Danubius Hotel and Spa Nyrt.
and Subsidiaries
Consolidated Financial Statements
in accordance with
International Financial Reporting Standards
as adopted by the EU
31 December 2009
with Report of the Independent Auditor

(approved by AGM)

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Independent Auditors' Report

To the shareholders of Danubius Hotel and Spa Nyrt.

We have audited the accompanying 2009 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 2009, which shows total assets of HUF 87,071 million, and the consolidated income statement and consolidated statements of comprehensive income which show loss for the year of HUF 756 million, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on the audit and to assess whether the consolidated business report is consistent with the consolidated financial statements. 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our work with respect to the consolidated business report was limited to the assessment of the consistency of the consolidated business report with the consolidated financial statements, and did not include a review of any information other than that drawn from the audited accounting records of the Company.

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

KPMG Hungária Kft., a Hungarian limited liability company and
a member firm of the KPMG network of independent member
firms affiliated with KPMG International, a Swiss cooperative.
Company registration: Budapest, Fővárosi Bíróság, no: 01-09-063183

Opinion

We have audited the consolidated financial statements of Danubius Hotel and Spa Nyrt., its components and elements and their documentary support in accordance with Hungarian National Standards on Auditing and gained sufficient and appropriate evidence that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. 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 subsidiaries as of 31 December 2009, and of their consolidated financial performance and of the consolidated result of their operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU. The consolidated business report is consistent with the disclosures in the consolidated annual financial statements.

Budapest, 31 March 2010

KPMG Hungária Kft.
1139 Budapest, Váci út 99.
Chamber registration number: 000202

Péter Szabó
Partner
Registered Auditor
Identification number: 005301

This is an English translation of the Independent Auditors' Report on the 2009 IFRS Consolidated Annual Report 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 Annual Report it refers to

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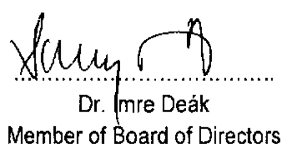
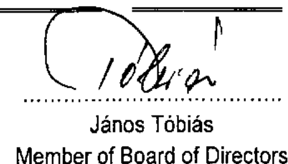
Danubius Hotel and Spa Nyrt. and Subsidiaries
Consolidated Statement of Financial Position
(All amounts in million HUF)

	Notes	At 31 December 2009	2008
Assets			
Cash and cash equivalents	3	3,537	3,797
Trade and other receivables	4	2,222	3,544
Inventory	5	824	867
Long-term assets classified as held for sale	6	78	351
Current income tax receivables		134	21
Total current assets		**6,795**	**8,580**
Property, plant and equipment	7	76,795	76,347
Intangible assets	8	3,208	2,703
Other investments	9	72	2,108
Deferred tax assets	19	201	524
Total non-current assets		**80,276**	**81,682**
Total assets		**87,071**	**90,262**
Liabilities and Shareholders' Equity			
Trade accounts payable		1,995	2,866
Advance payments from guests		672	640
Current income tax payables		6	35
Other payables and accruals, including derivatives	10	2,901	3,249
Interest-bearing loans and borrowings	11	5,290	5,699
Provisions	12	344	445
Total current liabilities		**11,208**	**12,934**
Interest-bearing loans and borrowings	11	21,005	21,812
Deferred tax liabilities	19	1,332	1,351
Provisions	12	1,033	1,235
Total non-current liabilities		**23,370**	**24,398**
Total liabilities		**34,578**	**37,332**
Shareholders' Equity			
Share capital	13	8,285	8,285
Capital reserve		7,435	7,435
Treasury shares	14	(1,162)	(1,162)
Translation reserve		6,354	6,032
Retained earnings		29,152	30,023
Attributable to equity holders of the parent		**50,064**	**50,613**
Minority interest	15	**2,429**	**2,317**
Total shareholders' equity		**52,493**	**52,930**
Total liabilities and shareholders' equity		**87,071**	**90,262**



Dr. Imre Deák
Member of Board of Directors



János Tóbiás
Member of Board of Directors

Budapest, 30 March 2010

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

	Notes	Year ended 31 December 2009	2008
Room revenue		21,215	21,811
Food and beverage revenue		13,020	14,996
Spa revenue		5,841	6,197
Other departmental revenue		1,777	2,138
Revenue from wineries		155	155
Revenue from security services		835	717
Other income		642	1,159
Total operating revenue and other income		**43,485**	**47,173**
Cost of goods purchased for resale		432	265
Material costs	16	9,291	10,544
Services used	17	9,246	9,947
Material expenses and services used		**18,969**	**20,756**
Wages and salaries		11,407	12,341
Other personnel expenses		1,393	1,472
Taxes and contributions		3,771	4,331
Personnel expenses		**16,571**	**18,144**
Depreciation and amortisation		4,619	4,630
Other expenses	18	2,293	2,366
Changes in inventories of finished goods and w.i.p.		(4)	(8)
Work performed and capitalised		(85)	(82)
Total operating expenses		**42,363**	**45,806**
Profit from operations		**1,122**	**1,367**
Interest income		200	224
Interest expense		(1,439)	(1,805)
Foreign currency gain / (loss)		(290)	90
Financial loss		**(1,529)**	**(1,491)**
Share of loss of associates		**-**	**(75)**
Loss before tax		**(407)**	**(199)**
Current tax expense	19	54	187
Deferred tax expense / (benefit)	19	295	(34)
Loss for the year		**(756)**	**(352)**
Attributable to:			
Owners of the Company		(801)	(411)
Minority interest	15	45	59
Basic and diluted earnings per share (HUF per share):	20	**(101)**	**(52)**

