without problems during the first five months of 2020, such that the liquidity of the Slovenske železnice Group was not at risk during that period. The Slovenske železnice Group does not anticipate a liquidity crunch during the second half of 2020, despite the expected reduction in cash flows from operating activities during that period, on account of the measures adopted by the Slovenian government under the Act Determining Emergency Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP) that will undoubtedly have a positive effect on the liquidity of the Slovenske železnice Group, and the raising of short-term credit lines at banks in the amount of EUR 60 million (see the section Financial risks within the Slovenske železnice Group in the financial report).

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 majority (77.17%) of the Slovenske železnice Group's loan portfolio comprises loans raised with a fixed interest rate based on an underlying agreement.

Finančni instrumenti in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
Financial receivables	67,868,507	103,596,874
Financial liabilities	156,854,351	-281,990,387
Net financial instruments	-88,985,844	-178,393,513

The following instruments are used to hedge exposure to interest rate risk:

- > primarily loans with a fixed interest rate; and
- > in part through current operations, by linking the interest rates on the Slovenske železnice Group's operating receivables to changes in the EURIBOR.

Balance of loan liabilities with a variable interest rate:

in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
Total loans (principal)	29,759,089	110,756,061

Balance of loan liabilities with a fixed interest rate:

in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
Total loans (principal)	100,593,750	13,250,000

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 339 thousand, depending on the direction of the change in the reference interest rate 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 139,048 in 2019 and EUR 61,576 in 2018).

for EUR 1	31 December 2019	31 December 2018
HRK	7,4485	7.4095
RSD	117.3800	118.4300
USD	1.1189	1.1450

31. december 2019

in EUR	EUR	CHF	HRK	RSD	USD	Total
Cash and cash equivalents	17,433,696		179,347	195,068		17,808,111
Current operating receivables (excluding receivables from the government)	63,170,273		1,684,001	227,274	6,973	65,088,521
Non-current operating receivables	243,496,628					243,496,628
Current financial receivables	6,715,601					6,715,601
Non-current financial receivables	61,152,906					61,152,906
Non-current operating liabilities (excluding other liabilities)	132,203,855					132,203,855
Current operating liabilities (excluding liabilities to the state and employees, and liabilities from advances)	34,705,499		875,760	6,901	19,525	35,607,685
Non-current financial liabilities	115,848,878					115,848,878
Current financial liabilities	11,254,229	29,751,244				41,005,473
Exposure in the statement of financial position	97,956,643	-29,751,244	987,588	415,441	-12,552	69,595,876
Nominal value of concluded forward transactions	-29,751,244	29,751,244				
Net exposure disclosed in the statement of financial position	68,205,399	0	987,588	415,441	-12,552	69,595,876

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 state 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	0	161,042	404,020	50,702	-55,561,414

A total of 77.18% of loans in the Slovenske železnice Group's credit portfolio are denominated in euros, while 22.82% 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 2019	Balance as at 31 December 2018
EUR	100,601,595	95,350,457
CHF	29,751,244	28,655,604
Total loans (principal)	130,352,839	124,006,061

Concluded FX forward contracts:

in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
NLB, d. d.	29,751,244	28,655,604

Concluded FX forward contracts by maturity:

Maturity in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
25 September 2020	29,751,244	28,655,604

Concluded FX forward contracts by fair value:

Fair value of FX forward transaction in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
NLB, d. d.	1,775,857	744,140

Expenses from foreign exchange differences

in EUR	2019	2018
Loan liabilities in CHF	1,095,640	1,060,321
Other operating liabilities	32,084	15,633
Total expenses from changes in exchange rates	1,127,724	1,075,954

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 2019, 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, which 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 60 million ensured that the liquidity of the Slovenske železnice Group was controlled and ensured in 2019, 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 borrowings received	95,885,417	102,080,392			35,939,009	66,141,383
Non-current lease liabilities	19,963,461	19,963,464			17,233,776	2,729,688
Other non-current operating liabilities	132,203,855	132,203,855			38,358,000	93,845,855
Current borrowings received	34,459,577	36,001,229	1,670,787	34,330,442		
Current lease liabilities	6,523,519	6,523,519	3,278,863	3,244,656		
Other current financial liabilities	22,377	22,377		22,377		
Current operating liabilities (excluding liabilities to the state and employees, and liabilities from advances)	35,607,685	35,607,685	35,607,685			
Balance as at 31 December 2019	324,665,891	332,402,521	40,557,335	37,597,475	91,530,785	162,716,926

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		
Current operating liabilities (excluding liabilities to the state 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

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 our partners has reduced 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 2019, 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 2019 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
	Non-past-due	Past-due				Total
		up to 30 days	31 to 90 days	91 to 365 days	more than 365 days	
31 December 2019	61,201,965	2,915,741	913,967	419,191	6,108,143	71,559,007
31 December 2018	45,635,532	4,181,046	1,023,452	1,201,512	7,011,222	59,052,764

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	2019	2018
Non-current financial liabilities	115,848,878	42,663,310
Current financial liabilities	41,005,473	239,327,077
Total financial liabilities	156,854,351	281,990,387
Total equity	541,144,769	356,023,566
Debt/equity	0.29	0.79
Cash and cash equivalents	17,808,111	181,522,305
Net financial liabilities	139,046,240	100,468,082
Net debt/equity	0.26	0.28

The debt-to-equity ratio was down sharply, 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 Slovenske železnice, d. o. o.'s capital were disclosed in current financial liabilities (EUR 154,255,500) as at 31 December 2018. 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 2019				
	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	2,093,464	2,093,464			2,093,464
Non-current financial receivables from the sale of receivables	40,152,258	40,152,258			40,152,258
Long-term deposits at banks	18,585,904	18,585,904			18,585,904
Other non-current financial assets	2,414,744	2,414,744			2,414,744
Current financial assets					
Financial instruments measured at fair value through profit or loss that are not quoted on a regulated market	1,775,857	1,775,857			1,775,857
Other current assets	4,939,744	4,939,744			4,939,744
Non-current financial liabilities					
Loans received	95,885,417	95,885,417			95,885,417
Lease liabilities	19,963,461	19,963,461			19,963,461
Current financial liabilities					
Loans received	34,459,577	34,459,577			34,459,577
Lease liabilities	6,523,519	6,523,519			6,523,519
Other financial liabilities	22,377	22,377			22,377

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

The Slovenske železnice Group did not record any transitions between fair value levels in 2019. 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 2019



Deloitte Revizija d. o. o.
Dunajska cesta 165
1000 Ljubljana
Slovenia
Tel.: +386 1 307 28 00
Fax: +386 1 307 29 00
www.deloitte.si

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 2019, 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 2019, 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 rules are described in this report in the section *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.

Emphasis of matter

Warning with respect to note 2.3.1.12 *Other current operating receivables* to the consolidated financial statements, which discloses receivables and the associated recognised revenues in the amount of EUR 29,996 thousand for benefits relating to the purchase of rolling stock. We stress that this was a one-off business event that had a material impact on the Group's financial statements and its operating results for the year ending 31 December 2019. Our opinion in connection with the matter in question is not adjusted.

Warning with respect to note 2.3.4 *Events after the accounting period* in the financial statements, which describes the potential impact of the coronavirus pandemic and the resulting expected recession on the Group's operations.

Other information

Management 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 and other persons responsible for 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 and for the application of the assumption of 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.

Governance bodies are responsible for control over the preparation of the financial statements 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 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 management.

Adopt a decision on the acceptability of management's application of the assumption of the Group as a going concern as an accounting basis, taking into account audit evidence obtained regarding the existence of significant uncertainties with regard to events or circumstances that raise doubts about the ability of the organisation to continue operating as a going concern. Should we adopt a decision on the existence of significant uncertainties, we are responsible for using the auditor's report as a vehicle to raise concerns regarding the appropriateness of disclosures in the consolidated financial statements, and for amending our opinion if those disclosures are inappropriate. The auditor's decisions are based on audit evidence obtained up to the date of issuance of the auditor's report. However, subsequent events or circumstances may cause an organisation to cease functioning as a going concern.

