Hit Group
Annual Report
2011

hit
universe of fun

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1 STATEMENT BY THE MANAGEMENT BOARD PRESIDENT

Two successful thirds behind us, the most difficult one ahead

Also behind us is 2011, the second of three years in a carefully thought-out and designed business restructuring. Now the objective remains the same: consolidation of Hit which in 2009 found itself in a very dangerous situation. Numerous employees, as well as business partners and others, who would be dragged down should Hit go under and hurt the entire region, reacted defensively. Ultimate responsibility for the existence of Hit was then assumed by the new management team appointed in August 2009. The management immediately started to seek ways out of the difficult situation. We approached this task responsibly and seriously and at the same time optimistically, armed with expertise and ready to respond quickly. We prepared a strategy for 2010-2012, which, together with a corresponding action plan and revisions, represents the basis of Hit and its Group stabilisation and restructuring.

The first and second years of business restructuring are behind us. The results of operations are good, in certain cases even significantly better than expected. However, we are well aware that we may not allow ourselves to be lulled by the success of which we are very proud. In hockey language, the final third is ahead of us which will confirm or deny the success of the first and second ones. Given the recent very dangerous developments in the market, we will have to be even more consistent and careful, as well as innovative and committed to our common objectives.

The 2011 business year brought about the expected positive turnabout in business. Yet we must never be satisfied, otherwise we might well stagnate and wither away. For this reason we designed a new strategy up to 2020, with a special emphasis on the period up to 2014. It has become obvious that in order not merely to survive, but to develop further, we have to come out with something completely new in Slovenia and Europe. At year-end we presented a preliminary study for a new tourist complex of Hit which will boost our expertise, as well as our creativity and ambitions. It will also contribute to Slovenia's tourist sector development.

The 2012 business year will be exceptionally demanding. We will improve our relationship with social partners, but above all adopt new measures to protect us against increasing competition and pave the way for new customers from more distant places. It would be an illusion to expect that we can avoid the effects of the deep economic crisis, which means that we will have to be inventive, committed and trust each other. One of the greatest challenges, however, remains our ability to convince our owners that we need state aid in order to develop further, as well as more appropriate legal and fiscal frameworks. In order to succeed, we will present to them the unique opportunities that the new Hit tourist complex could bring about for the development of Slovenian tourism.

We will pay a lot of attention, as we have done so far, to further improving the quality of our services and upgrading of our knowledge, which have traditionally been our trademarks. After the success of capital investments in 2011, we will continue investing in projects with the shortest pay-back periods. We will implement a new, modern salary system to ensure that employees get rewarded justly. This is a precondition for a motivated workforce that is the driver of success in any service industry.

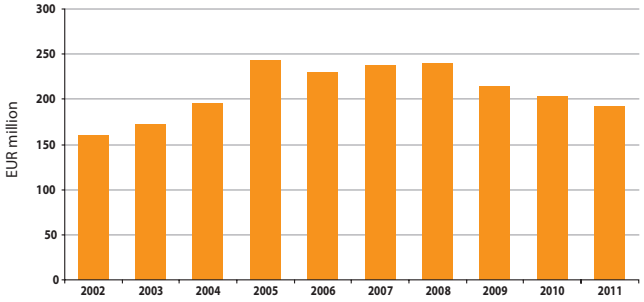
We are thinking and looking far ahead, ready for a new turnabout in our business model: at the end of this decade, we will be offering games of chance in order to be able to offer attractive, modern and profitable gaming, gaming-related and non-gaming entertainment. I am convinced that we have every chance of succeeding.

Dr. Drago Podobnik
Management Board President

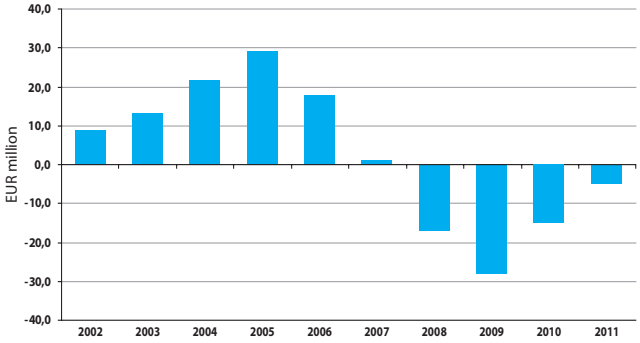
Hit Group in 2011

- EUR 221.2 million in gross operating revenues including gaming tax
- EUR 193.4 million in gross operating revenues
- EUR 3.1 million in operating profit
- EUR 5.7 million in net losses of the Hit Group
- EUR 4.5 million in net losses of the majority owner
- EUR 184.3 million in gross gaming revenues and casino entrance fees (including gaming tax and output VAT respectively)
- 1.9 million casino visits
- 507.5 thousand overnight stays
- 2,479 employees as at year-end 2011
- a negative 4.9-percent return on capital

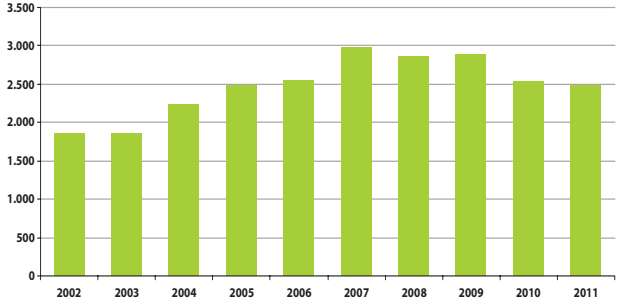
Gross operating revenues



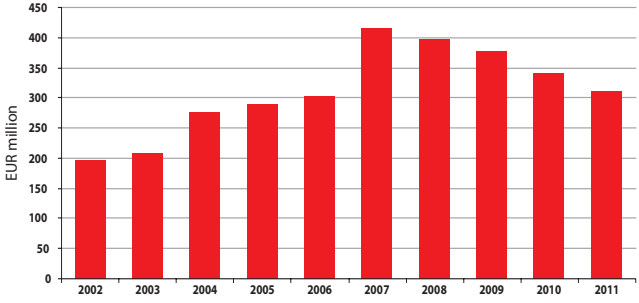
Net profit



Employees as at 31 December



Total assets as at 31 December




Open Air Cinema

1. 1 Hit Company Profile

1. 1. 1 Establishment

Establishment of Hit was recorded in the register kept by the Nova Gorica District Court under no. 1/00224/00 on 9 October 1990.

The limited liability company (d.o.o.) later underwent an ownership transformation and became a company limited by shares (d.d.) Transformation was entered in the Nova Gorica District Court register pursuant to decision Srg 98/00076 on 9 February 1998. The transformation was carried out in accordance with the Ownership Transformation of Companies with Socially-Owned Capital Organising Special Games of Chance and Capital Structure of Companies Organising Special Games of Chance Act (Official Gazette of the RS, no. 40/97, hereinafter ZLPPOD). Hit prepared an opening balance sheet as at 18 June 1994 in accordance with ZLPPOD, and determined the nominal value of its share capital at SIT 6,788,634,000 (EUR 28,328,467.70). It then issued two classes of shares as follows: 4,073,180 ordinary shares that were not freely transferable and represented 60 percent of its share capital, and 2,715,454 participating preferred shares that were freely transferable and represented 40 percent of its share capital. The nominal value of shares was SIT 1,000 (EUR 4.17).

As its shares are not listed, Hit is not obliged to comply with the Corporate Governance Code applying to companies limited by shares in the Republic of Slovenia, but nevertheless adheres to its provisions as much as possible.

Other Company Information As Entered In The Court Register:

Company name: HIT hoteli, igralnice, turizem d.d. Nova Gorica
Abbreviated name: Hit d. d. Nova Gorica
Registered office: Delpinova 7a, SI - 5000 Nova Gorica, Slovenia
Company ID no.: 5232058
Share capital: EUR 28,328,467.70
Founders: Republic of Slovenia, entry: 2 September 1997, capital contributed: EUR 28,328,467.70

Representatives:

Dr. Drago Podobnik, Management Board President	authorisation start date: 1 August 2009
Mag. Stojan Pliberšek, Management Board Member	authorisation start date: 1 August 2009
Uroš Kravos, Management Board Member	authorisation start date: 1 October 2009
Marjan Zahar, Management Board Member	authorisation start date: 30 May 2011

Supervisory Board composition:

Gorazd Podbevšek, Chairman	mandate start date: 25 August 2010
Tomislav Malnarič, Member	mandate start date: 5 March 2009
Karlo Korče, Member	mandate start date: 24 June 2010
Sergej Čujec, Member	mandate start date: 21 December 2010
Andrej Cetinski, Member	mandate start date: 3 May 2011
Marino Furlan, Member	mandate start date: 3 May 2011
Andrej Miška, Member	mandate start (end) date: 25 March 2009 (3 May 2011)

The financial statements for the year ended 31 December 2011 were audited by the company Deloitte revizija, d. o. o., Ljubljana, which expressed an unqualified opinion on these statements on 26 April 2012.

1. 1. 2 Share Capital And Ownership Structure

Share capital of Hit (SIT 6,788,634 thousand) was determined based on the opening balance sheet as at 18 June 1994, as explained above. Following the changeover to the euro, share capital in an amount of EUR 28,328,467.70 was entered in the court register on 6 March 2007. It is divided into 6,788,634 no-par shares, of which:

- 4,073,180 (60 percent) are ordinary registered shares of no par value that are not freely transferable, and
- 2,715,454 (40 percent) are participating preferred shares of no par value that are non-voting and are freely transferable.

Compared to 2010, the ownership structure changed as the Nova Gorica City Municipality and the Renče-Vogrsko Municipality decided to divide property. The share of the Nova Gorica City Municipality fell from 15.06 percent to 13.26 percent, and the Renče-Vogrsko Municipality became a shareholder with 1.8 percent.

All shares are fully paid up.

Ordinary shares confer the following rights:

- the right to participate in company management,
- the right to participate in company profits,
- the right to participate in company assets remaining after its liquidation or bankruptcy.

