

**Danubius Hotels Nyrt.
and Subsidiaries
Consolidated Financial Statements
in accordance with
International Financial Reporting Standards
as adopted by the EU
31 December 2013
with Report of the Independent Auditor**

Danubius Hotels Nyrt. and Subsidiaries
Consolidated Financial Statements
For the year ended 31 December 2013

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This is an English translation of the Independent Auditors' Report on the 2013 Consolidated Financial Statements of Danubius Hotels Nyrt. and its subsidiaries issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete statutory Consolidated Financial Statements it refers to.

Independent Auditors' Report

To the shareholders of Danubius Hotels Nyrt.

Report on the Consolidated Financial Statements

We have audited the accompanying 2013 consolidated financial statements of Danubius Hotels Nyrt. (hereinafter referred to as "the Company") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, which shows total assets of HUF 86,629 million, the consolidated statement of profit or loss and other comprehensive income, which shows profit for the year of HUF 1,538 million, and the consolidated statements of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the consolidated financial position of Danubius Hotels Nyrt. and its subsidiaries as at 31 December 2013, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on the Consolidated Business Report

We have audited the accompanying 2013 consolidated business report of Danubius Hotels Nyrt. and its subsidiaries.

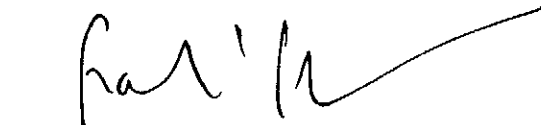
Management is responsible for the preparation of the consolidated business report in accordance with the provisions of the Hungarian Act on Accounting. Our responsibility is to assess whether this consolidated business report is consistent with the consolidated financial statements prepared for the same business year. Our work with respect to the consolidated business report was limited to the assessment of the consistency of the consolidated business report with the consolidated financial statements, and did not include a review of any information other than that drawn from the audited accounting records of the Company and its subsidiaries.

In our opinion, the 2013 consolidated business report of Danubius Hotels Nyrt. and its subsidiaries is consistent with the data included in the 2013 consolidated financial statements of Danubius Hotels Nyrt. and its subsidiaries.

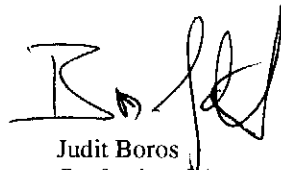
Budapest, 2 April 2014

KPMG Hungária Kft.

Registration number: 000202



Péter Szabó
Partner

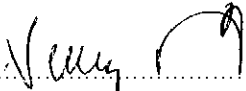


Judit Boros
Professional Accountant
Registration number: 005374



Danubius Hotels Nyrt. and Subsidiaries
Consolidated Statement of Financial Position
(All amounts in million HUF)

		At 31 December	
	Notes	2013	2012
Assets			
Cash and cash equivalents	3	3,556	2,885
Trade and other receivables	4	2,740	2,821
Inventory	5	554	491
Assets classified as held for sale	6	83	65
Current income tax receivables		12	5
Total current assets		6,945	6,267
Property, plant and equipment	7	76,056	76,077
Intangible assets	8	3,184	3,154
Other non-current assets		36	39
Deferred tax assets	18	408	413
Total non-current assets		79,684	79,683
Total assets		86,629	85,950
Liabilities and Shareholders' Equity			
Trade accounts payable		2,686	3,165
Advance payments from guests		1,010	715
Current income tax payables		73	126
Other payables and accruals, including derivatives	9	4,605	3,898
Interest-bearing loans and borrowings	10	6,428	6,565
Provisions	11	68	79
Total current liabilities		14,870	14,548
Interest-bearing loans and borrowings	10	14,549	15,415
Deferred tax liabilities	18	1,450	1,309
Provisions	11	1,474	1,353
Total non-current liabilities		17,473	18,077
Total liabilities		32,343	32,625
Shareholders' Equity			
Share capital	12	8,285	8,285
Capital reserve	13	7,435	7,435
Treasury shares	13	(1,162)	(1,162)
Translation reserve	13	8,287	8,852
Hedge reserve		(22)	(56)
Retained earnings	13	28,605	27,175
Attributable to equity holders of the parent		51,428	50,529
Non-controlling interest	14	2,858	2,796
Total shareholders' equity		54,286	53,325
Total liabilities and shareholders' equity		86,629	85,950


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Dr. Imre Deák
Member of Board of Directors


.....
János Tóbiás
Member of Board of Directors

Budapest, 2 April 2014

The notes set out on pages 10 to 42 are an integral part of the consolidated financial statements

Danubius Hotels Nyrt. and Subsidiaries
Consolidated Statement of Profit or Loss
(All amounts in million HUF)

	Notes	Year ended 31 December	
		2013	2012
Room revenue		24,916	23,004
Food and beverage revenue		14,679	13,621
Spa revenue		6,722	6,477
Other departmental revenue		2,171	2,111
Revenue from wineries		43	54
Revenue from security services		593	667
Other income		954	483
Total operating revenue and other income		50,078	46,417
Cost of goods purchased for resale		458	455
Material costs	15	10,749	10,110
Services used	16	10,554	9,913
Material expenses and services used		21,761	20,478
Wages and salaries		12,460	11,835
Other personnel expenses		1,288	1,286
Taxes and contributions		3,824	3,667
Personnel expenses		17,572	16,788
Depreciation and amortisation	7,8	4,784	4,576
Other expenses	17	2,763	2,787
Changes in inventories of finished goods and w.i.p.		3	3
Own work performed and capitalised		(25)	(21)
Total operating expenses		46,858	44,611
Profit from operations		3,220	1,806
Interest income		24	40
Interest expense		(805)	(987)
Foreign currency gain / (loss)		(476)	1,107
Net finance result		(1,257)	160
Share of profit of equity accounted investees		8	5
Profit before tax		1,971	1,971
Income tax expense	18	433	519
Profit for the year		1,538	1,452
Attributable to:			
Owners of the Company		1,430	1,381
Non-controlling interest		108	71
Basic and diluted earnings per share (HUF per share):	19	181	175

Danubius Hotels Nyrt. and Subsidiaries
Consolidated Statement of Comprehensive Income
(All amounts in million HUF)

	Year ended 31 December	
	2013	2012
Profit for the year	1,538	1,452
Other comprehensive income *		
Foreign currency translation differences for foreign operations	(583)	(1,815)
Changes in fair values of hedge derivatives	38	8
Total other comprehensive income	(545)	(1,807)
Total comprehensive income for the period	993	(355)
Attributable to:		
Owners of the Company	899	(316)
Non-controlling interest	94	(39)
Total comprehensive income for the period	993	(355)

* includes only items that are or may be reclassified to profit and loss.

Danubius Hotels Nyrt. and Subsidiaries
Consolidated Statement of Changes in Equity
(All amounts in million HUF)

	Share Capital	Capital Reserve	Treasury Shares	Retained Earnings	Translation Reserve	Hedge Reserve	Total	Non-controlling Interest	Total Equity
1 January 2012	8,285	7,435	(1,162)	25,794	10,564	(71)	50,845	2,847	53,692
Total comprehensive income for the period	-	-	-	1,381	-	-	1,381	71	1,452
Profit for the period	-	-	-	1,381	-	-	1,381	71	1,452
Other comprehensive income	-	-	-	-	(1,712)	-	(1,712)	(103)	(1,815)
Foreign currency translation differences for foreign operations	-	-	-	-	(1,712)	-	(1,712)	(103)	(1,815)
Changes in fair values of hedge derivatives	-	-	-	-	-	15	15	(7)	8
Total other comprehensive income	-	-	-	-	(1,712)	15	(1,697)	(110)	(1,807)
Total comprehensive income for the period	-	-	-	1,381	(1,712)	15	(316)	(39)	(355)
Transaction with owners, recorded directly in equity	-	-	-	-	-	-	-	(12)	(12)
Dividend to Non-controlling interests	-	-	-	-	-	-	-	(12)	(12)
Total transaction with owners	-	-	-	-	-	-	-	(12)	(12)
31 December 2012	8,285	7,435	(1,162)	27,175	8,852	(56)	50,529	2,796	53,325
Total comprehensive income for the period	-	-	-	1,430	-	-	1,430	108	1,538
Profit for the period	-	-	-	1,430	-	-	1,430	108	1,538
Other comprehensive income	-	-	-	-	(565)	-	(565)	(18)	(583)
Foreign currency translation differences for foreign operations	-	-	-	-	(565)	-	(565)	(18)	(583)
Changes in fair values of hedge derivatives	-	-	-	-	-	34	34	4	38
Total other comprehensive income	-	-	-	-	(565)	34	(531)	(14)	(545)
Total comprehensive income for the period	-	-	-	1,430	(565)	34	899	94	993
Transaction with owners, recorded directly in equity	-	-	-	-	-	-	-	(32)	(32)
Dividend to Non-controlling interests	-	-	-	-	-	-	-	(32)	(32)
Total transaction with owners	-	-	-	-	-	-	-	(32)	(32)
31 December 2013	8,285	7,435	(1,162)	28,605	8,287	(22)	51,428	2,858	54,286

The notes set out on pages 10 to 42 are an integral part of the consolidated financial statements

Danubius Hotels Nyrt. and Subsidiaries
Consolidated Statement of Cash Flows
(All amounts in million HUF)

	Notes	Year ended 31 December	
		2013	2012
Profit from operations		3,220	1,806
Depreciation and amortisation	7,8	4,784	4,576
Gain on sale of property, plant and equipment		(344)	-
<u>Changes in working capital</u>			
Increase of provisions	11	110	73
Increase of accounts receivable and other current assets		(477)	(401)
(Increase) / decrease of inventory		(63)	43
Increase of accounts payable and other current liabilities		1,013	1,163
Interest paid		(800)	(1,032)
Income tax paid		(296)	(72)
Net cash provided by operating activities		7,147	6,156
Purchase of property, plant and equipment and intangibles	7,8	(5,502)	(2,791)
Proceeds on sale of property, plant and equipment		442	
Interest received		51	27
Net cash used in investing activities		(5,009)	(2,764)
Receipt of long-term bank loans		4,172	728
Repayment of long-term bank loans		(4,631)	(4,958)
Net cash used in financing activities		(459)	(4,230)
Net decrease in cash held		1,679	(838)
Cash and cash equivalents at the beginning of the period		1,162	2,111
Effect of exchange rate fluctuations on cash held		(62)	(111)
Cash and cash equivalents at the end of the period	3	2,779	1,162

Danubius Hotels Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

1. The Company and its subsidiaries

Danubius Hotels Nyrt. ("Danubius" or "the Company") is a company limited by shares which is domiciled in, and incorporated under the laws of Hungary. The registered office address of the Company is 11. Szent István tér, Budapest, Hungary 1051. The Company and its subsidiaries (the "Group") provide hospitality services in Hungary, Czech Republic, Slovakia and Romania, with an emphasis on 3, 4 and 5 star spa and city hotels. The Company's shares are listed on the Budapest Stock Exchange. At 31 December 2013, 80.33% of the Company's shares were owned by CP Holdings Limited, a UK private company, companies controlled by CP Holdings Limited other than the Company itself and a member of the Schreier family. The ultimate controlling party of the Group are private persons holding of CP Holdings Limited, having an 84.14% combined direct interest considering the treasury shares held by the Company.

The consolidated financial statements of the Company as at and for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group").

The Company's principal subsidiary companies are as follows:

Name	Principal Activity	Country of Incorporation	Group interest held at 31 December 2013	Group interest held at 31 December 2012
Danubius Szállodaüzemeltető és Szolgáltató Zrt.	Hotel operator	Hungary	100%	100%
Gundel Kft.	Restaurant operator	Hungary	100%	100%
Preventív-Security Zrt.	Security	Hungary	78.6%	78.6%
Léčebné Lázně a.s.	Hotel operator	Czech Republic	95.36%	95.36%
Slovenské Liečebné Kúpele Piestany a.s.	Hotel operator	Slovakia	88.85%	88.85%
SC Salina Invest SA	Holding company	Romania	n.a.	99.94%
SC Balneoclimaterica SA	Hotel operator	Romania	98.01%	97.97%
Egészségsgiget Kft.	Project company	Hungary	50%	50%

In 2009, Egészségsgiget Kft became a fully consolidated subsidiary (see note 10).

As of 31 August 2013 SC Salina Invest SA merged into SC Balneoclimaterica SA.