Assess the general presentation, structure and content of the consolidated financial statements, including disclosures, and assess whether the consolidated financial statements present transactions and events in such a way that a fair presentation is achieved.

Obtain sufficient and appropriate 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 governance bodies, *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
Ljubljana, 5 August 2020

*For signature please refer to the
original Slovenian version.*

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 2019	31 December 2018
ASSETS		738,444,035	759,530,774
A. Non-current assets		643,909,247	438,686,163
Intangible assets	6.6.1.1	9,924,514	9,547,492
Property, plant and equipment	6.6.1.2	21,598,337	15,607,125
Investment property	6.6.1.3	45,179,136	47,260,151
Investments in subsidiaries	6.6.1.4	426,810,333	272,554,833
Investments in associates	6.6.1.4	3,079,623	3,079,623
Other financial assets	6.6.1.4	2,090,491	2,090,592
Financial receivables	6.6.1.5	130,440,958	82,872,956
Operating receivables	6.6.1.6	3,933,591	3,811,552
Deferred tax assets	6.6.1.7	332,905	1,225,007
Other non-current assets		519,359	636,832
B. Current assets		94,534,788	320,844,611
Assets held for sale		66,136	112,459
Inventories		0	565
Financial receivables	6.6.1.8	55,712,615	160,376,513
Trade receivables	6.6.1.9	3,589,993	3,072,539
Other operating receivables	6.6.1.10	32,212,095	1,029,196
Cash and cash equivalents	6.6.1.11	2,953,949	156,253,339
EQUITY AND LIABILITIES		738,444,035	759,530,774
A. Equity	6.6.1.12	475,762,455	307,342,908
Called-up capital		359,529,921	205,274,421
Share premium account		45,002,140	45,002,140
Legal reserves		3,778,009	2,917,693
Other profit reserves		46,448,165	38,275,168
Fair value reserves		-420,530	-385,614
Retained earnings		21,424,750	16,259,100
1. Retained earnings from previous years		13,251,753	6,299,890
2. Undistributed retained earnings from the financial year		8,172,997	9,959,210
B. Non-current liabilities		142,533,267	87,722,531
Provisions for jubilee benefits and termination benefits	6.6.1.13	2,198,957	2,179,129
Non-current deferred income		1,773	2,528
Financial liabilities	6.6.1.14	136,443,500	80,469,673
Operating liabilities	6.6.1.15	3,889,037	5,071,201
C. Current liabilities		120,148,313	364,465,335
Financial liabilities	6.6.1.14	99,264,070	356,870,119
Trade payables	6.6.1.16	15,087,733	4,509,962
Other operating liabilities	6.6.1.15	4,149,751	3,085,254
Liabilities for corporate income tax		1,646,759	0

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	2019	2018
1. Net sales revenue	6.6.2.1	20,842,747	20,366,087
3. Capitalised own products and services		0	1,372,805
4. Other operating revenues (including revaluation operating revenues)	6.6.2.2	33,517,545	9,562,938
5. Costs of goods, materials and services	6.6.2.3	7,736,246	6,929,722
6. Labour costs	6.6.2.4	19,249,791	17,474,598
7. Write-downs	6.6.2.5	2,032,228	1,526,604
8. Other operating expenses	6.6.2.6	11,367,487	1,318,783
9. Operating profit or loss (1 ± 2 + 3 + 4 - 5 - 6 - 7 - 8)		13,974,540	4,052,123
10. Finance income	6.6.2.7	13,507,690	24,121,465
11. Finance costs	6.6.2.8	7,737,059	7,209,938
12. Net finance income/costs (11 - 12)		5,770,631	16,911,527
13. Pre-tax profit or loss (9 + 13)		19,745,171	20,963,650
14. Current tax		1,646,759	0
15. Deferred taxes	6.6.1.7	892,102	-3,108
16. Corporate income tax	6.6.2.9	2,538,861	-3,108
17. Net profit or loss for the accounting period		17,206,310	20,966,758

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	2019	2018
Net profit or loss for the accounting period		17,206,310	20,966,758
Items that will not be reclassified subsequently to profit or loss		-42,263	-43,961
Actuarial gains/losses		-42,263	-43,961
Other comprehensive income for the financial year		-42,263	-43,961
Total comprehensive income for the reporting period		17,164,047	20,922,797

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	2019	2018
A. CASH FLOWS FROM OPERATING ACTIVITIES			
a) Net profit or loss	1.2.	17,206,310	20,966,758
Pre-tax profit or loss		19,745,171	20,963,650
Corporate income tax and other taxes not included in operating expenses		2,538,861	-3,108
b) Adjustments for		-3,513,770	-23,840,961
Amortisation and depreciation (+)	6.6.2.5	1,766,847	1,449,056
Revaluation operating revenues (-)		-1,714,773	-1,641,623
Revaluation operating expenses (+)	6.6.2.5	265,381	77,548
Finance income, excluding finance income from operating receivables (-)	6.6.2.7	-13,492,306	-23,811,338
Finance costs, excluding finance costs from operating liabilities(+)	6.6.2.8	7,670,144	7,148,090
Revenues from the acquisition of superficies		0	-7,562,778
Reven. from the acq. of property, plant and equip. and invest. property free of charge		-534,781	0
Actuarial calculation of provisions for employee benefits		13,189	85,379
Tax expenses		2,538,861	461,001
Revenues from the reversal of other provisions		0	-19,000
Other adjustments to revenues and expenses		-26,332	-27,296
c) Changes in net working capital (and provisions and deferred tax assets and liabilities) from balance sheet operating items		-20,843,812	277,292
Opening less closing operating receivables		-31,692,679	4,392,141
Opening less closing inventories		565	-583
Closing less opening operating liabilities		10,918,561	-4,059,312
Closing less opening provisions		-70,259	-54,954
č) Prebitok izdatkov pri poslovanju (a + b + c + č + d)		-7,151,272	-2,596,911
B. CASH FLOWS FROM INVESTING ACTIVITIES			
a) Inflows from investing activities		384,532,576	275,465,206
Inflows from interest received and shares in the profit of others		11,163,132	21,482,139
Inflows from the disposal of property, plant and equipment	6.6.1.2	928,579	692,207
Inflows from the disposal of investment property	6.6.1.3	1,167,670	1,138,422
Inflows from the disposal of financial assets		371,273,195	252,152,438
b) Outflows from investing activities		-472,382,938	-227,652,653
Outflows for the acquisition of intangible assets	6.6.1.1	-1,466,192	-930,297
Outflows for the acquisition of property, plant and equipment	6.6.1.2	-3,255,266	-3,285,759
Outflows for the acquisition of investment property	6.6.1.3	-1,288,497	-233,551
Outflows for the acquisition of financial assets – increase in SŽ-PP's capital	6.6.1.4	-154,255,500	0
Outflows for the acquisition of financial assets		-312,117,483	-223,203,046
c) Net cash flows from investing activities (a + b)		-87,850,362	47,812,553
C. CASH FLOWS FROM FINANCING ACTIVITIES			
a) Inflows from financing activities		582,062,000	727,188,500
Inflows from the increase in financial liabilities for recapitalisation		0	154,255,500
Inflows from the increase in financial liabilities	6.6.1.14	582,062,000	572,933,000
b) Outflows from financing activities		-640,359,756	-637,348,123
Outflows for interest paid on leases		-12,822	0
Outflows for other interest paid		-6,964,945	-4,087,129
Outflows for the repayment of capital	6.6.1.14	-630,314,373	-630,260,994
Outflows for the repayment of lease liabilities	6.6.1.14	-67,616	0
Outflows for the payment of dividends and other shares in profit	6.6.1.12	-3,000,000	-3,000,000
c) Net cash flows from financing activities (a + b)		-58,297,756	89,840,377
Č. Closing balance of cash and cash equivalents	6.6.1.11	2,953,949	156,253,339
x) Net cash flow in period (sum of Ac, Bc and Cc)		-153,299,390	135,056,019
+/- Calculated exchange rate differences from foreign currency assets		0	0
y) Opening balance of cash and cash equivalents	6.6.1.11	156,253,339	21,197,320

