



**Danubius Hotel and Spa Nyrt.
and Subsidiaries
Consolidated Financial Statements
in accordance with
International Financial Reporting Standards
as adopted by the EU
31 December 2012
with Report of the Independent Auditor**





Danubius Hotel and Spa Nyrt. and Subsidiaries
Consolidated Financial Statements
For the year ended 31 December 2012

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Independent Auditors' Report

To the shareholders of Danubius Hotel and Spa Nyrt.

Report on the Consolidated Financial Statements

We have audited the accompanying 2012 consolidated financial statements of Danubius Hotel and Spa Nyrt (hereinafter referred to as "the Company"), which comprise the consolidated statement of financial position as at 31 December 2012, which shows total assets of HUF 85,950 million, the consolidated statement of income and consolidated statement of comprehensive income, which show profit for the year of HUF 1,452 million, and the consolidated statement of changes in equity and consolidated statement of 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 Hotel and Spa Nyrt and its consolidated subsidiaries as at 31 December 2012, and of their consolidated financial performance 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 2012 consolidated business report of Danubius Hotel and Spa Nyrt.

Management is responsible for the preparation of the consolidated business report in accordance with the provisions of the Act on Accounting. Our responsibility is to assess whether this consolidated business report is consistent with the consolidated annual report 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 annual report, and did not include a review of any information other than that drawn from the audited accounting records of the Company.

In our opinion, the 2012 consolidated business report of Danubius Hotel and Spa Nyrt is consistent with the data included in the 2012 consolidated annual report of Danubius Hotel and Spa Nyrt.

Budapest, 27 March 2013

KPMG Hungária Kft.

Registration number: 000202

Péter Szabó
Partner

Judit Boros
Professional Accountant
Registration number: 005374

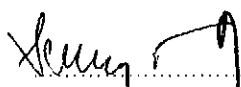
This is an English translation of the Independent Auditors' Report on the 2012 IFRS Consolidated Financial Statements of Danubius Hotel and Spa Nyrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete IFRS Consolidated Financial Statements it refers to.



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


At 31 December

	Notes	2012	2011
Assets			
Cash and cash equivalents	3	2,885	3,469
Trade and other receivables	4	2,821	2,734
Inventory	5	491	534
Non-current assets classified as held for sale	6	65	70
Current income tax receivables		5	74
Total current assets		6,267	6,881
Property, plant and equipment	7	76,077	79,952
Intangible assets	8	3,154	3,190
Other investments		39	19
Deferred tax assets	18	413	459
Total non-current assets		79,683	83,620
Total assets		85,950	90,501
Liabilities and Shareholders' Equity			
Trade accounts payable		3,165	2,375
Advance payments from guests		715	799
Current income tax payables		126	-
Other payables and accruals, including derivatives	9	3,898	3,658
Interest-bearing loans and borrowings	10	6,565	6,586
Provisions	11	79	163
Total current liabilities		14,548	13,581
Interest-bearing loans and borrowings	10	15,415	20,865
Deferred tax liabilities	18	1,309	1,167
Provisions	11	1,353	1,196
Total non-current liabilities		18,077	23,228
Total liabilities		32,625	36,809
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	8,852	10,564
Hedge reserve		(56)	(71)
Retained earnings	13	27,175	25,794
Attributable to equity holders of the parent		50,529	50,845
Non-controlling interest	14	2,796	2,847
Total shareholders' equity		53,325	53,692
Total liabilities and shareholders' equity		85,950	90,501



Dr. Imre Deák
Member of Board of Directors

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János Tóbiás
Member of Board of Directors

Budapest, 27 March 2013

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

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

	Notes	Year ended 31 December	
		2012	2011
Room revenue		23,004	21,368
Food and beverage revenue		13,621	13,160
Spa revenue		6,477	5,926
Other departmental revenue		2,111	2,084
Revenue from wineries		54	161
Revenue from security services		667	806
Other income		483	447
Total operating revenue and other income		46,417	43,952
Cost of goods purchased for resale		455	444
Material costs	15	10,110	9,414
Services used	16	9,913	9,779
Material expenses and services used		20,478	19,637
Wages and salaries		11,835	11,600
Other personnel expenses		1,286	1,458
Taxes and contributions		3,667	3,650
Personnel expenses		16,788	16,708
Depreciation and amortisation	7,8	4,576	4,412
Other expenses	17	2,787	2,611
Changes in inventories of finished goods and w.i.p.		3	119
Own work performed and capitalised		(21)	(25)
Total operating expenses		44,611	43,462
Profit from operations		1,806	490
Interest income		40	41
Interest expense		(987)	(985)
Foreign currency gain / (loss)		1,107	(1,885)
Net finance result		160	(2,829)
Share of profit of equity accounted investees		5	-
Profit / (loss) before tax		1,971	(2,339)
Current tax expense	18	292	100
Deferred tax expense / (benefit)	18	227	(83)
Profit / (loss) for the year		1,452	(2,356)
Attributable to:			
Owners of the Company		1,381	(2,387)
Non-controlling interest		71	31
Basic and diluted earnings per share (HUF per share):	19	175	(302)

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

	Year ended 31 December	
	2012	2011
Profit / (loss) for the year	1,452	(2,356)
Other comprehensive income		
Foreign currency translation differences for foreign operations	(1,815)	3,045
Changes in fair values of hedge derivatives	8	(71)
Total other comprehensive income	(1,807)	2,974
Total comprehensive income for the period	(355)	618
Attributable to:		
Owners of the Company	(316)	289
Non-controlling interest	(39)	329
Total comprehensive income for the period	(355)	618

Danubius Hotel and Spa 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 2011	8,285	7,435	(1,162)	28,203	7,817	-	50,578	2,518	53,096
Total comprehensive income for the period	-	-	-	(2,387)	-	-	(2,387)	31	(2,356)
Loss for the period	-	-	-	(2,387)	-	-	(2,387)	31	(2,356)
Other comprehensive income	-	-	-	-	2,747	-	2,747	298	3,045
Foreign currency translation differences for foreign operations	-	-	-	-	2,747	-	2,747	298	3,045
Changes in fair values of hedge derivatives	-	-	-	-	(71)	(71)	(71)	-	(71)
Total other comprehensive income	-	-	-	-	2,747	(71)	2,676	298	2,974
Total comprehensive income for the period	-	-	-	(2,387)	2,747	(71)	289	329	618
Transaction with owners, recorded directly in equity	-	-	-	(22)	-	-	(22)	-	(22)
Dividend to Non-controlling interests	-	-	-	(22)	-	-	(22)	-	(22)
Total transaction with owners	-	-	-	(22)	-	-	(22)	-	(22)
31 December 2011	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

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

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

	Notes	Year ended 31 December	
		2012	2011
Profit from operations		1,806	490
Depreciation and amortisation	7,8	4,576	4,412
<i>Changes in working capital</i>			
<i>Increase of provisions</i>	11	73	145
<i>Increase of accounts receivable and other current assets</i>		(401)	(124)
<i>Decrease of inventory</i>		43	86
<i>Increase of accounts payable and other current liabilities</i>		1,163	903
Interest paid		(1,032)	(936)
Income tax paid		(72)	(399)
Net cash provided by operating activities		6,156	4,577
Purchase of property, plant and equipment and intangibles	7,8	(2,791)	(4,255)
Interest received		27	31
Net cash used in investing activities		(2,764)	(4,224)
Receipt of long-term bank loans		728	1,774
Repayment of long-term bank loans		(4,958)	(4,162)
Net cash used in financing activities		(4,230)	(2,388)
Net decrease in cash held		(838)	(2,035)
Cash and cash equivalents at the beginning of the period		2,111	3,965
Effect of exchange rate fluctuations on cash held		(111)	181
Cash and cash equivalents at the end of the period	3	1,162	2,111

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

1. The Company and its subsidiaries

Danubius Hotel and Spa 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 2012, 80.33% of the Company's shares were owned by CP Holdings Limited, a UK private company, and companies controlled by CP Holdings Limited other than the Company itself and Sir Bernard Schreier, the Chairman of CP Holdings. The ultimate controlling party of the Group is the Schreier family, 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 2012 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 2012	Group interest held at 31 December 2011
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	99.94%	99.94%
SC Balneoclimaterica SA	Hotel operator	Romania	97.97%	97.97%
Egészségsgiget Kft.	Project company	Hungary	50%	50%

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

Danubius Hotel and Spa 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 millions of Hungarian Forints (HUF), which is the functional currency of the Company.

