Hit Group

CONSOLIDATED ANNUAL REPORT
for the year ended 31 December 2014

Shorter online version

hit
universe of fun

Nova Gorica, May 2015

1 STATEMENT BY THE MANAGEMENT BOARD PRESIDENT

Ongoing demanding Group restructuring

The year 2014 brought quite some confirmations that the parent Hit company managed to stabilise its position. However, there will be more demanding decisions to make and threats to avoid when ensuring liquidity of Hit Group companies.

While seeking for and then implementing solutions in Hit Group companies, we have always tried to satisfy the interests of our various stakeholders, and will continue to do so: from our owners and creditors to our employees and local communities where we operate. While we managed with our thoughtful strategy to lay the foundations for our future and enable certain investments, the results of the entire Hit Group were affected by certain decisions that we had to make to release the burdens of the past: two subsidiaries had to go into liquidation or bankruptcy and cease operations. This notwithstanding, we remain committed to succeeding in the financial restructuring of the Hit Group.

We must accumulate adequate capital to enhance competitiveness of our various lines of business. In this, it will be important that we secure synergies through knowledge exchange, stronger and wider partnerships, thoughtful joint marketing initiatives and customer interchange. We must be aware that in order to meet customer expectations, we must continuously invest in the development of the existing and new products, thus maintaining and consolidating our position in the demanding sectors of tourism and gaming and entertainment. A lot of work and effort will be required in order to create and offer the range of products that will meet customers' wishes and needs and earn additional revenue.

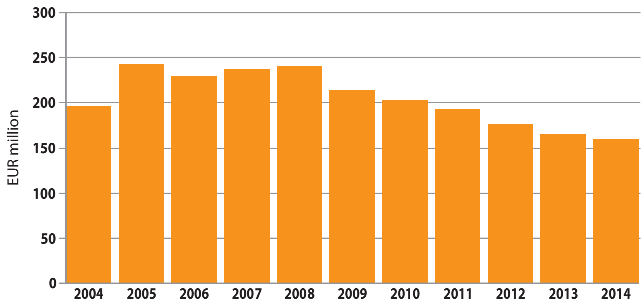
Each subsidiary will have to achieve its own business objectives to justify its independent existence. Our priorities remain closely linked to further stabilisation of all companies members of the Hit Group.

Mag. Dimitrij Piciga,
Management Board President

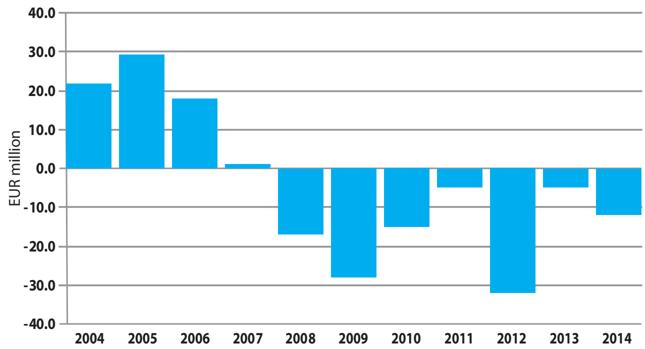
Hit Group in 2014

- EUR 181,557 thousand in gross operating revenues including gaming tax
- EUR 157,984 thousand in gross operating revenues
- EUR 18,835 thousand in operating profit or loss (EBIT)
- EUR 21,998 thousand in operating profit or loss including depreciation and amortisation (EBITDA)
- EUR 12,560 thousand in net profit or loss of the Hit Group
- EUR 11,426 thousand in net profit or loss of the majority owner
- EUR 152,588 thousand in basic gross gaming revenues and casino entrance fees (including gaming tax and output VAT respectively)
- 1,623 thousand casino visits
- 433 thousand overnight stays
- 2,245 employees as at year-end 2014

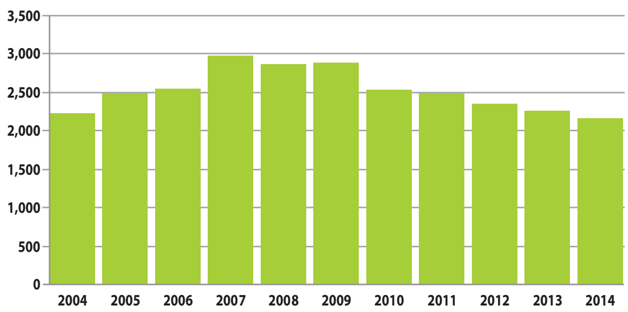
Gross operating revenues



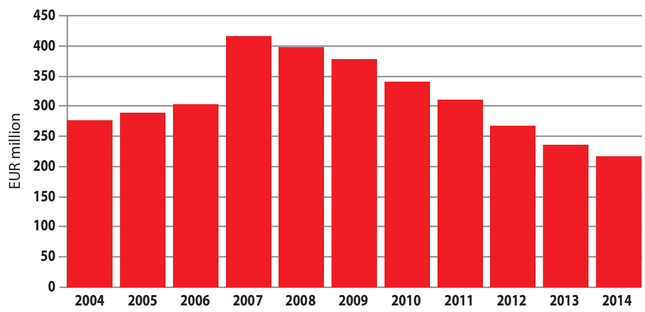
Net profit



Employees as at 31 December



Total assets as at 31 December



Hit Group as at year-end 2014

Hit d.d. Nova Gorica

Hit Alpinea d.d., Kranjska Gora
- Equity share **95.97%**

Casino Kobarid d.d., Kobarid
- Equity share **60%**

MMP štiri d.o.o., Šempeter
- Equity share **100%**

Hit Larix d.d., Kranjska Gora
- Equity share **75.28%**
- Management share **75.9%**

Hit Montenegro d.o.o., Pržno
- Equity share **75.01%**

Hit Coloseum d.o.o., Sarajevo
- Equity share **100%**

Hit International d.o.o, Beograd
- Equity share **90%**

Grad GT d.o.o., Dobrovo
- Equity share **45%**

Controlling company
Subsidiary
Associate

1.1 HIT COMPANY PROFILE

1.1.1 Establishment

The establishment of Hit was entered 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.). The transformation was entered in the register kept by the the Nova Gorica District Court pursuant to decision Srg 98/00076 on 9 February 1998.

Other company information as entered in the court register:

Registered name:	HIT hoteli, igralnice, turizem d.d. Nova Gorica
Abbreviated name:	HIT d.d. Nova Gorica
Registered office:	Delpinova ulica 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

Management board:

- Mag. Dimitrij Piciga, president, term of office from 12 March 2013 to 27 June 2018
- Marjan Zahar, member, term of office from 30 May 2011 to 30 May 05 2016
- Zvonko Šuler, member, term of office from 16 July 2013 to 16 July 2018
- Simona Mele, member, term of office from 1 September 2013 to 1 September 2018

Supervisory board:

- Marino Furlan, municipality representative, chairman since 25 March 2013, term of office from 3 May 2011 to 3 May 2015, extended to 3 May 2019 by the general meeting of shareholders of 4 May 2015
- Silvan Križman, appointed by the Government, deputy chairman since 3 December 2014, term of office from 25 April 2013 to 25 April 2017
- Karlo Korče, employee representative, deputy chairman since 28 March 2013, term of office from 24 June 2010 to 24 June 2014
- Sergej Čujec, employee representative, member, term of office from 21 December 2010 to 24 June 2014
- Nada Drobne Popović, owners representative, member, term of office from 10 June 2013 to 25 April 2017
- Miran Lampret, owners representative, member, term of office from 10 June 2013 to 10 June 2017
- Blaž Matiš Aldžić, employee representative, member, term of office from 30 June 2014 to 30 June 2018
- Simon Bratina, employee representative, member, term of office from 30 June 2014 to 30 June 2018

1.1.2 Share capital and ownership structure

Share capital of Hit (EUR 28,328,467.70) was determined based on the opening balance sheet as at 18 June 1994. 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 that are non-voting and are freely transferable.

Hit ownership structure

	31 December 2014		31 December 2013	
Shareholder	**Shares (number)**	**Equity stake (percent)**	**Shares (number)**	**Equity stake (percent)**
Slovenski državni holding 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 city municipality	900,309	13.26	900,309	13.26
Šempeter-Vrtojba municipality	183,726	2.71	183,726	2.71
Renče - Vogrsko municipality	122,305	1.80	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**
Total preferred shares	**2,715,454**	**40.00**	**2,715,454**	**40.00**
Total shares	**6,788,634**	**100.00**	**6,788,634**	**100.00**

Compared to 2013, the ownership structure did not change.

All shares are fully paid up.

Ordinary shares confer the following rights:
- the right to participate in the management of the company,
- 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 a prior consent of the Ministry of Finance in accordance with Article 56 of the Gaming Act (ZIS-UPB3, Official Gazette of the RS, no. 14/2011). Transfers take effect only upon entry into the share register of Hit kept by the Central Securities Clearing Corporation in accordance with the 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.

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 an employee representative. All members are appointed and recalled by the supervisory board, the employee representative at the proposal of the workers' council. Starting with 13 March 2013, the management board was composed of the president and one member (employee representative), who were joined on 16 July 2013 by Zvonko Šuler. Since 1 September 2013, when Simona Mele was appointed member, the management board has been complete.