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 2019

in EUR	Share capital	Share premium account	Legal reserves	Other profit reserves	Fair value reserves	Retained earnings		Total
						Retained earnings from previous years	Undist. ret. earnings from the financial year	
Opening 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
Changes in equity – transactions with owners	154,255,500	0	0	0	0	-3,000,000	0	151,255,500
Entry of additional paid-up capital (capital increase funded by the Slovenian government)	154,255,500							154,255,500
Payment of shares in profit						-3,000,000		-3,000,000
Changes in total comprehensive income for the reporting period	0	0	0	0	-34,916	-7,347	17,206,310	17,164,047
Entry of net profit or loss for the reporting period							17,206,310	17,206,310
Actuarial gains/losses					-34,916	-7,347		-42,263
Changes within equity	0	0	860,316	8,172,997	0	9,959,210	-18,992,523	0
Allocation of remaining portion of net profit for the comparable reporting period to other components of equity						9,959,210	-9,959,210	
Allocation of a portion of net profit from the reporting period to other components of equity pursuant to resolution of management and supervisory bodies			860,316	8,172,997			-9,033,313	
Closing balance for the reporting period	359,529,921	45,002,140	3,778,009	46,448,165	-420,530	13,251,753	8,172,997	475,762,455



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. ret. earnings from the financial 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	9,959,210	0	2,956,441	-13,963,989	0
Allocation of remaining portion of net profit for the comparable reporting period to other components of equity						2,956,441	-2,956,441	
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	
Closing balance for the 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

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 2019	31. december 2018
Mandatory use of net profit		
Net profit or loss	17,206,310	20,966,758
Creation of legal reserves	-860,316	-1,048,339
Net profit or loss following mandatory use	16,345,994	19,918,419
Creation of other profit reserves	-8,172,997	-9,959,210
Determination of distributable profit		
Net profit or loss	8,172,997	9,959,210
Retained earnings from previous years	13,251,753	6,299,890
Distributable profit	21,424,750	16,259,100

Pursuant to the resolution of Slovenske železnice, d. o. o.'s Management Board of 24 July 2020, a portion of the Company's net profit for 2019 in the amount of EUR 860,315.48 was used for the creation of legal reserves, while a portion in the amount of EUR 8,172,997.05 was used for the creation of other profit reserves. A portion of net profit in the amount of EUR 8,172,997.06 remains undistributed. On 24 July 2020, the Management Board of Slovenske železnice, d. o. o. adopted a resolution under which distributable profit in the amount of EUR 21,424,750.28 as at 31 December 2019 remains 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	Other intangible assets in acquisition	Non-current deferred development costs	Total
Historical cost				
Balance as at 1 January 2018	4,609,870	0	129,683	4,739,553
Acquisitions	9,197,840	0	0	9,197,840
Write-downs	-215,562	0	0	-215,562
Balance as at 31 December 2018	13,592,148	0	129,683	13,721,831
Balance as at 1 January 2019	13,592,148	0	129,683	13,721,831
Acquisitions	962,428	46,114	0	1,008,542
Write-downs	-13,540	0	0	-13,540
Balance as at 31 December 2019	14,541,036	46,114	129,683	14,716,833
Value adjustment				
Balance as at 1 January 2018	3,769,678	0	129,683	3,899,361
Write-downs	-215,562	0	0	-215,562
Amortisation	490,540	0	0	490,540
Balance as at 31 December 2018	4,044,656	0	129,683	4,174,338
Balance as at 1 January 2019	4,044,656	0	129,683	4,174,338
Write-downs	-13,540	0	0	-13,540
Amortisation	631,520	0	0	631,520
Balance as at 31 December 2019	4,662,636	0	129,683	4,792,319
Carrying amount				
Carrying amount as at 1 January 2018	840,192	0	0	840,192
Carrying amount as at 31 December 2018	9,547,492	0	0	9,547,492
Carrying amount as at 1 January 2019	9,547,492	0	0	9,547,492
Carrying amount as at 31 December 2019	9,878,400	46,114	0	9,924,514

The Company had no commitments for the acquisition of intangible assets as at 31 December 2018 and 31 December 2019, nor had the Company pledged intangible assets as collateral.

A total of 25.6% of all intangible assets in use as at 31 December 2019 have been amortised in full (that proportion stood at 24.3% as at 31 December 2018). That proportion is calculated taking into account the historical cost of intangible assets.

6.6.1.2 Property, plant and equipment

in EUR	31 December 2019	31 December 2018
Land	4,501,663	1,920,598
Buildings	6,353,935	6,217,503
Equipment	2,336,250	2,223,773
Property, plant and equipment in acquisition	7,852,259	5,245,251
Right-of-use assets	554,230	0
Total	21,598,337	15,607,125

Changes in property, plant and equipment

in EUR	Land	Buildings	Plant and equipment, and investments in the assets of others	Property, plant and equipment in acquisition	Total Property, plant and equipment
Historical cost					
Balance as at 1 January 2018	1,920,711	18,965,436	9,377,468	2,934,210	33,197,825
Acquisitions	0	103,934	797,858	2,311,041	3,212,833
Disposals	-113	-792,225	-386,858	0	-1,179,197
Transfers iz fin. najema	0	0	0	0	0
Balance as at 31 December 2018	1,920,598	18,277,145	9,788,468	5,245,251	35,231,461
Leases MSRP 16		487,440	58,338	0	545,778
Balance as at 1 January 2019	1,920,598	18,764,585	9,846,806	5,245,251	35,777,239
Acquisitions	0	565,039	746,226	2,607,009	3,918,274
Disposals	-91,607	-403,711	-208,897	0	-704,215
Transfers from investments	2,672,672	0	0	0	2,672,672
Balance as at 31 December 2019	4,501,664	18,925,913	10,384,135	7,852,260	41,663,971
Value adjustment					
Balance as at 1 January 2018	0	12,309,334	7,464,923	0	19,774,256
Increases	0	0	19,783	0	19,783
Decreases	0	-477,699	-403,329	0	-881,029
Amortisation	0	228,007	483,318	0	711,325
Balance as at 31 December 2018	0	12,059,642	7,564,694	0	19,624,336
Balance as at 1 January 2019	0	12,059,642	7,564,694	0	19,624,336
Increases	0	0	61,528	0	61,528
Decreases	0	-301,650	-204,392	0	-506,042
Amortisation	0	318,095	567,716	0	885,810
Balance as at 31 December 2019	0	12,076,087	7,989,546	0	20,065,633
Carrying amount					
Balance as at 1 January 2018	1,920,711	6,656,102	1,912,545	2,934,210	13,423,568
Balance as at 31 December 2018	1,920,598	6,217,503	2,223,774	5,245,251	15,607,125
Balance as at 1 January 2019	1,920,598	6,704,943	2,282,112	5,245,251	16,152,903
Balance as at 31 December 2019	4,501,664	6,849,827	2,394,589	7,852,260	21,598,337

The Company's moveable property and real estate were not pledged as guarantees for long-term loans as at 31 December 2019, nor at 31 December 2018.

The Company had commitments for the purchase of property, plant and equipment in the amount of EUR 1,426,241 as at 31 December 2019 (EUR 1,462,294 as at 31 December 2018).

A total of 38.6% of all items of property, plant and equipment in use as at 31 December 2019 have been depreciated in full (that proportion stood at 39.7% as at 31 December 2018). That proportion is calculated taking into account the historical cost of property, plant and equipment.