Danubius Hotels Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

2. Significant accounting policies

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis of preparation

The consolidated financial statements are presented in Hungarian Forints (HUF), which is the functional currency of the Company, rounded to the nearest million. The functional currency of subsidiaries in the Czech Republic, Slovakia and Romania are the Czech Crowns, the Euros and the Romanian Lei respectively.

The consolidated financial statements are prepared under the historical cost convention except for derivative financial instruments, which are measured at fair value (see Note 23).

The significant accounting policies did not change compared to previous period and have been consistently applied by the Group entities, except for the changes detailed under a separate subtitle at the end of this chapter.

The consolidated financial statements were authorised for issue by the Board of Directors on 2 April 2014 and by the Supervisory Board on 2 April 2014.

Use of estimates and assumptions

The preparation of consolidated financial statements in conformity with EU IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of EU IFRS that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 25.

Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which the control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets and liabilities assumed.

Danubius Hotels Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.
The consideration transferred does not include amounts related to the settlement of pre-existing relationship. Such amounts generally are recognised in profit or loss.

Transaction costs, other than those associated with the issue of the debts or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interest arising from transaction that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements include the financial statements of the Company and its subsidiaries after elimination of all inter-company transactions and balances, including any unrealised gains and losses.

Associates and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Associates and jointly controlled entities are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total recognised gains and losses and equity movements of associates and jointly controlled entities after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Share of the profit of the Group's new 50% joint venture, Prev-Info Kft, was recognised in a separate line in the statement of income.

Investments

Investments in which the Group has less than 20% ownership are classified as available for sale financial assets and carried at cost, less impairment, where such investments are unquoted and fair value cannot be reasonably estimated. Otherwise they are measured at fair value using the quoted bid price of the investment.

Danubius Hotels Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

Financial statements of foreign operations

The functional currencies of the Group's foreign operations differ from the functional currency of the Company. Assets and liabilities of foreign operations including goodwill and fair value adjustments arising on acquisitions on or after 1 January 2005 (the effective date of revised IAS 21) are translated to HUF at foreign exchange rates effective at the reporting date. Goodwill and any fair value adjustments arising on acquisitions prior to 1 January 2005, the effective date of revised IAS 21, are treated as assets and liabilities of the acquiring entity and therefore are not retranslated. The income and expenses of foreign operations are translated to HUF at the exchange rate that approximates the rate at the date of the transaction. Foreign exchange differences arising on translation of foreign operations are recognised in other comprehensive income in the translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency of the relevant Group company at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or loss.

Non-derivative financial instruments

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, or available for sale financial assets, as appropriate. When financial assets and liabilities are recognized initially, they are measured at fair value, adjusted for directly attributable transaction costs, in the case of financial assets and liabilities not at fair value through profit or loss. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The Group determines the classification of its financial assets and liabilities on initial recognition and, where permitted and appropriate, re-evaluates this designation at each financial year end. Purchases and sales of investments and other financial instruments are recognized on settlement date which is the date when the asset is delivered to the counterparty.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognised in profit or loss.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy.

Danubius Hotels Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses, other than impairment losses and foreign currency differences on available-for-sale monetary items, being recognised directly in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in profit or loss.

Fair value hierarchy

The different levels of the fair value hierarchy have been defined as follows:

Level 1: quoted prices in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the financial asset or liability that are not based on observable market data (unobservable inputs)

Classification and derecognition of financial instruments

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term receivables, loans, borrowings, and investments. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income as incurred. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when the Group's contractual rights to the cash flows from the asset expire, or when it transfers such rights in a transaction in which substantially all risks and rewards of ownership of the financial asset are transferred.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Danubius Hotels Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs, or became ineffective. When the hedged item is a non-financial asset or liability, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

The group has no fair value hedges.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset, including borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads directly attributable to bringing the asset to a working condition for its intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the net proceeds from disposal with the carrying amount and are recognised net in profit or loss.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is provided using the straight-line method over the estimated useful lives of each part of an item of property, plant and equipment. The depreciation rates used by the Group are from 2% to 5% for buildings and leasehold improvements and 14.5% to 33% for machinery and equipment. Land and construction in progress are not depreciated.

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Intangible assets

Goodwill

All amounts of goodwill recognised in these consolidated financial statements were determined based on rules effective prior to 1 January 2010, the date the revised IFRS 3 – Business combination became effective

Acquisitions prior to 31 March 2004, the date that IFRS 3 became effective

The Group applied IFRS 3 to business combinations that occurred on or after 31 March 2004. In respect of business combinations that occurred before that date goodwill represents the amount recorded

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previously by the Group in accordance with IAS 22 (original cost less accumulated amortisation to 31 December 2005) less accumulated impairments (if any).

Acquisitions between 31 March 2004, the date that IFRS 3 became effective and 1 January 2010 when the revised IFRS 3 became effective

For acquisitions on or after 31 March 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Goodwill is stated at cost less any accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Acquisitions of non-controlling interests, prior to 1 January 2010, the date the revised IFRS 3 – Business combination became effective

No goodwill was recognised when acquiring the non-controlling interest in a subsidiary. The difference between the acquisition price and the carrying value of the non-controlling interest was recorded directly in equity.

Other Intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses (see below).

Where the Group has the legal right to use a particular property the value of these rights is amortised over the term for which the Group holds the rights. These include property rights on Margaret Island, Budapest which are being amortised over 100 years.

Software is amortised on a straight line basis over its expected useful life of 3-4 years.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Inventory

Inventory is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. The cost of inventory is determined on the weighted average cost basis and includes expenditure incurred in acquiring the inventory and bringing it to its existing location and condition.

Cash and cash equivalents

Cash equivalents are liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other receivables

Trade and other receivables are stated initially at their fair value and subsequently at their amortised cost less impairment losses (see below).

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro-rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using an after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment loss on property, plant and equipment is included in depreciation and amortisation, while impairment on trade and other receivables is included in other expenses. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the asset (or disposal group) is measured at the lower of carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a *pro-rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

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Provisions

A provision is recognised in the statement of financial position when, as a result of a past event, the Group has a legal or constructive obligation that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Trade and other payables

Trade and other payables are initially measured at fair value and then subsequently at amortised cost.

Interest-bearing loans

Interest bearing loans are recognised initially at fair value of the proceeds received, less attributable transaction costs. In subsequent periods, they are measured at amortised cost using the effective interest method. Any difference between proceeds received (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings on an effective interest basis.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Revenue recognition

Goods sold and services rendered

Room revenue (based on completed guest nights), food and beverage, spa revenue, winery, security and other departmental revenues are each recognised as the service is provided.

Government grants

Grants that compensate for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised. Grants related to assets are presented in the statement of financial position as deferred income and the grant is recognised as other income over the useful life of a depreciable asset.

Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense.

Financial Income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, losses on the disposal of available-for-sale financial assets, unwinding of the discount on provisions, impairment on financial assets (except for trade and other receivables) and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.

Foreign currency gains and losses are reported on a net basis.

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Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Employee benefits

Defined contribution plan

The Company operates a defined contribution pension plan for Hungarian employees. Pension costs are charged against profit or loss as other personnel expenses in the period in which the contributions are payable. The assets of the fund are held in a separate trustee administered fund and the Group has no legal or constructive obligation with regard to the plan assets outside of its defined contributions.

Defined benefit plans and other long-term employee benefits

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group operates defined post-employment benefit programmes for retirement and provides jubilee benefits. None of these programmes require contributions to be made to separately administered funds. The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The cost of providing benefits is determined separately for each programme using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense immediately. Past service costs, resulting from the introduction of, or changes to the defined benefit scheme are recognised as an expense immediately.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to pay additional termination benefits to certain retirees.

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Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Segment reporting

Group operations are presented in respect of geographical areas identified by location of assets and operational segments that are separately evaluated for management reporting purposes. Management considers that the Group operates primarily in the hotel and hospitality segment. In Hungary the Group also has a security segment through its Preventív Security Zrt. subsidiary.

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (operational segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's operational and geographical segments. The Group's primary format for segment reporting is based on geographic segments identified by location of assets. The operational segments are determined based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

New standards and interpretations not yet adopted as at 31 December 2013

A number of new standards, interpretations and amendments to standards are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these consolidated financial statements:

IFRS 10 Consolidated Financial Statements (Effective for annual periods beginning on or after 1 January 2014)

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

- (1) it is exposed or has rights to variable returns from its involvements with the investee;
- (2) it has the ability to affect those returns through its power over that investee; and
- (3) there is a link between power and returns.

The Group does not expect that the new standard has material impact on the financial statements.

IFRS 11 Joint Arrangements (Effective for annual periods beginning on or after 1 January 2014)

IFRS 11 supersedes and replaces IAS 31, *Interest in Joint Ventures*. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

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- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations.
- A joint venture is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement. Joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; application of the equity method is mandatory in the consolidated financial statements.

The Group does not expect that the new standard has material impact on the consolidated financial statements, as the Group does not have any interest in joint operations and its joint venture is already equity-accounted.

IFRS 12 Disclosure of Interests in Other Entities (Effective for annual periods beginning on or after 1 January 2014)

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The Group discloses non-controlling interests in connection to several of its subsidiaries. Additional disclosure of information will be required for these subsidiaries and for the joint venture focusing primarily on the stand-alone balances and turnover of those before inter-company eliminations.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities (Effective for annual periods beginning on or after 1 January 2014)

The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Group does not expect that the amendment has material impact on the consolidated financial statements.

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets

(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted)

The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period. The Amendments also require additional disclosures when an impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period and recoverable amount is based on fair value less costs to disposal.

The Group does not expect that the amendment has material impact on the consolidated financial statements.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted)

The Amendments allows hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when the following criteria are met:

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- The novation is made as a consequence of laws or regulations
- A clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument
- Changes to the terms of the derivative are limited to those necessary to replace the counterparty

The Group does not expect that the amendment has material impact on the consolidated financial statements.

Changes in accounting policies

Except for the changes below the Group has consistently applied the accounting policies set out in Note 2 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards with a date of initial application of 1 January 2013.

Amendments to IFRS 7 Disclosures: Offsetting Financial Assets and Financial Liabilities (Effective for annual periods beginning on or after 1 January 2013).

The Amendments contain new disclosure requirements for financial assets and liabilities that are (1) offset in the statement of financial position; or (2) subject to master netting arrangements or similar agreements.

The amendments to IFRS 7 have no material impact on the consolidated financial statements, because of the nature of the Group's operations and the types of financial assets and liabilities that it has.

IFRS 13 Fair Value Measurement (Effective prospectively for annual periods beginning on or after 1 January 2013. Earlier application is permitted.)

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

In accordance with the transitional provision of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurement of the Group's assets and liabilities.

For the extended disclosures of fair value measurement see Note 23.

Amendments to IAS 1 - Presentation of Items of Other Comprehensive Income
(Effective for annual periods beginning on or after 1 January 2013)

As a result of the amendments to IAS 1, the Group had to modify the presentation of items of OCI in its Statement of Comprehensive Income, to present separately items that would be reclassified to profit or loss from those that would never be.

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3. Cash and cash equivalents

	31 December	
	2013	2012
Bank balances	3,386	2,782
Call deposits	170	103
Cash and cash equivalents	3,556	2,885
Overdraft (see Note 10)	(777)	(1,723)
Cash and cash equivalents in the statement of cash flows	<u>2,779</u>	<u>1,162</u>

4. Trade and other receivables

	31 December	
	2013	2012
Trade receivables, net of impairment	1,243	1,493
Recoverable taxes and duties, except for income taxes	329	377
Advance payments to suppliers	125	120
Receivables from employees	20	19
Other receivables	1,023	812
	<u>2,740</u>	<u>2,821</u>

The ageing of trade receivables at the reporting date was:

	31 December 2013			31 December 2012		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	726	-	726	937	-	937
Past due 0-60 days	440	-	440	475	-	475
Past due 61-90 days	69	(9)	60	101	(26)	75
Past due 91-120 days	31	(14)	17	35	(29)	6
More than 121 days	119	(119)	-	96	(96)	-
	<u>1,385</u>	<u>(142)</u>	<u>1,243</u>	<u>1,644</u>	<u>(151)</u>	<u>1,493</u>

Reconciliation of allowance for doubtful receivables:

Opening balance, 1 January 2012	143
Impairment loss recognised	35
Write-offs	(27)
Closing balance, 31 December 2012	151
Impairment loss recognised	41
Write-offs	(50)
Closing balance, 31 December 2013	<u>142</u>

5. Inventory

	31 December	
	2013	2012
Food and beverages	262	230
Materials	164	145
Goods for resale	128	116
	<u>554</u>	<u>491</u>

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6. Non-current assets classified as held for sale

Non-current assets classified as held for sale comprises the net carrying value of a hotel in Hungary, called Hotel Hullám and a winery in Mád that have been advertised for sale and which the Group expects to sell within the next twelve months.