Ordinary shares are transferable subject to prior consent of the Ministry of Finance in accordance with Article 56 of the Gaming Act (official consolidated text 3 published in the Official Gazette of the RS, no. 14/2011). Transfers take effect only upon entry in the share register of Hit kept by the Central Securities Clearing Corporation in accordance with regulations governing dematerialised securities. Participating preferred shares do not confer the right to company management. Their owners have the right to participate in company profits (based on a resolution adopted by the general meeting of shareholders) and company assets remaining after its liquidation or bankruptcy, as well as the right to a dividend fixed at 1 percent of company book value per share. Preferred shares are freely transferable.

Hit's ownership structure

	31 December 2011		31 December 2010	
Shareholder	Shares (number)	Equity stake (percent)	Shares (number)	Equity stake (percent)
Slovenska odškodninska družba d.d.	1,357,727	20.00	1,357,727	20.00
Kapitalska družba d.d.	1,357,727	20.00	1,357,727	20.00
Nova Gorica municipality	900,309	15.06	1,022,614	15.06
Šempeter-Vrtojba municipality	183,726	2.71	183,726	2.71
Renče - Vogrsko municipality	122,305	1.80		
Kranjska Gora municipality	131,699	1.94	131,699	1.94
Rogaška Slatina municipality	11,541	0.17	11,541	0.17
Novo mesto municipality	8,146	0.12	8,146	0.12
Total ordinary shares	**4,073,180**	**60.00**	**4,073,180**	**60.00**
Various legal persons	2,715,454	40.00	2,715,454	40.00
Total preferred shares	**2,715,454**	**40.00**	**2,715,454**	**40.00**

1. 1. 3 Governance Bodies

The governance bodies of Hit are its management and supervisory boards, and the general meeting of shareholders. The management board, which runs the company, is composed of the president and three members, one of whom is the employee representative. Excepting the last one, all members and the president are appointed and recalled by the supervisory board. The supervisory board is composed of six members: two are employee representatives elected by the workers' council, one is appointed by the government, while the remaining three are elected by the general meeting of shareholders. At year-end 2011, Gorazd Podbevšek was the Chairman of the Supervisory Board.

1. 1. 4 Main Activities, Concessions And Concession Duties

Hit's main activities are the following:

- organisation of special games of chance
- hotels
- restaurants and inns
- snack bars, sweet shops, coffee houses, canteens, bars
- activities of travel agents and tour operators, tourist assistance nec
- organisation of exhibitions, fairs and congresses
- operation of sports arenas and stadiums
- other recreational activities nec

In accordance with the Gaming Act (official consolidated text 3 published in the Official Gazette of the RS, no. 14/2011), games of chance may only be organised on the basis of a concession or licence granted by the competent body.

Hit obtained five concessions for organising special games of chance in casinos, and concluded relevant concession contracts for the period from 1 July 1999 to 30 June 2004. On 24 June 2004, the government adopted a resolution on their extension until 30 June 2009. On 24 June 2009, the Government adopted another resolution on extension until 30 June 2014 of the concessions granted for the following casinos:

- Casino Park, Nova Gorica,
- Casino Perla, Nova Gorica,
- Casino Korona, Kranjska Gora, and
- Casino Fontana, Rogaška Slatina.

Hit was also granted a concession for organising special games of chance in slots halls, namely for its Casino Drive-in (Vrtojba). The concession expires on 5 December 2015. Hit as concessionaire must calculate and pay the concession duty as laid down in the Gaming Tax Act (Official Gazette of the RS, no. 57/99) and the Gaming Act, separately for each concession granted. The basis for calculation is the amount paid in by players to participate at a certain special game of chance, as reduced by the winnings paid out to the players and revenues earned by the gaming establishment in the case of games played by players against each other. In the period 2004-2011, Hit accounted for and paid the concession duty at a rate of 5 percent, except for slot machines, in which case a progressive scale applied for casinos and a fixed rate of 20 percent applied for slots halls.

2 BUSINESS REPORT FOR THE HIT GROUP

2.1 Introduction

At year-end 2011, the Hit Group comprised the parent Hit company and nine subsidiaries. Five were established in Slovenia and four (one of them was dormant) in the area of the former Yugoslavia.

The parent Hit company concluded 2011 successfully, despite the fact that the economic conditions in its key market again became critical and that the competition increased and became even more aggressive. It consistently implemented measures aimed at gradually reversing the downward trend in revenues and at reducing costs as much as possible. After three years, it thus finally posted a profit. This represents a positive turnabout which occurred one year earlier than expected, as the 2011 strategy envisaged a loss, despite the positive effects of business restructuring. It has to be emphasised that had it not been for the impairment of certain past investments, the 2011 profit would have been even higher.

Hit Montenegro of Budva, Montenegro, posted a profit in 2011, but was not as successful as a year before due to the poorer results of gaming activity. This can be explained by a smaller number of strong players, significantly less gaming, additional competitors, high payouts and less Albanian players due to the critical political situation there. The company responded by adopting a more aggressive marketing approach in the existing and new markets trying above all to attract new customers, by enacting even closer cost monitoring and optimisation, and by introducing certain staff and organisational changes. In 2011, the company also significantly improved quality, which showed in the excellent results of the hotel activity.

Hit Coloseum of Sarajevo, Bosnia and Herzegovina, also posted a profit in 2011 despite the economic crisis. While having to face increasing competition, the company tried to consolidate its market position, many times encountering bureaucratic hurdles. It tried to neutralise the negative external impacts by adopting a more aggressive marketing approach and by revamping its slot machine range, which produced positive results. The number of customers from abroad increased and so did gaming revenues. Many of the measures adopted were aimed at optimising and rationalising operations.

Casino Kristal Umag of Umag, Croatia, did not achieve targets, but its performance improved significantly compared to 2010. The main reason for its underachievement was the drop in customer spending and visits, which is explained by the difficult economic conditions and the burgeoning competition in the primary market. To improve its performance, the company tried to optimise operations of slot machines and gaming tables, attract new customers, improve sales channels and rationalise operating costs.

Casino Kobarid of Most na Soči, Slovenia, did not achieve the expected results and eventually posted a loss. This is mainly attributable to the difficulties of the online casino and to the even deeper crisis in the primary Italian market. The company tried to mitigate the fall in revenues by revamping and relocating its gaming devices, and by actively marketing the online casino. To reduce operating costs, the company adopted certain measures as regards staff and work organisation. It also started to prepare projects aimed at improving its product and becoming more competitive.

Hit Šentilj of Šentilj v Slovenskih goricah, Slovenia, posted a loss in 2011 despite its great efforts. This is attributable to the drop in customer spending, the absence of the strongest players, and the drop in the number of gaming table players, which all resulted in less revenues earned. The company responded by adopting a more intensive marketing approach, by strengthening its co-operation with travel agents and tour operators, by offering a wider range of prize games, by improving its customer relationships, by renovating and modernising its gaming and F&B products, and by optimising work processes in order to reduce operating costs. The company underwent reorganisation and at year-end opened an expanded poker room and an open-air casino.

Hit Larix of Kranjska Gora, Slovenia, had a good year given the unfavourable economic conditions in its key market, and eventually posted a profit. Its revenues fell due to the drop in customer spending, but its profit was above that earned in 2010. This is attributable to the marketing activities, an individual customer approach and cost management. The company responded to the worsened situation in its neighbourhood also by offering new slot machines. The increased marketing activities were mainly implemented together with other companies from the Hit Group established in Kranjska Gora, from which synergy effects arose that affected positively both the revenue and cost sides of the income statement.

Hit Alpinea of Kranjska Gora, Slovenia, posted a loss in 2011 but still improved its financial results despite the difficult conditions. The number of hotel customers dropped, and those who came spent less and stayed fewer days. The number of one-day customers and event visitors also dropped, which is attributable to the economic crises. The company tried to mitigate all this by accelerating its marketing activities, improving service quality, and implementing certain organisational and staff changes, as well as by rationalising costs. It was also active as regards company business and financial restructuring to ensure a firm basis for its long-term stability. Less revenues were earned also due to winter school holidays no longer being staggered, and due to the 2011/2012 winter season beginning almost a month later than usually.

Hit Bovec of Bovec, Slovenia, posted a loss in 2011, which is explained by the difficult company-specific business conditions combined with the worsening country-wide economic conditions, unfavourable winter weather and winter school holidays no longer being staggered. Management tried to limit the drop in revenues by promoting the company in general, by offering attractive packages and prices, by searching for new sales channels and by constantly rationalising costs. The latter, together with the winter season beginning late, explains why the hotel was closed in both October and December.

Hit International of Belgrade, Serbia was dormant in 2011. It still earned some revenue but only on account of the disposal of certain securities, and interest and exchange rate differences earned. Early in 2011, the Serbian government withdrew its licence for organising special games of chance, as the company failed to start operations by 31 December 2010, a date set out in the concession agreement. The company is now suing the Serbian government as it is of the opinion that the government breached the concession contract first. In 2009, the government unilaterally changed the concession contract awarded to the company, worsening its position compared to other concessionaires.

In 2011, the Hit Group generated EUR 194.9 million of revenues and incurred EUR 199.8 million of expenses, thus producing a consolidated net loss of EUR 5.7 million. At year-end 2011, its assets amounted to EUR 304.8 million, and were financed by its own sources (capital and long-term provisions) in the amount of EUR 112.8 million. At year-end 2011, the Hit Group employed 2,479 persons, down by 2 percent compared to a year ago. Altogether, the Hit Group casinos and slots halls had 1,928 thousand visits or 2 percent less than in 2010. Less visits than in 2010 saw the casinos pertaining to the Hit company, but also Aurora (Kobarid), Larix (Kranjska Gora) and Kristal (Umag). The main reason for this was the drop in disposable income of customers from the Group's key markets where economic conditions worsened, and the increased and aggressive competition.

The Hit Group hotels recorded 507.5 thousand overnight stays or 6 percent (30 thousand) more than in 2010. This increase was seen by all Group hotels, and is attributable to the attractive and intensive sales and marketing activities, in the parent company also to the numerous international poker tournaments in the new poker room of the Perla gaming and entertainment centre. These attracted a lot of participants that stayed at Hit hotels and used other services as well. At year-end 2011, visitors to casinos or slots halls had the choice of 225 gaming tables (six more than a year ago) and 4,049 slot machines, while hotel guests had at their disposal 1,521 rooms (7 less) or 2,991 hotel beds (5 less).