Changes in leases

in EUR	Land	Buildings	Plant and equipment	Total
Historical cost				
Balance as at 31 December 2018	0	0	0	0
Right-of-use assets	0	487,440	58,338	545,778
Balance as at 1 January 2019	0	487,440	58,338	545,778
Increases	0	8,452	0.00	8,452
Balance as at 31 December 2019	0	495,892	58,338	554,230
Value adjustment				
Balance as at 1 January 2019	0	0.00	0.00	0
Depreciation	0	49,322	24,070	73,392
Balance as at 31 December 2019	0	49,322	24,070	73,392
Carrying amount				
Balance as at 1 January 2019	0	487,440	58,338	545,778
Balance as at 31 December 2019	0	446,570	34,268	480,838

6.6.1.3 Investment property

in EUR	31 December 2019	31 December 2018
Investment property	45,179,136	47,260,151
Total	45,179,136	47,260,151

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 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
Balance as at 1 January 2019	39,346,334	17,263,959	56,610,293
Acquisitions	0	1,240,131	1,240,131
Disposals	-179,226	-457,035	-636,262
Transfers for sale	-4,513	0	-4,513
Transfers from property, plant and equipment	-2,672,672	0	-2,672,672
Balance as at 31 December 2019	36,489,923	18,047,055	54,536,977
Value adjustment			
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
Balance as at 1 January 2019	0	9,350,142	9,350,142
Depreciation	0	249,516	249,516
Disposals	0	-241,817	-241,817
Balance as at 31 December 2019	0	9,357,842	9,357,842
Carrying amount			
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
Balance as at 1 January 2019	39,346,334	7,913,817	47,260,151
Balance as at 31 December 2019	36,489,923	8,689,213	45,179,136

The Company has not pledged investment property as collateral.

Slovenske železnice, d. o. o. generated rental income of EUR 1,519,831 in 2019 (EUR 1,638,323 in 2018). Depreciation costs associated with investment property totalled EUR 249,516 (EUR 247,191 in 2018).

A total of 22.6% of all investment property in use as at 31 December 2019 has been depreciated in full (23.8% as at 31 December 2018). 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 89,497,289 as at 31 December 2019 (EUR 82,612,881 as at 31 December 2018).

6.6.1.4 Non-current financial assets

in EUR	31 December 2019	31 December 2018
Investments in subsidiaries	426,810,333	272,554,833
Investments in associates	3,079,623	3,079,623
Other financial assets	2,090,491	2,090,592
Total	431,980,447	277,725,048

The Company had no non-current financial assets pledged as guarantees for long-term loans as at 31 December 2019, nor at 31 December 2018.

Changes in non-current financial assets

in EUR	Investments in subsidiaries	Investments in associates	Other financial assets
Balance as at 1 January 2018			
Court-brokered settlement – sale of participating interest	272,754,779	5,609,252	4,136,653
Balance as at 31 December 2018	0	0	-2,026,583
Balance as at 1 January 2019	272,754,779	5,609,252	2,110,070
Recapitalisation of SŽ-Potniški promet, d. o. o.	272,754,779	5,609,252	2,110,070
Sale of shares in Telemach	154,255,500	0	0
Balance as at 31 December 2019	0	0	-101
Value adjustment	427,010,279	5,609,252	2,109,969
Balance as at 1 January 2018			
Balance as at 31 December 2018	199,946	2,529,629	19,478
Balance as at 1 January 2019	199,946	2,529,629	19,478
Balance as at 31 December 2019	199,946	2,529,629	19,478
Carrying amount	199,946	2,529,629	19,478
Balance as at 1 January 2018			
Balance as at 31 December 2018	272,554,833	3,079,623	4,117,175
Balance as at 1 January 2019	272,554,833	3,079,623	2,090,592
Balance as at 31 December 2019	272,554,833	3,079,623	2,090,592
Balance as at 31 December 2019	426,810,333	3,079,623	2,090,491

Participating interests in subsidiaries

in EUR	Partic.interest*	Share capital*	Carrying amnt. of partic. interest		Profit or loss for the year	
	31 December 2019	31 December 2019	31 December 2019	31 December 2018	2019	2018
SŽ-Tovorni promet, d. o. o.	100%	36,860,942	61,615,541	61,615,541	4,801,645	8,721,069
SŽ-Potniški promet, d. o. o.	100%	285,939,661	288,087,658	133,832,158	14,555,935	9,939,381
SŽ-Infrastruktura, d. o. o.	100%	15,828,186	17,411,005	17,411,005	2,685,811	3,256,092
SŽ-Vleka in tehnika, d. o. o.	100%	26,068,145	41,718,205	41,718,205	0	20,453
Prometni institut Ljubljana, d. o. o.	100%	162,328	338,846	338,846	207,194	243,112
SŽ-ŽIP, storitve, d. o. o.	100%	6,072,597	4,782,426	4,782,426	0	0
Fersped, d. o. o.	100%	3,138,557	8,940,000	8,940,000	1,652,702	1,880,278
SŽ-ŽGP Ljubljana, d. d.	79.82%	3,152,412	3,388,034	3,388,034	3,155,480	1,608,559
SŽ-Železniška tiskarna Ljubljana, d. d.	64.28%	265,160	528,618	528,618	-58,426	11,174
Total			426,810,333	272,554,833	27,000,341	25,680,118

* The share capital of SŽ-Potniški promet, d. o. o. changed in 2019 due to an increase in capital in the amount of EUR 154,255,500; ownership stakes were unchanged.

Information regarding associates as at 31 December 2019

Business name of associate	Business address of associate	Activity	Ownership 31 December 2019	Ownership 31 December 2018
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 2019	31 December 2018	2019	2018
Terme Olimia, d. d.	37,663,292	35,765,444	3,078,495	2,336,087
Adria Kombi, d. o. o., Ljubljana	12,199,131	11,297,912	1,878,730	1,382,365
Total investments in associates	49,862,423	47,063,356	4,957,225	3,718,452

Balance of investments in associates

in EUR	31 December 2019	31 December 2018
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	Value of investment	
	31 December 2019	31 December 2019	31 December 2018
EUROFIMA	0.42%	2,033,709	2,033,709
HIT RAIL		54,439	54,439
Other shares and participating interests		2,343	2,444
Total		2,090,491	2,090,592

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 2019 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 2019	31 December 2018
Non-current financial receivables from Group companies	87,885,417	40,249,354
Other non-current financial receivables	42,555,541	42,623,602
Total	130,440,958	82,872,956

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 primarily 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 40,152,258 and fall due for payment in 2021 (EUR 40,220,319 as at 31 December 2018).

Changes in non-current financial receivables

in EUR	31 December 2019	31 December 2018
Balance as at 1 January	82,872,956	113,446,859
Increases	82,114,840	146,048,971
Transferred to current portion	-34,478,777	-176,100,523
Reduction for discounts	-68,061	-522,351
Balance as at 31 January	130,440,958	82,872,956

6.6.1.6 Non-current financial receivables

in EUR	31 December 2019	31 December 2018
Non-current operating receivables from Group companies	346,981	412,601
Other non-current operating receivables	3,586,610	3,398,951
Total	3,933,591	3,811,552

Other non-current operating receivables comprise loans granted for the purchase of housing and other real estate in the amount of EUR 3,586,610 (EUR 3,357,368 as at 31 December 2018).

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 2019	31 December 2018
Deferred tax assets	332,905	1,225,007

in EUR	Tax loss	Provisions	Tax allowances for investments	Total
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
Balance as at 1 January 2019	717,332	343,825	163,850	1,225,007
Credited/debited to operating results	-717,332	-10,920	-163,850	-892,102
Balance as at 31 December 2019	0	332,905	0	332,905

Deferred tax assets that were recognised in previous years for non-deductible expenses from provisions, tax losses and unutilised allowances for investments were partially or fully reversed in 2019 because tax relief for uncovered tax losses and investments was utilised in full in the income tax return for 2019.