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 enterprises,

The financial statements were authorised for issue by the Board of Directors on 27 March 2013 and by the Supervisory Board on 27 March 2013.

Use of estimates and assumptions

The preparation of 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 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.

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.

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

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 commences until the date that significant influence 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 provision for 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 Hotel and Spa 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 directly in equity. 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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the measurement currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the statement of income.

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, held to maturity investments, 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 allowed and appropriate, re-evaluates this designation at each financial year end. Purchases and sales of investments 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 the statement of income.

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

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement, held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

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 the statement of income 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 the statement of income.

Fair value

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. When there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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 (including compound 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. In case of compound financial instruments the liability component is valued first, with the equity component being determined as a residual value. 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.

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

The derecognition of a financial asset takes place when the Group no longer controls the contractual rights that comprise the financial asset, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expire.

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.

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.

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.

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

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. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

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

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is measured upon initial recognition at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Intangible assets

Goodwill

All amounts of goodwill recognised in these 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 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.

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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.

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.

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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 the statement of income. 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 primary 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.

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.

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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 the statement of income 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 life of a depreciable asset.

Operating lease payments

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

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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, unwinding of the discount on provisions, impairment 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 the statement of income 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 2012

A number of new standards, interpretations and amendments to standards are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these consolidated financial statements:

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 Group does not expect the amendments to IFRS 7 to have material impact on the financial statements, because of the nature of the Group's operations and the types of financial assets and liabilities that it has.

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.

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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:

- 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 venturers, 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 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.

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. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

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.

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

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3. Cash and cash equivalents

	31 December	
	2012	2011
Bank balances	2,782	3,422
Call deposits	103	47
Cash and cash equivalents	2,885	3,469
Overdraft (see Note 10)	(1,723)	(1,358)
Cash and cash equivalents in the statement of cash flows	<u>1,162</u>	<u>2,111</u>

4. Trade and other receivables

	31 December	
	2012	2011
Trade receivables, net	1,493	1,618
Recoverable taxes and duties, except for income taxes	377	246
Advance payments to suppliers	120	113
Receivables from employees	19	30
Other receivables	812	727
	<u>2,821</u>	<u>2,734</u>

The ageing of trade receivables at the reporting date was:

	31 December 2012			31 December 2011		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	937	-	937	1,044	-	1,044
Past due 0-60 days	475	-	475	515	-	515
Past due 61-90 days	101	(26)	75	62	(3)	59
Past due 91-120 days	35	(29)	6	21	(21)	-
More than 121 days	96	(96)	-	119	(119)	-
	<u>1,644</u>	<u>(151)</u>	<u>1,493</u>	<u>1,761</u>	<u>(143)</u>	<u>1,618</u>

Reconciliation of allowance for doubtful receivables:

Opening balance, 1 January 2011	139
Impairment loss recognised	4
Write-offs	-
Closing balance, 31 December 2011	143
Impairment loss recognised	35
Write-offs	(27)
Closing balance, 31 December 2012	<u>151</u>

5. Inventory

	31 December	
	2012	2011
Food and beverages	230	227
Materials	145	191
Goods for resale	116	116
	<u>491</u>	<u>534</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 and hospitality property in Hungary, called Hotel Hullám that has 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 2011					
Gross value	12,627	94,330	24,990	2,673	134,620
Accumulated depreciation and impairment	-	36,516	21,600	56	58,172
Net carrying amount	12,627	57,814	3,390	2,617	76,448
For year ended 31 December 2011					
- Additions and capitalisations	-	3,518	1,388	(831)	4,075
- Effect of movements in exchange rates	692	2,559	350	69	3,670
- Depreciation charge for the year	-	(2,761)	(1,386)	(19)	(4,166)
- Disposals	(22)	(22)	(23)	(31)	(98)
- Other	-	11	12	-	23
Closing net carrying amount	13,297	61,119	3,731	1,805	79,952
At 31 December 2011					
Gross value	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					
Gross value	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

The net carrying amount of property, plant and equipment pledged as loan security was HUF 39,373 million as of 31 December 2012 and HUF 39,985 million as of 31 December 2011. The amount of borrowing cost capitalised in 2012 was HUF 28 million (2011: HUF 53 million), the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 1.8% in 2012 (2011: 4.4%).

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8. Intangible assets

	Goodwill	Land usage rights	Software and other intangibles	Total
At 1 January 2011				
Gross value	2,175	595	2,333	5,103
Accumulated amortisation and impairment	-	208	1,657	1,865
Net carrying amount	2,175	387	676	3,238
Year ended 31 December 2011				
- Additions and capitalisations	-	-	180	180
- Effect of movements in exchange rates	-	-	8	8
- Amortisation charge for the year	-	(13)	(233)	(246)
- Other	-	-	10	10
Closing net carrying amount	2,175	374	641	3,190
At 31 December 2011				
Gross value	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				
Gross value	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

At 31 December 2012 intangible assets include HUF 369 million, net of amortisation (2011: HUF 374 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	
	2012	2011
Lécebné Lázně a.s.	565	565
Gundel Kft.	944	944
Egészségisziget 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.

- An average weighted average cost of capital (WACC) of 9.6 percent (2011: 9.2%) was applied in determining the net present value of future cash flows of cash generating units located in Hungary, while 9.1% was used in case of CGUs located in Czech Republic (2011: 9.6%). The discount rate was estimated based on the risk free interest rate, market risk premium, industry beta and company's leverage.

In 2012 and 2011 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	
	2012	2011
CGU		
Léčebné Lázně a.s.		
- change of after-tax discount rate	94	44
- change of EBITDA	(9.0)	(6.2)
Gundel Kft.		
- change of after-tax discount rate	47	34
- change of Revenue	(3.1)	(2.7)
Egészség-sziget Kft.		
- change of market value of the land	(14.8)	(12.5)
Preventiv-Security Zrt.		
- change of after-tax discount rate	26	46
- change of EBITDA	(28)	(8.3)

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	
	2012	2011
Wages and salaries	951	937
Social security	443	437
Taxes payable, excluding income taxes	519	380
Accrued expenses	1,098	1,107
Derivatives	82	71
Government grants [†]	76	65
Other	729	661
	<u>3,898</u>	<u>3,658</u>

[†] The government grants recognized in profit or loss as other income was HUF 8 million in 2012 (2011: HUF 7 million).