2. 2 Games Of Chance

2. 2. 1 Gross Gaming Revenues

Gross revenues from games of chance and casino entrance fees (including gaming tax and output VAT respectively) amounted to EUR 184.3 million in 2011, down 2 percent from 2010. The sharpest decrease was recorded by the Maestral Casino affected by the growing competition. The economic crisis in its key markets also worsened, which put a financial strain on its best customers, forcing them to cut the number of visits and spending. Other Group casinos (Aurora, Kristal and Mond) and slots halls (Larix) also saw their gross gaming revenues decrease. The casinos belonging to the Hit company managed to maintain the level of gross gaming revenues achieved in 2010, while Coloseum Club managed to earn more due to a number of business restructuring measures.

The casinos and slots halls pertaining to the Hit company still accounted for as much as 76.4 percent (EUR 140.8 million) of gross gaming revenues earned by the Group. The subsidiaries established in Slovenia earned 12.3 percent (EUR 22.7 million), while those established abroad earned 11.3 percent (EUR 20.8 million).

Gross gaming revenues from gaming tables were EUR 60.1 million, down 6 percent from 2010, while those from slot machines were EUR 123,7 million, the same as a year ago. Other gross gaming revenues (from bingo and sports betting) and casino entrance fees were EUR 0.5 million, up 62 percent from 2010.

The structure of gross gaming revenues and casino entrance fees changed, as the contribution from slot machines increased by 1.4 percentage points compared to 2010. Slot machines contributed the most to total gross gaming revenues and casino entrance fees (67.1 percent), followed by gaming tables (32.6 percent) and other games and entrance fees (0.2 percent).

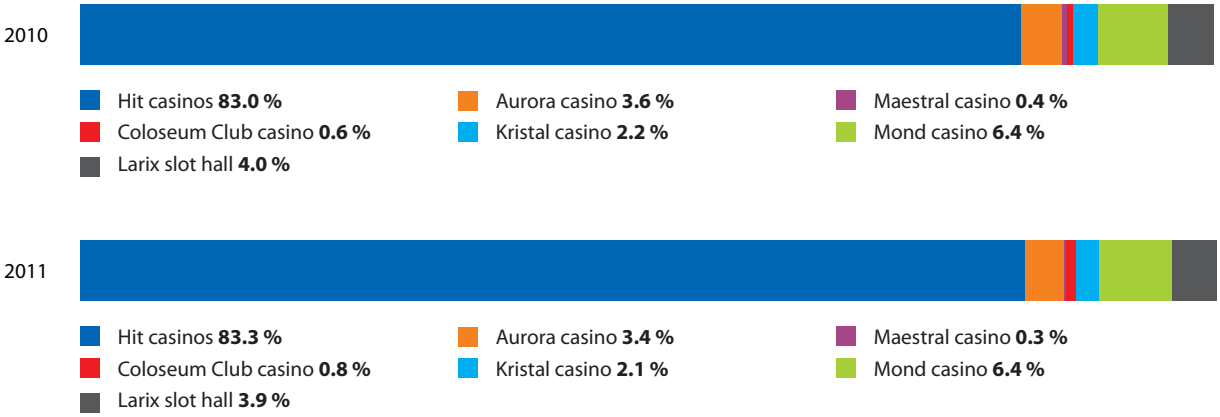
Gross gaming revenues by gaming establishment (million EUR)

	2011	Delež	2010	Index 11/10
Hit casinos	140.8	76.4 %	141.1	100
Aurora	5.9	3.2 %	6.3	94
Maestral	9.6	5.2 %	12.5	77
Coloseum Club	4.1	2.2 %	3.8	109
Kristal	7.1	3.8 %	7.6	93
Mond	11.5	6.3 %	11.9	96
Larix	5.2	2.8 %	5.4	97
Skupaj	**184.3**	**100.0 %**	**188.6**	**98**

2. 2. 2 Gaming Tax And Other Duties

In 2011, all Hit Group casinos and slots halls paid EUR 51.5 million of gaming tax and other duties, which represented 28 percent of gross gaming revenues and casino entrance fees. Gaming tax was EUR 27.9 million, while concession and other duties were EUR 23.7 million. Compared to 2010, gaming tax and other duties remained more or less the same, while their share of gross gaming revenues and casino entrance fees increased by 0.6 percentage points. Of total gaming tax and other duties, the casinos and slots halls established in Slovenia paid EUR 49.9 million or 96.9 percent.

Gaming tax and other duties in 2011 by gaming establishment, and comparison with 2010



Companies established in Slovenia, i.e. Hit, Casino Kobarid and Hit Šentilj, engage not only in games of chance, an activity that is exempt from VAT under the VAT Act, but also in other activities (of which the most important is F&B). They may deduct input VAT only in a percentage corresponding to the portion that VAT-liable activities contribute to total revenues. In 2011, this portion was 9 percent, 3 percent and 5 percent in Hit, Casino Kobarid and Hit Šentilj respectively. The same applies also for Hit Coloseum of Bosnia and Herzegovina, which was able to deduct input VAT at 6 percent, while Hit Montenegro of Montenegro was able to deduct input VAT at a percent fixed by the local tax administration. This non-deductible input VAT represents an additional tax burden for casinos and thus the entire Group, and increases operating costs.

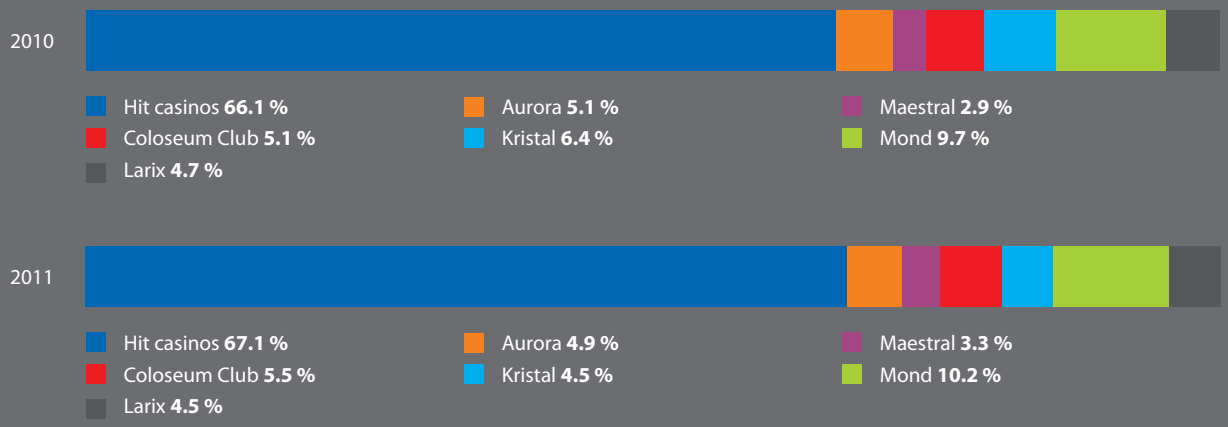
2. 2. 3 Visits

In 2011, the Hit Group casinos recorded 1,928 thousand visits, down 42 thousand or 2 percent from 2010. The sharpest decrease was recorded by the Kristal Casino. The casinos belonging to the Hit company established in Slovenia also saw their visits decrease (the Aurora Casino and the Larix Slots Hall). The decrease is explained by the low purchasing power attributable to high unemployment and poor economic conditions in the primary market, as well as to increasing and more aggressive competition. The Maestral and Coloseum Club casinos contributed more to the Group's total visits than in 2010. Visits to the casinos and slots halls established in Slovenia were 1,673 thousand and accounted for 86.8 percent of the Group's total visits, up by 1.1 percentage points from 2010.

Visits by gaming establishment (thousands)

	2011	Share	2010	Index 11/10
Hit casinos	1,294	67.1 %	1,303	99
Aurora	95	4.9 %	100	95
Maestral	63	3.3 %	57	111
Coloseum Club	106	5.5 %	100	105
Kristal	86	4.5 %	126	69
Mond	198	10.2 %	192	103
Larix	86	4.5 %	92	94
Total	**1,928**	**100.0 %**	**1,970**	**98**

Struktura obiska po igralnicah skupine Hit v letu 2011 in primerjava z letom 2010.



2. 3 Hotels And Other Tourism Services

2. 3. 1 Revenues

In 2011, gross operating revenues from rooms sold and other tourism services provided were EUR 31.7 million, down 10 percent from 2010.

2. 3. 2 Available Rooms And Occupancy

At year-end 2011, there were 1,521 rooms within the Hit Group available to hotel guests, which was 7 less than a year ago. The decrease is attributable to the Maestral Hotel of Montenegro, where a certain number of hotel rooms were changed into into offices.

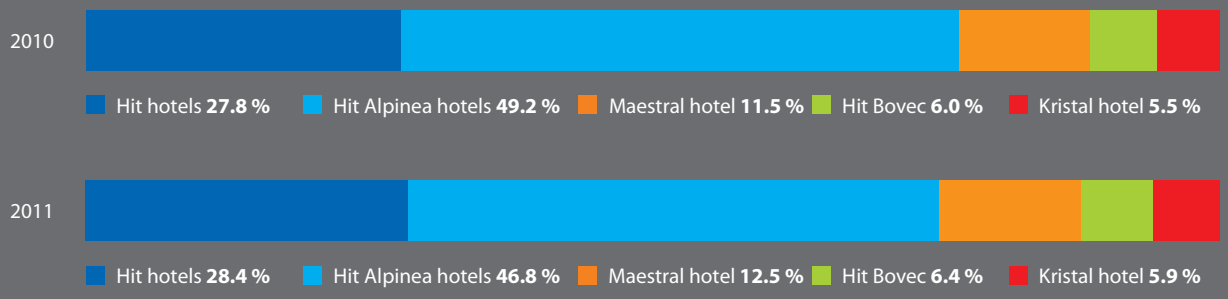
The number of overnight stays was 507.5 thousand, up 6 percent from 2010. All Hit Group companies saw an increase in the number of overnight stays thanks to various interesting and intensive sales and marketing activities. The increase in overnight stays recorded by the Hit hotels is explained by the numerous international poker tournaments in the new poker room of the Perla gaming and entertainment centre which opened its doors in August 2010. Of the Group's total overnight stays, almost 50 percent was realised by the Hit Alpinea hotels, followed by the Hit hotels (slightly more than 25 percent), the Maestral Hotel (12.5 percent), the Kanin Hotel (6.4 percent) and the Kristal Hotel (5.9 percent).