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 2018	3,775,433	1,809,605	862,368	6,447,406
Balance as at 31 December 2019	0	332,905	0	332,905

6.6.1.8 Current financial receivables

in EUR	31 December 2019	31 December 2018
Financial receivables from subsidiaries	53,936,577	100,105,173
Financial instruments measured at fair value through profit or loss	1,775,857	744,140
Financial receivables from others	181	59,527,200
Total	55,712,615	160,376,513

Changes in current financial receivables

in EUR	31 December 2019	31 December 2018
Balance as at 1 January	160,376,513	25,722,242
Increases	266,881,724	386,797,709
Decreases	371,545,622	252,143,438
Balance as at 31 December	55,712,615	160,376,513

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 19,477,000 (EUR 16,372,000 as at 31 December 2018), and from the transfer of the current portion of long-term loans that mature in 2020 in the amount of EUR 34,459,577 (EUR 83,733,173 as at 31 December 2018).

Financial instruments measured at fair value through profit or loss comprise FX swap instruments in the amount of EUR 1,775,857.

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 2019	31 December 2018
Current receivables from Group companies	3,331,341	2,750,094
Current trade receivables from domestic customers	248,319	298,040
Current trade receivables from foreign customers	10,333	24,405
Total	3,589,993	3,072,539

in EUR	Gross value as at 31 December 2019	Value adjustment as at 31 December 2019	Net value as at 31 December 2019	Net value as at 31 December 2018
Current receivables from Group companies	3,331,341	0	3,331,341	2,750,094
Current trade receivables from domestic customers	332,074	83,755	248,319	298,041
Current trade receivables from foreign customers	10,333	0	10,333	24,404
Total	3,673,748	83,755	3,589,993	3,072,539

Net adjustments to the value of current trade receivables were created as follows:

in EUR	2019	2018
Balance as at 1 January	108,886	129,973
Reduction for written-off receivables	-12,653	-43,075
Reversal of value adjustments	-12,478	-13,721
Creation of value adjustments	0	35,709
Balance as at 31 December	83,755	108,886

Maturity breakdown of receivables:

in EUR	31 December 2019	31 December 2018
Non-past-due receivables	3,401,326	2,888,684
Past-due receivables	272,422	292,741
– up to 30 days	100,666	96,968
– 31 to 90 days	92,403	68,653
– 91 to 365 days	8,258	55,765
– more than 365 days	71,095	71,355
Total	3,673,748	3,181,425

6.6.1.10 Other current operating receivables

in EUR	31 December 2019	31 December 2018
Receivables from government and other institutions	1,367,993	308,496
Receivables from employees	364,911	274,003
Current operating receivables based on advances	0	1,186
Other current operating receivables	26,823	29,611
Receivables based on the agreement on the transfer of the benefits of negotiations in connection with the purchase of new rolling stock	29,996,400	0
Deferred costs	358,062	397,501
Accrued income	97,906	18,399
Total	32,212,095	1,029,196

An explanation of receivables based on the agreement on the transfer of the benefits of negotiations in connection with the purchase of new rolling stock is given in note 2.3.1.12.

Write-offs and impairments of current operating receivables in 2019 are disclosed in operating expenses in the amount of EUR 708 (EUR 43,004 in 2018).

6.6.1.11 Cash and cash equivalents

in EUR	31 December 2019	31 December 2018
Cash on hand	355	1,978
Cash on bank accounts	2,953,594	156,251,361
Total	2,953,949	156,253,339

6.6.1.12 Equity

in EUR	31 December 2019	31 December 2018
Called-up capital	359,529,921	205,274,421
Share premium account	45,002,140	45,002,140
Legal reserves	3,778,009	2,917,693
Other profit reserves	46,448,165	38,275,168
Fair value reserves	-420,530	-385,614
Retained earnings from previous years	13,251,753	6,299,890
Undistributed retained earnings from the financial year	8,172,997	9,959,210
Total	475,762,455	307,342,908

Gibanje kapitala	in EUR
Balance as at 1 January 2018	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
Net profit for the financial year	17,206,310
Capital increase (contribution of Slovenian government)	154,255,500
Payment of shares in profit	-3,000,000
Actuarial gains and losses	-42,263
Balance as at 31 December 2019	475,762,455

6.6.1.13 Provisions and non-current deferred income

in EUR	31 December 2019	31 December 2018
Provisions for jubilee benefits and termination benefits	2,198,957	2,179,129
Non-current deferred income	1,773	2,528
Total	2,200,730	2,181,657

A total of seven legal proceedings in the total amount of EUR 463,382.58 (labour, civil and economic disputes) were in progress against Slovenske železnice, d. o. o. during 2019. Three of those proceedings were completed. 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.

Changes in provisions for jubilee benefits and termination benefits

in EUR	odpravnine	jubilejne nagrade	total
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
Balance as at 1 January 2019	2,007,632	171,497	2,179,129
Used	-38,849	-30,655	-69,504
Current employment costs	78,999	30,119	109,118
Interest (expenses)	31,414	2,467	33,881
Reversal of provisions – closure, rights, etc. (revenues)	-95,930	0	-95,930
Actuarial gains/losses	42,263	0	42,263
Balance as at 31 December 2019	2,025,529	173,428	2,198,957

The following material assumptions were taken into account in the calculation of provisions for termination benefits at retirement and jubilee benefits:

	2019	2018
Average monthly gross wage in Slovenia	1,760 EUR	1,680 EUR
Discount rate	1.58%	1.81%
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 2019	31 December 2018
Non-current financial liabilities to Group companies from the sale of receivables	40,152,258	40,220,319
Non-current financial liabilities to domestic banks	95,885,417	11,593,750
Other non-current financial liabilities – EUROFIMA	0	28,655,604
Non-current financial liabilities from leases	405,825	0
Total non-current financial liabilities	136,443,500	80,469,673
Current financial liabilities to Group companies	64,674,000	58,699,303
Current financial liabilities from leases	80,789	0
Current financial liabilities to Group companies from the sale of receivables	0	59,527,200
Current financial liabilities to domestic banks	4,708,333	9,733,173
Current financial liabilities from the payment of capital until entry in the companies register	0	154,255,500
Liabilities to banks arising from the fair value of derivatives	0	429,968
Other current financial liabilities to domestic entities	49,704	224,974
Other current financial liabilities to foreign entities (EUROFIMA)	29,751,244	74,000,000
Total current financial liabilities	99,264,070	356,870,119
Total	235,707,570	437,339,792

Changes in financial liabilities

in EUR	31 December 2019	31 December 2018
Non-current financial liabilities do družb v skupini		
Opening balance	40,220,319	0
Entry into force of IFRS 16	162,462	0
Balance as at 1 January	40,382,781	0
– increases	4,980	131,738,650
– decreases	-92,357	-91,518,331
Balance as at 31 December	40,295,404	40,220,319
Non-current financial liabilities to banks in do drugih		
Opening balance	40,249,354	0
Entry into force of IFRS 16	302,878	0
Balance as at 1 January	40,552,232	109,672,206
– increases	90,131,134	14,310,321
– decreases	-34,535,270	-83,733,173
Balance as at 31 December	96,148,096	40,249,354
Total non-current financial liabilities	136,443,500	80,469,673
Current financial liabilities do družb v skupini		
Opening balance	118,226,503	0
Entry into force of IFRS 16	24,240	0
Balance as at 1 January	118,250,743	87,068,878
– increases	250,729,528	399,904,455
– decreases	-304,246,521	-368,746,830
Balance as at 31 December	64,733,750	118,226,503
Current financial liabilities to banks in do drugih		
Opening balance	238,643,615	0
Entry into force of IFRS 16	56,198	0
Balance as at 1 January	238,699,814	11,970,804
– increases	278,636,543	491,141,074
– decreases	-482,806,037	-264,468,263
Balance as at 31 December	34,530,320	238,643,615
Total current financial liabilities	99,264,070	356,870,119
Total	235,707,570	437,339,792

in EUR	2019	2018
Balance as at 1 January	437,339,792	208,711,889
Inflows from loans raised	582,062,000	572,933,000
Inflows for the recapitalisation of Slovenske železnice, d. o. o.	0	154,255,500
Outflows from loans raised	-630,314,373	-630,260,994
Outflows for the repayment of lease liabilities	-67,616	0
Liabilities to SŽ-Potniški promet, d. o. o. – sale of receivables to SID banka	-68,061	131,216,299
Transfer of liabilities – increase in share capital of Slovenske železnice, d. o. o.	-154,255,500	0
Recognition of lease liabilities	554,230	0
Changes in liabilities from financial instruments	-429,968	-550,979
Changes in liabilities for interest	-208,574	-25,244
Exchange rate differences	1,095,640	1,060,321
Balance as at 31 December	235,707,570	437,339,792