7. Property, plant and equipment

	Land	Buildings and improvements	Furniture, fittings and equipment	Constructions in progress	Total
At 1 January 2012					
Cost	13,297	103,077	27,245	1,898	145,517
Accumulated depreciation and impairment	-	41,958	23,514	93	65,565
Net carrying amount	13,297	61,119	3,731	1,805	79,952
For year ended 31 December 2012					
- Additions and capitalisations	-	695	873	1,027	2,595
- Effect of movements in exchange rates	(413)	(1,390)	(221)	(38)	(2,062)
- Depreciation charge for the year	-	(3,025)	(1,330)	10	(4,345)
- Disposals	-	(24)	(15)	(24)	(63)
Closing net carrying amount	12,884	57,375	3,038	2,780	76,077
At 31 December 2012					
Cost	12,884	100,666	26,564	2,857	142,971
Accumulated depreciation and impairment	-	43,291	23,526	77	66,894
Net carrying amount	12,884	57,375	3,038	2,780	76,077
For year ended 31 December 2013					
- Additions and capitalisations	-	3,582	1,512	115	5,209
- Effect of movements in exchange rates	37	(592)	(57)	(1)	(613)
- Depreciation charge for the year	-	(3,155)	(1,364)	-	(4,519)
- Disposals	(13)	(33)	(52)	-	(98)
Closing net carrying amount	12,908	57,177	3,077	2,894	76,056
At 31 December 2013					
Cost	12,908	103,153	27,417	2,927	146,405
Accumulated depreciation and impairment	-	45,976	24,340	33	70,349
Net carrying amount	12,908	57,177	3,077	2,894	76,056

The net carrying amount of property, plant and equipment pledged as loan security was HUF 39,922 million as of 31 December 2013 and HUF 39,373 million as of 31 December 2012. The amount of borrowing cost capitalised in 2013 was HUF 110 million (2012: HUF 28 million), the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 5.0% in 2013 (2012: 1.8%).

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8. Intangible assets

	Goodwill	Land usage rights	Software and other intangibles	Total
At 1 January 2012				
Cost	2,175	564	2,573	5,312
Accumulated amortisation and impairment	-	190	1,932	2,122
Net carrying amount	2,175	374	641	3,190
Year ended 31 December 2012				
- Additions and capitalisations	-	-	196	196
- Effect of movements in exchange rates	-	-	(5)	(5)
- Amortisation charge for the year	-	(5)	(226)	(231)
- Other	-	-	4	4
Closing net carrying amount	2,175	369	610	3,154
At 31 December 2012				
Cost	2,175	564	2,764	5,503
Accumulated amortisation and impairment	-	195	2,154	2,349
Net carrying amount	2,175	369	610	3,154
Year ended 31 December 2013				
- Additions and capitalisations	-	-	293	293
- Effect of movements in exchange rates	-	-	(2)	(2)
- Amortisation charge for the year	-	(7)	(258)	(265)
- Other	-	-	4	4
Closing net carrying amount	2,175	362	647	3,184
At 31 December 2013				
Cost	2,175	564	3,020	5,759
Accumulated amortisation and impairment	-	202	2,373	2,575
Net carrying amount	2,175	362	647	3,184

At 31 December 2013 intangible assets include HUF 362 million, net of amortisation (2012: HUF 369 million) for land usage rights relating to two hotels on Margaret Island held under licenses given by the Municipality of Budapest.

Goodwill relates to the following acquisitions:

	31 December	
	2013	2012
Léčebné Lázně a.s.	565	565
Gundel Kft.	944	944
Egészség-sziget Kft.	549	549
Preventív-Security Zrt.	117	117
Total goodwill	2,175	2,175

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The Group determines whether goodwill is impaired on an annual basis or when there is an indication that it might be impaired. This requires an estimation of the recoverable value of the cash-generating units (CGUs) to which the goodwill is allocated. The higher of fair value, less cost to sell or value in use is the base of any impairment. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and the 5-year business plan, which includes an annual 3 percent growth rate on average. Cash flows for a further indefinite period were extrapolated using a constant growth rate of 3 percent, which does not exceed the long-term average growth rate for the industry. Management believes that this indefinite forecast period was justified due to the long-term nature of the Group's hospitality business.

- A weighted average cost of capital (WACC) of 6.1 percent (2012: 9.6%) was applied in determining the net present value of future cash flows of cash generating units located in Hungary, except for Gundel in which case 8.4% was applied, while 6.4% was used in case of CGUs located in Czech Republic (2012: 9.1%). The discount rate was estimated based on the risk free interest rate, market risk premium, industry beta and company's leverage.

In 2013 and 2012 no impairment loss was recognised in respect of goodwill as the estimated recoverable amount of each CGU the goodwill relates to exceeded its carrying amount. Management has identified the key assumptions for which there could be a reasonably possible change that could cause the carrying amount to exceed the recoverable amount. The table below shows the amount that these assumptions are required to change individually in order for the estimated recoverable amount to be equal to the carrying amount.

In percentage	Change required for carrying amount to equal the recoverable amount	
	2013	2012
CGU		
Léčebné Lázně a.s.		
- change of after-tax discount rate	157	94
- change of EBITDA	(11.2)	(9.0)
Gundel Kft.		
- change of after-tax discount rate	44	47
- change of revenue growth rate	(2.7)	(3.1)
Egészségsgiget Kft.		
- change of market value of the land	(14.8)	(14.8)
Preventiv-Security Zrt.		
- change of after-tax discount rate	4	26
- change of EBITDA	(7)	(28)

The values assigned to the key assumptions represent management's assessment of future trends and are based on both external sources and internal sources (historical data).

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9. Other payables and accruals, including derivatives

	31 December	
	2013	2012
Wages and salaries	941	951
Social contribution tax	493	443
Taxes payable, excluding income taxes	646	519
Accrued expenses	1,404	1,098
Derivatives	32	82
Government grants ¹	199	76
Other	890	729
	<u>4,605</u>	<u>3,898</u>

¹ The government grants recognized in profit or loss as other income was HUF 19 million in 2013 (2012: HUF 8 million).

10. Interest-bearing loans and borrowings

Non-current liabilities

	31 December	
	2013	2012
Secured bank loans	14,011	14,888
Obligation due to written put option to acquire the remaining 50% shareholding in Egészségsgiget Kft. ¹	538	527
	<u>14,549</u>	<u>15,415</u>

Current liabilities

	31 December	
	2013	2012
Current portion of secured bank loans	5,651	4,842
Bank overdrafts	777	1,723
	<u>6,428</u>	<u>6,565</u>

¹ In August 2009 Danubius entered into a put and call option agreement with CP Holdings to purchase the remaining shareholding in Egészségsgiget Kft through the purchase of Kemenes-Invest Kft which holds 100% of Egészségsgiget Kft. The amount to be paid by Danubius under the option agreement is EUR 1.7 million. The option agreements provide for an option fee of EUR 111,000 and 3 month EURIBOR + 1% interest from August.¹

As of 31 December 2013 the Group's secured bank loans fall due for repayment, as follows:

	31 December	
	2013	2012
Within 1 year	6,428	6,565
1 to 2 years	4,304	9,478
2 to 5 years	9,707	5,134
over 5 years	-	276
Total debt	<u>20,439</u>	<u>21,453</u>
Less total current debt	<u>(6,428)</u>	<u>(6,565)</u>
Total non-current debt	<u>14,011</u>	<u>14,888</u>

The Group's long-term bank loans are denominated in Euro. At year-end, the outstanding amount of these long-term bank loans, including short-term instalments, was EUR 67.2 million (2012: EUR 68.8 million). For additional information on interest rates see also note 23.

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11. Provisions

	Acquisition of Piestany	Employee benefits	Restructuring	Other	Total
Balance at 31 December 2011	753	545	32	29	1,359
Provision made during the year	-	121	-	22	143
Provision used during the year	-	(8)	(32)	-	(40)
Effect of movements in exchange rates	(48)	(7)	-	(1)	(56)
Unwinding of discounts	-	26	-	-	26
Balance at 31 December 2012	705	677	-	50	1,432
Provision made during the year	-	69	-	20	89
Provision used during the year	-	(27)	-	-	(27)
Effect of movements in exchange rates	14	4	-	(2)	16
Unwinding of discounts	-	32	-	-	32
Balance at 31 December 2013	719	755	-	68	1,542
Current portion 2012	-	29	-	50	79
Non-current portion 2012	705	648	-	-	1,353
Current portion 2013	-	-	-	68	68
Non-current portion 2013	719	755	-	-	1,474

Acquisition of Piestany

In 2002 a provision for legal cases of HUF 621 million was initially recognised at the acquisition of Piestany from which HUF 11 million was utilized in 2003 as a result of a lost legal case. At the end of 2006 HUF 163 million of the provision was released as it was no longer considered probable that an outflow of resources embodying economic benefits will be required to settle certain cases. The timing of the resolution of the remaining cases is uncertain. The change in the amount of provision in HUF terms is only due to foreign exchange translation effect.

Employee benefits

Group companies in Hungary, the Czech Republic and Slovakia operate benefit programmes that provide lump sum benefits to employees after three years' employment and upon retirement. The amount of the benefits is determined by the base monthly salary. None of these programmes have separately administered funds.

The principal actuarial assumptions are the discount rate used to determine the net present value of cash outflows and the average salary increase. The average discount rate used was 5% as at 31 December 2013 (2012: 6%), while the average salary increase was 3% at 31 December 2013 (2012: 4%). Assumptions regarding future mortality and job leavers are based on published statistics and mortality tables.

Restructuring

An efficiency improvement project to further optimize Danubius workforce was closed in 2012 and the remaining HUF 32 million provision as of 31 December 2011 was paid in 2012 representing cash outflows incurred.

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12. Share Capital

The registered share capital at 31 December 2013 and 2012 consists of 8,285,437 authorised, issued and fully paid ordinary shares, each of par value of HUF 1,000. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

13. Reserves

Capital reserve

The capital reserve was established in 1991, when the company was privatized and transformed to a public limited company.

Treasury shares

The reserve for treasury shares comprises the cost of the Company's shares held by the Group. As at 31 December 2013 and 2012 the Group held 374,523 of the Company's shares, purchased at a total cost of HUF 1,162 million.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the consolidated financial statements of foreign operations.

Retained Earnings

Dividends are available for distribution from Danubius Hotels Nyrt.'s company only up the amount of retained earnings (including profit/loss for the year) calculated according to the Hungarian Accounting Law. The amount available for distribution as dividends at 31 December 2013 is HUF 26,190 million (2012: HUF 26,658 million).

If dividends are paid to non-resident shareholders, a withholding tax of up to 20% must be paid. The rate applicable is dependent on the country of residence of the shareholder, the period in which the dividend is paid and the number of shares held. The withholding tax is also payable by individual shareholders who are resident in Hungary (resident legal entities are exempt).

14. Non-controlling interest

	31 December	
	2013	2012
Preventív-Security Zrt.	73	65
Léčebné Lázně a.s.	774	833
Slovenské Liečebné Kúpele Piestany a.s.	1,981	1,868
SC Balneoclimaterica SA	30	30
	<u>2,858</u>	<u>2,796</u>

15. Material costs

	2013	2012
Materials used in providing guest services	5,883	5,466
Utility costs (gas, electricity, fuel and water consumption)	3,524	3,411
Other materials used	1,342	1,233
	<u>10,749</u>	<u>10,110</u>

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16. Services used

	2013	2012
Washing, cleaning services	1,426	1,356
Maintenance services	1,756	1,601
Safety services	777	833
Professional and membership fees	761	659
Hospitality services	771	685
Marketing, PR services	831	801
Rental of buildings, equipment and vehicles	587	592
Travel agency and other commissions	773	663
Bank and insurance charges	538	502
Hire of temporary personnel	212	214
Telecommunications services	271	274
Software, IT support	446	415
Delivery and transport fees	193	169
Training	78	82
Other	1,134	1,067
	<u>10,554</u>	<u>9,913</u>

17. Other expenses

	2013	2012
Taxes and contributions	2,449	2,305
Damages	18	10
Other	296	472
	<u>2,763</u>	<u>2,787</u>

Taxes and contributions do not include taxes on wages and salaries and income taxes (note 18).