In 2011, the Hit Alpinea hotels maintained the same level of occupancy as in 2010, while other hotels within the Hit Group saw better occupancy rates. The Kristal Hotel of Umag had the highest occupancy rate (54 percent), while others saw occupancy rates from 36 to 50 percent.

Overnight stays and bed occupancy by hotel establishment

	Overnight stays 2010			Bed occupancy	
	Number	Share	Index 11/10	2011	2010
Hit hotels	144,225	28.4 %	108	45 %	41 %
Hit Alpinea hotels	237,568	46.8 %	101	50 %	50 %
Kanin Hotel	32,284	6.4 %	113	36 %	32 %
Maestral Hotel	63,466	12.5 %	115	42 %	40 %
Kristal Hotel	30,004	5.9 %	115	54 %	47 %
Total	**507,547**	**100.0 %**	**106**	/	/

Overnight stays by hotel establihsment



2. 4 Other Activities

Other activities pursued within the Hit Group (various services, a tourist agency, wellness centres, etc.) earned gross operating revenues of EUR 4.6 million, down 17 percent from 2010.

2. 5 Revenue Breakdown

The Group's gross operating revenues in 2011 were EUR 193.4 million, down 4 percent from 2010. Of this amount, EUR 164.5 million or 85.1 percent were generated by Group companies established in Slovenia, while the remaining EUR 28.8 million or 14.9 percent were generated by Group companies established abroad. Gross operating revenues represented 99.2 percent of total revenues.

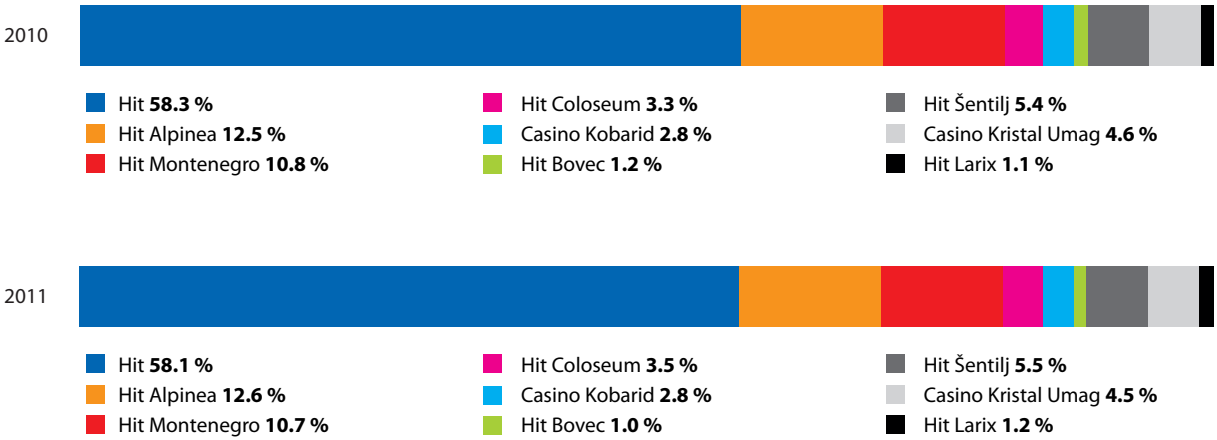
The share of the Group's gross operating revenues generated by games of chance (gaming tax not considered) was 81.2 percent, the share generated by hotels and other tourism activities was 16.4 percent, while the share generated by other activities was 2.4 percent. The share of games of chance increased by 1.4 percentage points, while the shares of hotels and other tourism activities and of other activities decreased by 1.0 and 0.4 percentage points respectively. Financial revenues were EUR 0.7 million, while other revenues were EUR 0.8 million, together 0.8 percent of total revenues.

The Group's total revenues (operating, financial and other) were EUR 194.9 million in 2011, down 6 percent from 2010. The Group's total expenses were EUR 199.8 million in 2011, down 11 percent from 2010. Consolidated net loss of the Hit Group was thus EUR 5.7 million or 2.9 percent of total revenues.

2. 6 Employees

At year-end 2011, the Hit Group had 2,479 employees. Compared to the end of 2010, the number of employees decreased by 58 staff members or 2 percent. As much as 39 of them left the parent company due to staff rationalisation measures implemented in 2010. The same reason also lies behind the decrease seen by the companies Hit Alpinea, Hit Montenegro, Casino Kobarid, Hit Bovec and Casino Kristal. Hit Coloseum concluded employment contracts with a certain number of students, while Hit Šentilj and Hit Larix did not see major changes in this area. Employees of the parent Hit company represented 58.1 percent, down by 0.2 percentage points from 2010.

Employees by Hit Group company as at year-end



The Hit Group follows a recruitment and HR development policy that is in accordance with its uniform quality standards. This means that Hit as the parent company is responsible for the transfer of knowledge, experience and quality standards to its subsidiaries. By doing so, it ensures efficiency and brand recognition.

Employees by Hit Group company as at 31 December 2011 (by the highest level of education achieved).

	Primary and vocational (I-IV)	Secondary (V)	Higher (VI)	University or higher (VII)	total
Hit	323	686	139	293	**1,441**
Hit Alpinea	187	92	17	17	**313**
Hit Montenegro	60	163	26	16	**265**
Hit Coloseum	23	59	1	4	**87**
Casino Kobarid	12	40	6	12	**70**
Hit Bovec	17	5	1	2	**25**
Hit Šentilj	21	73	20	22	**136**
Casino Kristal Umag	24	83	2	3	**112**
Hit Larix	5	16	5	4	**30**
Total Hit Group	**672**	**1,217**	**217**	**373**	**2,479**

2. 7 Capital Investments And Development Projects

In 2011, we mainly embarked on projects aimed at modernising our gaming equipment, enhancing our gaming product with open-air casinos, and refreshing our hotel and tourist products. We are well aware of the importance of capital investments in such critical business conditions when many obstacles are in our way. Now that gaming market is shrinking and competition increasing, it is investments that can help us maintain our market position, competitiveness and success.

In 2011, the parent Hit company invested mainly in projects oriented towards development, modernisation and enhancement of the existing products, and continued the activities related to strategic projects, such as development of a balanced scorecard system, implementation of a competency model and development of a salary system. One of the most important projects in 2011 was the open-air casino in the Perla gaming and entertainment centre. The high-technology facility, which was opened early in July, offers sixty slot machines throughout the year. With it, we managed to further integrate and upgrade the Perla product. This was also enhanced with by a new outdoor terrace of the Dolce Vita café. The company revamped the hotel reception area with a bar and the garden of the Lipa Hotel, Šempeter. Within the customer relationship management project, one of the most important projects in the last four years, the company continued implementing its loyalty programme (Privilege Club): in March in the Casino Drive-in Slots Hall and in July in the Korona Casino. Hit experts joined forces with external consultants and prepared a preliminary study and design for a new tourist complex in the Goriška region, and started preparing a similar study for the Kranjska Goria destination (to begin after 2012). An important achievement is also the in-house developed supervision system for gaming tables, which has already been installed in the Park and Kristal casinos.

Capital investments of Hit Montenegro were mostly directed towards the replacement of outdated equipment, and to a lesser extent also towards the extraordinary maintenance of its facilities.

Hit Coloseum and Hit Larix invested mainly in the modernisation of gaming and other equipment.

Casino Kristal Umag invested in new slot machines and game conversion, as well as in the supervision system for gaming tables.

Casino Kobarid invested in new slot machines, game conversion and the online casino.

Hit Šentilj invested in game conversion, new slot machines, an open-air casino and three poker tables to accommodate a larger number of tournament participants.

Hit Alpinea renovated the boiler room and plumbing in the Špik Hotel, revamped the F&B product of the Larix Hotel by adding a self-service restaurant and an outdoor bistro, and started implementing a revenue management system.

Hit Bovec did not have any major capital investment projects.

2. 8 Environmental Protection

The Hit Group companies comply with environmental regulations and the Group's social responsibility policy. In this, they follow the example of the parent Hit company. Group companies try to minimise any negative impact on the environment by implementing appropriate technological solutions, as well as by raising employee awareness and providing relevant employee training. Environmental care and efficient energy use form an integral part of their organisational culture.

They ensure rational energy and water consumption by modernising and automating their energy systems. In this, they rely on an in-house-developed computer application Rasper for energy (natural gas, heating oil, butane-propane and electricity) and water consumption monitoring. Hit Larix prepared a study of its electricity-consuming devices (air conditioning, lighting, etc.), based on which these were optimised to ensure significant savings in the last three years. The Group companies also have the following in place: a separate waste collection system as well as a time plan for waste collection and cleaning of utility facilities. They also control if these activities are carried out properly.

In 2011, the parent company mainly focused on efficient energy use and renewable energy resources. It signed a ten-year contract with the E3 company to ensure heat from a co-generation facility (generating electricity and heat) to be installed in the Perla gaming and entertainment centre. The investment cost, estimated at EUR 1 million, will be borne entirely by E3. E3 already delivered two gas engines with electricity generators that should start operating in the first months of 2012. Co-generation permits primary energy savings and thus reduces costs and CO2 emissions. In 2011, the company also selected Topsol as the most favourable photovoltaic installer for its Palude service centre (at the same time also the lessee of the roof space). The project provides also for a new roof covering with better insulation, which should reduce heating and cooling costs. The company is also negotiating installation of another photovoltaic system, this time on top of its Hit business centre.