Changes in lease liabilities

in EUR	Total
Balance as at 31 December 2018	0
Balance as at 1 January 2019	545,778
Increases	8,452
Decrease	0
Payments	-80,438
Interest	12,822
Balance as at 31 December 2019	486,614

In accordance with the relevant agreements, the Company discloses liabilities for assets under lease, calculated in accordance with IFRS 16, in this item. Primarily commercial premises (lease term of 10 years) and equipment (lease term of 3 to 4 years) are under lease.

Non-current financial liabilities

in EUR	Date of agreement or annex	Date of maturity	Balance as at 31 December 2019	Collateral
– Liabilities from the sale of receivables	12 June 2018	30 June 2021	40,152,258	
– Financing of rolling stock purchases (SŽ-Tovorni promet)	5 April 2018	6 December 2024	9,385,417	Deposit, vehicles pledged as collateral
– Financing of measures to optimise business processes	23 December 2019	31 December 2023	15,000,000	Bills of exchange
– Refinancing of liabilities to EUROFIMA – purchase of 20 locomotives	5 September 2019	5 September 2029	71,500,000	Bills of exchange
– Non-current lease liabilities			405,825	
Total			136,443,500	

Non-current financial liabilities to Group companies comprise liabilities arising from 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.

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.

6.6.1.15 Operating liabilities

in EUR	31 December 2019	31 December 2018
Non-current liabilities	3,889,037	5,071,201
Liabilities to Group companies	3,884,815	5,065,309
Other operating liabilities	4,222	5,892
Current liabilities	4,149,751	3,085,254
Liabilities for advances received	151,265	35,350
Liabilities to employees	2,222,914	1,472,276
Liabilities to the state and government institutions	648,926	557,984
Liabilities to others	426,729	281,516
Deferred income	52,843	138,014
Accrued costs and expenses	647,075	600,114
Total	8,038,788	8,156,455

Non-current operating liabilities

Non-current liabilities to Group companies in the amount of EUR 3,855,647 (EUR 5,029,432 in 2018) 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 3,408,221 (EUR 4,445,797 as at 31 December 2018) and to SŽ-Potniški promet, d. o. o. in the amount of EUR 447,426 (EUR 583,635 as at 31 December 2018). 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 40/2012 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 2019 by accrued interest in the amount of EUR 50,547 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 falls due for payment in 2020.

Current operating liabilities

Accrued costs and expenses primarily comprise the accrued costs of unused annual leave in the amount of EUR 537,508 (EUR 563,839 as at 31 December 2018).

Trade payables

in EUR	31 December 2019	31 December 2018
Liabilities to Group companies	13,931,312	3,481,154
Domestic trade payables	1,153,856	1,020,982
Foreign trade payables	2,565	7,826
Total	15,087,733	4,509,962

in EUR	31 December 2019	31 December 2018
Non-past-due liabilities	15,083,469	4,381,987
Past-due liabilities	4,264	127,975
– up to 30 days	4,264	126,259
– 31 to 90 days	0	0
– od 91 do 365dni	0	1,716
– more than 365 days	0	0
Total	15,087,733	4,509,962

Contingent receivables and contingent liabilities

in EUR	31 December 2019	31 December 2018
Mortgages and liens received	2,889,228	3,178,937
Bank guarantees received	357,779	677,118
Merchandise on consignment	205	205
Total contingent receivables	3,247,212	3,856,260
Liabilities for merchandise on consignment	205	205
Contingent liabilities for lawsuits	463,383	326,362
Total contingent liabilities	463,588	326,567

6.6.2 Notes to the statement of profit or loss

6.6.2.1 Sales revenues

in EUR	2019	2018
Revenues on the domestic market	20,751,953	20,275,532
Services and products	20,751,953	20,275,381
services and products in connection with Group companies	19,442,270	18,922,737
services and products in connection with others	1,309,683	1,352,644
Merchandise and materials	0	151
Merchandise and materials in connection with Group companies	0	151
Revenues on the foreign market	90,794	90,555
Services and products	90,794	90,555
services and products in connection with Group companies	90,330	90,330
services and products in connection with others	464	225
Total	20,842,747	20,366,087

Sales revenue primarily comprises revenues from transactions with Group companies. A total of 83% of those revenues are accounted for by 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 16,219,361 (similar to the amount recorded in 2018).

6.6.2.2 Other operating revenues

in EUR	2019	2018
Income based on the agreement on the transfer of the benefits of negotiations in connection with the purchase of new rolling stock at SŽ-Potniški promet, d. o. o. (see note 2.3.1.12)	29,996,400	0
Gains on the sale of property, plant and equipment	1,714,494	1,615,072
Reimbursement of the costs of termination benefits for rehired employees under agreements on the reassignment of workers within the Slovenske železnice Group	922,101	0
Handover of building and acquisition of superficies based on the court settlement with Emonika NS, d. o. o.	503,660	7,562,778
Revenues from the reimbursement of the court fees	134,150	0
Compensation	45,901	189,022
Other revenues	200,839	196,066
Total	33,517,545	9,562,938

6.6.2.3 Costs of goods, materials and services

in EUR	2019	2018
Historical cost of goods and materials sold and costs of materials used	97,298	107,904
Energy costs	170,662	169,122
Other material costs	42,143	44,753
Total cost of goods and materials sold and cost of materials used	310,103	321,779
Transport services	218,640	203,824
Maintenance services	1,782,116	1,731,806
Reimbursement of employee expenses	277,818	333,527
Payment transaction and banking services	130,313	323,956
Intellectual and personal services	1,545,129	1,071,971
Insurance premiums	119,071	114,536
Advertising, publicity and representation	1,477,059	952,407
Costs of other services	1,875,997	1,875,916
– membership fees for international organisations and other associations	345,391	340,247
– municipal services	216,008	183,980
– services associated with contracted work	214,899	212,172
– property surveillance services	183,790	220,852
– cleaning of premises and outside areas	196,306	195,530
– costs of providing ancillary administrative and technical services (SŽ-ŽIP, d. o. o.)	126,042	133,957
– rental costs	34,753	115,535
– of which: low-value leases	13,285	0
– costs of labour of officials on the works councils of companies linked through capital investments	79,066	72,617
– other	479,742	401,026
Total costs of services	7,426,143	6,607,943
Total	7,736,246	6,929,722

Costs of auditor

in EUR	2019	2018
Auditing of the annual report	18,100	12,000
Total	18,100	12,000

6.6.2.4 Labour costs

in EUR	2019	2018
Costs of wages and salaries	13,133,824	13,306,821
Pension insurance costs	1,477,088	1,392,804
Other social security costs	1,045,882	975,715
Other labour costs:	3,592,997	1,799,258
– reimbursements	1,024,602	1,040,140
– annual leave allowance	563,545	529,752
– termination benefits	1,857,837	64,135
– provisions for jubilee benefits and termination benefits (actuarial calculation)	109,118	121,689
– other labour costs	37,895	43,542
Total	19,249,791	17,474,598