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18. Income tax

The income tax charge for the year comprises:

	<u>2013</u>	<u>2012</u>
Current tax	270	292
Deferred tax	163	227
	<u>433</u>	<u>519</u>

A reconciliation of the difference between the income tax expense calculated using the effective tax rate and the statutory tax rate, is shown in the following table:

	2013	2013	2012	2012
Profit before tax		<u>1,971</u>		<u>1,971</u>
Income tax using effective corporation tax rate of the parent	13%	256	13%	256
Effect of different tax rates		147		66
Non-deductible expenses		199		315
Tax exempt revenues		(292)		(346)
Effect of tax rate changes		(31)		91
Current year losses for which no deferred tax asset was recognised		142		164
Tax losses utilised		(3)		-
Change in unrecognised differences		-		21
Tax allowances		(14)		(16)
Other		29		(32)
		<u>433</u>		<u>519</u>

The corporate income tax rate in Hungary is 10% for the first HUF 500 million and 19% for the exceeding amount. Accordingly, each company has to determine its average tax rate applicable to deferred tax assets and liabilities. The corporate income tax rate was 19% in the Czech republic (2012: 19%), 22% in Slovakia (2012: 23%) and 16% in Romania (2012: 16%).

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Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December 2013 and 31 December 2012 are attributable to the following:

	Assets		Liabilities		Net	
	2013	2012	2013	2012	2013	2012
Property, plant and equipment	49	52	1,976	1,967	(1,927)	(1,915)
Legal provisions	160	164	-	-	160	164
Impairment of receivables	4	9	-	-	4	9
Provision for employee benefits	153	129	-	-	153	129
Valuation of loans due to exchange rates	122	34	-	-	122	34
Valuation of investments due to exchange rates	-	-	122	-	(122)	-
Tax loss carry forwards	588	683	-	-	588	683
Hedge	6	17	-	-	6	17
Other	24	14	50	31	(26)	(17)
	1,106	1,102	2,148	1,998	(1,042)	(896)
Offset of assets and liabilities within individual legal entities	(698)	(689)	(698)	(689)	-	-
	408	413	1,450	1,309	(1,042)	(896)

Movement in temporary differences during the year

	Balance 1 January 2012	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2012	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2013
Property, plant and equipment	(1,666)	(293)	44	(1,915)	(38)	26	(1,927)
Legal provisions	145	30	(11)	164	(7)	3	160
Impairment of receivables	14	(5)	-	9	(5)	-	4
Provision for employee benefits	97	34	(2)	129	26	(2)	153
Valuation of loans due to exchange rates	59	(25)	-	34	88	-	122
Valuation of investments due to exchange rates	-	-	-	-	(122)	-	(122)
Tax loss carry forwards	668	22	(7)	683	(95)	-	588
Hedge	-	-	17	17	-	(11)	6
Other	(25)	10	(2)	(17)	(10)	1	(26)
	(708)	(227)	39	(896)	(163)	17	(1,042)

As at 31 December 2013 HUF 1,927 million deferred tax liabilities are recognised in respect of temporary differences between the tax base of Property, plant and equipment (primarily hotel buildings) and their carrying amount recorded in these consolidated financial statements.

At 31 December 2013 tax loss carry forwards of HUF 588 million can be utilised over indefinite period of time, however no deferred tax asset was recognised on negative tax base of HUF 4,300 million as it is not expected to reverse within reasonable period of time (10 years), due partly to the recent change of Hungarian corporate taxation, according to which, starting from 2012 the utilisation of tax loss carry forwards is maximised to 50% of taxable income of the period.

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19. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of HUF 1,430 million in 2013 (2012: of HUF 1,381 million) and the weighted average number of qualifying ordinary shares outstanding was 7,910,914 during 2013 and 2012.

	31 December	
	2013	2012
Weighted average number of issued ordinary shares	8,285,437	8,285,437
Weighted average number of treasury shares	(374,523)	(374,523)
Weighted average number of qualifying ordinary shares	7,910,914	7,910,914
Profit for the year in million HUF	1,430	1,381
Basic earnings per share (HUF/share)	181	175

There are no dilutive factors to earnings per share disclosed above, therefore the diluted earnings per share equals to basic earnings per share.

20. Commitments and contingencies

As of 31 December 2013 and 31 December 2012 there were no material contractual commitments for the acquisition of property, plant and equipment.

The Group did not have any significant contingent liabilities as at 31 December 2013 and 31 December 2012.

As at 31 December 2013 and 31 December 2012 the Group had no material lease obligation that is due over a year, leasing agreements can be abandoned at any time without significant penalty suffered.

21. Pension Plans and other post-employment benefits

The Group's employees participate in state pension plans to which the law requires employers and employees to pay contributions based on a percentage of each employee's employment earnings. The pension liability resides with the state in Hungary, the Czech Republic, Slovakia and Romania.

The Group has a defined voluntary pension fund contribution plan in addition to the state plan, which is available for all Hungarian employees after six months employment. The Group pays contributions equal to 4% of the salary plus HUF 160 per month for fund member employees. The contribution expense in 2013 was HUF 207 million (2012: HUF 199 million). The assets of the fund are held in separate trustee administered funds and are not included in these consolidated financial statements.

The Group also has a defined health fund contribution plan, which is available for all Hungarian employees after six months employment. The Group pays contributions equal to 0.8% of the salary plus HUF 3,200 per month for fund member employees. The total contribution expense was HUF 131 million in 2013 (2012: HUF 128 million). The assets of the fund are held in separate trustee administered funds and are not included in these consolidated financial statements.

There are no Group pension or health plans for employees of the Czech, Slovak and Romanian subsidiaries.

See employee benefit section of Note 11 for further details of other post-employment benefits.

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22. Related Party Transactions

Transactions with related parties are summarised as follows:

	Expenses / (income)	
	2013	2012
Management fee to CP Holdings Limited	386	365
Interest to CP Holdings Limited	6	7
Management support fee from CP Regents Park Two Limited	(60)	(59)
Rental fee to Interag Zrt.	154	152
Services provided by Interag Zrt.	18	17
Services provided to Interag Zrt.	(24)	(24)
Services provided by ZI Group	22	13
Services provided to ZI Group	(129)	(131)
Services provided to Auto-fort Kft.	(35)	(33)

Related party receivables and payables, except for the HUF 538 million put option (see Note 10) liability were not significant as at 31 December 2013 and 2012.

Interag Zrt, ZI Group and CP Regents Park Two Limited are each subsidiaries of CP Holdings Limited.

The pricing of all transactions with related parties is at arm's length.

Transactions with key management personnel

Total remuneration is included in personal expenses:

	2013	2012
Short-term employee benefits	257	255
Post employment benefits	6	6
Total	263	261

23. Financial instruments and financial risk management

A) Categories of financial instruments

The following table sets out the financial instruments as at the reporting date:

	31 December 2013	31 December 2012
Financial Asset		
Loans and receivables ¹	5,967	5,329
Financial Liability measured at		
Amortised cost ³	26,930	28,057
Fair value through profit or loss or equity ²	32	82

¹ Includes the total amount of cash and cash equivalents and trade and other receivables in the statement of financial position, except for recoverable taxes and duties.

² Includes the fair value of derivatives

³ Includes the total amount of trade accounts payable, other payables and accruals, interest bearing loans and borrowings recognised in the statement of financial position, except for taxes payable, contribution payable and government grants.

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Carrying value and fair value for all of the Group's financial assets at 31 December 2013 and 2012 are deemed to be equal. The carrying amount of cash and cash equivalents, trade and other current receivables and payables and other liabilities approximates their relative fair values due to the relatively short-term maturity. Derivative assets and liabilities are carried at fair value. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. All non-current borrowings have floating interest rates, so their fair values are not significantly different from their amortised cost and consequently carrying value is deemed to approximate fair value. To measure and disclose the fair values the Group considered inputs included in Level2 category in the fair value hierarchy.

B) Financial risk management

The Group has documented its financial risk management policy. This policy sets out the Group's overall business strategies and its risk management philosophy. The Group's overall financial risk management programme seeks to minimise potential adverse effects on the Group's financial assets and liabilities. The Board of Directors provides written principles for overall financial risk management and written policies covering specific areas, such as market risk (including foreign exchange risk, interest rate risk), credit risk, liquidity risk, use of derivative financial instruments and investing excess cash. Such written policies are reviewed annually by the Board of Directors and periodic reviews are undertaken to ensure that the Group's policy guidelines are complied with. Risk management is carried out by the Finance Departments under the policies approved by the Board of Directors. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

I) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of giving credit to counterparties with good payment history and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The extent of individual hotels' exposure and the credit ratings of their counterparties are continuously monitored. Credit exposure is controlled by the counterparty limits that are continuously reviewed by credit managers.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of customers and advance payment is encouraged and enforced.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. At the end of 2013 HUF 333 million (2012: HUF 836 million), or approximately 12 percent of the Group's total receivables (2012: 30%), is attributable to sales transactions with the top 30 customers. However, geographically there is no concentration of credit risk.

The carrying amount of trade receivables and other financial assets recorded in the consolidated financial statements represents the Group's maximum exposure to credit risk.

II) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group has annual, monthly and weekly cash flow forecasts and continuously monitors liquidity both at group and subsidiary levels. For cash flow optimisation purposes in 2013 the repayment of approximately half of the borrowings has been rescheduled and the original amounts of instalments in 2014 were reduced by half.

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At the reporting date the Group has the following unused loan facilities:

	31 December 2013	31 December 2012
Overdraft	3,559	2,557
Long-term loan	2,316	1,805

The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2013	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities							
Interest bearing loans and borrowings	19,662	20,759	2,600	3,731	4,248	10,180	-
Liability due to put option	538	538	-	-	538	-	-
Bank overdrafts	777	777	777	-	-	-	-
Trade payables	2,686	2,686	2,686	-	-	-	-
Other payables and accruals ¹	3,267	3,267	3,267	-	-	-	-
Total	26,930	28,027	9,330	3,731	4,786	10,180	-

31 December 2012	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities							
Interest bearing loans and borrowings	19,730	20,355	1,749	3,686	9,302	5,338	280
Liability due to put option	527	527	-	-	527	-	-
Bank overdrafts	1,723	1,723	1,723	-	-	-	-
Trade payables	3,165	3,165	3,165	-	-	-	-
Other payables and accruals ¹	2,912	2,912	2,912	-	-	-	-
Total	28,057	28,682	9,549	3,686	9,829	5,338	280

¹ Consists of other payables and accruals including derivatives, except for social contribution tax, other taxes payable (other than income taxes) and government grants as detailed in note 9.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts, however negotiations are currently in progress with financial institutions to modify the current loan repayment schedule in order to postpone part of the repayable amounts due within a year.

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III) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

i) Currency risk

The Group is exposed to currency risk on sales and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Euro.

At the reporting date, the carrying amounts of financial assets and financial liabilities denominated in currencies other than the respective group entities' functional currencies are as follows:

HUF million	Financial liabilities		Financial assets		Net asset/(liability)	
	2013	2012	2013	2012	2013	2012
Euros	21,743	22,478	779	1,401	(20,964)	(21,077)
GBP	133	5	21	38	(112)	33
US dollars	-	-	12	1	12	1
Financial instruments denominated in foreign currency	21,876	22,483	812	1,440	(21,064)	(21,043)
Total financial instruments	27,137	28,133	5,967	5,329	(21,170)	(22,804)

The Group's sales prices are primarily quoted in Euro and income is received in foreign currency or local currency. This provides a natural hedge against foreign exchange movements for the interest and capital instalments of loans and borrowings the majority of which are denominated in EUR.

Management periodically reviews the merits of entering into foreign currency hedging contracts or other derivative products. Based on the approval of Board of Directors the Group may use forward exchange contracts to hedge its currency risk in respect of sales revenues, with a maturity of less than one year from the reporting date. The effect of such hedges was not material in 2013 and 2012.