2. 9 Balance Sheet Analysis And Performance Indicators

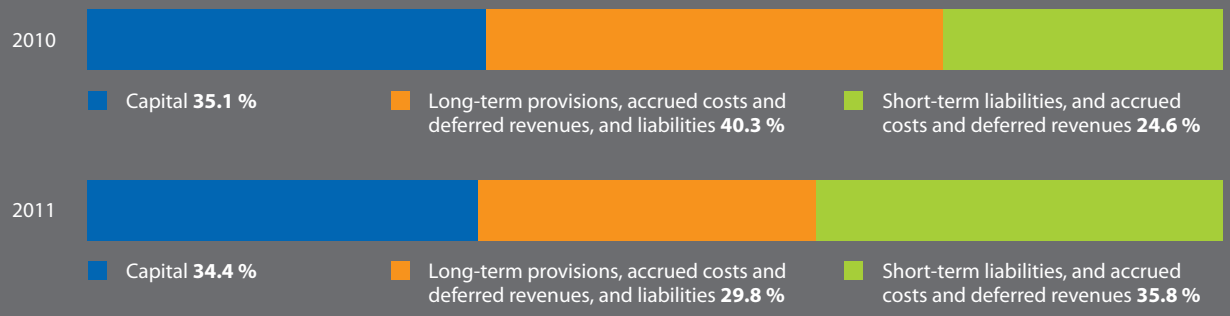
2. 9. 1 Capital And Liabilities

At 31 December 2011, Hit Group's capital stood at EUR 104.8 million, down 13 percent from a year ago Capital represented 34.4 percent of total capital and liabilities, which is 0.7 percentage points less than a year ago Long-term provisions, accrued costs and deferred revenues, and liabilities decreased by 34 percent to EUR 90.8 million as at year-end 2011, when they represented 29.8 percent of total capital and liabilities. Short-term liabilities, and accrued costs and deferred revenues represented the remaining 35.8 percent of total capital and liabilities (EUR 109.2 million, up by 29 percent from year-end 2010).

Hit Group capital and liabilities as at year-end (EUR thousand)

	2011	Share	2010	Index 11/10
Capital	104,768	34.3 %	120,407	87
Long-term provisions, accrued costs and deferred revenues, and liabilities	90,789	29.8 %	138,150	66
Short-term liabilities, and accrued costs and deferred revenues	109,207	35.8 %	84,504	129
Total	**304,765**	**100.0 %**	**343,060**	**89**

Hit Group capital and liabilities as at year-end



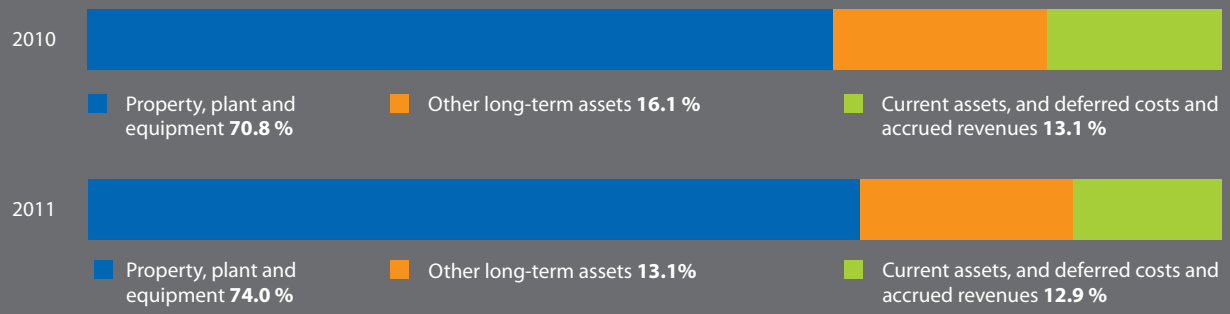
2.9.2 Assets

At year-end 2011, Hit Group's assets stood at EUR 304.8 million, down 11 percent from a year ago. Long-term assets stood at EUR 265.3 million (down 11 percent) and represented 87.1 percent of total assets (up 0.1 percentage points). Short-term assets stood at EUR 39.4 million (down 12 percent).

Hit Group assets as at year-end (EUR thousand)

	2011	Share	2010	Index 11/10
Property, plant and equipment	225,510	74.0 %	243,045	93
Other long-term assets	39,832	13.1 %	55,209	72
Current assets, and deferred costs and accrued revenues	39,423	12.9 %	44,806	88
Total	**304,765**	**100.0 %**	**343,060**	**89**

Hit Group assets as at year-end



2. 10 Performance Indicators

Hit Group profitability and efficiency ratios.

	2011	2010
Return on capital	-4.9 %	-11.3 %
Return on assets	-1.8 %	-4.3 %
Revenues profitability	-2.9 %	-7.5 %
Assets turnover	0.60	0.58
Total efficiency	0.97	0.93

Return on capital, measured as the ratio of net profit / loss to average capital (excluding current year's profit / loss) was minus 4.9 percent (2010: minus 11.3 percent).

Return on assets, measured as the ratio of net profit / loss to average assets, was minus 1.8 percent in 2011 (2010: minus 4.3 percent).

Revenues profitability, measured as the ratio of net profit / loss to total revenues (operating revenues plus financial revenues plus other revenues), was minus 2.9 percent (2010: minus 7.5 percent).

Assets turnover, measured as the ratio of total revenues to the average assets, was 0.60 in 2011 (2010: 0.58).

Total efficiency, measured as the ratio of total revenues to total costs and expenses, was 0.97 (2010: 0.93).

3 MISSION AND STRATEGIC OBJECTIVES

3. 1 Mission

The Hit Group mission is to satisfy the needs of its stakeholders. This is the main reason for its existence, and at the same time its guiding light and inspiration. A clear and well thought out mission gives its employees the sense that they have a common purpose, direction and opportunity. From its very beginning the Hit Group has been inseparably connected with hotels, casinos and tourism, and has always contributed to the development of the environment where it operated. The time when merely providing services was sufficient is gone. Now the Group has to put a lot of efforts also into attracting and retaining customers, which requires careful customer relationship management. The new mission, vision and slogan all reflect this. Group management is aware of the importance of understanding customer needs, requirements, wishes and expectations, and of meeting these adequately while at the same time meeting also the needs of all other stakeholders. For this reason, it defined a new mission in the revised 2010-2012 Group strategy: Co-creating experiences and opportunities. With new knowledge, a professional approach and the support of all employees the Group will creatively develop the best tourist product and a broad range of accompanying services for the enjoyment, relaxation and entertainment of its customers in their free time.

3. 2 Development Strategy

To put its stabilisation and normalisation strategy in action, the parent Hit company defined a set of short- and medium-term measures and started implementing them. It also revised the 2010-2012 Group strategy, and defined strategic objectives and measures in view of its new values, mission and vision. They form the strategy map created based on the balanced scorecard management system, which is the main management tool.

The key strategic objectives cover four perspectives: financial, customer, business process and learning & growth. They are balanced themselves, which means that improving performance in the objectives found in one perspective may not prevent the company from improving performance in the objectives found in other perspectives. They themselves also balance short- and medium-term objectives and external and internal measures of success.

In accordance with the applicable methodology, the Group first revised its strategy. The strategy map shows connections between these strategic objectives (within the four perspectives) in the form of a cause-and-effect chain. The financial and customer perspectives contain the basic objectives of Hit, while the business process and learning & growth perspectives contain the objectives that must be achieved if Hit is to create desirable results with the first two perspectives. For each of the strategic objectives, a person responsible was appointed and strategic measures developed. For each measure, target values for the years 2010, 2011 and 2012 were defined, as well as programmes and measures (within the parent company's action plan) for their achievement.

4 BUSINESS ENVIRONMENT AND COMPETITION

4. 1 Applicable Regulations

Games of chance are an activity that would usually be subject to special regulation. This is the case in the majority of countries worldwide, Slovenia included. The main acts governing this area in Slovenia are the Gaming Act and the Gaming Tax Act. Their provisions put Hit and its subsidiaries in an unenviable position when measuring up to the Italian casinos now that very difficult business conditions prevail. Their Italian competitors benefited from significant tax cuts and were thus able to accumulate the funds necessary for a more aggressive marketing approach and a more rapid product modernisation. The Slovenian gaming industry, however, is affected also by other regulations, most adversely by the Value Added Tax, as it makes investments in tourist infrastructure unattractive. There is also the concession duty that should be used for tourism development and promotion, which includes also infrastructure for both tourists and locals, but is not.

Competitiveness of Slovenian gaming establishments is further hurt by regulations applying to the implementation of new products. To introduce the latest technology and innovative systems and solutions, these must undergo a very long procedure for obtaining the required permit from the State Office for Gaming Supervision, despite the fact that gaming devices and software have all the necessary certificates recognised by the majority of Member States (for example Italy and Austria). Manufacturers do not provide certificates especially for Slovenia, given the size of its market. Compared to their direct competitors in the neighbouring countries, Hit companies established in Slovenia thus have a small choice of gaming devices and games. In addition to all this came, in August 2007, the Restriction of the Use of Tobacco Products Act. Similar acts were also introduced in Italy, Austria and Croatia, but are less rigorous as they treat casinos as exceptions and allow smoking there provided certain conditions are met.

Development of the gaming & entertainment industry had been defined in the Strategy of the Development of Gaming in Slovenia of 1997, which, however, had become outdated. The Ministry of Finance and other competent institutes therefore prepared a new one, involving, among others, also Hit which contributed numerous suggestions and comments. The most important assumption of the new strategy, adopted by the government at year-end 2010, is that games of chance may be a part of Slovenia's tourism industry, and that they could benefit from regressive taxation encouraging capital investments. The new strategy should have been implemented through the Gaming Act and the Gaming Tax Act, but the National Assembly failed to adopt relevant amendments in 2011. Given the dire situation of the Slovenian gaming industry, the matter is quite urgent, as said amendments should remove many obstacles and create conditions for more competitive and profitable gaming operations.

New gaming legislation is being prepared also in Montenegro and Bosnia and Herzegovina. It will probably hit hard Hit Montenegro and Hit Coloseum, given that it envisages a tax of 10 percent (Montenegro) and 5 percent (Bosnia and Herzegovina) respectively on gross gaming revenues. It will also bring about investments in supervision technology required by the local ministries of finance. Croatia has more development-oriented fiscal and other legislation than Slovenia. For example, they amended the anti-smoking act to prevent a significant drop in gaming revenues.