6.6.2.5 Write-downs

in EUR	2019	2018
Amortisation of intangible assets and depreciation of property, plant and equipment	1,693,455	1,449,056
Depreciation of right-of-use assets	73,392	0
Operating expenses for intangible assets and property, plant and equipment	261,697	34,526
Operating expenses for working capital	3,684	43,022
Total	2,032,228	1,526,604

6.6.2.6 Other operating expenses

in EUR	2019	2018
Coverage of the annual losses of SŽ-VIT, d. o. o. and SŽ-ŽIP, d. o. o. for 2019 (resolution)	5,598,345	803,529
Reimbursement of SŽ-Tovorni promet, d. o. o. for unplanned costs for commercial success and termination benefits in the scope of the redundant worker programme in 2019	5,027,650	0
Donations (for sporting, cultural and humanitarian activities)	235,749	187,951
Fees for the use of building land, and other taxes and levies	280,105	173,530
Scholarships and awards for pupils and students on compulsory job training	40,450	49,649
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	80,453	76,057
Other expenses	104,735	28,067
Total	11,367,487	1,318,783

6.6.2.7 Finance income

in EUR	2019	2018
Finance income from participating interests in Group companies	4,539,135	18,139,868
Finance income from participating interests in associates	581,472	303,408
Finance income from participating interests in other companies	43,406	4,047
Finance income from other investments	1,165,052	744,140
Total finance income from participating interests	6,329,065	19,191,463
Finance income from loans to Group companies	7,101,778	4,562,378
Finance income from loans to others	61,464	57,497
Total finance income from loans granted	7,163,242	4,619,875
Finance income from operating receivables from Group companies	1,265	1,797
Finance income from other operating receivables	14,118	308,330
Total finance income from operating receivables	15,383	310,127
Total	13,507,690	24,121,465

Finance income from participating interests comprises:

- > income from participation in the profit of subsidiaries, associates and other companies in the amount of EUR 5,164,013 (EUR 18,447,323 in 2018); and
- > income from a currency option for the purchase and sale of foreign currencies (derivatives) in the amount of EUR 1,165,052 (EUR 744,140 in 2018).

Finance income from loans granted primarily comprises income from relationships within the Group and relate to the following in terms of content:

- > income from the conversion of a loan denominated in a foreign currency (exchange rate differences) in the amount of EUR 1,095,640 (EUR 1,060,321 in 2018);
- > interest on loans charged to Group companies in the amount of EUR 1,466,462 (EUR 922,533 in 2018);
- > income from a discount on the non-current portion of receivables as at 31 December 2019 that fall due for payment in 2021 in the amount of EUR 4,386,911 (EUR 522,351 in 2018) 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 as the recipients of those claims; and
- > bank fees for the organisation and management of the purchase of receivables in the amount of EUR 152,765 (EUR 376,743 in 2018).

6.6.2.8 Finance costs

in EUR	2019	2018
Finance costs from impairments and write-downs of financial assets at other companies	0	2,017,583
Finance costs from loans from Group companies	427,626	497,475
Finance costs from bank loans	1,211,636	878,337
Finance costs from leases	8,428	0
Finance costs from other financial liabilities	6,022,454	3,754,695
Total finance costs from financial liabilities	7,670,144	5,130,507
Finance costs from operating liabilities to Group companies	50,593	57,122
Finance costs from trade payables and liabilities from bills of exchange	684	2,432
Finance costs from other operating liabilities	15,638	2,294
Total finance costs from operating liabilities	66,915	61,848
Total	7,737,059	7,209,938

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 427,626 (EUR 497,475 in 2018); and
- > expenses vis-a-vis banks and others, which in terms of content comprise:
 - > expenses from the revaluation of financial liabilities (exchange rate differences) in the amount of EUR 1,095,640 (EUR 1,060,321 in 2018);
 - > interest on loans from banks in the amount of EUR 1,211,636 (EUR 878,337 in 2018) and from EUROFIMA in the amount of EUR 505,783 (EUR 338,151 in 2018),
 - > expenses from a discount on the assignment of claims for consideration in the amount of EUR 4,386,911 (based on the agreement of 12 June 2018 between Slovenske železnice, d. o. o. and SŽ-Potniški promet, d. o. o. and two banks as the recipients of those claims),
 - > interest as the result of an actuarial calculation in the amount of EUR 33,881 (EUR 36,930 in 2018);
 - > interest on leases in the amount of EUR 8,428 (EUR 0 in 2018); and
 - > expenses in connection with interest rate swaps (IFI) in the amount of EUR 239 (EUR 116,504 in 2018).

6.6.2.9 Corporate income tax

in EUR	2019	2018
Current tax	1,646,759	0
Deferred tax	892,102	-3,108
Total taxes	2,538,861	-3,108
Pre-tax profit	19,745,171	20,963,650
Tax calculated at effective tax rate	3,751,582	3,983,094
Tax from decrease in revenues	-1,002,274	-3,515,371
Tax from decrease in expenses	157,642	145,775
Tax from increase in expenses	-12,642	-15,460
Tax from increase in tax base	50,963	175,501
Tax from tax allowances	-1,298,512	-773,538
Total taxes	2,538,861	-3,108
Effective tax rate	12.86	0.001

The valid corporate income tax rate was 19% in Slovenia in 2019 and 2018.

6.6.3 Transactions with related parties

The table below presents transactions with Group companies and associates:

2019 in EUR	Sales	Purchases	Loans received	Loans granted
SŽ-Tovorni promet, d. o. o.	5,902,411	6,312,775	124,615,038	112,599,485
SŽ-Potniški promet, d. o. o.	9,198,043	204,835	26,896,712	58,588,697
SŽ-Infrastruktura, d. o. o.	9,369,754	416,613	72,236,497	55,780,103
SŽ-VIT Ljubljana, d. o. o.	4,419,598	469,965	1,996	100,888,726
SŽ-ŽIP, Storitve, d. o. o.	847,498	1,841,370	2,871,169	17,235,220
SŽ-ŽGP Ljubljana, d. d.	954,776	332,071	12,711,576	6,068,298
Prometni institut Ljubljana, d. o. o.	155,211	92,895	545,438	214,096
SŽ-Železniška tiskarna Ljubljana, d. d.	9,832	35,327	82,967	1,299
Fersped, d. o. o.	119,983	6,039	6,808,860	3,069,098
VV-LOG, d. o. o.	40,409	34,817	5,140,203	7,703
Kamnolom Verd, d. o. o.	2,647	0	0	62
SŽ-ŽIP, d. o. o., HR	90,893	8,806	0	0
Group companies	31,111,055	9,755,513	251,910,456	354,452,786
Terme Olimia, d. d.	0	12,924	0	0
Associates	0	12,924	0	0
Total associates	31,111,055	9,768,437	251,910,456	354,452,786

Leto 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., HR	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

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 2019	31 December 2018
Balance of current trade and other operating receivables	2,203	3,399
Balance of current trade and other operating liabilities	67,317	17,422

in EUR	2019	2018
Revenues	135,908	26,491
Expenses (costs)	2,093,271	240,721

The disclosure of transactions with associates of the owner 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

Events after the accounting period within Slovenske železnice, d. o. o. were characterised by the COVID-19 epidemic and the adoption of the Act Determining Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (see note 2.3.4 in the financial report of the Slovenske železnice Group).

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. The majority (77.18%) of Slovenske železnice, d. o. o.'s loan portfolio comprises loans raised with a fixed interest rate based on an underlying agreement.