10. Interest-bearing loans and borrowings

Non-current liabilities

	31 December	
	2012	2011
Secured bank loans	14,888	20,302
Obligation due to written put option to acquire the remaining 50% shareholding in Egészségisziget Kft. [†]	527	563
	<u>15,415</u>	<u>20,865</u>

Current liabilities

	31 December	
	2012	2011
Current portion of secured bank loans	4,842	5,228
Bank overdrafts	1,723	1,358
	<u>6,565</u>	<u>6,586</u>

[†] In August 2009 Danubius entered into a put and call option agreement with CP Holdings to purchase the remaining shareholding in Egészségisziget 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 110,000 and 3 month EURIBOR + 1% interest from August 2010.

As of 31 December 2012 the Group's secured bank loans fall due for repayment, as follows:

	31 December	
	2012	2011
Within 1 year	6,565	6,586
1 to 2 years	9,478	4,991
2 to 5 years	5,134	14,309
over 5 years	276	1,002
Total debt	21,453	26,888
Less total current debt	(6,565)	(6,586)
Total non-current debt	<u>14,888</u>	<u>20,302</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 68.8 million (2011: EUR 83.3 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 2010	683	354	177	-	1,214
Provision made during the year	-	191	32	29	252
Provision used during the year	-	-	(177)	-	(177)
Effect of movements in exchange rates	70	-	-	-	70
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
Current portion 2011	-	102	32	29	163
Non-current portion 2011	753	443	-	-	1,196
Current portion 2012	-	29	-	50	79
Non-current portion 2012	705	648	-	-	1,353

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 every five years' employment and upon retirement. The amount of the benefits is determined by the base and average monthly salary and the length of service period. 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 6% as at 31 December 2012 (2011: 7%), while the average salary increase was 4% at 31 December 2012 (2011: 5%). Assumptions regarding future mortality and job leavers are based on published statistics and mortality tables.

Restructuring

The efficiency improvement project to further optimize Danubius workforce continued in 2011 and 2012. As management was committed to these changes and the restructuring plan was communicated in detail to parties involved, the Group recognized a provision of HUF 177 million as of 31 December 2010 for future redundancy payments and related tax and contribution, all of which was used during year 2011. In addition HUF 265 million redundancy payment was made in the fourth quarter of 2011 against which there was no provision recognised in previous periods. The HUF 32 million balance as of 31 December 2011 represents cash outflows incurred in 2012 in respect of redundancy.

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12. Share Capital

The registered share capital at 31 December 2012 and 2011 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 2012 and 2011 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 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 2012 is HUF 26,658 million (2011: HUF 25,921 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	
	2012	2011
Preventiv-Security Zrt.	65	68
Léčebné Lázně a.s.	833	786
Slovenské Liečebné Kúpele Piestany a.s.	1,868	1,973
SC Salina Invest SA and SC Balneoclimaterica SA	30	20
	<u>2,796</u>	<u>2,847</u>

15. Material costs

	2012	2011
Materials used in providing guest services	5,466	5,170
Utility costs (gas, electricity, fuel and water consumption)	3,411	3,182
Other materials used	1,233	1,062
	<u>10,110</u>	<u>9,414</u>

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16. Services used

	<u>2012</u>	<u>2011</u>
Washing, cleaning services	1,356	1,354
Maintenance services	1,601	1,518
Safety services	833	901
Professional and membership fees	659	591
Hospitality services	685	685
Marketing, PR services	801	798
Rental of buildings, equipment and vehicles	592	628
Travel agency and other commissions	663	522
Bank and insurance charges	502	436
Hire of temporary personnel	214	250
Telecommunications services	274	279
Software, IT support	415	415
Delivery and transport fees	169	182
Training	82	91
Other	1,067	1,129
	<u>9,913</u>	<u>9,779</u>

17. Other expenses

	<u>2012</u>	<u>2011</u>
Taxes and contributions	2,305	2,161
Damages	10	5
Impairment of trade receivables, net	8	4
Other	464	441
	<u>2,787</u>	<u>2,611</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 tax charge / (benefit) for the year comprises:

	<u>2012</u>	<u>2011</u>
Current tax	292	100
Deferred tax	<u>227</u>	<u>(83)</u>
	<u>519</u>	<u>17</u>

A reconciliation of the difference between the income tax expense and taxation at the statutory tax rate, is shown in the following table:

	2012	2012	2011	2011
Loss before tax		<u>1,971</u>		<u>(2,339)</u>
Income tax using effective corporation tax rate of the parent	13%	256	13%	(304)
Effect of different effective tax rates		66		73
Non-deductible expenses		315		269
Tax exempt revenues		(346)		(240)
Effect of tax rate changes, net		91		34
Current year losses for which no deferred tax asset was recognised		164		134
Change in unrecognised differences		21		43
Tax allowances		(16)		-
Other		<u>(32)</u>		<u>8</u>
		<u>519</u>		<u>17</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 effective tax rate applicable to deferred tax assets and liabilities.

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Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December 2012 and 31 December 2011 are attributable to the following:

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Property, plant and equipment	52	52	1,967	1,718	(1,915)	(1,666)
Legal provisions	164	145	-	-	164	145
Provision for doubtful debts	9	14	-	-	9	14
Provision for employee benefits	129	97	-	-	129	97
Loan revaluation	34	59	-	-	34	59
Tax loss carry forwards	683	668	-	-	683	668
Hedge	17	-	-	-	17	-
Other	14	3	31	28	(17)	(25)
	1,102	1,038	1,998	1,746	(896)	(708)
Offset of assets and liabilities within individual legal entities	(689)	(579)	(689)	(579)	-	-
	413	459	1,309	1,167	(896)	(708)

Movement in temporary differences during the year

	Balance 1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2011	Recognised in profit or loss	Recognised in other comprehensive income	Balance 31 December 2012
Property, plant and equipment	(1,237)	(385)	(44)	(1,666)	(293)	44	(1,915)
Repairs and maintenance provision	(211)	211	-	-	-	-	-
Legal provisions	130	-	15	145	30	(11)	164
Provision for doubtful debts	13	1	-	14	(5)	-	9
Provision for employee benefits	44	53	-	97	34	(2)	129
Loan revaluation	97	(38)	-	59	(25)	-	34
Tax loss carry forwards	401	267	-	668	22	(7)	683
Hedge	-	-	-	-	-	17	17
Other	3	(26)	(2)	(25)	10	(2)	(17)
	(760)	83	(31)	(708)	(227)	39	(896)

Léčebné Lázně a.s. recorded a provision for repairs and maintenance in its Czech statutory accounts related to the future repair expenses of its premises, which is a deductible expense in Czech tax legislation. This provision was not included in these financial statements and a deferred tax liability of HUF 211 million was set up for this temporary difference as of 31 December 2010. Due to the significant maintenance work done in 2011 and the revision of future spendings Léčebné Lázně a.s. reversed the whole amount of related provision, and therefore also the temporary difference at the end of 2011.

As at 31 December 2012 HUF 1,915 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 financial statements.

At 31 December 2012 tax loss carry forwards of HUF 683 million can be utilised over indefinite period of time, however no deferred tax asset was recognised on negative tax base of HUF 2.6 billion 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 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 1,381 million in 2012 (2011: a net loss of HUF 2,387 million) and the weighted average number of qualifying ordinary shares outstanding was 7,910,914 during 2012 and 2011.

	31 December	
	2012	2011
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	<u>7,910,914</u>	<u>7,910,914</u>
Profit /(loss) for the year in million HUF	1,381	(2,387)
Basic earnings per share (HUF/share)	<u>175</u>	<u>(302)</u>

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

20. Commitments and contingencies

As of 31 December 2012 and 31 December 2011 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 2012 and 31 December 2011.