4. 2 Business Environment

Towards year-end 2011, the international economic environment deteriorated, mainly due to considerably lower confidence in euro area countries' ability to solve public finance problems. This was reflected in new tensions on financial markets and a consequent deterioration of consumer and business expectations, which started to affect the real economy. Growth slowed down both in developed and developing economies such as Brazil and India. According to the World Bank, global economy grew by 2.7 percent in 2011, down 1.4 percentage points from 2010. Job crisis continued and at year-end 2011, there were 197 million of unemployed persons world-wide, 2.7 million more than before the onset of the financial crisis in 2007. The average global unemployment rate reached 6 percent.

After being strong in the first quarter of 2011, economic recovery in the euro area became sluggish again. This reflected the effect of low confidence and tighter financial conditions on domestic consumption amidst uncertainty related to sovereign debt crisis and weaker global demand. In the euro area, GDP rose by 1.4 percent in 2011, down by 0.3 percentage points from 2010. At 2.7 percent, inflation was significantly above 2 percent, which is the medium-term target of the European Central Bank. It was mainly driven by higher energy and other commodities prices. Euro area unemployment rate was stable in the first half of the year when it started to increase gradually to stop at a record 10.6 percent in December. There were 16.7 unemployed persons in the euro area countries. The exchange rate of the euro appreciated until May 2011, and then depreciated to USD 1.294 per euro, after reaching a peak of USD 1.486 per euro.

Slovenia's economy strengthened in 2011 by a mere 0.5 percent, which is due to deterioration of all growth factors in the second half of the year. This is attributable to the global deterioration that substantially moderated exports, and to the slow adjustment of the Slovenian government and businesses to the changing market conditions. At 2.0 percent, inflation was at a similar level as in the last three years. It was driven by weak economic activity and higher oil and food prices at the beginning of the year. After being stable in the first half of the year, labour market conditions tightened mainly due to economic conditions. There were 113 thousand unemployed persons at year-end 2011, up 2.5 percent from a year ago. The registered unemployment rate was 12.1 percent in December, while the survey unemployment rate was 8.2 percent, both at their highest since the onset of the crisis.

Italy was in a deep financial and economic crisis in 2011, coupled with lower confidence in government securities, which made difficult the lending activity of banks and dampened investment and import demand. GDP growth in the last three quarters was negative and Italy entered recession. Overall, GDP growth was 0.4 percent in 2011, compared to 1.4 percent in 2010. The Italian government responded by adopting harsh austerity measures to cut public spending and restructure the economy. Annual inflation rose from 1.5 percent in 2010 to 2.8 percent, mainly driven by higher energy prices. Consumer prices increased by 3.3 percent annually, which is the highest after 2008. Employment stopped in 2011 and increased the number of unemployed persons by 10.9 percent to 2.2 million. The unemployment rate reached 8.9 percent, up 0.8 percentage points from 2010. Consumer confidence and disposable income deteriorated, and household consumption declined.

Austria saw strong growth in the first half of 2011, which then became weaker. The reasons for this were, given the country's strong export dependency, weaker financial and economic conditions in Italy and Hungary. GDP grew by 3.1 percent annually, up 0.8 percentage points from 2010. Inflation was above the euro area average due to higher merchandise prices and indirect taxes, as well as the strong economy. Inflation was 3.4 percent annually (on average, prices increased by 3.6 percent). The unemployment rate, which was the lowest in the euro area, fell from 4.5 percent to 4.2 percent.

Despite a new wave of the general economic crisis, Montenegro managed to maintain growth at 2.5 percent recorded in 2010. Growth was mainly driven by services, while low global aluminium prices contributed to the growth of manufacturing and exports. Inflation was 2.8 percent annually (on average, prices increased by 3.1 percent). Compared to 2010, inflation grew by 2.1 percentage points, mainly due to higher oil prices. The 2011 unemployment rate was 19.7 percent and the number of unemployed persons reached 48.1 thousand at year-end.

The economy of Bosnia and Herzegovina recovered slightly in 2011, but still less than expected due to new instabilities mainly in the euro area. The economy stabilised somewhat, domestic demand grew and after a long stagnation period lending activity strengthened. Gross domestic product is estimated to have grown by 2.4 percent. Inflation pressures eased towards year-end so that annual inflation reached 3.1 percent in December after being around 4 percent throughout the year. There were 536.8 thousand unemployed at year-end, up 2.8 percent from 2010. The unemployment rate reached 43.6 percent.

After shrinking over a lengthy period, the Croatian economy recorded real growth in the second and third quarters of 2011. In the last quarter, the economy slowed down again, mainly due to the sovereign debt turmoil in the euro area countries, Croatia's major export markets. According to the central bank's estimate, Croatia saw a 0.2 percent growth after three years of negative growth. Average inflation doubled compared to 2010 to 2.3 percent. It was mainly driven by higher food prices reflecting global developments. Annual inflation was 2.1 percent. Unemployment fell but still remained at high levels. At year-end, there were 315.4 unemployed persons, 4.4 thousand less than in December 2010. The registered unemployment rate was 18.7 percent or 0.1 percentage points less than a year ago.

4.3 Competition

The primary market of the Hit Group continued shrinking in 2011, which encouraged some gaming establishments to become even more aggressive in the fight for market share. The conditions became even tighter with the systematic growth of new gaming establishments in Italy, and with the dispersion and growth of various gaming establishments in Austria and in the area of the former Yugoslavia.

4.3.1 Italy

The Italian gaming market is undergoing rapid liberalisation, which began even before 2008 and accelerated with the onset of the economic crisis. There are four casinos in the country and a large and increasing number of at least partial substitutes to casino gaming. These are above all slot machines outside casinos, including some 365 thousand slot machines of the "Comma 6a" type. In 2010, there appeared also the so-called VLT slot machines, i.e. video lottery terminals very similar to casino slot machines. Currently there are already 35 thousand or slightly more than half of the envisaged final number.

Italian casinos saw an even greater drop in their gaming revenues and visits than in 2010. Hit's main competitor Casino di Venezia did the worst with a 13 percent drop, while others followed with 3 to 12 percent drops. The casinos tried to reverse negative trends by investing in their products (replacing, increasing and modernising their gaming devices), improving their customer relationships, introducing loyalty programmes, focusing on new customer segments, increasing brand recognition and other measures. Their competitiveness improved thanks to all these measures, but also thanks to relatively significant tax cuts agreed with the local government. The lower tax burden gives Italian casinos an important edge over foreign competitors, as it allows them to accumulate the funds necessary for a more aggressive marketing approach and a more rapid product modernisation.

Unlike casinos, other games of chance, mainly on the account of new VLT slot machines, saw an increase in pay-ins of 25 percent. The VLT slot machines alone generated 1.5 times the combined revenues of the four Italian casinos. Two important novelties introduced in 2011 were online casinos offering a complete range of games, which are cutting into the market share of classic casinos, and legalisation of the so-called cash poker.

Italian tax authorities also started to monitor closely the higher payouts earned by their citizens in foreign casinos, mainly in poker tournaments. Frightened, the Italian players shied away from poker tournaments organised in Slovenia.

4.3.2 Austria

Trends that began in 2010 continued in 2011. Hit's main competitors, the casinos in Velden and Graz, again saw a significant drop in their gross gaming revenues. Gaming outside casinos, at slot machines in bars, small slots halls and poker rooms, mushroomed to locations where it is at the disposal of customers of various demographic structures. This enhanced development of the market targeted also by Hit Šentilj, which is the segment of slot machine players. Certain activities also started that are connected with the new gaming law adopted in 2010, which shall enter into force in 2014 (for slot machines outside casinos) and in 2015 for other gaming establishments. The main change that the law brings about is the number of licences, which was increased from 12 to 15. Licenses will be awarded through a public tender published in 2011. Four applicants have submitted their proposals, among them also Novomatic, which is expected to play an important role in the Austrian gaming market. The new law brings about also an additional gaming tax of 10 percent of gross gaming revenues, as well as certain changes applying to poker, slots halls and individual slot machines, which should reduce the gaming on offer in Styria.

4.3.3 Slovenia

The better-off slot halls in the Goriška region first saw their gross gaming revenues fall in 2011, and responded promptly by even more aggressive marketing activities. These were short-lived and mainly caused higher operating costs to other establishments. Casino Portorož had liquidity problems and was a step away from bankruptcy. Casino Bled organised one tournament after another, but is still far from being a serious competitor, as its tournaments have a modest attendance and corresponding revenues. In Styria, there is the successful Joker slots hall that caters exclusively to local customers.

Casino Aurora, the only online provider of special games of chance with all the required permits and operations compliant with the applicable legislations, had hard times in 2011 facing illegal competitors (Bwin, BetAtHome, etc.) These do not pay any taxes, and at the same time offer more games and more attractive games.

4.3.4 Montenegro

Competition to Hit Montenegro increased as regards its Maestral Casino. In addition to the Royal casino opened in June 2010, another casino opened in mid-2011 in the Avala hotel which enjoys a prime location and an exclusive interior design. As regards its hotel business, there were no major changes, its competitors remaining the Splendid and the Queen of Montenegro, two hotels with a revamped product and more competitive prices.

4.3.5 Bosnia and Herzegovina

The main competitor of Hit Coloseum remains the national lottery. State-owned and connected with Novotel, a manufacturer of gaming devices, it takes full advantage of its privileged situation. An increasing threat comes from larger slots halls with 20 to 30 machines. Their advantage is registration-free entrance and cheaper gaming in Convertible Marks. At year-end 2011, three new slots halls entered the market offering decent service. There are more than 1,000 slot machines in the country, of which half in Sarajevo.

4.3.6 Croatia

The main competitors of Casino Kristal Umag in 2011 were Casino Mulino, Casino Miro and four slots clubs in Umag and its surroundings, as well as other smaller slots halls offering slot machines and other games (billiard, sports betting, etc.) Their competitive advantage is greater flexibility, a wide range of gaming devices, interesting interior designs, attractive exteriors, etc. Umag awarded one more concession for organising games of chance in 2011.