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Foreign currency sensitivity

The following strengthening of the Euro against each of the following currencies at 31 December would have increased (decreased) profit or loss and thus equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates and margins, remain constant.

When analysing foreign currency sensitivity the changes of functional currencies of operational segments against the euro are monitored, as the euro has the highest possible exposure on the Company's operational performance.

	Strengthening	Profit or Loss and equity effect
31 December 2013		
Hungarian forint (HUF)	8%	(1,247)
Czech Crown (CZK)	6%	(140)
Romanian Lei (RON)	5%	(25)
31 December 2012		
Hungarian forint (HUF)	10%	(1,611)
Czech Crown (CZK)	6%	(77)
Romanian Lei (RON)	4%	(1)

The weakening of the Euro against the above currencies by the above shifts at 31 December would have had the equal but opposite effect, on the basis that all other variables remain constant.

ii) Interest rate risk

The interest rates for all bank borrowings are floating and determined by 3 months EURIBOR + margin between 1.4% to 2.0% in Czech Republic and Slovakia, 1.1% to 4.5% in Hungary and 4.5% in Romania. The weighted average margin is 3.3% at 31 December 2013 (2012: 3.0%), while the average rate of interest is 3.6% (2012: 3.2%).

Since June 2006 the Company has used an interest rate swap to manage the relative level of its exposure to cash flow interest rate risk associated with floating interest-bearing borrowings.

Slovenské Liečebné Kúpele Piešťany a.s. has entered into an interest rate swap agreement in 2011 to manage its exposure to interest rate risk associated with floating interest-bearing borrowings. As of 31 December 2013, according to the agreement the notional amount was EUR 5.2 million (2012: EUR 7.8 million) and the 3 months EURIBOR floating interest rate was swapped with a fixed rate of 2.55%. The fair value of the agreement was a liability of HUF 31 million as of 31 December 2013 (2012: HUF 82 million), which – meeting the criteria of hedge accounting – is recognised in other comprehensive income.

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Interest rate sensitivity

3 months EURIBOR was 0.287% as of 31 December 2013 and 0.188% as of 31 December 2012. A change of 5 basis points in interest rates (2012: 5 basis points) at the reporting date would have increased (decreased) profit or loss and thus equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates and interest margins, remain constant.

	<u>Profit or Loss and equity effect</u>
31 December 2013	
5 basis points increase	(10)
5 basis points decrease	10
31 December 2012	
5 basis points increase	(11)
5 basis points decrease	11

C) Capital Management

The Group's policy is to maintain a capital base which is sufficient to maintain investor and creditor confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Therefore Group's target to keep shareholders' equity to total liabilities and shareholders' equity ratio anytime above 55%, as of 31 December 2013 this ratio was 62.7% (2012: 62.0%).

There were no changes in the Group's approach and processes to capital management during the year.

The Corporate Act requires that the equity of the Company as reported in its standalone financial statements has to be higher than two third of the share capital, otherwise the share capital should be decreased or transformation of the Company into other legal form should be undertaken. As of 31 December 2013 and 2012 the Company complied with this requirement.

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24. Segment reporting

2013	Hungarian operations			Czech operations	Slovakian operations	Romanian operations	Inter-segment transfers	TOTAL
	Hotel & Hospitality segment	Security segment	Total					
Revenue								
Sales to external customers	27,594	598	28,192	9,598	10,417	1,871	-	50,078
Inter segment sales	675	430	1,105	-	-	-	(1,105)	-
Total operating expenses	27,359	1,005	28,364	8,258	9,800	1,541	(1,105)	46,858
<i>of which Depreciation and amortisation</i>	<i>1,881</i>	<i>13</i>	<i>1,894</i>	<i>1,177</i>	<i>1,418</i>	<i>295</i>	-	<i>4,784</i>
Operating profit	910	23	933	1,340	617	330	-	3,220
Financial results	(974)	4	(970)	(183)	(90)	(14)	-	(1,257)
<i>of which interest expense</i>	<i>(644)</i>	-	<i>(644)</i>	<i>(56)</i>	<i>(90)</i>	<i>(15)</i>	-	<i>(805)</i>
Share of profit of equity accounted investees	-	8	8	-	-	-	-	8
Profit before tax	(64)	35	(29)	1,157	527	316	-	1,971
Assets and liabilities								
Property, plant and equipment	36,627	30	36,657	15,820	20,703	2,876	-	76,056
Cash and cash equivalents	431	170	601	1,666	741	548	-	3,556
Accounts receivables	804	73	877	129	196	41	-	1,243
Inventories	228	2	230	117	190	17	-	554
Intangibles	2,430	118	2,548	595	38	3	-	3,184
Assets held for sale	83	-	83	-	-	-	-	83
Other non-allocated assets	-	-	-	-	-	-	-	1,953
Total assets	40,603	393	40,996	18,327	21,868	3,485	-	86,629
Trade accounts payable	1,633	98	1,731	316	495	144	-	2,686
Advance payments from guests	373	-	373	329	259	49	-	1,010
Interest bearing loans and borrowings	15,834	-	15,834	2,390	2,248	505	-	20,977
Provisions	563	-	563	188	791	-	-	1,542
Other non-allocated liabilities	-	-	-	-	-	-	-	6,128
Total liabilities	18,403	98	18,501	3,223	3,793	698	-	32,343
Capital expenditure	1,580	4	1,584	1,926	1,033	959	-	5,502

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Notes to the Consolidated Financial Statements
(All amounts in million HUF)

24. Segment reporting (continued)

2012	Hungarian operations			Czech operations	Slovakian operations	Romanian operations	Inter-segment transfers	TOTAL
	Hotel & Hospitality segment	Security segment	Total					
Revenue								
Sales to external customers	25,345	672	26,017	8,955	9,655	1,790	-	46,417
Inter segment sales	637	404	1,041	-	-	-	(1,041)	-
Total operating expenses	25,947	1,048	26,995	7,969	9,293	1,395	(1,041)	44,611
<i>of which Depreciation and amortisation</i>	1,849	14	1,863	1,086	1,387	240	-	4,576
Operating profit	35	28	63	986	362	395	-	1,806
Financial results	270	16	286	(6)	(124)	4	-	160
<i>of which interest expense</i>	(809)	(1)	(810)	(47)	(125)	(5)	-	(987)
Share of profit of equity accounted investees	-	5	5	-	-	-	-	5
Profit before tax	305	49	354	980	238	399	-	1,971
Assets and liabilities								
Property, plant and equipment	37,085	38	37,123	16,072	20,723	2,159	-	76,077
Cash and cash equivalents	765	112	877	1,114	448	446	-	2,885
Accounts receivables	945	81	1,026	170	266	31	-	1,493
Inventories	201	3	204	92	180	15	-	491
Intangibles	2,391	119	2,510	607	32	5	-	3,154
Assets held for sale	65	-	65	-	-	-	-	65
Other non-allocated assets	-	-	-	-	-	-	-	1,785
Total assets	41,452	353	41,805	18,055	21,649	2,656	-	85,950
Trade accounts payable	2,027	91	2,118	357	481	209	-	3,165
Advance payments from guests	244	-	244	235	203	33	-	715
Interest bearing loans and borrowings	17,798	-	17,798	1,336	2,832	14	-	21,980
Provisions	508	-	508	151	773	-	-	1,432
Other non-allocated liabilities	-	-	-	-	-	-	-	5,333
Total liabilities	20,577	91	20,668	2,079	4,289	256	-	32,625
Capital expenditure	940	-	940	1,123	485	243	-	2,791

Eliminations principally comprise the equity consolidation and inter group loans. Inter-segment pricing is determined on an arm's length basis.

Other non-allocated assets and liabilities include deferred tax assets and liabilities and many, individually not material items that were not allocated to segments in this presentation.

Operations in foreign countries perform only Hotel and Hospitality activities.

Danubius Hotels Nyrt. and Subsidiaries
Notes to the Consolidated Financial Statements
(All amounts in million HUF)

25. Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Deferred tax assets

The Group recognizes deferred tax assets in its statement of financial position relating to tax loss carry forwards. The recognition of such deferred tax assets is subject to the future utilization of tax loss carry forwards. The utilization of certain amounts of such tax loss carry forwards might be subject to statutory limitations and is dependent on the amount of future taxable income. If the future taxable income is significantly less than the amount estimated the deferred tax asset or a portion therefore may need to be derecognised (see Note 18).

Impairment of property, plant and equipment and intangible assets

The carrying amounts of the Group's property, plant and equipment and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

The recoverable amount of intangible assets is measured based on discounted projected cash flows. The most significant variables in determining cash flows are discount rates, terminal values and the period for which cash flow projections are made, as well as the assumptions and estimates used to determine the cash inflows and outflows.

For property, plant and equipment the recoverable amount is determined to be the fair value rather than the value in use. The estimated fair value of the Group's assets or group of assets significantly exceeds its net carrying amount.

The Group considers that the accounting estimate related to asset impairment is significant due to the need to make assumptions when estimating the recoverable amount and the material impact that recognising impairment could have on the results of the Group. See Notes 7 and 8 for more information.

Depreciation

Property, plant and equipment and intangible assets are recorded at cost and are depreciated or amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives of assets is based on historical experience with similar assets. The appropriateness of the estimated useful lives is reviewed annually. Due to the significance of property, plant and equipment in the asset base of the Group, the impact of any changes in these assumptions could be material to the results of operations (see Note 7 and 8).

Provisions

The Group establishes provisions where management considers that it is probable that an outflow of economic benefits will be required to settle obligations arising from past events. The estimated amounts of provisions are reviewed on an ongoing basis. Changes in estimates are recognised in the statement of profit or loss and such changes could be material to the net results reported in a particular year. See Note 11 for more information.

26. Post Balance Sheet events

No event occurred after the reporting date that would have material effect on the consolidated financial statements presented.

REPORT OF THE BOARD OF DIRECTORS ON THE YEAR 2013 PERFORMANCE OF DANUBIUS HOTELS GROUP

This report contains consolidated financial statements for the period ended 31 December 2012 as prepared by the management in accordance with International Financial Reporting Standards as adopted by the EU (EU IFRS).

HIGHLIGHTS

Danubius Hotels Group	HUF million			EUR million ¹		
	FY 2013	FY 2012	Ch%	FY 2013	FY 2012	Ch%
Net sales revenues	50,078	46,417	8	168.6	160.4	5
EBIDTA	8,004	6,382	25	26.9	22.1	22
Operating profit / (loss)	3,220	1,806	78	10.8	6.2	74
Financial results	(1,257)	160	n.a.	(4.2)	0.6	n.a.
Profit/(loss) before tax	1,971	1,971	0	6.6	6.8	(3)
Operating cash flow	7,147	6,156	16	24.1	21.3	13
CAPEX	5,502	2,791	97	18.5	9.6	92
HUF/EUR average rate	297.0	289.4	3			

¹ The presentation currency of the Group is HUF. The EUR amounts are provided as a convenience translation using average f/x rates of the respective periods.

² The numbers in this schedule are extracted from the financial statements in appendices 1 to 5.

- In 2013 total net sales **revenues** were HUF 50.1 billion, up by 8% compared to the last year, thanks to improvements in all geographical regions. In EUR terms the Group's revenue increased by 5% due to slightly weaker average foreign exchange rates in 2013 than in 2012. Group **occupancy** in 2013 was 64.2% compared to 62.7% in 2012.
- In 2013 **operating profit** of the group improved to HUF 3.2 billion from HUF 1.8 billion in 2012.
- **Segmental (geographical)** performance in 2013 was the following:
 - **Hungarian** segment's revenue increased by 8% to HUF 28.2 billion as the occupancy of hotels improved to 62.1% from 60.4% and average room rates improved significantly. The operating profit also improved significantly to HUF 933 million from HUF 64 million. In Q4, a minor hotel was sold with net proceeds of HUF 442 million and net gain of HUF 344 million.
 - **Czech** hotels showed a revenue increase of 7% mainly due to increase on average room rates, while operational profit improved to HUF 1,340 million from last year's HUF 986 million.
 - **Slovakian** segment's operating revenue increased by 8%, thanks to occupancy increased to 66.4% from 64.4%. Operational profit was HUF 617 million in 2013 compared to HUF 362 million in 2012.
 - The total revenue of the **Romanian** segment grew by 5% to HUF 1,871 million. However, due to ongoing reconstructions, the operating profit decreased to HUF 330 million compared to HUF 395 million in 2012.
- The **Financial** result in 2013 was a loss of HUF 1,257 million compared to a profit of HUF 160 million in 2012 mainly due to unrealised FX differences. In 2013 HUF 476 million (mostly unrealised) FX loss was recognised on monetary assets and liabilities, while in 2012 the FX gain was HUF 1,107 million. Interest expenses decreased to HUF 805 million in 2013 from HUF 987 million in 2012, mainly due to lower average outstanding debt and interest rates.
- Thanks to the pickup in revenue, **EBITDA** improved by HUF 1.6 billion or 25% comparing 2013 to 2012.
- **Net cash provided by operating activities** in 2013 was HUF 7.1 billion compared to HUF 6.2 billion in 2012, due to improved results.
- During 2013 **capital expenditure** and investments amounted to HUF 5.5 billion compared to HUF 2.8 billion in 2012, due to considerable investments in all countries.
- Average Group **headcount** in 2013 was 4,354 which is practically identical to the prior year.