As at 31 December 2012 and 31 December 2011 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 2012 was HUF 199 million (2011: HUF 214 million). The assets of the fund are held in separate trustee administered funds and are not included in these 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 128 million in 2012 (2011: HUF 131 million). The assets of the fund are held in separate trustee administered funds and are not included in these 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 / (revenues)	
	2012	2011
Management fee to CP Holdings Limited	365	346
Interest to CP Holdings Limited	7	11
Management support fee from CP Regents Park Two Limited	(59)	(70)
Rental fee to Interag Zrt.	152	158
Services provided by Interag Zrt.	17	17
Service provided to Interag Zrt.	(24)	(24)
Service provided to ZI Group	(131)	(131)

Related party receivables and payables, except for the HUF 527 million put option (see Note 10) liability were not significant as at 31 December 2012 and 2011.

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:

	2012	2011
Short-term employee benefits	255	305
Post employment benefits	6	6
Total	261	311

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 2012	31 December 2011
Financial Asset		
Loans and receivables ¹	5,329	5,956
Financial Liability measured at		
Amortised cost ³	28,133	32,710
Fair value through profit or loss or equity ²	82	71

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.

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Carrying value and fair value for all of the Group's financial assets at 31 December 2012 and 2011 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. 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.

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 2012 HUF 836 million (2011: HUF 837 million), or approximately 30 percent of the Group's total receivables (2011: 31%), 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 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 2011 the repayment of approximately half of the borrowings has been rescheduled and the original amounts of instalments in 2012 were reduced by half.

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

	31 December 2012	31 December 2011
Overdraft	2,557	2,499
Long-term loan	1,805	778

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

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	2,988	2,988	2,988	-	-	-	-
Total	28,133	28,758	9,625	3,686	9,829	5,338	280

31 December 2011	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	25,530	27,858	2,024	4,115	5,734	14,983	1,002
Liability due to put option	563	563	-	-	563	-	-
Bank overdrafts	1,358	1,358	1,358	-	-	-	-
Trade payables	2,375	2,375	2,375	-	-	-	-
Other payables and accruals	2,884	2,884	2,884	-	-	-	-
Total	32,710	35,038	8,641	4,115	6,297	14,983	1,002

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 2 years.

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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 on risk.

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)	
	2012	2011	2012	2011	2012	2011
Euros	22,478	27,371	1,401	1,161	(21,077)	(26,210)
Sterling	5	109	38	21	33	(88)
US dollars	-	-	1	14	1	14
Financial instruments denominated in foreign currency	22,483	27,480	1,440	1,196	(21,043)	(26,284)
Total financial instruments	28,133	32,710	5,329	5,956	(22,804)	(26,754)

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 2012 and 2011.

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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 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.

	<u>Strengthening</u>	<u>Profit or Loss effect</u>
31 December 2012		
Hungarian forint (HUF)	10%	(1,611)
Czech Crown (CZK)	6%	(77)
Romanian Lei (RON)	4%	(1)
31 December 2011		
Hungarian forint (HUF)	11%	(2,128)
Czech Crown (CZK)	6%	(117)
Romanian Lei (RON)	5%	(6)

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 0.6% to 1.8% in Czech Republic and Slovakia, 1.6% to 3.95% in Hungary and 3.5% in Romania. The weighted average margin is 3.0% at 31 December 2012 (2011: 2.7%), while the average rate of interest is 3.2% (2011: 4.1%).

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.

SLKP 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 2012, according to the agreement the notional amount was EUR 7.8 million (2011: EUR 10.4 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 82 million as of 31 December 2012 (2011: HUF 71 million), which – meeting the criteria of hedge accounting – is recognised in equity.

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Interest rate sensitivity

3 months EURIBOR was 0.188% as of 31 December 2012 and 1.387% as of 31 December 2011. A change of 5 basis points in interest rates (2011: 20 basis points) at the reporting date would have increased (decreased) profit or loss 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</u>
31 December 2012	
5 basis points increase	(11)
5 basis points decrease	11
31 December 2011	
20 basis points increase	(49)
20 basis points decrease	49

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 2012 this ratio was 62.0% (2011: 59.3%).

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 2012 and 2011 the Company complied with this requirement.

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24. Segment reporting

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>	<i>1,849</i>	<i>14</i>	<i>1,863</i>	<i>1,086</i>	<i>1,387</i>	<i>240</i>	-	<i>4,576</i>
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>	<i>(809)</i>	<i>(1)</i>	<i>(810)</i>	<i>(47)</i>	<i>(125)</i>	<i>(5)</i>	-	<i>(987)</i>
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

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24. Segment reporting (continued)

2011	Hungarian operations			Czech operations	Slovakian operations	Romanian operations	Inter-segment transfers	TOTAL
	Hotel & Hospitality segment	Security segment	Total					
Revenue								
Sales to external customers	24,516	806	25,322	7,986	9,026	1,618	-	43,952
Inter segment sales	550	356	906	-	-	-	(906)	-
Total operating expenses	25,629	1,126	26,755	7,364	8,892	1,358	(906)	43,463
<i>of which Depreciation and amortisation</i>	1,928	15	1,943	932	1 306	231	-	4,412
<i>of which impairment of receivables and write-off of inventories</i>								
Operating profit/(loss)	(563)	36	(527)	622	134	260	-	489
Financial results	(2,593)	-	(2,593)	(101)	(138)	4	-	(2,828)
<i>of which interest expense</i>	(778)	(3)	(781)	(51)	(144)	(9)	-	(985)
Profit/(loss) before tax	(3,156)	36	(3,120)	521	(4)	264	-	(2,339)
Assets and liabilities								
Property, plant and equipment	37,960	63	38,023	16,564	22,987	2,378	-	79,952
Cash and cash equivalents	1,273	109	1,382	1,158	424	505	-	3,469
Accounts receivables	925	108	1,033	137	402	46	-	1,618
Inventories	201	3	204	111	203	16	-	534
Intangibles	2,417	120	2,537	608	40	5	-	3,190
Assets held for sale	70	-	70	-	-	-	-	70
Other non-allocated assets	-	-	-	-	-	-	-	1,668
Total assets	42,846	403	43,249	18,578	24,056	2,950	-	90,501
Trade accounts payable	1,569	121	1,690	224	366	95	-	2,375
Advance payments from guests	261	-	261	284	210	44	-	799
Interest bearing loans and borrowings	21,019	9	21,028	1,997	4,297	129	-	27,451
Provisions	417	-	417	116	826	-	-	1,359
Other non-allocated liabilities	-	-	-	-	-	-	-	4,825
Total liabilities	23,266	130	23,396	2,621	5,699	268	-	36,809
Capital expenditure	1,239	-	1,239	1,617	947	452	-	4,255

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.

Danubius Hotel and Spa 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.

Such value 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 income 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 balance sheet date that would have material effect on the financial statements presented.

REPORT OF THE BOARD OF DIRECTORS ON THE YEAR 2012 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	FY	Ch%	FY	FY	Ch %
	2012	2011		2012	2011	
Net sales revenues	46,417	43,952	6	160.4	157.4	2
EBITDA	6,382	4,902	30	22.1	17.6	26
Operating profit /(loss)	1,806	490	269	6.2	1.8	256
Financial results	160	(2,829)	n.a.	0.6	(10.1)	n.a.
Profit /(loss) before tax	1,971	(2,339)	n.a.	6.8	(8.4)	n.a.
Operating cash flow	6,156	4,577	34	21.3	16.4	30
CAPEX	2,791	4,255	(34)	9.6	15.2	(37)
HUF/EUR average rate	289.4	279.2	4			

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.