5 SOCIAL RESPONSIBILITY POLICY

Committed to socially responsible operations

Social responsibility for the Hit Group is, in addition to the imperative business success, job safety and accountability to the owners, also achievement of social and environmental objectives. For this reason, we thoughtfully and within our possibilities assume an active role in co-creating a sustainable and balanced environment, trying to establish and maintain good long-term relations with various stakeholders. In accordance with the restructuring programme, the funds intended for sponsorships and donations were again rather limited in 2011. The Group nevertheless met its obligations and liabilities to its partners, to preserve the existing long-term and mutually rewarding relationships. It offered support to various social, cultural, professional, educational and sports activities, as well as, within its possibilities, to the local environment, wisely taking advantage of certain marketing opportunities.

Hit and its Group have long-standing co-operation with sports clubs and educational and cultural institutions in the Goriška region. Such involvement has proved for Hit to be crucial for building its reputation and trust among people, whether that be its own employees or others connected with its operations. It has been a long-standing sponsor of the Young Football Player Club of Nova Gorica that has more than 400 members, but also of the Nova Gorica football club, female volleyball club and cycling club. In 2011, it helped the Nova Gorica chess club organise the 16th international tournament (Hit Open) that took place in the Perla gaming and entertainment centre. Together with the Nova Gorica City Municipality, it organised several attractive events. Hit also gives support to several elementary and secondary schools and faculties that have developed new study programmes to offer the possibility of studying in the local environment to many young persons.

The Hit Group sponsored the Golden Fox race in Maribor and the Vitranc race in Kranjska Gora for the Alpine Skiing World Cup. It also supports the local Vitranc sports hall and women's basketball club. In Austria, it continued its relationship with the Austrian hockey club EC KAS Klagenfurt, and offered its services at a fund-raising meeting of Ferrari owners in Italy.

The Hit Group also dedicates funds to humanitarian ends, above all to the Stara Gora hospital, but also to other humanitarian associations, institutes and foundations, taking account of their needs and its possibilities.

Despite its very limited possibilities, the Hit Group remains closely connected with regional cultural life. In 2011, it helped the Vrtnica Octet and the Nova Gorica wind orchestra, while the Paviljon art gallery in its business centre launched the 14th exhibition season mainly dedicated to renowned local and foreign artists.

At year-end 2011, Hit Alpinea received the Family-Friendly Workplace certificate, thus committing itself to implementing certain measures in the next three years that will help its employees find balance between their work and home life. The measures comprise training, parent bonuses, opinion research, communications with internal and external public, open door day for family members, and a number of activities aimed at safeguarding employee health.

Hit's social responsibility goes beyond national borders and extends to Croatia, Montenegro and Bosnia and Herzegovina, where Group companies operate. There it supported various sports clubs and associations, innovative events and charities, and otherwise built its relationships with local communities.

The Hit Group will continue integrating a broader social responsibility concept into its daily activities. It also respects the environment, always trying to reduce the negative effects and to protect it. It has two investments in the pipeline that will further improve its energy efficiency. A co-generation system will start operating in the Perla gaming and entertainment centre in 2012, while roof space of its business and service centres will be used to generate electricity from solar power. Within its possibilities, the Hit Group will remain committed to its social responsibility practices also in 2012, despite the fact that this is going to be one of the most difficult years of its restructuring.

6. AUDITOR'S REPORT

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POROČILO NEODVISNEGA REVIZORJA
lastnikom družbe HIT d.d.

Poročilo o računovodskih izkazih

Revidirali smo priložene konsolidirane računovodske izkaze Skupine HIT, ki vključujejo izkaz finančnega položaja na dan 31. decembra 2011, izkaz poslovnega izida, izkaz drugega vseobsegajočega donosa, izkaz gibanja kapitala in izkaz denarnih tokov za tedaj končano leto ter povzetek bistvenih računovodskih usmeritev in druge pojasnjevalne opombe.

Odgovornost poslovodstva za računovodske izkaze

Poslovodstvo je odgovorno za pripravo in pošteno predstavitev teh računovodskih izkazov v skladu s slovenskimi računovodskimi standardi, in za takšen notranji nadzor, ki je po mnenju poslovodstva potreben za pripravo računovodskih izkazov, ki ne vsebujejo pomembno napačne navedbe zaradi prevare ali napake.

Revizorjeva odgovornost

Naša odgovornost je izraziti mnenje o teh računovodskih izkazih na podlagi revizije. Revizijo smo opravili v skladu z mednarodnimi standardi revidiranja. Ti standardi zahtevajo od nas izpolnjevanje etičnih zahtev ter načrtovanje in izvedbo revizije za pridobitev sprejemljivega zagotovila, da računovodski izkazi ne vsebujejo pomembno napačne navedbe.

Revizija vključuje izvajanje postopkov za pridobitev revizijskih dokazov o zneskih in razkritjih v računovodskih izkazih. Izbrani postopki so odvisni od revizorjeve presoje in vključujejo tudi ocenjevanje tveganj pomembne napačne navedbe v računovodskih izkazih zaradi prevare ali napake. Pri ocenjevanju teh tveganj prouči revizor notranje kontroliranje, povezano s pripravljanjem in poštenim predstavljanjem računovodskih izkazov družbe, da bi določil okoliščinam ustrezne revizijske postopke, ne pa, da bi izrazil mnenje o uspešnosti notranjega kontroliranja družbe. Revizija vključuje tudi ovrednotenje ustreznosti uporabljenih računovodskih usmeritev in utemeljenosti računovodskih ocen poslovodstva kot tudi ovrednotenje celotne predstavitve računovodskih izkazov.

Verjamemo, da so pridobljeni revizijski dokazi zadostna in ustrezna podlaga za naše revizijsko mnenje.

Mnenje

Po našem mnenju računovodski izkazi v vseh pomembnih pogledih podajajo resničen in pošten prikaz finančnega položaja Skupine HIT na dan 31. decembra 2011 ter njenega vseobsegajočega donosa in denarnih tokov za tedaj končano leto v skladu s slovenskimi računovodskimi standardi.

Poudarjanje zadev

a) Finančna naložba v Abanko

Kot je opisano v pojasnilu *14.1.35 Dolgoročne finančne naložbe* k računovodskim izkazom, je bila poštena vrednost finančne naložbe v delnice družbe Abanka Vipa d.d. ocenjena z uporabo modela vrednotenja. Kot je podrobneje razvidno iz omenjenega pojasnila, je ocenjena vrednost navedene naložbe višja od njene objavljene borzne cene.

b) Dana poroštva

Kot je razvidno iz pojasnila *14.1.50 Zunajbilančne obveznosti*, ima skupina pomembno izpostavljenost za dana poroštva in garancije ostalim pravnim osebam. Za poroštva skupina ni oblikovala rezervacij zaradi razlogov navedenih v pojasnilu.

c) Presežek kratkoročnih obveznosti nad kratkoročnimi sredstvi

Opozarjamo na pojasnilo *14.1.48 Kratkoročne finančne in poslovne obveznosti* v računovodskih izkazih, kjer so opisane zadeve povezane s plačilno sposobnostjo podjetij v skupini.

Naše mnenje v zvezi s poudarjenimi zadevami ni prilagojeno.

Poročilo o drugih zakonskih in regulativnih zahtevah

Poslovodstvo je odgovorno tudi za pripravo poslovnega poročila v skladu z zahtevami Zakona o gospodarskih družbah (ZGD-1). Naša odgovornost je podati oceno o tem, ali je poslovno poročilo skladno z revidiranimi računovodskimi izkazi. Naši postopki v zvezi s tem so opravljeni v skladu z mednarodnim standardom revidiranja 720 in omejeni zgolj na oceno skladnosti poslovnega poročila z revidiranimi računovodskimi izkazi. Po našem mnenju je poslovno poročilo skladno z revidiranimi računovodskimi izkazi.

DELOITTE REVIZIJA d.o.o.

Martin Železnik
Pooblaščeni revizor

Yuri Sidorovich
Predsednik uprave

Ljubljana, 25. maj 2012

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija

7. CONSOLIDATED FINANCIAL STATEMENTS

7.1 Consolidated income statement

	2011 (EUR)	2010 (EUR)
Net sales revenues	190,270,463	196,516,863
Change in inventories of products and work in progress		93,741
Capitalised own products and services	1,253,089	1,505,646
Revaluation and other operating revenues	1,827,352	4,167,268
Gross operating revenues	**193,350,904**	**202,283,518**
Operating expenses	**(190,267,866)**	**(215,110,986)**
Cost of goods, materials and services	(68,608,577)	(69,410,808)
Cost of goods sold and materials used	(19,444,861)	(20,336,252)
Cost of services	(49,163,716)	(49,074,556)
Labour costs	(65,447,547)	(81,167,372)
Wages and salaries	(48,978,264)	(56,732,324)
Social insurance costs	(8,818,409)	(11,020,867)
• Pension insurance costs	(5,489,797)	(6,672,971)
• Other social insurance costs	(3,328,612)	(4,347,896)
Other labour costs	(7,650,874)	(13,414,181)
Write-downs in value	(28,469,035)	(34,954,376)
Depreciation and amortisation expense, and revaluation operating expenses associated with property, plant and equipment, and intangible assets	(28,247,843)	(33,281,147)
Revaluation operating expenses associated with operating current assets	(221,192)	(1,673,229)
Other operating expenses	(27,742,707)	(29,578,430)
Operating profit	**3,083,038**	**(12,827,468)**
Financial revenues	**737,009**	**5,258,596**
Financial revenues from shares and interests	301,198	4,322,056
Financial revenues from shares and interests in associates		3,397,207
Other financial revenues from shares and interests	301,198	924,849
Financial revenues from loans and operating receivables	435,811	936,540
Financial revenues from loans to and operating receivables due from associates		51,941
Financial revenues from loans to and operating receivables due from others	435,811	884,599

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▶ continued

	2011 (EUR)	2010 (EUR)
Financial expenses	**(9,204,573)**	**(9,946,890)**
Financial expenses from impairment and write-offs of investments	(916,935)	(2,649,393)
Revaluation financial expenses associated with investments in associates		(201,345)
Other revaluation financial expenses	(916,935)	(2,448,048)
Financial expenses for operating and financial liabilities	(8.287,638)	(7,297,497)
Financial expenses for other operating and financial liabilities to associates		
Financial expenses for other operating and financial liabilities	(8,176,685)	(7,050,451)
Financial expenses for trade payables and bills payable	(110,953)	(247,046)
Other revenues	**770,176**	**587,155**
Other expenses	**(376,948)**	**(462,783)**
Pre-tax profit or loss for the period	**(4,991,298)**	**(17,391,390)**
Income tax	(248,133)	(440,537)
Deferred taxes	(438,849)	2,233,824
Net profit or loss for the period	**(5,678,280)**	**(15,598,103)**
Net profit or loss of minority shareholders	(1,129,193)	(2,865,324)
Net profit or loss of majority shareholders	(4,549,087)	(12,732,779)