FINANCIAL OVERVIEW

Hungarian Segment

HUNGARY	HUF million			EUR million ¹		
	FY 2013	FY 2012	Ch%	FY 2013	FY 2012	Ch%
Net sales revenues	28,192	26,017	8	94.9	89.9	6
EBITDA	2,827	1,927	47	9.5	6.7	43
Operating profit /(loss)	933	64	1,358	3.1	0.2	1,320
Financial results	(970)	286	n.a.	(3.3)	1.0	n.a.
Profit /(Loss) before tax	(29)	355	n.a.	(0.1)	1.2	n.a.
CAPEX	1,584	940	69	5.3	3.2	64

¹ The presentation currency of the Group is HUF. The EUR amounts are provided as a convenience translation using average f/x rates of the respective periods.

Total net sales revenue of 2013 increased by 8% to HUF 28.2 billion, most of which increase was realised on room department's revenue.

Room revenue of Hungarian hotels improved by 7% to HUF 14.7 billion due to the combined result of an occupancy increase to 62.1% from 60.4% and 4% higher average room rate achieved (ARR) in EUR terms (7% increase in HUF terms), which is a very positive change following the ARR decreases of the past years. The number of guest-nights during 2013 increased to 1,840,436 from 1,822,215 out of which domestic guest-nights represented 18% which is 0.5% points higher than in 2012. We realised 19% increase in guestnights from Russia throughout the year while we registered 13% decrease from Germany. Room department profit for 2013 increased by HUF 853 million or 8% compared to 2012.

Food and beverage revenue of hotels and restaurants was HUF 7.9 billion in 2013, which is a 5% increase driven by the improving occupancy. F&B departmental profit improved by HUF 21 million compared to last year. Gundel's total revenue in 2013 increased by 36% compared to 2012 mainly thanks to increased banqueting activity and to the opening of additional sales locations in the zoo. As a consequence, Gundel's operational loss of HUF 95 million realised in 2012 turned into a profit of HUF 66 million for 2013.

Spa revenue was HUF 1,437 million in 2013, up by 5% compared to 2012, mainly also driven by the occupancy increase. Spa department profit increased HUF 20 million.

Due to the combined effect of inflation on materials and utility prices and the pick-up in occupancy, raw material expenses increased by 6% to HUF 5.9 billion. Within this, energy cost was HUF 2.5 billion, up by 4% compared to 2012. The value of services used in 2013 increased by 6% to HUF 6.0 billion mainly because of an increase in commissions and maintenance expenses. Personnel expenses of hotel operation in 2013 were HUF 10.2 billion, up by 4%, reflecting mainly annual salary increases.

In Q4 2013 a minor hotel, previously rented out to a third party, was sold with net proceeds of HUF 442 million and net gain of HUF 344 million.

Interest expenses decreased to HUF 624 million from HUF 789 million in the year mainly due to lower average 3 months EURIBOR rates during the year combined with lower average outstanding debt balance. Primarily as the result of slightly weaker HUF at 31 December 2013 compared to the 31 December 2012 EUR rate, a HUF 338 million foreign exchange loss (mostly unrealised loss on EUR loans) was recognised in the profit and loss for 2013, compared to a foreign exchange gain of HUF 1,111 million in 2012.

Capital expenditures were HUF 1,584 million in 2013, including spending on Family Friendly reconstruction works in Bük and Hilton Budapest safety systems, compared to HUF 940 million spent in 2012.

As a result of the unrealised foreign exchange losses, the Hungarian segment realised a loss before tax of HUF 29 million in 2013, compared to a profit of HUF 355 million in 2012, however operating profit increased to HUF 933 million in 2013 from 64 million in 2012. Operating result reflects more appropriately the true performance improvement of the Hungarian hotels than the profit before tax due to the non-realised foreign exchange losses.

Czech Segment

CZECH REPUBLIC	HUF million			EUR million ¹		
	FY 2013	FY 2012	Ch%	FY 2013	FY 2012	Ch%
Net sales revenues	9,598	8,955	7	32.3	30.9	4
BITDA	2,517	2,072	21	8.5	7.2	18
Operating profit /(loss)	1,340	986	36	4.5	3.4	32
Financial results	(183)	(6)	2,950	(0.6)	(0.0)	2,872
Profit /(Loss) before tax	1,157	980	18	3.9	3.4	15
CAPEX	1,926	1,123	72	6.5	3.9	67
HUF/CZK average rate	11.4	11.5	(1)			
CZK/EUR average rate	26.0	25.1	3			

¹ The presentation currency of the Group is HUF. The EUR amounts are provided as a convenience translation using average f/x rates of the respective periods.

Total net sales revenue increased by 7% to HUF 9.6 billion in 2013 thanks to a significant increase of average room rates (ARR) achieved in EUR terms. The ARR achieved increased to CZK 2,159 from CZK 1,918. The increase was partially compensated by a slight decrease of average occupancy over the year although Marienbad hotels' occupancy remained the highest within the group, being 74.5% in the year, and 77.0% last year.

As the result of investments in the beginning of the year, 36 new rooms became available, almost levelling the effect of occupancy decrease. The number of rooms sold increased to 219,514 in 2013 from 218,663 in 2012. The average length of stay further increased to 10.1 days in 2013 compared to 9.9 days last year. The number of guestnights was 360,893 in 2013 compared to 358,129 in 2012. The drop in German (-11%) and domestic (-33%) guestnights was more than compensated by increasing number of guestnights from Russia (18%) which also contributed to the increase of ARR and average length of stay.

The amount of material expenses and services used in 2013 was HUF 3.9 billion, up by 2%, mainly reflecting inflation, an increase in maintenance expenses and commissions during 2013. Total personnel expenses in 2013 were HUF 2.5 billion, 5% above the 2012 level due to an increase in average wages and a 3% increase in average staff number in connection with the investments. Depreciation increased by 8% in connection with new investments and high amount of small-value purchases in the first half of the year.

The operational profit of Czech hotels was HUF 1,340 million in 2013 compared to HUF 986 million in 2012 as a consequence of the above changes.

Due to the combined effect of the decrease in EURIBOR and the increase in the average amount of outstanding bank loans (in connection with capex project detailed below), interest expense was HUF 56 million in 2013, compared to HUF 47 million in 2012. As the result of the weakening of CZK against EUR a HUF 129 million mostly unrealised foreign exchange loss was recognised in profit and loss on monetary assets and liabilities denominated in EUR, compared to a gain of HUF 38 million in 2012.

Capital expenditure in 2013 amounted to HUF 1,926 million reflecting mainly project Tatra, comprising the renovation of the historical building of Hotel Imperial (formerly called Tatra), panoramic lifts in Hotel Hvezda, lobby bar in Hotel Skalnik, 42 car parking places and an underground corridor between the facilities. The project was completed at the end of April 2013.

Overall, the profit before tax of Czech operations for 2013 was HUF 1,157 million compared to HUF 980 million in 2012.

Slovakian Segment

SLOVAKIA	HUF million			EUR million ¹		
	FY 2013	FY 2012	Ch%	FY 2013	FY 2012	Ch%
Net sales revenues	10,417	9,655	8	35.1	33.4	5
EBITDA	2,035	1,749	16	6.9	6.0	13
Operating profit /(loss)	617	362	70	2.1	1.3	66
Financial results	(90)	(124)	(27)	(0.3)	(0.4)	(29)
Profit /(Loss) before tax	527	238	121	1.8	0.8	116
CAPEX	1,033	485	113	3.5	1.7	107
HUF/EUR average rate	297.0	289.4	3			

¹ The presentation currency of the Group is HUF. The EUR amounts are provided as a convenience translation using average f/x rates of the respective periods.

Total net sales revenue in 2013 grew by 8% to HUF 10.4 billion. The occupancy of Piestany hotels in 2013 was 66.4%, a notable increase compared to last year level of 64.4% and a continuation of the increasing trend started last year. The average room rate was EUR 44.2 showing 1% increase from last year's EUR 43.9. The number of rooms sold increased to 309,423 in 2013 from 295,727 in 2012 and the number of guestnights was 503,711 compared to 480,671 in 2012. Regionally, the largest increase was registered from Israel (+11,000 guestnights), Germany (+6,000 guestnights) and Russia (+6,000 guestnights).

The amount of material expenses and services used in 2013 was HUF 3.9 billion, up by 8% in line with the increase of the turnover and in average HUF/EUR exchange rate. Personnel expenses for 2013 were HUF 3.8 billion, 5% increase on last year which relates to a combination of inflation and an increase in social and health contributions.

Interest expenses for 2013 decreased by 28% in HUF terms mainly due to a decrease in the average outstanding bank loan amount.

Capital expenditures during 2013 were HUF 1,033 million mainly reflecting the balneotherapy reconstruction works started in Q4 2013. The total expenditure of the project is expected to be HUF 2.6 billion, largely funded by a medium term bank loan. Other major capex during 2013 included air-conditioning of Balnea Palace and the renovation of the Pro Patria spa.

Overall, due to the improvement of the operation result, the profit before tax improved to HUF 527 million for 2013 from HUF 238 million in 2012.

Romanian Segment

ROMANIA	HUF million			EUR million ¹		
	FY 2013	FY 2012	Ch%	FY 2013	FY 2012	Ch%
Net sales revenues	1,871	1,790	5	6.3	6.2	2
EBITDA	625	635	(2)	2.1	2.2	(4)
Operating profit /(loss)	330	395	(16)	1.1	1.4	(19)
Financial results	(14)	4	n.a.	(0.0)	0.0	n.a.
Profit /(Loss) before tax	316	399	(21)	1.1	1.4	(23)
CAPEX	959	243	294	3.2	0.8	284
HUF/RON average rate	67.2	65.0	3			
RON/EUR average rate	4.4	4.5	(1)			

¹ The presentation currency of the Group is HUF. The EUR amounts are provided as a convenience translation using average f/x rates of the respective periods.

Total net sales revenue for 2013 increased by 5% in HUF terms compared to the last year. In 2013 the occupancy increased to 60.7% compared to 58.4% in 2012 although 11% less rooms were available during the year due to reconstruction works proceeding in Hotel Bradet. The number of guestnights during 2013 decreased to 161,471 from 170,826 most of which decrease was due to less domestic guests registered partially offset by an increase of Moldavian guests.

The increase of revenues mainly derives from the 9% increase of average room rate (ARR) to RON 145 from RON 133, partially because renovated rooms in Bradet are sold at significantly higher price than last year. Similarly, F&B and spa revenues also increased due to the improvement of average prices even with a general decrease in guestnights sold partially compensating this effect.

Total material expenses and services used in 2013 amounted to HUF 760 million, up by 11% compared to last year mainly driven by one-off expenses and inflation. During the period we recognised expenses of preparing the merger of Salina Invest SA, our Romanian subsidiary without operating activities, into Balneoclimaterica SA, our subsidiary operating our hotels in Romania. Depreciation charge also increased compared to the previous year as a result of new additions to Hotel Bradet. As a combined result of the above, the Romanian segment realised an operating profit of HUF 330 million in the year compared to HUF 395 million in 2012.

Capital expenditure during 2013 was HUF 959 million compared to HUF 243 million in 2012. Increased capital expenditure reflects the reconstruction of Hotel Bradet as a four star superior category hotel. The project is realised in two stages. The first phase was finished in Q2 2013 and the second is to be concluded by the spring of 2014.