- In 2012 total net sales **revenues** were HUF 46.4 billion, up by 6% compared with the last year, thanks to improvement in all geographical segments. In EUR terms there was only a slight increase in group revenues due to the fluctuation in foreign exchange rates. Group **occupancy** in 2012 was 62.7% compared to 60.7% in 2011.
- Thanks to the pickup in revenue and cost cuts in the past, **EBITDA** improved considerably. The increase was HUF 1.5 billion comparing 2012 to 2011.
- **Segmental (geographical)** performance in 2012 was the following:
 - **Hungarian** segment's revenue increased by 3% to HUF 26.0 billion as the occupancy of hotels improved from 58.3% to 60.4% and HUF/EUR rate changed favourably. The operating profit increased by HUF 592 million to HUF 64 million.
 - **Czech** hotels showed a substantial revenue increase of 12%, contributing the highest profit since acquisition. Most of the increase is attributable to higher average room rate achieved. Operational profit was HUF 986 million, a remarkable improvement compared to HUF 622 million in 2011.
 - **Slovakian** segment's operating revenue increased by 7%, thanks to occupancy increasing from 60.5% to 64.3% and the forint weakening against the Euro. Operational profit was HUF 362 million in 2012 compared to HUF 134 million in 2011.
 - The total revenue of the **Romanian** segment grew by 11% to HUF 1,790 million increasing operating profit to HUF 395 million from HUF 260 million achieved last year.
- The **Financial** result in 2012 was a gain of HUF 160 million compared to a loss of HUF 2,829 million in 2011 mainly due to unrealised FX differences. In 2012 HUF 1,107 million FX (mostly unrealised) gain was recognised on monetary assets and liabilities, while in 2011 recognised FX loss was HUF 1,885 million. Interest expenses did not change significantly, as a combined result of foreign exchange rate fluctuations, interest rate changes and a decrease in average loan liabilities.
- **Profit before tax** in 2012 was HUF 1,971 million, compared to a loss of HUF 2,339 million in 2011.
- **Net cash provided by operating activities** in 2012 was HUF 6.2 billion compared to HUF 4.6 billion in 2011, due to improved results and favourable working capital changes.
- During 2012 **capital expenditure** and investments amounted to HUF 2.8 billion compared to HUF 4.3 billion in 2011, when there was considerable investment in spa facilities in Slovakia, Czech Republic and Romania.
- Since Danubius is committed to increase efficiency as a key factor of current and especially future success, average Group **headcount** in 2012 further decreased by 3% to 4,361 from 4,488 in 2011.

FINANCIAL OVERVIEW

Hungarian Segment

HUNGARY	HUF million			EUR million		
	FY 2012	FY 2011	Ch %	FY 2012	FY 2011	Ch %
Net sales revenues	26,017	25,322	3	89.9	90.7	(1)
EBITDA	1,927	1,414	36	6.7	5.1	31
Operating profit /(loss)	64	(528)	n.a.	0.2	(1.9)	n.a.
Financial results	286	(2,593)	n.a.	1.0	(9.3)	n.a.
Profit/(Loss) before tax	355	(3,121)	n.a.	1.2	(11.2)	n.a.
CAPEX	940	1,239	(24)	3.2	4.4	(27)

Total sales revenue and other operating income of 2012 increased by 3% to HUF 26.0 billion. This is a good result especially when the Group realised 3% of its H1 2011 revenue on European Union Presidency in Hungary.

Room revenue of Hungarian hotels improved by 6.3% to HUF 13.7 billion due to the combined result of an occupancy increase from 58.3% to 60.4% and higher average room rate achieved (ARR) in HUF terms. However, as HUF depreciated 3.7% against EUR during the period, our net EUR prices continued to erode slightly due to considerable oversupply of room capacity in Budapest and tightening competition. There was a significant loss of turnover in segments providing higher average prices and other revenues (flexible rate and conference guests), and this loss was compensated mainly by spa/wellness and leisure guests. A positive sign was the increase of the direct business segment, which we appreciate greatly in the current depressed economic environment. The average length of stay was 2.8 days in 2012, which is similar to last year's figure. The number of guest-nights in 2012 increased to 1,822,215 from 1,741,526 out of which domestic guest-nights represented 18% compared to 2011 level of 21%. We realised the highest increase in guests from Russia (31%), Brazil (125%) and Germany (8%). The number of Japanese guests increased by 24%, following a considerable decline last year. Room departmental profit for 2012 increased 6% compared to 2011.

Food and beverage revenue of hotels and restaurants for 2012 was HUF 7.6 billion, which was similar to last year's level, as the positive result of the pick-up in occupancy was offset by less banqueting and conferences. The latter was partially due to VAT increase from 25% to 27% and different guests arriving to Budapest after the collapse of MALÉV, the National Hungarian Airline, and the rise of budget airlines. F&B departmental profit declined as a result of an increase in food cost, due to inflation and quantity increase. This was partly compensated by lower payroll expenses, which confirms the efficiency increase of our employees and deserves our special recognition. Gundel's revenue in 2012 decreased by HUF 63 million (5%) and total operational expenses decreased by HUF 70 million resulting in operational loss decreased to HUF 95 million compared HUF 102 million in 2011.

Spa revenue was HUF 1,368 million in 2012, up by 8% compared to 2011, mainly due to higher average treatment prices achieved. As costs were controlled, the profit of the spa department increased by HUF 75 million (21%).

Due to the combined effect of inflation of raw material prices and the pick-up in occupancy, raw material expenses increased by 8% to HUF 5.6 billion in our hotels. Within this energy cost was HUF 2.4 billion, up by 9% due to energy price increase and a prolonged hot summer. The value of services used in 2012 increased by 5% to HUF 5.6 billion. Within this the amount spent on maintenance work at the hotels increased by 18% to HUF 683 million. Personnel expenses of hotel operation in 2012 were HUF 9.8 billion, down by 3%, reflecting our headcount reduction measures introduced last year, while current year figure also includes the wage increase of lower paid employees negatively affected by the 2012 changes of personal income tax.

Interest expenses increased to HUF 810 million in 2012 from HUF 781 million mainly due to weaker average HUF against the EUR. Primarily as the result of stronger HUF at 2012 year-end compared to the 2011 year-end EUR rate, a HUF 1,072 million foreign exchange gain (mostly unrealised gain on non-current EUR loans) was recognised in the profit and loss in 2012, compared to a loss of HUF 1,838 million in 2011.

Capital expenditures were HUF 940 million in 2012, including spending on budgeted renewals and Hilton Budapest safety systems compared to HUF 1,239 million spent in 2011. Overall the profit before tax of Hungarian segment was HUF 0.4 billion in 2012, compared to a loss of HUF 3.1 billion in 2011.

Czech Segment

CZECH REPUBLIC	HUF million		
	FY	FY	Ch%
	2012	2011	
Total revenue and income	8,955	7,986	12
EBITDA	2,072	1,554	33
Operating profit	986	622	59
Financial results	(6)	(102)	(94)
Profit before tax	980	520	88
CAPEX	1,123	1,617	(31)
HUF/CZK average rate	11.5	11.4	1
CZK/EUR average rate	25.1	24.6	2

Total sales revenue and other operating income increased by 12% to HUF 9 billion in 2012 compared to 2011. Only 1.4% of the total increase was due to the weakening of the forint against Czech crown. Out of total revenue pick-up room revenue increased by 12%, while F&B and Spa revenue increased by 16% and 12% respectively. Marienbad hotels' occupancy is the highest within the group, being 77.0% in 2012 compared to 78.8% last year. The change in occupancy is however affected by the different operational period of the hotels and the number of rooms sold increased slightly to 218,663 from 216,674. However, most of the increase was the result of the average room rate (ARR) increasing to CZK 1,918 from CZK 1,791 compared to the previous year. The average length of stay was 9.9 days in 2012, a considerable improvement compared to 9.4 days last year. The number of guest nights was 361,074 in 2012 compared to 362,120 in 2011. The drop in German (-16%) and domestic guests (-22%) was almost compensated by increasing number of guests arriving from the former Soviet Union (+23%) markets.