7.2 Consolidated statement of comprehensive income

	2011 (EUR)	2010 (EUR)
Net profit or loss for the period	(5,678,280)	(15,598,103)
Changes in revaluation surplus from available-for-sale financial assets	(9,352,215)	(4,600,375)
Gains and losses arising from translating the financial statements of foreign operations	122,595	
Total comprehensive income for the period	**(14,907,900)**	**(20,198,478)**
Total comprehensive income of minority shareholders	(1,033,123)	(2,858,934)
Total comprehensive income of majority shareholders	(13,874,777)	(17,339,544)

7.3 Consolidated balance sheet

	31 Dec 2011 (EUR)	31 Dec 2010 (EUR)	1 Jan 2010 (EUR)
ASSETS	**304.764.619**	**343.060.472**	**379.938.070**
Long-term assets	**265.341.992**	**298.254.022**	**321.408.283**
Intangible assets, and long-term deferred costs and accrued revenues	5.299.465	7.898.255	9.991.971
Long-term deferred development costs			1.551.994
Long-term property rights	2.863.916	3.626.204	5.425.387
Consolidated goodwill	1.560.114	3.013.156	3.013.156
Advances for intangible assets		62.724	124.900
Other long-term deferred costs and accrued revenues	875.435	1.258.895	1.434
Property, plant and equipment	225.510.227	243.045.243	259.765.236
Land and buildings	196.935.628	206.752.798	211.183.682
• Land	22.981.248	23.065.743	23.605.548
• Buildings	173.954.380	183.687.055	187.578.134
Other plant and equipment	26.981.552	34.398.447	39.254.151
Property, plant and equipment under acquisition	1.593.047	1.893.998	9.327.403
• Advances for property, plant and equipment		62.724	124.900
• Property, plant and equipment under construction	1.593.047	1.831.274	9.202.503
Investment property	3.723.769	3.826.103	3.344.841
Long-term investments	17.088.278	29.162.895	36.196.386
Long-term investments, excluding loans	16.216.377	28.991.934	35.374.654
Shares and interests in associates		369.981	2.377.620
Other shares and interests	15.676.716	26.784.398	30.805.530
Other long-term investments	539.661	1.837.555	2.191.504
Long-term loans	871.901	170.961	821.732
Long-term loans to others	871.901	170.961	821.732
Long-term operating liabilities	1.217.439	1.364.229	1.489.590
Long-term operating liabilities to others	1.217.439	1.364.229	1.489.590
Deferred tax assets	12.502.814	12.957.297	10.620.259
Current assets	**33.510.802**	**38.779.709**	**47.262.144**
Assets held for sale	628.570	761.060	
Inventories	2.066.933	1.962.182	4.216.587
Materials	1.911.652	1.701.105	2.505.172

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▶ continued

	31 Dec 2011 (EUR)	31 Dec 2010 (EUR)	1 Jan 2010 (EUR)
Work in progress			412.159
Products and merchandise	155.273	246.941	1.241.046
Advances	8	14.136	58.210
Short-term investments	2.791.425	8.973.666	14.206.775
Short-term investments, excluding loans	2.144.350	7.280.886	12.168.116
Other short-term investments	144.350	7.280.886	12.168.116
Short-term loans	647.075	1.692.780	2.038.659
Short-term loans to associates		657.664	657.664
Short-term loans to others	647.075	1.035.116	1.380.995
Short-term operating receivables	6.531.209	6.227.436	10.077.909
Short-term trade receivables	3.331.357	2.466.966	5.116.524
Short-term operating receivables due from associates	10.968	73.657	21.717
Short-term operating receivables due from others	3.188.884	3.686.813	4.939.668
Cash	21.492.665	20.855.365	18.760.873
Deferred costs and accrued revenues	**5.911.825**	**6.026.741**	**11.267.643**
CAPITAL AND LIABILITIES	**304.764.619**	**343.060.472**	**379.938.070**
Parent-only shareholders' capital	**104.768.331**	**120.406.600**	**141.191.248**
Called-up capital	28.328.468	28.328.468	28.328.468
Share capital	28.328.468	28.328.468	28.328.468
Capital surplus	29.618.361	29.618.361	29.618.361
Revenue reserves	37.623.098	43.243.173	55.494.377
Legal reserves	5.303.159	5.303.159	5.303.159
Other revenue reserves	32.319.939	37.940.014	50.191.218
Revaluation surplus	1.350.927	10.669.647	15.276.412
Capital consolidation adjustment	143.839	150.809	(257.357)
Net profit or loss from previous periods		(655.209)	251.427
Capital of minority shareholders	7.703.638	9.051.351	12.479.560
Provisions, and long-term accrued costs and deferred revenues	**7.996.083**	**8.540.892**	**10.281.715**
Provisions for termination benefits and similar liabilities	3.726.052	3.750.762	4.649.622
Other provisions	400.000	400.000	2.500.000
Long-term accrued costs and deferred revenues	3.870.031	4.390.130	3.132.093

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▶ continued

	31 Dec 2011 (EUR)	31 Dec 2010 (EUR)	1 Jan 2010 (EUR)
Long-term liabilities	**82.793.174**	**129.608.624**	**131.925.751**
Long-term financial liabilities	82.237.263	126.488.248	128.468.257
Long-term financial liabilities to banks	69.639.503	113.172.674	112.656.804
Long-term financial liabilities to others	12.597.760	13.315.574	15.811.453
Long-term operating liabilities	129.494	423.656	23
Long-term operating liabilities to others	129.494	423.656	23
Deferred tax liabilities	**426.417**	**2.696.720**	**3.457.471**
Short-term liabilities	**103.682.907**	**77.238.811**	**91.061.912**
Short-term financial liabilities	**78.236.646**	**50.155.838**	**57.151.730**
Other short-term financial liabilities to associates			1.896.283
Short-term financial liabilities to banks	76.905.386	49.012.200	53.792.634
Other short-term financial liabilities	949.452	818.204	1.180.715
Short-term interest financial liabilities	381.808	325.434	282.098
Short-term operating liabilities	**25.446.261**	**27.082.973**	**33.910.182**
Short-term operating liabilities from advances	892.822	1.103.091	1.167.096
Short-term operating liabilities to associates			15.857
Short-term trade payables	11.274.199	11.921.559	18.359.403
Other short-term operating liabilities	13.279.240	14.058.323	14.367.826
Accrued costs and deferred revenues	**5.524.124**	**7.265.545**	**5.477.444**

7.4 Consolidated cash flow statements

Cash-flow table (indirect method-version II)

	2011 (EUR)	2010 (EUR)
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Items of income statement	**27.908.225**	**24.064.430**
Operating revenue (except from revaluation) and financial revenues from operating receivables	191.241.908	202.284.535
Operating expenses excluding depreciation or amortisation (except from revaluation) and financial expenses from operating liabilities	(162.704.895)	(179.525.124)
Income taxes and other taxes not included in operating expenses	(628.788)	1.305.019
b) Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)	**(3.977.195)**	**1.578.577**
Opening less closing operating receivables	(636.690)	(256.095)
Opening less closing deferred costs and accrued revenue	1.313.587	(549.291)
Opening less closing deferred tax assets	483.383	(2.922.719)
Opening less closing inventories	(177.627)	361.667
Closing less opening operating liabilities	(1.562.038)	7.383.825
Closing less opening accrued costs and deferred revenue, and provisions	(3.309.125)	(1.527.970)
Closing less opening deferred tax liabilities	(88.685)	(910.840)
c) Net cash from operating activities (a + b)	**23.931.030**	**25.643.007**
B. CASH FLOWS FROM INVESTING ACTIVITIES		
a) Cash receipts from investing activities	**9.153.851**	**20.991.258**
Interest and dividends received from investing activities	376.475	878.356
Dividends received from investing activities	244.786	2.973.975
Cash receipts from disposal of intangible assets		373.411
Cash receipts from disposal of property, plant and equipment	1.656.273	6.236.590
Cash receipts from disposal of investment property	1.787.388	2.398.998
Cash receipts from disposal of long-term investments	5.088.929	2.630.448
Cash receipts from disposal of short-term investments		5.499.480

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▶ Nadaljevanje iz prejšnje strani

	2011 (EUR)	2010 (EUR)
b) Cash payments from investing activities	**(11.948.546)**	**(24.669.054)**
Cash payments to acquire intangible assets	(492.321)	(2.592.068)
Cash payments to acquire property, plant and equipment	(7.565.498)	(11.307.244)
Cash payments to acquire investment property		
Cash payments to acquire long-term investments		(101.714)
Cash payments to acquire short-term investments	(3.890.727)	(10.668.028)
c) Net cash from investing activities (a + b)	**(2.794.695)**	**(3.677.796)**
C. CASH FLOWS FROM FINANCING ACTIVITIES		
a) Cash receipts from financing activities	**159.698.093**	**169.566.079**
Cash proceeds from paid-in capital		
Cash proceeds from increase in long-term financial liabilities		18.930.121
Cash proceeds from increase in short-term financial liabilities	14.218.239	42.265.972
b) Cash payments from investing activities	**(34.699.851)**	**(81.070.155)**
Interest paid on financing activities	(7.188.480)	(6.447.049)
Cash payments to acquire long-term investments	(20.121.638)	(24.345.239)
Cash payments to acquire short-term investments	(6.435.331)	(47.249.645)
Dividends and other profit shares paid	(954.402)	(3.028.222)
Net cash from financing activities (a+b)	**21.492.665**	**39.619.581**
D. CLOSING BALANCE OF CASH	**21.492.665**	**39.619.581**
x) Net cash inflow or outflow (Ac, Bc and Cc net cash sum)	654.723	20.855.365
Exchange differences arising on translation	(17.423)	3.343
y) Opening balance of cash	20.855.365	18.760.873


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