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.

The supervisory board also appoints a three-member audit committee. In 2014, the audit committee was composed of Nada Drobne Popovič and Miran Lampret, both members since 13 June 2013, and Miha Rozman, member since 23 January 2014.

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, 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. The Government then extended concession agreements several times, for the last time in 2014 for a period ending on 30 September 2019 for the following casinos:
- Casino Park, Nova Gorica,
- Casino Perla, Nova Gorica,
- Casino Korona, Kranjska Gora,
- 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), which expires on 5 December 2015.

After a merger with acquisition of Hit Šentilj, the concession for organising special games of chance granted for its Casino Mond for a period ending on 30 October 2015 was transferred to Hit on 9 July 2012.

Hit as concessionaire must account for and pay the concession duty as laid down in the Gaming Tax Act and the Gaming Act, separately for each concession granted. The basis for calculation is the amount paid in by players to participate at certain special games 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 2004-2014, 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.

The financial year is equal to the calendar year. The average number of employees based on hours worked was 1,422 in 2014 (2013: 1,435).

2 BUSINESS REPORT

2.1 INTRODUCTION

At year-end 2014, the Hit Group was composed of the parent Hit company and seven subsidiaries. Four subsidiaries were established in Slovenia and three (one of them was dormant) in the area of the former Yugoslavia.

2014 was successful for the **parent Hit company**, as it exceeded both the planned figures and the 2013 figures. This shows that the company adopted and then consistently implemented the right measures, aimed at increasing revenues and reducing costs. Business conditions remained tight and, with the economic recovery coming to a halt, became even tighter in Hit's key markets. This further weakened the finances of many customers, particularly the strongest ones, who reduced both their number of visits and their level of play. In the second quarter of 2014, Hit again saw a drop in gross gaming revenues of the casinos operating in the Goriška region. It responded by adjusting the measures in place and stepping up their implementation, and eventually managed to limit the impact. The number of visits to the casinos and overnight stays at the hotels increased. In 2014, Hit earned an operating profit which was almost double the 2013 figure. It also earned a net profit, following a couple of years of losses. The activities that explain this improvement were mainly in the area of marketing and sales, but Hit also revamped its offer, as it opened a new open-air slots hall at Casino Drive-in, renovated the external gaming floor at Casino Mond, and invested in a new gaming platform and new games of the HitStars.it. online casino. Crucial for its future operations was a framework agreement on financial restructuring, which Hit signed with six banks its creditors. The agreement, which entered into force on 30 September 2014, ensures its long-term liquidity and development capability.

Hit Larix of Kranjska Gora, Slovenia, was successful in 2014 and earned a profit. This reflects the high quality of products and services offered and the thoughtful marketing activities, and consequently customer satisfaction. Being target-oriented, the company developed a modern offer for its slots hall, complemented by a food and beverage offer. The company carried out certain promotions together with the parent Hit company and another subsidiary, Hit Alpinea. Hit Larix received the Creditworthiness Rating Excellence certificate, which shows that it is a credible, low-risk and reliable Slovenian entity in all its business relationships.

Hit Montenegro of Budva, Montenegro, posted a very small loss in 2014. Its revenues dropped due to the general economic crisis in Montenegro, Albania and above all Italy, its primary market. Customers visited less and also spent less. The drop in revenues is partly attributable also to good luck on the part of customers, the exceptionally bad weather during the main season, and lower prices in congress tourism. Many marketing activities were carried out in the form of events and promotions aimed at obtaining new customers from Turkey, Sicily and Catania. Hit Montenegro also worked to improve quality of its food and beverage offer, and of the special daily events. Since May, the company has been paying the concession duty in accordance with the new gaming legislation, i.e. at the rate of 10 percent on gross gaming revenues.

Hit Coloseum of Sarajevo, Bosnia and Herzegovina, exceeded the plan and earned a high profit in 2014. Compared to 2013, it both increased revenues and reduced costs. It continued its successful partnership with Turkish agents, and further adapted its offer to Turkish customers. It also strengthened its partnership with tourist agencies and hotels in

Sarajavo to obtain new customers. It better used the player tracking system within the "Imperium Players Club", adapted the organisational structure in the casino, and focused on customer loyalty. It used targeted advertising in the local and foreign markets, managed to reduce media buying costs, and in general reduced the costs of marketing and other services. Hit Coloseum maintained the reputation of the best gaming centre in Sarajevo, and strengthened its partnership with the local community and authorities.

Casino Kobarid of Most na Soči, Slovenia, posted a loss in 2014. Due to the difficult economic situation in the primary Italian market, its regular customers held back and rationalised their spending, which reflected negatively on its bottom line. The company prepared and consistently implemented an action plan, which mainly comprised measures on the revenue and expense side, and organisational adaptation. Failing to achieve the business objectives, the online casino was closed at year-end. In all its activities and processes, Casino Kobarid focused above all on customer relationships, as well as on its distinguishing relaxed ambience and professional attitude. Marketing activities were expanded to cover all products and were tied to the loyalty club. Casino Kobarid celebrated the 10th anniversary of its gaming and entertainment centre in 2014.

Hit Alpinea of Kranjska Gora, Slovenia, posted a loss in 2014. Sophos Hotels as management company failed to meet the expectations, the results lagging significantly behind the plan. Larix and Prisank hotels operated under the Ramada brand throughout the year. Due to less overnight stays sold in 2014, there was less business also for food and beverage and wellness. This was partly due to the unfavourable weather conditions and the equally unfavourable economic situation. Marketing activities focused on advertising ski programmes and promoting business tourism and wellness services. The company put a lot of efforts also in reducing costs and achieving an optimal organisation of work processes – all employees had to adapt. The management board of Hit Alpinea adopted a resolution on 29 April 2015 to terminate the hotel management contract with Sophos Hotels on the grounds of underperformance.

Casino Kristal Umag of Umag, Croatia, operated until February 2014. A bankruptcy procedure was initiated against it on 16 May 2014.

Hit Bovec of Bovec, Slovenia, went into liquidation but was still unable to pay its liabilities in full, for which reason the liquidator proposed, in February 2014, that a bankruptcy procedure be initiated against it. It went into bankruptcy on 21 February 2014.

Hit International of Belgrade, Serbia, was dormant in 2014. It still posted a loss due to interest it had to pay on a loan received from the parent Hit company in the previous years, negative exchange rate differences and an impairment of a piece of land.

In 2014, the Hit Group generated EUR 171,274 thousand of revenues and incurred EUR 183,670 thousand of expenses, thus producing a net loss of EUR 12,560 thousand. At year-end 2014, its assets amounted to EUR 213,341 thousand, and were financed by its own sources (capital) in the amount of EUR 49,302 thousand.¸

At year-end 2014, the **Hit Group** employed 2,245 persons, down 4 percent from 2013.

Altogether, Hit Group casinos and slots halls had 1,623 thousand visits, down 3 percent from 2013. All Hit Group casinos, except those belonging to the parent Hit company, saw a drop in the number of visits, the main reason being a further drop in customer purchasing power. At Group level, the number of visits was also affected by the closing of Casino Kristal Umag early in 2014.

Hit Group hotels recorded 433.1 thousand overnight stays, down 3 percent from 2013. The number of overnight stays increased at hotels belonging to the parent Hit company, remained at the 2013 level at hotels belonging to Hit Alpinea, and declined at the Maestral Hotel.

At year-end 2014, visitors to casinos or slots halls had the choice of 210 gaming tables (15 less than a year ago) and 3,449 slot machines (273 less than a year ago), while hotel guests had at their disposal 1,316 rooms or 2,591 hotel beds (the same as a year ago).

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 152,588 thousand in 2014, down 1 percent from 2013. The decrease is mainly attributable to the closing of Casino Kristal Umag in February 2014. Gross gaming revenues decreased in Maestral and Aurora, and increased in casinos belonging to the parent Hit company and Larix.

Casinos and slots halls belonging to the parent Hit company accounted for as much as 83.9 percent (EUR 128,073 thousand) of total gross gaming revenues. Subsidiaries established in Slovenia earned 6.2 percent (EUR 9,522 thousand), while those established abroad earned 9.8 percent (EUR 14,992 thousand).

Gross gaming revenues from **gaming tables** were EUR 47,832 thousand (the same as in 2013), while those from **slot machines** were EUR 103,897 thousand (down 2 percent from 2013). **Other gross gaming revenues** (online casino, bingo and sports betting) and **casino entrance fees** were EUR 858 thousand, up 103 percent from 2013.