The amount of material expenses and services used in 2012 was HUF 3.8 billion, up by 4.9%, explained by the translational effect of 1.4% and the effect of inflation. Within this energy costs increased by 9% to HUF 763 million, while maintenance expenses decreased by 1% to HUF 594 million. Total personnel expenses in 2012 were HUF 2,415 million, up by 7.1% which is, excluding the 1.4% translational effect, in line with the salary increase.

The operational performance of Czech hotels improved significantly and generated a profit of HUF 986 million in 2012 compared to HUF 622 million in 2011 a remarkable improvement compared previous years. Together with previous years' outstanding performance these results reinforce our chosen business and development strategy.

Due to the combined effect of the fluctuation of interest rates, weaker HUF and the decrease in the average amount of outstanding bank loans, interest expense for 2012 was HUF 47 million, compared to HUF 51 million in 2011. As the result of the strengthening of CZK against EUR in 2012 a HUF 38 million foreign exchange gain was recognised in profit and loss on monetary assets and liabilities denominated in EUR, compared to a loss of HUF 51 million in 2011.

Capital expenditure in 2012 amounted to HUF 1,123 million, down by 31%, since the comparative figure includes significant spending on Maria and Vltava spa facilities.

Overall, the profit before tax of Czech operations for 2012 was HUF 980 million compared to HUF 520 million in 2011.

Slovakian Segment

SLOVAKIA	HUF million		
	FY	FY	Ch%
	2012	2011	
Total revenue and income	9,655	9,026	7
EBITDA	1,749	1,440	21
Operating profit /(loss)	362	134	170
Financial results	(124)	(138)	(10)
Profit /(loss) before tax	238	(4)	n.a.
CAPEX	485	947	(49)
HUF/EUR average rate	289.4	279.2	4

Total sales revenue and other operating income in 2012 grew by 7% to HUF 9.7 billion, partly due to the 3.7% weaker forint against euro and partly due to an improvement in occupancy. Piestany hotels had an average occupancy in the year of 64.3%, which is 3.8% above last year's level of 60.5%. The average room rate (ARR) did not change remaining at EUR 43.9. The number of rooms sold increased from 286,820 to 296,057 in 2012, while the number of guestnights in 2012 was 480,671 compared to 469,633 in 2011, the average length of stay in 2012 was 10.8 days compared to 10.1 days last year. The 1% decline of domestic market, representing 41% of total demand and the 15% decrease of guestnights from the Czech Republic was more than compensated by more guest arrivals mainly from Russia (+35%) and Israel (+17%).

The amount of material expenses and services used in 2012 was HUF 3.6 billion, up by only 3.0%, in spite of the 3.7% weaker forint against euro. Due to strict cost management, operational costs in EUR terms decreased significantly, and energy costs decreased by 5%. Personnel expenses for 2012 were HUF 3.6 billion, up by 4.9% which, excluding the 3.7% translational effect and the increase in the turnover, reflects headcount reduction measures introduced last year.

Interest expenses for 2012 were 13% lower in HUF terms mainly due to a decrease in the average outstanding bank loan amount.

Capital expenditures during 2012 were kept to a minimum level and were HUF 485 million compared to HUF 947 million in 2011 which included significant spending on Balneotherapy spa facilities.

Overall, the profit before tax of Slovakian operations for 2012 increased to HUF 238 million, compared to a loss of HUF 4 million in 2011.

Romanian Segment

ROMANIA	HUF million		Ch%
	FY	FY	
	2012	2011	
Total revenue and income	1,790	1,618	11
EBITDA	635	491	29
Operating profit /(loss)	395	260	52
Financial results	4	4	0
Profit /(loss) before tax	399	264	51
CAPEX	243	452	(46)
HUF/RON average rate	65.0	65.8	(1)
RON/EUR average rate	4.5	4.2	5

Total sales revenue and other operating income for 2012 increased by 11% in HUF terms compared to the last year. Most of this increase is due to the impressive 10% increase of the average room rate (ARR) from RON 121 to RON 133 while occupancy also increased to 58.4% from 57.7%. Room departmental profitability in HUF terms improved by 11%. The number of guests increased to 46,195 from 43,957 primarily due to the increasing number of leisure tourists.

Total material expenses and services used in 2012 was HUF 685 million, up by 4% compared to last year. Within this, energy cost was HUF 207 million, up by 13% compared to 2011 due to the higher energy requirements of new spa facilities. Personnel expenses increased 9% compared to the last year.

The loan to finance the refurbishment that took place 6-7 years ago will be paid back fully within 12 months. Due to lower amount of average outstanding borrowings interest expenses amounted to HUF 5 million, compared to HUF 9 million in 2011.

Capital expenditure during the year was HUF 243 million compared to HUF 452 million in 2011, the majority of which represented the final phase of new spa area. Capital expenditure for Q4 2012 increased as a result of initiating the reconstruction works of Hotel Bradet which will continue in the following years.

As the result of the above, the profit before tax increased to HUF 399 million from HUF 264 million in 2011.

Consolidated Balance Sheet

Total consolidated asset value amounted to HUF 86.0 billion as of 31 December 2012, a 5% decrease compared to 2011. Cash and cash equivalents decreased by 17% compared to 31 December 2011 as large amount of debts were paid back of the outstanding bank loans. Trade receivables decreased by 8% to HUF 1.5 billion from HUF 1.6 billion, as a consequence of the success of our cash collection campaign. The amount of inventory further decreased by 8% at the end of 2012 compared to 2011.

The amount of property, plant and equipment was HUF 76.1 billion at 31 December 2012. Compared to the year end of 2011 this amount decreased by 5% due to the combined effect of HUF 2.8 billion purchase of PPE, the HUF 4.6 billion depreciation and approx. HUF 2.1 billion decrease due to foreign exchange rate fluctuations. Total liabilities at the end of 2012 were HUF 32.6 billion, an 11% decrease compared to 31 December 2011. The Group had EUR 68.8 million long-term loans (including the short-term portion of the long-term loans), as of 31 December 2012, while it was EUR 83.3 million at the end of year 2011. Due to the strengthening of the year-end forint rates, bank loans in HUF terms decreased even more over the year.

The value of shareholders' equity decreased by 1% compared to 31 December 2011 being the combined effect of the profit after tax of HUF 1.5 billion and the HUF 1.8 billion decrease of translation reserve and non-controlling interest.

Cash flow

Net cash generated by operating activities in 2012 was HUF 6.2 billion, an impressive improvement compared to the HUF 4.6 billion generated 2011, due to better operational performance and the improving result of working capital changes. Capital expenditure in 2012 was HUF 2.8 billion, a 34% decrease compared to 2011, since comparative figures include considerable spending on spa facilities in Slovakia, Czech Republic and Romania to increase the quality of our products and services.

During 2012, EUR 2.5 million loan has been drawn down for corporate financing purposes, and EUR 17 million repayment of borrowings has taken place. Overall bank loans (current and non-current) have decreased to HUF 21,963 million from HUF 27,451 million over the year, which was also affected by euro rate fluctuations.