Financial instruments in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
Financial receivables	186,153,573	243,249,469
Financial liabilities	-235,707,570	-437,339,792
Neto Net financial instruments instrumenti	-49,553,997	-194,090,323

Financial receivables in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
Financial receivables from Group companies	141,821,994	140,354,527
Financial receivables from others	44,331,579	102,894,942
Total financial receivables	186,153,573	243,249,469

Financial liabilities in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
Financial liabilities to Group companies	104,826,258	98,919,622
Liabilities to banks from credit transactions (principal) interest rate	130,344,994	123,982,527
Liabilities arising from interest rate swaps	0	429,968
Other financial liabilities	536,318	214,007,675
Total financial liabilities	235,707,570	437,339,792

The following instruments are used to hedge exposure to interest rate risk:

- > loans with a fixed interest rate; and
- > in part through current operations, by linking the interest rates on Slovenske železnice, d. o. o.'s operating receivables to changes in the EURIBOR.

Balance of loan liabilities (principal) with a fixed interest rate:

in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
Total loans (principal)	100,593,750	13,250,000

Balance of loan liabilities (principal) with a variable interest rate:

in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
Total loans (principal)	29,751,244	110,732,527

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 298 thousand, depending on the direction of the change in the reference interest rate and under the assumption that exchange rates (in particular the CHF/EUR 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. The Company thus has almost no exposure to currency risk in normal operations, except to some extent in financing.

A total of 77.18% of loans in Slovenske železnice, d. o. o.'s credit portfolio are denominated in euros, while 22.82% of loans are denominated in Swiss francs. The Company hedges against the currency risks associated with the latter using a FX forward transaction.

As at (in EUR)		Trade receivables	Loan liabilities (current and non-current – principal)	Trade payables
31 December 2019	EUR	3,667,291	100,593,750	15,087,448
	CHF		29,751,244	
	HRK	6,457		
31 December 2018	EUR	3,173,426	95,326,923	4,509,937
	CHF	0	28,655,604	0
	HRK	7,999	0	25

Concluded FX forward contracts:

in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
NLB, d. d.	29,751,244	27,595,283

Concluded FX forward contracts by maturity:

Maturity in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
25. 9. 2020	29,751,244	27,595,283

Concluded FX forward contracts by fair value:

Fair value FX Forward: in EUR	Balance as at 31 December 2019	Balance as at 31 December 2018
NLB, d. d.	1,775,857	744,140

Total effects of exchange differences on trade receivables and trade payables:

in EUR	leto 2019	leto 2018
Loan liabilities in CHF	-1,095,640	-1,060,321
Ostale poslovne terjatve in obveznosti	-3,981	-875
Total expenses from changes in exchange rates	-1,099,621	-1,061,196

It is evident from the data in the table that nearly 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 2019, 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 the liquidity and solvency of both the Group and Slovenske železnice, d. o. o. That policy was applied 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, which 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 availability and securing of the necessary short-term credit lines in the amount of EUR 60 million, which are regularly rolled over, ensured that the liquidity of the Slovenske železnice Group was controlled and ensured in 2019, 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	Liabilities	0 to 6 months	Contractual cash flows		
				6 to 12 months	From 1 to 3 years	More than 3 years
Non-current borrowings received	95,885,417	102,080,392			35,939,009	66,141,383
Non-current liabilities within the Group	44,037,073	45,049,586			45,049,586	
Non-current lease liabilities	405,825	405,825			242,367	163,458
Current borrowings received	34,459,577	36,001,229	1,670,787	34,330,442		
Current financial liabilities within the Group	64,674,000	65,385,414	65,385,414			
Current lease liabilities	80,789	80,789	40,394	40,395		
Other current financial liabilities	49,704	49,704	49,704			
Current operating liabilities (excluding liabilities to the state and employees, and liabilities from advances)	15,087,733	15,087,733	15,087,733			
Balance as at 31 December 2019	254,680,118	264,140,672	82,234,032	34,370,837	81,230,962	66,304,841

in EUR	Carrying amount of liabilities	Liabilities	0 to 6 months	Contractual cash flows		
				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 state 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

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 our partners has reduced credit risk, which was 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 risks.

Credit risks were appropriately managed in 2019, 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 2019 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 Company'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	Non-past-due	Past-due				
		up to 30 days	31 to 90 days	91 to 365 days	more than 365 days	
31 December 2019	3,401,326	100,666	92,403	8,258	71,095	3,673,748
31 December 2018	2,888,684	96,968	68,653	55,765	71,355	3,181,425



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 in part reflected in stable dividends.

in EUR	2019	2018
Non-current financial liabilities	136,443,500	80,469,673
Current financial liabilities	99,264,070	356,870,119
Total financial liabilities	235,707,570	437,339,792
Total equity	475,762,455	307,342,908
Debt/equity	0.50	1.42
Cash and cash equivalents	2,953,949	156,253,339
Net financial liabilities	232,753,621	281,086,453
Net debt/equity	0.49	0.91

The debt-to-equity ratio was down sharply, 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 Slovenske železnice, d. o. o.'s capital were disclosed in current financial liabilities (EUR 154,255,500) as at 31 December 2018. 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 2019				
	Carrying amount	Fair value	1st level	2nd level	3rd level
Non-current financial assets					
Non-current financial receivables from Group companies	87,885,417	87,885,417			87,885,417
Investments in shares and participating interests measured at fair value through profit or loss that are not quoted on a regulated market	2,090,491	2,090,491			2,090,491
Non-current financial receivables from the sale of receivables	40,152,258	40,152,258			40,152,258
Other non-current financial assets	2,403,283	2,403,283			2,403,283
Current financial assets					
Current financial receivables from Group companies	53,936,577	53,936,577			53,936,577
Financial instruments measured at fair value through profit or loss that are not quoted on a regulated market	1,775,857	1,775,857			1,775,857
Other current assets	181	181			181
Non-current financial liabilities					
Non-current financial liabilities to Group companies	40,152,258	40,152,258			40,152,258
Liabilities from loans	95,885,417	95,885,417			95,885,417
Lease liabilities	405,825	405,825			405,825
Current financial liabilities					
Current financial liabilities to Group companies	64,674,000	64,674,000			64,674,000
Liabilities from loans	34,459,577	34,459,577			34,459,577
Lease liabilities	80,789	80,789			80,789
Other financial liabilities	49,704	49,704			49,704

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

Slovenske železnice, d. o. o. did not record any transitions between fair value levels in 2019. 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 2019



Deloitte Revizija d. o. o.
Dunajska cesta 165
1000 Ljubljana
Slovenia
Tel.: +386 1 3072 800
Fax: +386 1 3072 900
www.deloitte.si

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 2019, 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 2019, 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 this report in the paragraph *Auditor's responsibilities for the auditing of the financial statements*. In accordance with the Code of Ethics for Accounting Professionals issued by the International Ethics Standards 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.

Emphasis of matter

Warning with respect to note 2.3.1.12 Other current operating receivables to the consolidated financial statements, which discloses receivables and the associated recognised revenues in the amount of EUR 29,996 thousand for benefits relating to the purchase of rolling stock. We stress that this was a one-off business event that had a material impact on the Company's financial statements and its operating results for the year ending 31 December 2019. Our opinion in connection with the matter in question is not adjusted.

Warning with respect to note 6.6.4 *Events after the accounting period* in the financial statements, which describes the potential impact of the coronavirus pandemic and the resulting expected recession on the Company's operations.

Other information

Management 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 audited 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 and other persons responsible for 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 and for the application of the assumption of 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.

Governance bodies are responsible for control over the preparation of the financial statements 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 an 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 management.

- > Adopt a decision on the acceptability of management'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 governance bodies, *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
Ljubljana, 5 August 2020

*For signature please refer to the
original Slovenian version.*

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DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

TRANSLATION ONLY - SLOVENIAN ORIGINAL PREVAILS

Annual Report
Slovenske železnice, d. o. o. and Slovenske železnice Group
for 2019

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