The profit before tax was HUF 316 million in 2013 compared to HUF 399 million in 2012.

Consolidated Balance Sheet

Total consolidated assets amounted to HUF 86.6 billion as of 31 December 2013, a 1% increase compared to the year end of 2012. Cash and cash equivalents increased 23% compared to 31 December 2012 due to cash provided by operations. Trade Receivables decreased by 17% compared to 31 December 2012 as a consequence of the success of our ongoing cash collection campaign.

The amount of property, plant and equipment was HUF 76.1 billion at the end of 2013. Compared to the end of 2012 the amount did not change significantly due to the combined effect of HUF 5.5 billion purchase of PPE, HUF 4.8 billion depreciation, HUF 0.1 billion sale and HUF 0.6 billion decrease due to the effect of foreign exchange rate fluctuations. Total liabilities at 31 December 2013 were HUF 32.3 billion, a 1% decrease compared to 31 December 2012 due to the decrease of outstanding bank loans. The Group had EUR 67.2 million long-term loans, including short-term portion, as of 31 December 2013, while it had EUR 68.8 million at the end of year 2012. Total bank loans in HUF terms decreased by 5% over the year, due to the decrease of long-term loans and overdrafts compared to 2012 year-end.

The value of shareholders' equity increased by 2% compared to 31 December 2012 being the combined effect of the profit after tax of HUF 1.5 billion and the HUF 0.6 billion decrease of translation reserve.

Cash flow

Net cash provided by operating activities in 2013 was HUF 7.1 billion, a significant improvement compared to the HUF 6.2 billion provided in 2012, due to better operational performance. Capital expenditure in 2013 was HUF 5.5 billion, a material increase compared to HUF 2.8 billion in 2012 due to considerable spending on reconstruction works in all countries to increase the quality of our products and services.

During 2013 EUR 14.0 million loan has been drawn down for corporate and project financing purposes, and EUR 15.6 million repayment of long-term borrowings has taken place. Overall bank loans (current and non-current) have decreased from HUF 22.0 billion to HUF 21.0 billion over the year, which was also supported by a decrease of our overdrafts and partly compensated by euro rate fluctuations.

APPENDIX I - Audited
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(HUF million)

	At 31 December	
	2013	2012
Assets		
Cash and cash equivalents	3,556	2,885
Trade and other receivables	2,740	2,821
Inventory	554	491
Assets classified as held for sale	83	65
Current income tax receivables	12	5
Total current assets	6,945	6,267
Property, plant and equipment	76,056	76,077
Intangible assets	3,184	3,154
Other non-current assets	36	39
Deferred tax assets	408	413
Total non-current assets	79,684	79,683
Total assets	86,629	85,950
Liabilities and Shareholders' Equity		
Trade accounts payable	2,686	3,165
Advance payments from guests	1,010	715
Current income tax payables	73	126
Other payables and accruals, including derivatives	4,605	3,898
Interest-bearing loans and borrowings	6,428	6,565
Provisions	68	79
Total current liabilities	14,870	14,548
Interest-bearing loans and borrowings	14,549	15,415
Deferred tax liabilities	1,450	1,309
Provisions	1,474	1,353
Total non-current liabilities	17,473	18,077
Total liabilities	32,343	32,625
Shareholders' Equity		
Share capital	8,285	8,285
Capital reserve	7,435	7,435
Treasury shares	(1,162)	(1,162)
Translation reserve	8,287	8,852
Hedge reserve	(22)	(56)
Retained earnings	28,605	27,175
Attributable to equity holders of the parent	51,428	50,529
Non-controlling interest	2,858	2,796
Total shareholders' equity	54,286	53,325
Total liabilities and shareholders' equity	86,629	85,950

Danubius Hotels Nyrt. and Subsidiaries
Consolidated Statement of Comprehensive Income
(All amounts in million HUF)

APPENDIX II - Audited
CONSOLIDATED STATEMENT OF INCOME
(HUF million)

	Year ended 31 December	
	2013	2012
Room revenue	24,916	23,004
Food and beverage revenue	14,679	13,621
Spa revenue	6,722	6,477
Other departmental revenue	2,171	2,111
Revenue from wineries	43	54
Revenue from security services	593	667
Other income	954	483
Total operating revenue and other income	50,078	46,417
Cost of goods purchased for resale	458	455
Material costs	10,749	10,110
Services used	10,554	9,913
Material expenses and services used	21,761	20,478
Wages and salaries	12,460	11,835
Other personnel expenses	1,288	1,286
Taxes and contributions	3,824	3,667
Personnel expenses	17,572	16,788
Depreciation and amortisation	4,784	4,576
Other expenses	2,763	2,787
Changes in inventories of finished goods and w.i.p.	3	3
Own work performed and capitalised	(25)	(21)
Total operating expenses	46,858	44,611
Profit from operations	3,220	1,806
Interest income	24	40
Interest expense	(805)	(987)
Foreign currency gain / (loss)	(476)	1,107
Net finance result	(1,257)	160
Share of profit of equity accounted investees	8	5
Profit / (loss) before tax	1,971	1,971
Current tax expense	270	292
Deferred tax expense / (benefit)	163	227
Profit / (loss) for the year	1,538	1,452
Attributable to:		
Owners of the Company	1,430	1,381
Non-controlling interest	108	71
Basic and diluted earnings per share (HUF per share):	181	175

Danubius Hotels Nyrt. and Subsidiaries
Consolidated Statement of Comprehensive Income
 (All amounts in million HUF)

APPENDIX III – Audited
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 (HUF million)

	Year ended 31 December	
	2013	2012
Profit / (loss) for the year	1,538	1,452
Other comprehensive income *		
Foreign currency translation differences for foreign operations	(583)	(1,815)
Changes in fair values of hedge derivatives	38	8
Total other comprehensive income	(545)	(1,807)
Total comprehensive income for the period	993	(355)
Attributable to:		
Owners of the Company	899	(316)
Non-controlling interest	94	(39)
Total comprehensive income for the period	993	(355)

* includes only items that are or may be reclassified to profit and loss.

Consolidated Statement of Comprehensive Income

(All amounts in million HUF)

**APPENDIX IV – Audited
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(HUF million)**

	Attributable to equity holders of the parent						Non- controlling Interest	Total Equity	
	Share Capital	Capital Reserve	Treasury Shares	Retained Earnings	Translation Reserve	Hedge Reserve			Total
1 January 2012	8,285	7,435	(1,162)	25,794	10,564	(71)	50,845	2,847	53,692
Total comprehensive income for the period	-	-	-	1,381	-	-	1,381	71	1,452
Profit for the period	-	-	-	1,381	-	-	1,381	71	1,452
Other comprehensive income	-	-	-	-	(1,712)	-	(1,712)	(103)	(1,815)
Foreign currency translation differences for foreign operations	-	-	-	-	(1,712)	-	(1,712)	(103)	(1,815)
Changes in fair values of hedge derivatives	-	-	-	-	-	15	15	(7)	8
Total other comprehensive income	-	-	-	-	(1,712)	15	(1,697)	(110)	(1,807)
Total comprehensive income for the period	-	-	-	1,381	(1,712)	15	(316)	(39)	(355)
Transaction with owners, recorded directly in equity	-	-	-	-	-	-	-	(12)	(12)
Dividend to Non-controlling interests	-	-	-	-	-	-	-	(12)	(12)
Total transaction with owners	-	-	-	-	-	-	-	(12)	(12)
31 December 2012	8,285	7,435	(1,162)	27,175	8,852	(56)	50,529	2,796	53,325
Total comprehensive income for the period	-	-	-	1,430	-	-	1,430	108	1,538
Profit for the period	-	-	-	1,430	-	-	1,430	108	1,538
Other comprehensive income	-	-	-	-	(565)	-	(565)	(18)	(583)
Foreign currency translation differences for foreign operations	-	-	-	-	(565)	-	(565)	(18)	(583)
Changes in fair values of hedge derivatives	-	-	-	-	-	34	34	4	38
Total other comprehensive income	-	-	-	-	(565)	34	(531)	(14)	(545)
Total comprehensive income for the period	-	-	-	1,430	(565)	34	899	94	993
Transaction with owners, recorded directly in equity	-	-	-	-	-	-	-	(32)	(32)
Dividend to Non-controlling interests	-	-	-	-	-	-	-	(32)	(32)
Total transaction with owners	-	-	-	-	-	-	-	(32)	(32)
31 December 2013	8,285	7,435	(1,162)	28,605	8,287	(22)	51,428	2,858	54,286

Danubius Hotels Nyrt. and Subsidiaries
Consolidated Statement of Comprehensive Income
(All amounts in million HUF)

APPENDIX V - Audited
CONSOLIDATED STATEMENT OF CASH FLOWS
(HUF million)

	Notes	Year ended 31 December	
		2013	2012
Profit from operations		3,220	1,806
Depreciation and amortisation	7,8	4,784	4,576
Gain on sale of property, plant and equipment		(344)	-
<u>Changes in working capital</u>			
<i>Increase of provisions</i>	11	110	73
<i>Increase of accounts receivable and other current assets</i>		(477)	(401)
<i>Decrease of inventory</i>		(63)	43
<i>Increase of accounts payable and other current liabilities</i>		1,013	1,163
Interest paid		(800)	(1,032)
Income tax paid		(296)	(72)
Net cash provided by operating activities		7,147	6,156
Purchase of property, plant and equipment and intangibles	7,8	(5,502)	(2,791)
Proceeds on sale of property, plant and equipment		442	
Interest received		51	27
Net cash used in investing activities		(5,009)	(2,764)
Receipt of long-term bank loans		4,172	728
Repayment of long-term bank loans		(4,631)	(4,958)
Net cash used in financing activities		(459)	(4,230)
Net decrease in cash held		1,679	(838)
Cash and cash equivalents at the beginning of the period ¹		1,162	2,111
Effect of exchange rate fluctuations on cash held		(62)	(111)
Cash and cash equivalents at the end of the period ¹	3	2,779	1,162

¹ Represents the amount of cash and cash equivalents less the amount of bank overdrafts

APPENDIX VI
SUBSEQUENT EVENTS

There has not been any matter or circumstance occurring subsequent to the end of the reporting period that has significantly affected, or may significantly affect, the operations of the Group, the result of those operations or the state of affairs of the Group in future periods.

Danubius Hotels Nyrt. and Subsidiaries
Consolidated Statement of Comprehensive Income
(All amounts in million HUF)

APPENDIX VII

SHAREHOLDER STRUCTURES AND CHANGES IN ORGANISATION

In the current period there were no significant organisational changes within the Group.

Shareholder ¹	Period end of				
	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
CP Holdings and its investments ²	80.33%	80.33%	80.33%	80.33%	80.33%
<i>Of which:</i>					
<i>CP Holdings Ltd.</i>	38.85%	38.85%	38.85%	38.85%	38.85%
<i>Interaa Zrt.</i>	31.45%	31.45%	31.45%	31.45%	31.45%
<i>Israel Tractors</i>	6.12%	6.12%	6.12%	6.12%	6.12%
Foreign financial investors	7.52%	7.51%	7.59%	7.63%	8.12%
Domestic financial investors	4.55%	4.45%	4.69%	4.72%	3.84%
Individuals	3.08%	3.19%	2.87%	2.80%	3.19%
Treasury shares	4.52%	4.52%	4.52%	4.52%	4.52%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

¹ The table shows shareholders separately if their shareholding reaches or exceeds 5%, according to the Book of Shares.

² The 80.33% ownership of CP Holdings and its investments results an 84.14% combined direct interest in Danubius Hotels Nyrt. and includes the shares directly held by family members Schreier family.

On 1 June 2013 Sir Bernard Schreier, former chairman of the board of directors passed away. His daughter Iris Gibbor, was appointed as chairwoman of the board of directors. His shares are now held by the Administrator of Sir Bernard's estate.

APPENDIX VIII

CONSOLIDATED MANAGEMENT REPORT

(The following consolidated management report does not analyse the performance of the Group, which is available in the above sections of this document.)

We continue to experience a positive trend in all of our markets, however the effects of the economic crisis are also visible and due to the significantly increased hotel capacity in the CEE region tourism business is still challenging, therefore we continue to watch the improving performance with a cautious optimism.