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

	At 31 December	
	2012	2011
Assets		
Cash and cash equivalents	2,885	3,469
Trade and other receivables	2,821	2,734
Inventory	491	534
Non-current assets classified as held for sale	65	70
Current income tax receivables	5	74
Total current assets	6,267	6,881
Property, plant and equipment	76,077	79,952
Intangible assets	3,154	3,190
Other investments	39	19
Deferred tax assets	413	459
Total non-current assets	79,683	83,620
Total assets	85,950	90,501
Liabilities and Shareholders' Equity		
Trade accounts payable	3,165	2,375
Advance payments from guests	715	799
Current income tax payables	126	-
Other payables and accruals, including derivatives	3,898	3,658
Interest-bearing loans and borrowings	6,565	6,586
Provisions	79	163
Total current liabilities	14,548	13,581
Interest-bearing loans and borrowings	15,415	20,865
Deferred tax liabilities	1,309	1,167
Provisions	1,353	1,196
Total non-current liabilities	18,077	23,228
Total liabilities	32,625	36,809
Shareholders' Equity		
Share capital	8,285	8,285
Capital reserve	7,435	7,435
Treasury shares	(1,162)	(1,162)
Translation reserve	8,852	10,564
Hedge reserve	(56)	(71)
Retained earnings	27,175	25,794
Attributable to equity holders of the parent	50,529	50,845
Non-controlling interest	2,796	2,847
Total shareholders' equity	53,325	53,692
Total liabilities and shareholders' equity	85,950	90,501

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

	Year ended 31 December	
	2012	2011
Room revenue	23,004	21,368
Food and beverage revenue	13,621	13,160
Spa revenue	6,477	5,926
Other departmental revenue	2,111	2,084
Revenue from wineries	54	161
Revenue from security services	667	806
Other income	483	447
Total operating revenue and other income	46,417	43,952
Cost of goods purchased for resale	455	444
Material costs	10,110	9,414
Services used	9,913	9,779
Material expenses and services used	20,478	19,637
Wages and salaries	11,835	11,600
Other personnel expenses	1,286	1,458
Taxes and contributions	3,667	3,650
Personnel expenses	16,788	16,708
Depreciation and amortisation	4,576	4,412
Other expenses	2,787	2,611
Changes in inventories of finished goods and w.i.p.	3	119
Own work performed and capitalised	(21)	(25)
Total operating expenses	44,611	43,462
Profit from operations	1,806	490
Interest income	40	41
Interest expense	(987)	(985)
Foreign currency gain / (loss)	1,107	(1,885)
Net finance result	160	(2,829)
Share of profit of equity accounted investees	5	-
Profit / (loss) before tax	1,971	(2,339)
Current tax expense	292	100
Deferred tax expense / (benefit)	227	(83)
Profit / (loss) for the year	1,452	(2,356)
Attributable to:		
Owners of the Company	1,381	(2,387)
Non-controlling interest	71	31
Basic and diluted earnings per share (HUF per share):	175	(302)

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

	Year ended 31 December	
	2012	2011
Profit / (loss) for the year	1,452	(2,356)
Other comprehensive income		
Foreign currency translation differences for foreign operations	(1,815)	3,045
Changes in fair values of hedge derivatives	8	(71)
Total other comprehensive income	(1,807)	2,974
Total comprehensive income for the period	(355)	618
Attributable to:		
Owners of the Company	(316)	289
Non-controlling interest	(39)	329
Total comprehensive income for the period	(355)	618

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

	Share Capital	Capital Reserve	Treasury Shares	Retained Earnings	Translation Reserve	Hedge Reserve	Total	Non- controlling Interest	Total Equity
1 January 2011	8,285	7,435	(1,162)	28,203	7,817	-	50,578	2,518	53,096
Total comprehensive income for the period	-	-	-	(2,387)	-	-	(2,387)	31	(2,356)
Loss for the period									
Other comprehensive income	-	-	-	-	2,747	-	2,747	298	3,045
Foreign currency translation differences for foreign operations									
Changes in fair values of hedge derivatives						(71)	(71)	-	(71)
Total other comprehensive income	-	-	-	-	2,747	(71)	2,676	298	2,974
Total comprehensive income for the period	-	-	-	(2,387)	2,747	(71)	289	329	618
Transaction with owners, recorded directly in equity	-	-	-	-	-	-	-	-	-
Dividend to Non-controlling interests				(22)			(22)		(22)
Total transaction with owners	-	-	-	(22)	-	-	(22)	-	(22)
31 December 2011	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									
Other comprehensive income	-	-	-	-	(1,712)	-	(1,712)	(103)	(1,815)
Foreign currency translation differences for foreign operations									
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									
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

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

	Year ended 31 December	
	2012	2011
Profit from operations	1,806	490
Depreciation and amortisation	4,576	4,412
<i>Changes in working capital</i>		
<i>Change of provisions</i>	73	145
<i>(Increase)/ decrease of accounts receivable and other current assets</i>	(401)	(124)
<i>(Increase)/ decrease of inventory</i>	43	86
<i>Increase / (decrease) of accounts payable and other current liabilities</i>	1,163	903
Interest paid	(1,032)	(936)
Income tax paid	(72)	(399)
Net cash provided by operating activities	6,156	4,577
Purchase of property, plant and equipment and intangibles	(2,791)	(4,255)
Interest received	27	31
Net cash used in investing activities	(2,764)	(4,224)
Receipt of long-term bank loans	728	1,774
Repayment of long-term bank loans	(4,958)	(4,162)
Net cash used in financing activities	(4,230)	(2,388)
Net decrease in cash held	(838)	(2,035)
Cash and cash equivalents at the beginning of the period	2,111	3,965
Effect of exchange rate fluctuations on cash held	(111)	181
Cash and cash equivalents at the end of the period	1,162	2,111

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.

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 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
CP Holdings and its investments ²	78.03%	78.03%	78.95%	79.07%	80.33%
<i>Of which:</i>					
<i>CP Holdings Ltd.</i>	37.94%	37.94%	37.94%	37.94%	38.85%
<i>Interaq 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	8.96%	8.78%	8.78%	8.78%	7.52%
Domestic financial investors	5.35%	5.50%	4.60%	4.43%	4.55%
Domestic individuals	3.14%	3.17%	3.15%	3.20%	3.08%
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 held by Sir Bernard Schreier, the Chairman of CP Holdings.

APPENDIX VIII

CONSOLIDATED MANAGEMENT REPORT

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

The year 2012 proved to be almost similarly challenging to the previous one although the number of guests coming to our main regions, Hungary, the Czech Republic, Slovakia and Romania increased compared to 2011, which provides the background for some cautious optimism.

According to data provided by the Hungarian Central Statistical Office the number of guest-nights increased in the Hungarian market by 4.8% comparing 2012 to the previous year. Within that, domestic guest-nights increased only 1.0% while guest-nights from foreign countries increased by 8.5%. Guest-nights recorded by Hotels increased by 7.9%, and within that 4-stars hotels increased the most, 17.1%. This is important, because the presence of Danubius Group is the strongest in the 4-stars segment. The new Széchenyi card generated low turnover in the beginning of the year, but its use increased gradually throughout the year.

According to data provided by the Czech Statistical Office for 2012, the number of guests increased by 5.8%. Within that the number of foreign guests increased by 6.8%, while the number of domestic guests increased by 4.7%. The number of guest-nights increased 3.5% of which 5.8% was the increase of the foreign and 1.1% was the increase in domestic guest-nights. The average length of stay was 2.9 days throughout the year. Regionally, the highest increase in the number of guests was reported in Plzensky (+9.8%) and Jihocesky (+9.6%) regions. A decrease was registered only in the Jihomoravsky region (-0.7%). From the guest-nights point of view 6 out of 14 regions registered a decrease.