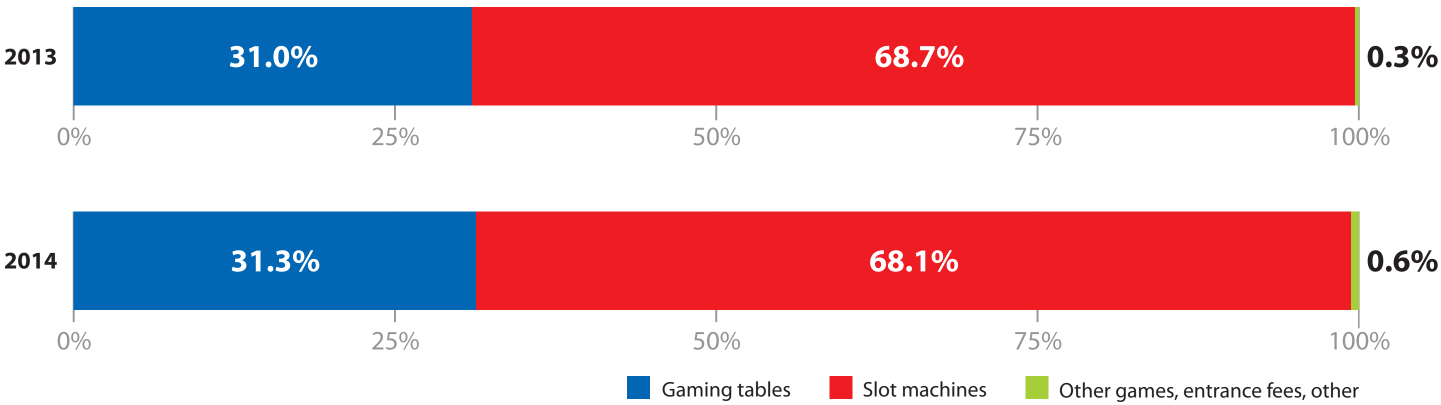
The **structure of gross gaming revenues and casino entrance fees changed**, as the contribution from gaming tables increased by 0.4 percentage points compared to 2013. Slot machines contributed the most (68.1 percent), followed by gaming tables (31.3 percent) and other games and entrance fees (0.6 percent).

Basic gross gaming revenues and casino entrance fees (including gaming tax and output VAT respectively) (thousand EUR)

	2014	Share	2013	Index 14/13
Hit casinos	128,073	83.9%	125,690	102
Aurora	4,007	2.6%	4,412	91
Maestral	10,789	7.1%	11,846	91
Coloseum Club	3,988	2.6%	3,592	111
Kristal*	215	0.1%	3,443	6
Larix	5,515	3.6%	5,360	103
Total	**152,588**	**100.0%**	**154,342**	**99**

**Data for Casino Kristal Umag until bankruptcy.*

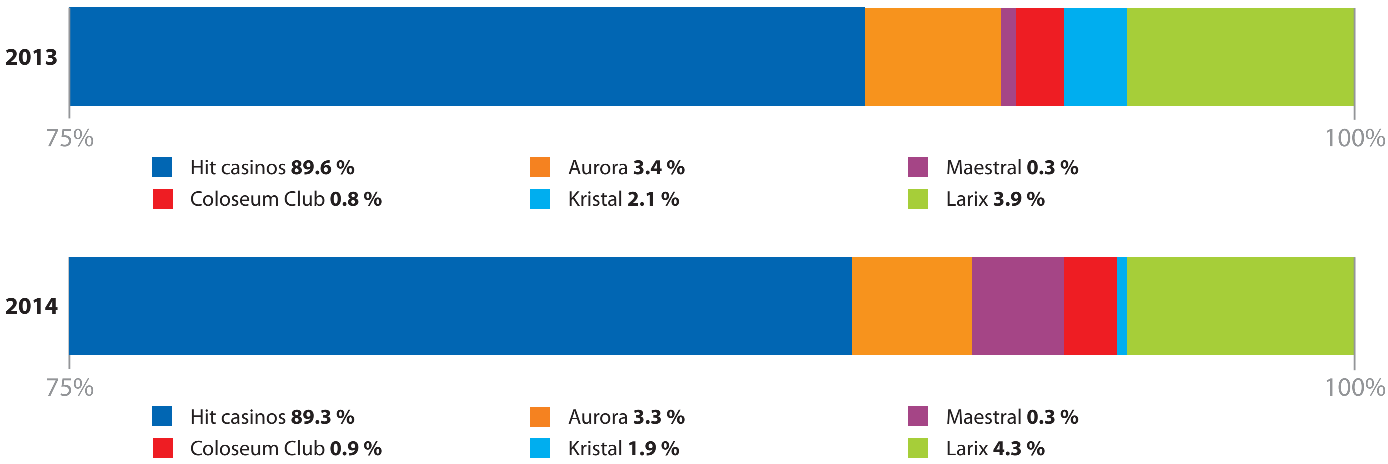
Basic gross gaming revenues and casino entrance fees (including gaming tax and output VAT respectively) (%)



2.2.2 Gaming tax and other duties

In 2014, all Hit Group casinos and slots halls paid EUR 43,666 thousand of **gaming tax and other duties** (up 2 percent from 2013), which represented 28.6 percent of basic gross gaming revenues and casino entrance fees (up 0.8 percentage points from 2013). **Gaming tax** was EUR 23,572 thousand, while **concession and other duties** were EUR 20,094 thousand. Of total gaming tax and other duties, casinos and slots halls established in Slovenia paid EUR 42,263 thousand or 96.8 percent.

Gaming tax and other duties by gaming establishment (%)



Companies established in Slovenia, i.e. Hit and Casino Kobarid, 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 food and beverage). They may deduct input VAT only in a percentage corresponding to the portion that VAT-liable activities contribute to total revenues. In 2014, this portion was 8 percent and 2 percent in Hit and Casino Kobarid respectively. The same applies also to Hit Coloseum of Bosnia and Herzegovina, which was able to deduct input VAT at 6 percent, while Hit Montenegro of Montenegro keeps separate records for VAT. This non-deductible input VAT represents an additional tax burden for casinos and thus the entire Hit Group, and increases operating expenses.

2.2.3 Visits

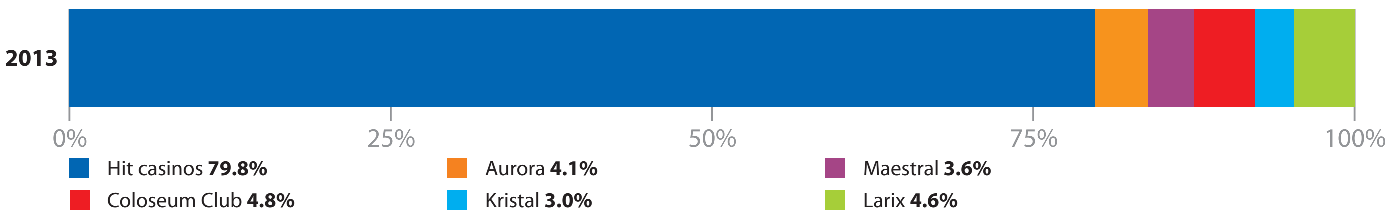
In 2014, Hit Group casinos recorded 1,623 thousand of **visits**, down 45 thousand or 3 percent from 2013. The number of visits to all casinos belonging to subsidiaries declined. At Group level, it was mainly affected by the closing of Casino Kristal Umag. In Maestral, Aurora and Larix, it was mainly affected by the drop in available money of customers due to uncertain economic and labour market conditions. In Coloseum, the number of visits by local customers declined due to less concerts organised. The number of visits to casinos and slots halls established in Slovenia was 1,495 thousand or 92.1 percent of total Group visits, up 3.6 percentage points from 2013.

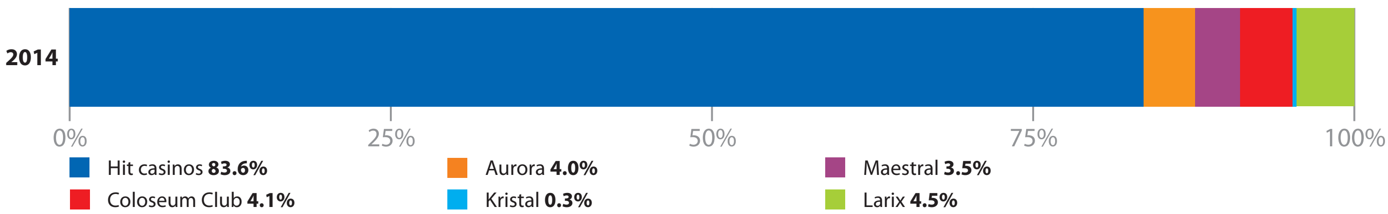
Visits by gaming establishment (thousand)

	2014	Share	2013	Index 14/13
Hit casinos	1,357	83.6%	1,331	102
Aurora	65	4.0%	69	95
Maestral	57	3.5%	61	94
Coloseum Club	67	4.1%	80	84
Kristal*	4	0.3%	51	8
Larix	73	4.5%	77	94
Total	**1,623**	**100.0%**	**1,668**	**97**

Data for Casino Kristal Umag until bankruptcy.