According to data provided by the Hungarian Central Statistical Office the number of guestnights increased in the Hungarian market by 4.6% in 2013 compared to the previous year. Within that, increase of domestic guestnights was 4.5% while guestnights from foreign countries increased by 4.6%. Guestnights provided by hotels increased by 5.3%. The Széchenyi card performed 18.7% stronger in 2013, than the total turnover of then Széchenyi Card and the holiday vouchers in 2012.

According to data provided by the Czech Statistical Office, the number of guest-nights in the Czech market decreased by 0.6% in 2013 compared to 2012. Within that the number of domestic guest-nights decreased by 2.4% while guest-nights from foreign countries increased by 1.0%. The number of domestic guests increased by 1.2% while the number of foreign guests increased by 2.0%. During 2013 the highest number of guests arrived from Germany (with 4,403,668 guest-nights which is a decrease of 4.2%) and the second largest from Russia (3,780,134, +9.6%).

According to data provided by the Slovakian Statistical Office in the first nine months of 2013 (no Q4 data is available) the number of guests in Slovakian accommodation establishments was 3,172,744 which is an increase of 7.9% compared to similar period of the previous year. The number of domestic guests increased by 6.4% and foreign guests increased by 10.1%. The number of guest-nights increased by 5.7% from which the foreign guest nights rose by 6.1% while the domestic guest nights increased by 5.4%.

Danubius Hotels Nyrt. and Subsidiaries
Consolidated Statement of Comprehensive Income

(All amounts in million HUF)

Our goals and strategy did not change. In our Hungarian hotels, we continue taking measures to recover the turnover lost in the crisis years and the negative impact of the demise of Malév on the business and meeting market segments. There has been a gradual improvement especially in Budapest. However in 2013, a significant part of the revenue increase was realised in connection with major sporting events organised in Budapest, which will not reoccur in 2014 at similar magnitude, therefore it is going to be challenging to repeat the increase achieved in 2013. Radisson Blu Béke Hotel celebrated its 100th and Danubius Hotel Flamenco its 30th anniversary in 2013 on the occasion of which several events were organised. The "Danubius Goes Green" concept is being widely introduced, in the course of which several rooms have seen specialised refurbishment. In our spa and wellness hotels, we expect more domestic demand, due mainly to the weaker forint and new government incentives offered by the Széchenyi Card, which is the most popular form of cafeteria payments in Hungary. Due to the increase of living standards and personal wealth in the former Soviet Union and the middle-east countries, the number of guests from these countries increased significantly in 2013 and is expected to increase further in 2014, which has a positive effect mostly on the countryside spa hotels.

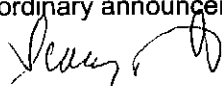
Our further 2013 goals included lowering dependence on the key partners and instead of participating at fairs and exhibitions to increase direct connections and direct bookings of markets of decisive importance, to develop brand management and family friendly concept, to standardise the forecasting process, to streamline the rate system of the spa market and to increase the efficiency of the central reservation system. As a part of updating our online communication, greater emphasis was put on our social media strategy and a new company home page was launched in April, which in line with today's expectations has also a version optimised for mobile communication devices. During the year Danubius Health Spa Resort Bük, which started to operate as an all inclusive hotel since November 2012, completed a Family Friendly reconstruction. Many of the hotel's facilities were renovated and completely new children's pools area was built.

In addition to the risks involved in the Hotel industry, we are most significantly affected by the fluctuation of foreign exchange rates. In particular, the Hungarian forint against the Euro which started the year at a much stronger position than last year, but ended the year again at slightly weaker position. The annual average rate was weaker than the previous year's average. Weaker average exchange rate results higher revenues in HUF terms, however a weaker rate at the end of the year also causes unrealised foreign exchange losses recognised on loans denominated in Euros.

Based on reports of the internal auditor and the management, the board of directors and the supervisory board established that the operation of internal controls at the company was sufficient during the year. Minor deficiencies identified during the examinations are eliminated as part of the usually business operations.

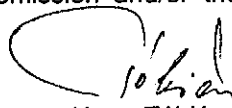
APPENDIX IX - DECLARATION

Danubius Hotels Nyrt. hereby declares that the unaudited Condensed Consolidated Interim Financial Statements presented in this report, prepared in accordance with IAS 34 as adopted by the EU, follow the same accounting standards, policies, procedures and estimations of and therefore can be compared with previous Year-end and Condensed Consolidated Interim Financial Statements. The Condensed Consolidated Interim Financial Statements give a true and fair view on the assets, liabilities, financial position, net income and loss of the Issuer Company and the consolidated subsidiaries. In addition, this report also gives true and fair view on the position, development, performance and risks of the Issuer Company and the consolidated subsidiaries. The Condensed Consolidated Interim Financial Statements do not conceal any fact or information that would be substantial in the judgement of the issuer's position. As issuer, Danubius Hotels Nyrt. assumes liability for the contents of the reports. Danubius Hotels Nyrt. declares that it is liable as issuer for the reimbursement of losses caused by the omission and/or the misleading contents of regular and extraordinary announcements.



Dr. Imre Deák

Member of the Board of Directors



János Tóbiás

Member of the Board of Directors

Danubius Hotels Nyrt. and Subsidiaries
Consolidated Statement of Comprehensive Income
(All amounts in million HUF)

APPENDIX X

**BALANCE SHEET OF DANUBIUS HOTELS NYRT. PREPARED IN ACCORDANCE WITH
HUNGARIAN ACCOUNTING ACT - Audited**

data in HUF'000

		Prior year	Current year
a	b	c	e
01.	INVESTED ASSETS	54,047,869	51,944,221
02.	INTANGIBLE ASSETS	10,353	43,747
03.	Cap.value of transformation		
04.	Cap.value of exper.develop.		
05.	Intangible assets		
06.	Intellectual products	10,353	43,747
07.	Goodwill		
08.	Intangible assets advance payment		
09.	Revaluation of intangible assets		
10.	TANGIBLE ASSETS	5,415,426	5,121,133
11.	Real estates	5,280,603	4,982,718
12.	Equipments and machines	1,521	2,374
13.	Other equipments and fixtures	2,281	1,310
14.	Breeding stock		
15.	Capital projects	131,021	134,731
16.	Advance payments for projects		
17.	Revaluation of tangible assets		
18.	FINANCIAL INVESTMENTS	48,622,090	46,779,341
19.	Shares in daughter Co-s	46,521,324	44,678,591
20.	Loan to daughter Co-s	2,100,000	2,100,000
21.	Other investments	750	750
22.	Loans given to other investments		
23.	Other long term loans	16	
24.	Long term securities		
25.	Reval. of invested financial assets		
26.	WORKING ASSETS	2,296,954	2,156,082
27.	STOCKS	0	35
28.	Raw materials		
29.	WIP.semifinished goods		
30.	Livestocks		
31.	Finished goods		
32.	Goods		35
33.	Advance payments for stocks		
34.	RECEIVABLES	1,022,249	945,486
35.	Debtors		634
36.	Amounts owed by daughter Co-s	1,017,399	939,952
37.	Amounts owed by other investm.		
38.	Bills of exchange		
7	Other receivables	4,850	4,900
40.	SECURITIES	1,161,021	1,161,021
41.	Shares in daughter Co-s		
42.	Other investments		
43.	Treasury shares	1,161,021	1,161,021
44.	Short term securities		
45.	TOTAL CASH AND BANK DEPOSITS	113,684	49,540
46.	Cash at hand	731	710
47.	Bank deposits	112,953	48,830
48.	ACCRUALS	5,497	20,716
49.	Accruals of revenues	28	
50.	Accruals of costs & expenditures	5,469	20,716
51.	Defered expenditures		
52.	TOTAL ASSETS	56,350,320	54,121,019

Danubius Hotels Nyrt. and Subsidiaries
Consolidated Statement of Comprehensive Income
(All amounts in million HUF)

data in HUF'000

		Prior year	Current year
a	b	c	e
53.	OWN CAPITAL	43,779,661	43,154,545
54.	SUBSCRIBED CAPITAL	8,285,437	8,285,437
55.	From this: Repurchased shares	374,523	374,523
56.	NOT YET PAID SUBSCRIBED CAPITAL		
57.	CAPITAL RESERVE	7,138,139	7,138,139
58.	PROFIT RESERVE	25,720,059	26,815,275
59.	COMMITTED RESERVES	1,578,229	1,540,810
60.	REVALUATION RESERVE		
61.	PROFIT PER BALANCE SHEET	1,057,797	-625,116
62.	PROVISIONS	258,457	281,167
63.	Provisions for possible liabilities	258,457	281,167
64.	Provisions for possible loss		
65.	Other provisions		
66.	LIABILITIES	12,041,671	10,557,614
67.	LONG TERM LIABILITIES	0	0
68.	Long term liabilities to daughter Co-s		
69.	Long term liabilities to other investments		
70.	Long term liabilities to other Co-s		
71.	LONG TERM LIABILITIES	8,416,747	7,686,178
72.	Long term loans		
73.	Convertible bonds		
74.	Liability from bond issue		
75.	Project loans		
76.	Other long term loans	8,416,747	7,686,178
77.	Long term liabilities to daughter Co-s		
78.	Long term liabilities to other investments		
79.	Other long term liability		
80.	SHORT TERM LIABILITIES	3,624,924	2,871,436
81.	Short term credits		
82.	From this: convertible bonds		
83.	Short term loans	3,384,016	2,256,788
84.	Advance payments from debtors		
85.	Creditors	26,118	57,996
86.	Bills of exchange		
87.	Short term liabilities to daughter Co-s	80,979	460,703
88.	Short term liabilities to other investments	203	
89.	Other short term liabilities	133,608	95,949
90.	ACCUALS	270,531	127,693
91.	Accruals of revenues		
92.	Accruals of costs & expenditures	270,531	127,693
93.	Deferred revenues		
95.	TOTAL LIABILITIES	56,350,320	54,121,019

Danubius Hotels Nyrt. and Subsidiaries
Consolidated Statement of Comprehensive Income
(All amounts in million HUF)

APPENDIX XI

INCOME STATEMENT OF DANUBIUS HOTELS NYRT. PREPARED IN ACCORDANCE WITH HUNGARIAN ACCOUNTING ACT – Audited

data in HUF'000

		Prior year	Current year
a	b	c	e
01.	Net domestic sales revenue	2,972,974	2,917,121
02.	Export sales revenue		
I.	Net domestic sales revenue	2,972,974	2,917,121
03.	Export sales revenue		
04.	Export sales revenue		
II.	Cap. value of own production	0	
III.	Other income	6,790	38,642
	from this re-booked loss of value		
05.	Raw material costs	5,227	4,995
06.	Value of services used	743,920	766,082
07.	Other services	43,218	36,133
08.	Purchase price of goods sold		
09.	Value of sold services	11,749	25,386
IV.	Material expenditures	804,114	832,596
10.	Salaries and wages	391,618	365,439
11.	Other personnel payments	49,887	45,070
12.	Related costs	122,109	103,931
V.	Total payroll & related costs	563,614	514,440
VI.	Depreciation	347,550	344,094
VII.	Other expenditures	232,700	190,119
	from this: loss of value		
A.	Operating profit	1,031,786	1,074,514
13.	Dividend received	1,080	593,104
	from this: from related party		592,192
14.	Capital gain on the sale of shares		
	from this: from related party		
15.	Exchange gain of inv. fin. assets		
	from this: from related party		
16.	Other interests received	122,860	118,268
	from this: from related party	119,157	115,822
17.	Other financial income	869,505	268,611
VIII.	Rev. from financial transact.	993,445	979,983
18.	Exchange loss of inv. fin. assets		473,967
	from this: to related party		467,280
19.	Interests payable	667,916	532,872
	from this: to related party	8,429	7,145
20.	Loss of value -securities, deposits		
21.	Other financial expences	209,097	153,695
IX.	Expenditures of fin. transact.	877,013	1,160,534
B.	Financial profit or loss	116,432	-180,551
C.	Profit from ordinary activities	1,148,218	893,963
X.	Extraordinary income		1,448,509
XI.	Extraordinary loss	66,422	2,953,627
D.	Extraordinary profit or loss	-66,422	-1,505,118
E.	Profit before tax	1,081,796	-611,155
XII.	Corporate tax payable	23,999	13,961
F.	Profit after tax	1,057,797	-625,116
22.	Dividend paid from profit reserve		
23.	Dividend payable		
G.	NET PROFIT	1,057,797	-625,116