According to data provided by the Slovakian Statistical Office, the number of guests in the Slovakian market was 2.9 million in the first nine months of 2012 which is an increase of 5.4% within which domestic guests increased by 6.2% and foreign guests increased by 4.1%. The number of guest-nights increased by 2.7% from which the foreign guest nights rose by 1.3% while the domestic increased by 3.6%.

According to data provided by the Romanian Statistical Office, the number of guests in the Romanian market was 19.1 million in 2012 which was an increase of 6.6% compared to the previous year.

Our goals and strategy did not change in this period. This is a special year in the history of Danubius which celebrates its 40th anniversary in 2012. This theme materialized in many ways from special 40th anniversary packages to continuous presence on our events organised throughout the period. We also offered special packages to encourage the use of the new "Széchenyi Card" or the "holiday cheques". The latter cannot be obtained since 1.1.2012, and expired by the end of 2012.

In addition to the risks involved in the Hotel industry, we are significantly affected by the fluctuation of foreign exchange rates. In particular, the Hungarian forint against the Euro which started this year at a very weak forint position and strengthened significantly during the year with a significant jump just before year-end that did not reach the level of the previous year. Since the year-end rate was better than last year-end this caused unrealised foreign exchange gains on loans denominated in Euros. However, the annual average forint rate was significantly weaker than in the last year, which results higher revenues realised in HUF terms.

Our outlook did not change significantly. Our overall revenues have not changed dramatically as a result of MALÉV's demise. Although we have experienced a decrease in the MICE segment, increased turnover mainly from Russia and Germany compensated for that with increased number of guests. We expect further increases from Israel and former Soviet Union countries.

APPENDIX IX DECLARATION

Danubius Hotels Nyrt. hereby declares that the audited Consolidated Financial Statements presented in this report, prepared in accordance with IFRS 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 interim Consolidated Financial Statements. The Consolidated Financial Statements give a true and fair view on the assets, liabilities, financial position, net income and loss for the period 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 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

APPENDIX X

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

in HUF thousand

		Prior year	Current year
a	b	c	e
01.	INVESTED ASSETS	55,206,406	54,047,869
02.	INTANGIBLE ASSETS	9,871	10,353
03.	Cap.value of transformation		
04.	Cap.value of exper.develop.		
05.	Intangible assets		
06.	Intellectual products	9,871	10,353
07.	Goodwill		
08.	Intangible assets advance payment		
09.	Revaluation of intangible assets		
10.	TANGIBLE ASSETS	5,745,502	5,415,426
11.	Real estates	5,610,581	5,280,603
12.	Equipments and machines	417	1,521
13.	Other equipments and fixtures	3,853	2,281
14.	Breeding stock		
15.	Capital projects	130,651	131,021
16.	Advance payments for projects		
17.	Revaluation of tangible assets		
18.	FINANCIAL INVESTMENTS	49,451,033	48,622,090
19.	Shares in daughter Co-s	47,349,997	46,521,324
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	286	16
24.	Long term securities		
25.	Reval. of invested financial assets		
26.	WORKING ASSETS	3,181,188	2,296,954
27.	STOCKS	2,300	0
28.	Raw materials		
29.	WIP.semifinished goods		
30.	Livestocks		
31.	Finished goods		
32.	Goods	2,300	
33.	Advance payments for stocks		
34.	RECEIVABLES	1,655,294	1,022,249
35.	Debtors	6	
36.	Amounts owed by daughter Co-s	1,645,676	1,017,399
37.	Amounts owed by other investm.		
38.	Bills of exchange		
39.	Other receivables	9,612	4,850
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	362,573	113,684
46.	Cash at hand	304	731
47.	Bank deposits	362,269	112,953
48.	ACCRUALS	18,759	5,497
49.	Accruals of revenues	13,074	28
50.	Accruals of costs & expenditures	5,685	5,469
51.	Defered expenditures		
52.	TOTAL ASSETS	58,406,353	56,350,320

in HUF thousand

		Prior year	Current year
a	b	c	e
53.	OWN CAPITAL	42,721,864	43,779,661
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	25,505,866	25,720,059
59.	COMMITTED RESERVES	1,198,440	1,578,229
60.	REVALUATION RESERVE		
61.	PROFIT PER BALANCE SHEET	593,982	1,057,797
62.	PROVISIONS	197,823	258,457
63.	Provisions for possible liabilities	6,212	258,457
64.	Provisions for possible loss	191,611	
65.	Other provisions		
66.	LIABILITIES	15,236,850	12,041,671
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	11,642,444	8,416,747
72.	Long term loans		
73.	Convertible bonds		
74.	Liability from bond issue		
75.	Project loans		
76.	Other long term loans	11,642,444	8,416,747
77.	Long term liabilities to daughter Co-s		
78.	Long term liabilities to other investments		
79.	Other long term liability		
80.	SHORT TERM LIABILITIES	3,594,406	3,624,924
81.	Short term credits		
82.	From this: convertible bonds		
83.	Short term loans	3,388,723	3,384,016
84.	Advance payments from debtors		
85.	Creditors	27,034	26,118
86.	Bills of exchange		
87.	Short term liabilities to daughter Co-s	82,197	80,979
88.	Short term liabilities to other investments		203
89.	Other short term liabilities	96,452	133,608
90.	ACCUALS	249,816	270,531
91.	Accruals of revenues		
92.	Accruals of costs & expenditures	249,816	270,531
93.	Deferred revenues		
95.	TOTAL LIABILITIES	58,406,353	56,350,320

APPENDIX XI

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

in HUF thousand

		Prior year	Current year
a	b	c	e
01.	Net domestic sales revenue	2,865,261	2,972,974
02.	Export sales revenue		
I.	Net domestic sales revenue	2,865,261	2,972,974
03.	Export sales revenue		
04.	Export sales revenue		
II.	Cap. value of own production	0	
III.	Other income	147,035	6,790
	from this re-booked loss of value		
05.	Raw material costs	7,007	5,227
06.	Value of services used	711,414	743,920
07.	Other services	20,586	43,218
08.	Purchase price of goods sold		
09.	Value of sold services	25,232	11,749
IV.	Material expenditures	764,239	804,114
10.	Salaries and wages	394,493	391,618
11.	Other personnel payments	88,885	49,887
12.	Related costs	129,635	122,109
V.	Total payroll & related costs	613,013	563,614
VI.	Depreciation	368,747	347,550
VII.	Other expenditures	330,483	232,700
	from this: loss of value		
A.	Operating profit	935,814	1,031,786
13.	Dividend received	1,584	1,080
	from this: from related party		
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	161,768	122,860
	from this: from related party	154,590	119,157
17.	Other financial income	991,515	869,505
VIII.	Rev. from financial transact.	1,154,867	993,445
18.	Exchange loss of inv. fin. assets		
	from this: to related party		
19.	Interests payable	658,178	667,916
	from this: to related party		8,429
20.	Loss of value -securities, deposits		
21.	Other financial expences	770,358	209,097
IX.	Expenditures of fin. transact.	1,428,536	877,013
B.	Financial profit or loss	-273,669	116,432
C.	Profit from ordinary activities	662,145	1,148,218
X.	Extraordinary income		
XI.	Extraordinary loss	42,428	66,422
D.	Extraordinary profit or loss	-42,428	-66,422
E.	Profit before tax	619,717	1,081,796
XII.	Corporate tax payable	25,735	23,999
F.	Profit after tax	593,982	1,057,797
22.	Dividend paid from profit reserve		
23.	Dividend payable		
G.	NET PROFIT	593,982	1,057,797