Visits by gaming establishment (%)





2.3 HOTELS AND OTHER TOURISM SERVICES

2.3.1 Revenues

In 2014, **gross operating revenues** from rooms sold and other tourism services provided were EUR 23,607 thousand, down 14 percent from 2013. Hotels and other food and beverage outlets belonging to the parent Hit company managed to maintain the same level of revenues, the same as Aurora and Larix. The latter also comprises the Bor Restaurant. Hotels belonging to Hit Alpinea saw a drop in their revenues, mainly due to unfavourable weather conditions both in the winter and in the summer season. These also affected negatively spending by walk-in customers. Similar reasons explain the drop in revenues earned in the main season by the Maestral Hotel, which was also negatively affected by the drop in the number of casino visitors and congress tourists. Total revenues from hotels and other tourism services were lower also due to the closing of Casino Kristal Umag.

2.3.2 Available rooms and occupancy

At year-end 2014, there were 1,316 rooms within the Hit Group available to hotel guests, which is the same number as a year ago. Hit Group hotels recorded 433.1 thousand **overnight stays**, down 3 percent from 2013. Of total Group overnight stays, almost 50 percent were realised by Hit Alpinea hotels, followed by the five Hit hotels (more than one third) and the Maestral Hotel (13.7 percent).

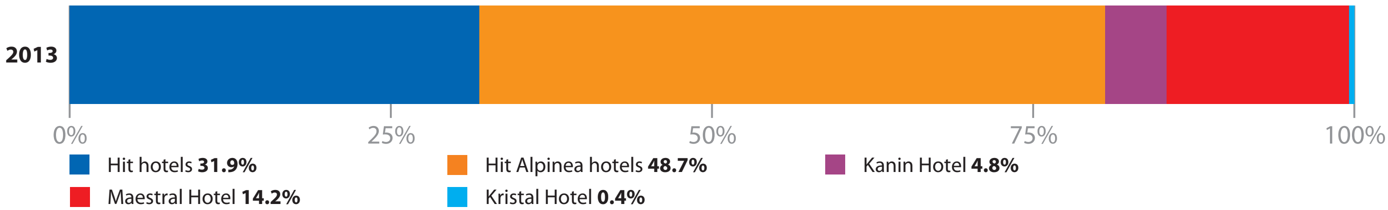
Hotels belonging to the parent Hit company saw an increased occupancy level. Hotels belonging to Hit Alpinea maintained the same occupancy level as in 2013, while the Maestral Hotel saw its occupancy level drop by 2 percentage points. The five Hit hotels had the highest occupancy level (49 percent).

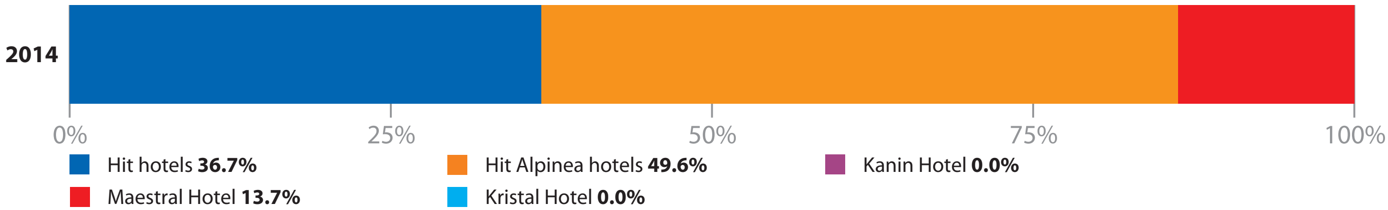
Overnight stays and bed occupancy by hotel establishment

	Overnight stays			**Bed occupancy**	
	Number	**Share**	**Index 14/13**	**2014**	**2013**
Hit hotels	159,005	36.7%	111	49%	44%
Hit Alpinea hotels	214,740	49.6%	99	45%	46%
Kanin Hotel, Bovec*	/	/	/	/	32%
Maestral Hotel	59,315	13.7%	94	40%	42%
Kristal Hotel**	/	/	/	/	35%
Total	**433,060**	**100%**	**97**		

** Data for Kanin Hotel in 2013 until closing.*
*** Data for Casino Kristal Umag until bankruptcy.*

Overnight stays and bed occupancy by hotel establishment (%)





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 3,072 thousand, up 27 percent from 2013.

2.5 REVENUE BREAKDOWN

Total Group **gross operating revenues** were EUR 157,984 thousand in 2014 and represented 92.2 percent of its total revenues. Of this amount, EUR 137,027 thousand or 86.7 percent were generated by Group companies established in Slovenia, while the remaining EUR 20,957 thousand or 13.3 percent were generated by Group companies established abroad. Gross operating revenues fell by 4 percent compared to 2013.

The share of total Group gross operating revenues generated by games of chance (gaming tax not considered) was 83.1 percent, the share generated by hotels and other tourism services was 14.9 percent, while the share generated by other activities was 1.9 percent. The shares of games of chance and of other activities increased by 1.4 and 0.5 percentage points respectively, while the share of hotels and other tourism services decreased by 1.9 percentage points.

Financial revenues were EUR 13,075 thousand, while **other revenues** were EUR 214 thousand, together 7.8 percent of total revenues.

Total revenues (operating, financial and other) of the Group were EUR 171,274 thousand, at the level achieved in 2013.

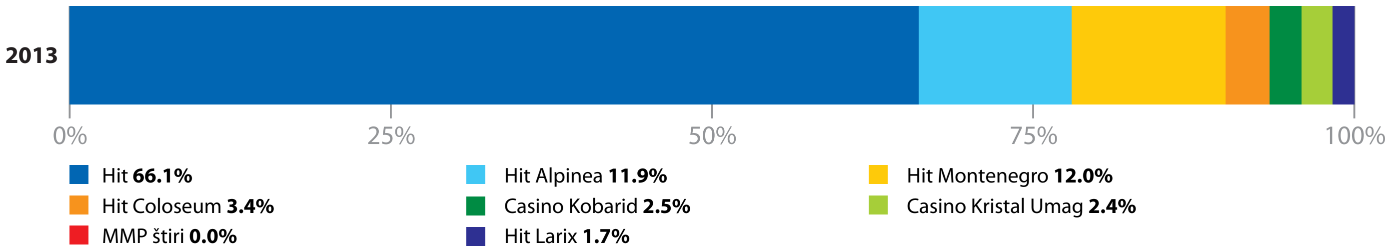
Total expenses of the Group were EUR 183,670 thousand in 2014, up 4 percent from 2013.

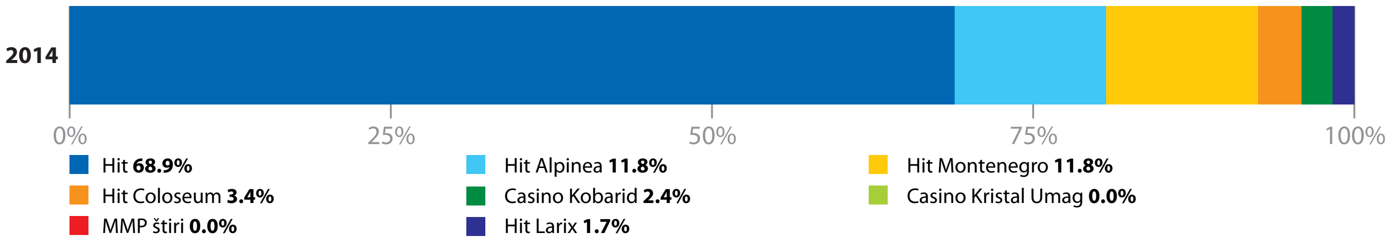
Consolidated net loss of the Group was thus EUR 12,560 thousand.

2.6 EMPLOYEES

At year-end 2014, the Hit Group had 2,245 **employees**. Compared to year-end 2013, the number of employees decreased by 82 staff members or 4 percent. Due to the ongoing rationalisation of work processes, and also due to the closing of Casino Kristal Umag, the number of employees decreased in all subsidiaries. In the parent Hit company, the number of employees increased by 1 percent. Employees of the parent Hit company represented 68.9 percent of total Group employees, up 2.9 percentage points from 2013.

Employees by Hit Group company as at year-end (%)





The Hit Group follows a recruitment and HR development policy that is based on long-term employee development and key employee maintenance. Training is aimed at achieving said objectives by promoting internal growth and career development. Hit as the parent company aims at ensuring work conditions that encourage employees to be creative and effective. By transferring such knowledge, experience and standards to its subsidiaries, Hit ensures employee motivation throughout the Group.

Employees by Hit Group company as at year-end 2014 (by the highest level of education achieved)

	Primary and vocational (I-IV)	Secondary (V)	Higher (VI)	University or higher (VII)	total
Hit	315	738	159	335	**1,547**
Hit Alpinea	159	70	16	19	**264**
Hit Montenegro	60	162	26	16	**264**
Hit Coloseum	23	45	1	8	**77**
Casino Kobarid	3	37	6	8	**54**
MMPŠtiri				1	**1**
Hit Larix	8	17	6	7	**38**
Total Hit Group	**568**	**1,069**	**214**	**394**	**2,245**

2.7 CAPITAL INVESTMENTS AND DEVELOPMENT PROJECTS

In 2014, the Hit Group mainly invested in modernisation of gaming equipment, several smaller projects, refreshment of hotel and tourist products, urgent maintenance works and replacement of outdated equipment.

The **parent Hit company** mainly invested in modernisation, enhancement and diversification of gaming equipment. The highest amount of money was spent to purchase new slot machines, construct an open-air slots hall at Casino Drive-in, renovate the open-air casino at Mond and develop online gaming.

The new open-air slots hall at Casino Drive-in was opened late in June 2014. It offers the latest in entertainment and gaming on 19 slot machines. The renovated open-air casino at Mond was opened in mid-2014. It offers 23 slot machines. The parent Hit company launched another project in 2014 to construct an open-air casino at Park. It also made an important step forward in developing online gaming. After a demanding preparatory and testing phase, it connected its online HitStars.it casino, which caters for the Italian market, with its loyalty Privilege Club. The online casino now offers the widest range of games, around 140, of the major global developers.

Hit Montenegro mainly invested in extraordinary maintenance works and replacement of outdated equipment.

Hit Larix mainly invested in modernisation of gaming equipment in order to maintain its competitive advantage, and also in the renovation of the Bor Restaurant.

Hit Coloseum mainly invested in new slot machines and replacement of outdated equipment (cameras, air conditioning, video equipment, etc.)

Casino Kobarid mainly invested in renovation and enhancement of gaming equipment. The highest amount of money was spent to purchase new slot machines.

Hit Alpinea made certain capital investments in 2014 to be compliant with the Ramada standards and to increase customer satisfaction (replacement of hotel beds, TV sets, floorings in public areas, etc.)

2.8 ENVIRONMENTAL PROTECTION

In the area of energy efficiency and renewable energy, the Hit Group mainly upgraded its heating systems to cogeneration or combined heat and power technology.

The parent Hit company managed to prepare everything for the instalment of cogeneration units at the Park gaming and entertainment centre and at the Sabotin Hotel within the validity of the old, more favourable incentive programme. Hot water systems were also renovated within said projects.

At the Korona gaming and entertainment centre, the old heating system using oil was replaced by a new one using liquefied petroleum gas and cogenerating heat and power. Five of the Hit's key facilities now use cogeneration: in addition to the above-mentioned also the Perla and Mond gaming and entertainment centres. All facilities are compliant with the 2010 "Rules on efficient use of energy in buildings". They all significantly exceed the minimum share (50 percent) of final energy which has to come from high-efficiency cogeneration. In this way, they obtain almost 80 percent of hot water required for space, domestic water and pool heating.

Behind the Kompas Hotel in Kranjska Goria, a new boiler room using wood biomass was put in operation at year-end 2014. A new distribution network was also constructed to supply all hotels belonging to Hit Alpinea in Kranjska Gora, except for the Alpina Hotel. The full effects of the new system will be visible in 2015.

2.9 BALANCE SHEET ANALYSIS AND PERFORMANCE INDICATORS

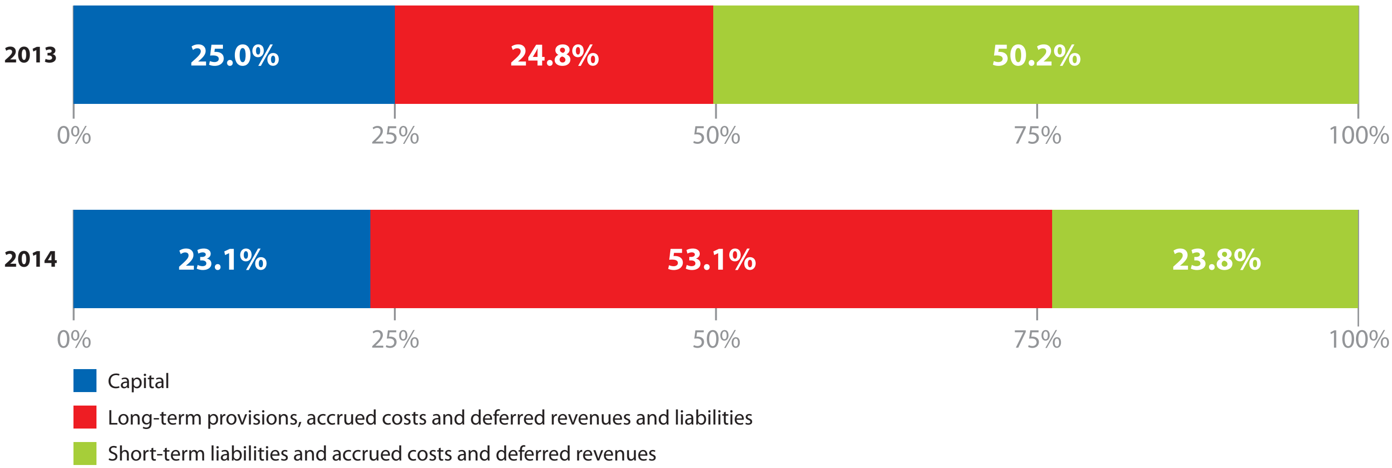
2.9.1 Capital and liabilities

At 31 December 2014, Hit Group's **capital** stood at EUR 49,302 thousand, down 15 percent from a year ago. Capital represented 23.1 percent of total capital and liabilities, which is 1.9 percentage points less than a year ago. **Long-term provisions, accrued costs and deferred revenues and liabilities** increased by 97 percent to EUR 113,205 thousand as at year-end 2014, when they represented 53.1 percent of total capital and liabilities. **Short-term liabilities and accrued costs and deferred revenues** represented the remaining 23.8 percent of total capital and liabilities (EUR 50,834 thousand, down 56 percent from 2013).

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

	2014	Share	2013	Index 14/13
Capital	49,302	23.1%	57,803	85
Long-term provisions, accrued costs and deferred revenues and liabilities	113,205	53.1%	57,366	197
Short-term liabilities, and accrued costs and deferred revenues	50,834	23.8%	116,059	44
Total	**213,341**	**100.0%**	**231,227**	**92**

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



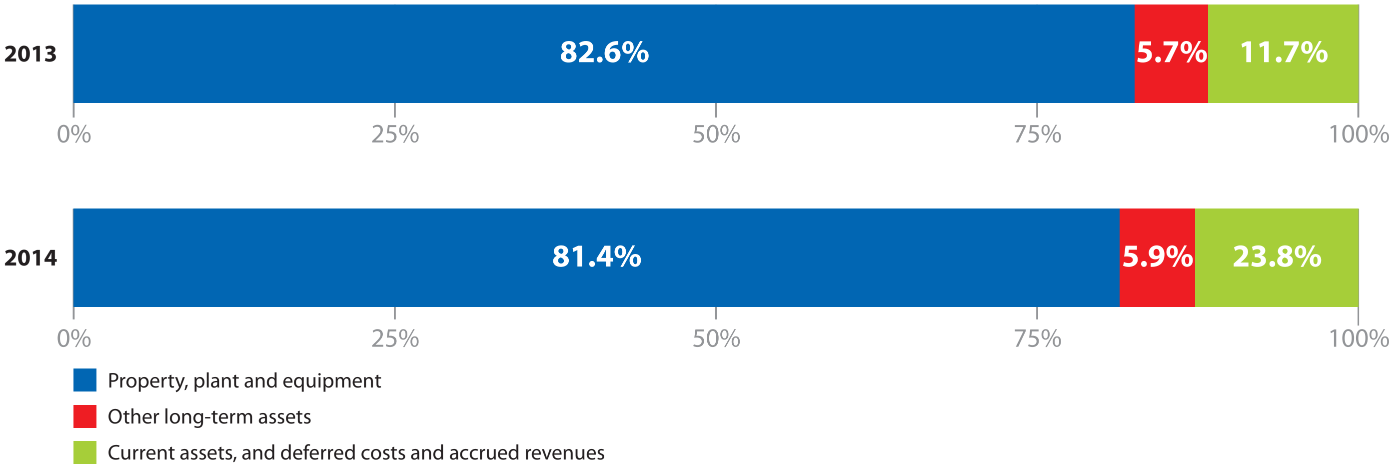
2.9.2 Assets

At year-end 2014, total Group **assets** stood at EUR 213,341 thousand, down 8 percent from a year ago. Long-term assets stood at EUR 186,273 thousand (down 9 percent) and represented 87.3 percent of total assets (down 1 percentage point). **Short-term assets** stood at EUR 27,068 thousand (the same as a year ago) and represented 12.7 percent of total assets.

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

	2014	Share	2013	Index 14/13
Property, plant and equipment	173,699	81.4%	190,932	91
Other long-term assets	12,574	5.9%	13,168	95
Current assets, and deferred costs and accrued revenues	27,068	12.7%	27,127	100
Total	**213,341**	**100.0%**	**231,227**	**92**

Hit Group assets as at year-end (%)



2.10 PERFORMANCE INDICATORS[1]

Hit Group profitability and efficiency ratios

	2014	2013
Return on capital	-21.0%	-8.1%
Return on assets	-5.7%	-2.1%
Revenues profitability	-7.3%	-3.1%
Assets turnover	0.77	0.69
Total efficiency	0.93	0.97

[1] Profitability indicators were calculated using total Group net profit or loss (net profit or loss of the majority owner and net profit or loss of minority owners).

Return on capital, measured as the ratio of net profit / loss to average capital (excluding current year's profit / loss) was minus 21.0 percent (2013: minus 8.1 percent).

Return on assets, measured as the ratio of net profit / loss to average assets, was minus 5.7 percent in 2014 (2013: minus 2.1 percent).

Revenues profitability, measured as the ratio of net profit / loss to total revenues (operating revenues plus financial revenues plus other revenues), was minus 7.3 percent (2013: minus 3.1 percent).

Assets turnover, measured as the ratio of total revenues to average assets, was 0.77 (2013: 0.69).

Total efficiency, measured as the ratio of total revenues to total costs and expenses, was 0.93 (2013: 0.97).

3 MISSION, VISION AND STRATEGIC OBJECTIVES

3.1 MISSION AND VISION

The mission of the Hit Group is to satisfy the interests 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.

MISSION: Co-creating experiences and opportunities

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. With new knowledge, a professional approach and a lot of emotional intelligence of all employees the Hit Group creatively develops the best gaming and tourist product and a broad range of accompanying services for the enjoyment, relaxation and entertainment of its customers in their free time. In this, the Hit Group pays big attention to understanding the needs, demands, wishes and expectations of its customers.

It tries to involve in its day-to-day operations local communities, suppliers and business partners, and to contribute to a sustainable development of the broader social environment.

VISION: Leading designer of the free time spending fashion

The Hit Group has announced a shift towards proactive identification of value added opportunities and creation of value added. This will make us the best option for our customers when deciding how to spend their free time.

We will implement our vision in the long term with the consent of and together with our owners, employees, partners and local communities.

3.2 DEVELOPMENT STRATEGY

The development strategy of the Hit Group is based on the business and financial restructuring programme with strategic elements for the period ending in 2021, adopted by the supervisory board early in 2014.

To implement its strategy, the Hit Group will have to restructure its sales and marketing functions, as well as products and services, and also develop online gaming, start selling its gaming know-how, and last but not least restructure its organisation and manage human resources.

To ensure adequate liquidity, as well as urgent capital investments and increased investments in customers, the parent Hit company signed a framework agreement on financial restructuring with six banks its creditors.

The Hit Group will accumulate adequate capital to launch capital investments mainly in the Slovenian market and in online gaming. It will be in these segments where it will achieve its business objectives. Being a responsible employer, it will offer its employees the opportunity for professional and personal growth. Being also a socially responsible entity, it will contribute to the development of the social environment.

While implementing all said measures, Hit Group companies will also closely monitor market developments in order to quickly adjust the business restructuring programme and take the opportunities. One such opportunity will be ownership consolidation with a strategic partner after 2016.

4 BUSINESS ENVIRONMENT AND COMPETITION

4.1 APPLICABLE REGULATIONS

Gaming is an activity that is subject to particular regulation and strict supervision in **Slovenia** and in the majority of other EU Member States. Gaming supervision is the responsibility of the Special Financial Office. This is a body within the Financial Administration of the Republic of Slovenia, created with the merger of the Customs Administration and Tax Administration on 1 August 2014. Gaming in Slovenia is governed by the Gaming Act and numerous decrees and implementing regulations, as well as gaming standards. The Act, adopted in 1995 and amended several times since then, for the last time in 2012, is outdated and represents the key obstacle to the development of gaming in Slovenia. The numerous implementing regulations represent an additional obstacle due to the limitations provided for and the resulting complex and time-consuming procedures. They delay acquisition of new technologies and reduce competitiveness of Slovenian concessionaires.

With the adoption of the Restriction of the Use of Tobacco Products Act in Slovenia and the onset of the economic crisis in Italy, the Hit Group's primary market, business conditions became very difficult. The neighbouring countries, on the other hand, from where the majority of the Hit Group's customers come, have adjusted in the recent years by means of liberalisation and lower taxation. Anti-smoking 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. Italy and Austria also have a more simple, no certificate requiring procedure for implementing new gaming equipment and software. While this is not the case in Slovenia, there is also the additional problem of manufacturers not providing country-specific certificates, given the size of Slovenia. Lower effective taxation, less rigorous anti-smoking acts and other regulations that make the procedures more simple and less expensive for the competitors in the neighbouring countries make the Hit Group less competitive and represent a major obstacle to obtaining customers from those markets.

Late in September 2013, the Ministry of Finance submitted to public consultation a new Gaming Act that should have replaced the old one from 1995. The new Act was said to be more or less aligned with the Strategy of the Development of Gaming in Slovenia adopted late in 2010. After Slovenian Government resigned in May 2014 amid political crisis, adoption of the new Act was again delayed.

Hit participated in said public consultation and submitted to the Ministry of Finance a number of suggestions as regards the new Gaming Act that would increase its competitiveness, improve its performance and allow its future development and capital investments. The entire gaming sector would benefit from a thorough amendment of the old Gaming Act and with it also of the implementing regulations.

It was based on Hit's suggestions that two implementing regulations were amended in November and December 2014 respectively: "Gaming standards for persons who need a license to work in the organisation of special games of chance", and "Rules on the supervisory information system for gaming devices". The amended standards allow for a more flexible workforce allocation: an employee with a higher-level license (e.g. internal supervisor) may now also work at positions requiring a lower-level license (e.g. as croupier). They also introduced two new national qualifications (slot machine operator and casino cashier), which require a lower-level formal education. They also eased the conditions for obtaining the licence (Slovenian language is not required for all licenses). The amended rules allow for (still not optimal) implementation of a server system for the slot machine games in casinos and slots halls, and for such emptying of bill acceptors of slot machines that requires minimum funds and optimises processes.

The existing implementing regulations prescribe in excessive detail the gaming processes, technology and licenses, and their amendments are a complex and time-consuming procedure. Hit suggested that they be simplified, as well as that a hierarchy of legal acts governing the gaming sector be implemented, meaning that the Gaming Act would represent the framework act, that various implementing regulations within the domain of the Ministry of Finance would govern the various areas of the gaming sector, while various gaming standards within the domain of the Gaming Association within the Tourism and Hospitality Chamber of Slovenia and the Financial Administration as the national supervisory authority would govern all the details. Prompt amending of the gaming standards, which should within such a system be a simple procedure, would increase flexibility of the concessionaires. These are currently not competitive compared to their counterparts in the neighbouring countries, mainly Italy and Austria.

The Gaming Act should be amended in 2015 due to alignment with the guidelines of the European Union.

In **Montenegro**, 2013 was the last year within a 10-year period of a very favourable rate of the concession duty. In May 2014, new gaming legislation entered into force which provides for a tax of 10 percent on gross gaming revenues. In **Bosnia and Herzegovina**, the adoption and implementation of a new act governing special games of chance is still pending. It is expected to provide for a tax of 5 percent on gross gaming revenues and a higher duty on gaming devices.

4.2 BUSINESS ENVIRONMENT [2]

Global recovery remained gradual and uneven in 2014. Following a rather volatile and moderate global growth in the first half of the year, activity strengthened in the second half, mostly supported by solidifying fundamentals in a number of major advanced economies, despite signs of some softening in economic momentum in the fourth quarter. According to the estimates of the International Monetary Fund, world GDP growth remained at 3.3 percent, the same as in 2013. Global inflation declined in the second half of 2014, largely on the back of sharply falling oil prices. Global unemployment rate achieved 5.9 percent, down 0.1 percentage points from 2013. There were 201.3 million of unemployed persons around the world, up 1.2 million from 2013.

After a year of moderate growth, **euro area** economic activity lost some vigour in spring 2014. In the second half of the year, economic recovery was modest and associated with high risks. Real GDP grew by 0.9 percent in 2014, after having declined by 0.5 percent in 2013. With -0.2 percent, annual inflation, declining since the end of 2011, moved into the negative in December 2014, for the first time after the crisis year 2009. This is explained with the dramatic drop in energy prices and weak consumption. Average inflation in 2014 was 0.4 percent, down 1 percentage point from 2013. Unemployment declined gradually from 12 percent to 11.5 percent in the first half of the year, and then remained relatively stable. There were 18.1 million of unemployed persons in Europe, down 3.7 percent from 2013. The US dollar / euro exchange rate declined until the second quarter to stop at 1.2331 at year-end 2014

[2] All figures in this section are the latest figures published by relevant institutions (Institute of Macroeconomic Analysis and Development of the Republic of Slovenia, national statistical offices and central banks, European Commission, IMF, World Bank, EBRD and others).

Italy was back in recession in 2014. After zero growth in the first two quarters, the economy then contracted for two consecutive quarters. In 2014, it contracted by 0.4 percent, 1.5 percentage points less than in 2013. Matteo Renzi, who became prime minister in 2014, immediately started designing new reforms and programmes aimed at encouraging economic recovery and increasing government efficiency. Inflation moderated further in 2014. Annual inflation moved into the negative in the summer, mainly due to the drop in energy prices, and was at around 0 percent at year-end. On average, prices increased by 0.2 percent in 2014, down 1 percentage point from 2013. Labour market conditions tightened. Unemployment grew persistently, to a record 13.3 percent in November, and declined to 12.9 percent in December, when it was 0.3 percentage points above the level from year-end 2013. The number of persons registered as unemployed increased by 2.9 percent to 3.3 million. Consumer sentiment became even more fragile in the second half of 2014 due to the worrying general economic situation and personal financial situation, which resulted in increased savings and reserved consumption.

4.3 COMPETITION

The primary market of the Hit Group continued to shrink in 2014, mainly due to the tight economic conditions, more aggressive competition, development of online gaming and opening of new slots halls.

On the western Slovenian border, where the Hit Group earns the bulk of its revenues, the market, defined as combined gross gaming revenues of the main actors there, declined by slightly less than 5 percent in 2014. This was half the decline recorded in 2013. Casinos belonging to the parent Hit company saw their revenues drop by 3 percent, compared to slightly less than 6 percent experienced by the competitors. The market share held by Hit increased by 0.7 percentage points to 41.4 percent.

Italy

The Italian gaming market is undergoing rapid liberalisation, which began before 2008 and acceleratd with the onset of the economic crisis. There are four classic casinos in the country and numerous alternatives to casino gaming. The latter grew and developed rapidly and triggered a serious restructuring of the Italian gaming sector. Above all there were slot machines outside casinos, and in the recent years also online gaming and entertainment, poker tournaments outside casinos, etc. Competition to classic casinos, including those pertaining to Hit, increased strongly late in 2012 when Italian online casinos introduced also slot machines, in addition to gaming tables.

Four Italian casinos saw a further drop, of slightly less than 4 percent, in their gross gaming revenues. Casino di Venezia, which was the worst hit, saw a 7.5 percent drop. It is in deep crisis, financially unstable and waiting for recovery. In the last four years, its gross gaming revenues dropped by 30 percent. In 2014, they tried unsuccessfully to find a casino management company for a period from 20 to 30 years. Its management also changed after the mayor of Venice resigned amid financial scandals. The Saint-Vincent and Sanremo casinos saw their gross gaming revenues drop by 5 percent and 1 percent respectively. The Campione casino was the only one which improved its performance, increasing gross gaming revenues by 0.4 percent and raising its market share above 30 percent for the first time. It saw the number of visits increase by 8 percent, which is a record achievement.

Among other games of chance, the main competition to Hit comes from slot machines outside casinos and online casinos. In the last couple of years, the offer of slot machines outside casinos not only increased, but also improved. Currently there are around 420 thousand in Italy. In 2014, gross revenues from this segment declined for the second year, for an estimated 1 percent. The rising gross revenues from online casinos came to a halt in the first half of 2014, and then resumed their upward trend when Italy started to block the illegal websites. Customers moved to the legal websites, and online casinos saw record gross revenues at year-end. Overall, they grew by 15 percent in 2014. Popularity of online poker is on the decline.

Austria

According to unofficial information, the 12 Austrian casinos saw a 6 percent increase in the number of visits and a 3 percent increase in gross gaming revenues. This can be mainly explained by casino renovations, new games, a better food and beverage experience and a more interesting entertainment programme. All this shows that the casinos are getting ready for the entry of new competitors who were awarded licenses at year-end 2014. Novomatic obtained two and Gauselmann one.

Slovenia

Slots halls in the Goriška region saw their gross gaming revenues increase by an estimated 0.3 percent. The number of visits also increased, by an estimated 2 percent, mainly on the account of the 15 percent and 9.5 percent increase achieved by Venko and Castra slots halls. Other slots halls saw the number of visits drop: by 4 percent (Fortuna), 2 percent (Princess) and 16 percent (Paquito) respectively. It is estimated that slots halls operating elsewhere in Slovenia also saw their results deteriorate in 2014.

Montenegro

The main competitors were the casinos located in the Splendid and Queen of Montenegro casinos. Splendid was also the main competitor as regards congress tourism. Avala, having a better location but not so good organisation, did not affect in a significant manner the Maestral hotel and casino. This remained the preferred destination for customers coming from the south of Italy. The competitors are trying very hard to surpass Maestral mainly in the local, as well as Serbian and Albanian markets that are the source of the majority of regular customers. Maestral managed to maintain the same number of customers as in 2013, however their purchasing power is smaller and their stay shorter.

Bosnia and Herzegovina

The main competitor of Hit Coloseum remained the national lottery, which has a deal with Novomatic, an Austrian entity. The latter sped up modernisation of gaming devices in 2014, both in the slots halls of the national lottery and its own clubs. It also opened three new clubs. Two other operators entered the market in Sarajevo and now offer an additional 80 new slot machines. It is estimated that there are 900 slot machines in Sarajevo, of which 440 are owned by the national lottery. The national lottery has altogether 55 slots halls in Bosnia and Herzegovina with more than 1,000 slot machines, and it also operates a casino with live games. Otherwise the entertainment and food and beverage programmes designed by Coloseum are widely copied by the competitors. The centre of Sarajevo also has some new restaurants, mainly offering Italian, French, Turkish and other cuisines.

5 SOCIAL RESPONSIBILITY POLICY

Socially responsible, despite the tight business conditions

Social responsibility of the Hit Group includes, in addition to the main imperative of each business, which is to earn a profit for the owners, also ensuring job safety and achieving social and environmental objectives. All Hit Group companies get involved, thoughtfully and within their possibilities, in the areas of sustainable development of the social and natural environment. In so doing, they try to establish and maintain good and long-term relationships with various stakeholders.

The funds intended for sponsorships and donations remained very limited in 2014, in accordance with the restructuring programme. This notwithstanding, the Hit Group met all its obligations and liabilities towards its long-term partners. Given the limited funds, we adjusted our support so that we are now present only in certain geographical areas where we support a limited number of causes. We remained donors to selected social, humanitarian and similar projects in the places where our companies operate.

We intend to further strengthen our relations with the local communities where we operate, which will allow us to solve business challenges together with our local partners and suppliers. This shows that the Hit Group is committed to responsible achievement of business objectives that must be of benefit to all stakeholders.

Energy efficiency and environmental protection

In 2014, the parent Hit company continued with its activities in the area of energy efficiency and environmental protection, mainly by upgrading its heating systems to cogeneration or combined heat and power technology.

Responsible pursuing of the main activity

The Hit Group requires that all its casinos and slots halls have systems in place that ensure that solutions are developed and implemented for safe and at the same time responsible organisation of games of chance, based on own and international experience and in compliance with the legal requirements.

6 AUDITOR'S REPORT

Independent Auditor's Report

To the Shareholders of HIT d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of the company HIT d.d., which comprise the balance sheet as at 31 December 2014, the income statement, the statement of other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Slovene Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of HIT d.d. as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with Slovene Accounting Standards.

Emphasis of Matter

We draw attention to the Note 15.4.15 *Long-term investments* of the Company's financial statements that outlines procedures based on which the management of HIT Alpinea d.d. tries to implement the change of use of Vitranc apartments i.e. from hotel into housing use. Should the respective change of use fail to be implemented, then the property's valuation is considered to have applied the false assumption, which consequently leads to the overpriced market value of the Vitranc apartments and the overpriced investment in HIT Alpinea d.d.

Our opinion was not adjusted in this relation.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Tomaž Mahnič, ACCA	Boris Drobnič
Certified Auditor	*Partner*

KPMG Slovenija, d.o.o.
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Ljubljana, 29 May 2015

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.

7 CONSOLIDATED FINANCIAL STATEMENTS

7.1 CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 (EUR)	**2013** (EUR)
Net sales revenues	155,714,129	160,548,582
Capitalised own products and services	983,640	969,970
Revaluation and other operating revenues	1,286,569	2,588,061
Gross operating revenues	***157,984,338***	***164,106,613***
Operating expenses	***(176,819,619)***	***(164,892,516)***
Cost of goods, materials and services	(56,454,939)	(59,563,117)
Cost of goods sold and materials used	(16,414,161)	(17,441,755)
Cost of services	(40,040,778)	(42,121,362)
Labour costs	(55,319,319)	(55,558,279)
Wages and salaries	(40,125,566)	(40,653,115)
Social insurance costs	(7,525,441)	(7,800,214)
- Pension insurance costs	(4,739,253)	(4,967,252)
- Other social insurance costs	(2,786,188)	(2,832,962)
Other labour costs	(7,668,312)	(7,104,950)
Write-downs in value	(40,833,454)	(25,689,142)
Amortisation of intangible assets	(660,352)	(1,250,200)
Depreciation of property, plant and equipment	(16,994,984)	(19,643,238)
Depreciation of investment property	(407,004)	(409,116)
Revaluation operating expenses associated with intangible assets and property, plant and equipment	(6,535,882)	(2,734,262)
Revaluation operating expenses associated with operating current assets	(16,235,232)	(1,652,326)
Other operating expenses	(24,211,907)	(24,081,978)
Operating profit	***(18,835,281)***	***(785,903)***
Financial revenues	***13,074,709***	***6,728,352***
Financial revenues from shares and interests	12,470,945	5,563,037
Financial revenues from other investments	12,470,945	5,563,037
Financial revenues from loans and operating receivables	603,764	1,165,315
Financial revenues from loans to and operating receivables due from others	603,764	1,165,315

	2014 (EUR)	2013 (EUR)
Financial expenses	***(6,568,898)***	***(10,593,567)***
Financial expenses from impairment and write-offs of investments	(95,943)	(2,759,394)
Other revaluation financial expenses	(95,943)	(2,759,394)
Financial expenses for operating and financial liabilities	(6,472,955)	(7,834,173)
Financial expenses for other operating and financial liabilities	(6,447,318)	(7,806,595)
Financial expenses for trade payables and bills payable	(25,637)	(27,578)
Profit from continuing operations	***(12,329,470)***	***(4,651,118)***
Other revenues	***214,499***	***213,192***
Other expenses	***(280,996)***	***(524,992)***
Pre-tax profit or loss for the period	***(12,395,967)***	***(4,962,918)***
Income tax	(212,319)	(308,914)
Deferred taxes	48,625	(32,924)
NET PROFIT OR LOSS FOR THE PERIOD	**(12,559,661)**	**(5,304,756)**
Net profit or loss of minority shareholders	(1,133,470)	(1,787,403)
Net profit or loss of majority shareholders	(11,426,191)	(3,517,353)

7.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 (EUR)	2013 (EUR)
Net profit or loss for the period	(12,559,661)	(5,304,756)
Changes in revaluation surplus from available-for-sale financial assets	841	(2,751,899)
Changes in revaluation surplus from provisions	(605,031)	(126,978)
Gains and losses arising from translating the financial statements of foreign operations	(200,039)	149,056
Total comprehensive income for the period	**(13,363,890)**	**(8,034,577)**
Total comprehensive income of minority shareholders	(1,318,171)	(1,724,066)
Total comprehensive income of majority shareholders	(12,045,719)	(6,310,511)

7.3 CONSOLIDATED BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 (EUR)	**2013** (EUR)
ASSETS	**213,340,993**	**231,226,990**
Long-term assets	***186,273,147***	***204,100,047***
Intangible assets, and long-term deferred costs and accrued revenues	2,149,886	2,337,963
Long-term property rights	735,057	1,246,063
Consolidated goodwill	1,065,950	1,065,950
Advances for intangible assets	9,681	9,681
Other long-term deferred costs and accrued revenues	339,198	16,269
Property, plant and equipment	173,699,075	190,932,245
Land and buildings	157,488,484	174,170,428
- Land	21,602,161	22,136,125
- Buildings	135,886,323	152,034,303
Other plant and equipment	14,974,215	15,740,905
Property, plant and equipment under acquisition	1,236,376	1,020,912
- Advances for property, plant and equipment	8,298	218
- Property, plant and equipment under construction	1,228,078	1,020,694
Investment property	3,070,711	3,167,634
Long-term investments	670,570	801,106
Long-term investments, excluding loans	630,879	740,307
Other shares and interests	591,402	507,073
Other long-term investments	39,477	233,234
Long-term loans	39,691	60,799
Long-term loans to others	39,691	60,799
Long-term operating receivables	3,841,125	4,034,607
Long-term operating receivables from others	3,841,125	4,034,607
Deferred tax assets	2,841,780	2,826,492

	2014 (EUR)	**2013** (EUR)
Current assets	***20,214,892***	***21,985,818***
Inventories	1,578,861	1.599,152
Materials	1,538,069	1,538,045
Products and merchandise	40,785	61,100
Advances	7	7
Short-term investments	67,383	503,785
Short-term investments, excluding loans		413,274
Other short-term investments		413,274
Short-term loans	67,383	90,511
Short-term loans to others	67,383	90,511
Short-term operating receivables	4,231,577	5,058,362
Short-term trade receivables	1,565,639	2,039,537
Short-term operating receivables due from others	2,665,938	3,018,825
Cash	14,337,071	14,824,519
Short-term deferred costs and accrued revenues	***6,852,954***	***5,141,125***
CAPITAL AND LIABILITIES	**213,340,993**	**231,226,990**
Capital	***49,301,785***	***57,802,754***
Called-up capital	28,328,468	28,328,468
Share capital	28,328,468	28,328,468
Capital surplus	12,842,835	26,592,134
Revenue reserves	36,891	
Other revenue reserves	36,891	
Retained earnings	13,671,933	
Net profit or loss for the period	(11,463,082)	
Revaluation surplus	(724,306)	(123,314)
Capital consolidation adjustment	470,653	490,320
Capital of minority shareholders	6,138,393	2,515,146

	2014 (EUR)	2013 (EUR)
Provisions, and long-term accrued costs and deferred revenues	***7,693,610***	***7,194,806***
Provisions for termination benefits and similar liabilities	5,581,875	4,432,573
Long-term accrued costs and deferred revenues	2,111,735	2,762,233
Long-term liabilities	***105,511,190***	***50,170,741***
Long-term financial liabilities	104,308,697	50,003,040
Long-term financial liabilities to banks	101,588,742	44,733,976
Long-term financial liabilities to others	2,719,955	5,269,064
Long-term operating liabilities	1,120,847	76,125
Long-term trade payables	1,102,048	53,581
Long-term operating liabilities to others	18,799	22,544
Deferred tax liabilities	81,646	91,576
Short-term liabilities	**46,788,093**	**110,984,984**
Short-term financial liabilities	14,547,845	77,948,353
Short-term financial liabilities to banks	14,538,505	76,340,920
Other short-term financial liabilities	9,340	1,607,433
Short-term operating liabilities	32,240,248	33,036,631
Short-term operating liabilities from advances	723,676	1,049,496
Short-term bills payable		127.167
Short-term trade payables	10,311,504	10,170,121
Other short-term operating liabilities	21,205,068	21,689,847
Short-term accrued costs and deferred revenues	***4,046,315***	***5,073,705***

7.4 CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014 (VERSION II)

	2014 (EUR)	2013 (EUR)
A. Cash flows from operating activities		
a) Items of income statement	**21,929,829**	**23,152,673**
Operating revenues (except from revaluation) and financial revenues from operating receivables	156,625,703	162,906,114
Operating expenses excluding amortisation/depreciation (except from revaluation) and financial expenses from operating liabilities	(134,615,140)	(139,611,668)
Income taxes and other taxes not included in operating expenses	(80,734)	(141,773)
b) Changes in net operating assets in balance sheet items (including accruals and deferrals, provisions and deferred tax assets and liabilities)	**1,471,310**	**(2,455,273)**
Opening less closing operating receivables	1,593,109	(1,325,744)
Opening less closing deferred costs and accrued revenues	(1,678,552)	492,098
Opening less closing deferred tax assets	(11,940)	(207,863)
Openin less closing assets (disposal groups) held for sale	732,684	
Opening less closing inventories	(402,842)	811,916
Closing less opening operating liabilities	5,757,413	3,737,861
Closing less opening accrued costs and deferred revenue, and provisions	(3,722,455)	(6,216,597)
Closing less opening deferred tax liabilities	(63,423)	(479,628)
c) Net cash from operating activities (a + b)	**23,401,139**	**20,697,400**
B. Cash flows from investing activities		
a) Cash receipts from investing activities	**807,313**	**14,086,737**
Interest received from investing activities	203,870	110,514
Dividends received from investing activities	1,717	837,884
Cash receipts from disposal of intangible assets	212	45,764
Cash receipts from disposal of property, plant and equipment	300,341	384,104
Cash receipts from disposal of investment property		669,338
Cash receipts from disposal of long-term investments	24,771	4,884,579
Cash receipts from disposal of short-term of investments	276,402	7,154,554

	2014 (EUR)	2013 (EUR)Poslovni
b) Cash payments from investing activities	**(10.133.531)**	**(7.935.490)**
Cash payments to acquire intangible assets	(506,193)	(9,954)
Cash payments to acquire property, plant and equipment	(6,641,291)	(3,024,790)
Cash payments to acquire investment property	(1,193,743)	
Cash payments to acquire short-term investments	(1,792,304)	(4,900,746)
c) Net cash from investing activities (a + b)	**(9,326,218)**	**6,151,247**
C. Cash flows from financing activities		
a) Cash receipts from financing activities	**7,797,514**	**7,959,839**
Cash proceeds from paid-in capital	118,936	
Cash proceeds from increase in long-term financial liabilities	1,811,283	
Cash proceeds from increase in short-term financial liabilities	5,867,295	7,959,839
b) Cash payments from financing activities	**(22,363,901)**	**(36,414,195)**
Interest paid on financing activities	(6,932,082)	(6,829,882)
Cash repayments of capital	(837,958)	
Cash repayments of long-term financial liabilities	(6,600,592)	(12,162,816)
Cash repayments of short-term financial liabilities	(7,620,107)	(16,922,983)
Dividends and other profit shares paid	(373,162)	(498,514)
c) Net cash from financing activities (a + b)	**(14,566,387)**	**(28,454,356)**
D. Closing balance of cash	**14,337,071**	**14,824,519**
x) Net cash inflow or outflow for the period (sum total of net cash Ac, Bc and Cc)	(491,466)	(1,605,709)
Exchange rate translation effects	4,018	(6,697)
y) Opening balance of cash	14,824,519	16,436,925

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Nova Gorica, 2015