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 Comprehensive Income
(All amounts in million HUF)

	Year ended 31 December	
	2009	2008
Loss for the year	**(756)**	**(352)**
Other comprehensive income		
Foreign currency translation differencies for foreign operations	394	2,207
Release of hedging reserve due to loss of effectiveness	-	(24)
Total other comprehensive income	**394**	**2,183**
Total comprehensive income for the period	**(362)**	**1,831**
Attributable to:		
Owners of the Company	(479)	1,156
Minority interest	117	675
Total comprehensive income for the period	**(362)**	**1,831**

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

	Attributable to equity holders of the parent							Minority Interest	Total Equity
	Share Capital	Capital Reserve	Treasury Shares	Retained Earnings	Translation Reserve	Hedging Reserve	Total		
1 January 2008	**8,285**	**7,435**	**(1,162)**	**30,410**	**4,441**	**24**	**49,433**	**1,666**	**51,099**
Total comprehensive income for the period									
Loss for the period	-	-	-	(411)	-	-	(411)	59	(352)
Other comprehensive income									
Foreign currency translation differencies for foreign operations	-	-	-	-	1,591	-	1,591	616	2,207
Release of hedging reserve due to loss of effectiveness	-	-	-	-	-	(24)	(24)	-	(24)
Total comprehensive income for the period	***-***	***-***	***-***	***(411)***	***1,591***	***(24)***	***1,156***	***675***	***1,831***
Transaction with owners, recorded directly in equity									
Capital reduction of Balneoclimaterica	-	-	-	24	-	-	24	(24)	-
Total transaction with owners	***-***	***-***	***-***	***24***	***-***	***-***	***24***	***(24)***	***-***
31 December 2008	**8,285**	**7,435**	**(1,162)**	**30,023**	**6,032**	**-**	**50,613**	**2,317**	**52,930**
Total comprehensive income for the period									
Loss for the period	-	-	-	(801)	-	-	(801)	45	(756)
Other comprehensive income									
Foreign currency translation differencies for foreign operations	-	-	-	-	322	-	322	72	394
Total other comprehensive income	-	-	-	-	*322*	-	*322*	*72*	*394*
Total comprehensive income for the period	***-***	***-***	***-***	***(801)***	***322***	***-***	***(479)***	***117***	***(362)***
Transaction with owners, recorded directly in equity									
First consolidation of Egészségsziget Kft.	-	-	-	(70)	-	-	(70)	-	(70)
Dividend to Minority interests								(5)	(5)
Total transaction with owners	***-***	***-***	***-***	***(70)***	***-***	***-***	***(70)***	***(5)***	***(75)***
31 December 2009	**8,285**	**7,435**	**(1,162)**	**29,152**	**6,354**	**-**	**50,064**	**2,429**	**52,493**

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 2009	2008
Profit from operations		**1,122**	**1,367**
Depreciation and amortisation	7,8	4,619	4,630
Gain/on sale of property, plant and equipment and intangibles		(90)	(702)
Change of provisions	12	(303)	36
Impairment of receivables	4	6	48
Changes in working capital			
(Increase)/ decrease of accounts receivable and other current assets		*1,064*	*(1,679)*
(Increase)/ decrease of inventory		*43*	*(8)*
Increase / (decrease) of accounts payable and other current liabilities		*(1,148)*	*144*
Interest paid		(1,301)	(1,698)
Income tax paid		(196)	(424)
Net cash provided by operating activities		**3,816**	**1,714**
Purchase of property, plant and equipment and intangibles	7,8	(2,148)	(5,244)
Interest received		192	224
Proceeds on sale of property, plant and equipment and intangibles		125	844
Cash paid on acquisition	9	(1,268)	-
Other cash inflow		-	1,387
Net cash used in investing activities		**(3,099)**	**(2,789)**
Receipt of long-term bank loans		1,369	7,396
Repayment of long-term bank loans		(3,285)	(5,067)
Payment of finance lease liabilities		-	(6)
Net cash provided by financing activities		**(1,916)**	**2,323**
Net increase (decrease) in cash held		(1,199)	1,248
Cash and cash equivalents at the beginning of the period, net		3,171	1,921
Effect of exchange rate fluctuations on cash held		9	2
Cash and cash equivalents at the end of the period, net	3	**1,981**	**3,171**

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 the Republic of Hungary. The registered office address of the Company is 1051, Szent István tér 11., Budapest, Hungary. 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 2009, 76.41% of the Company's shares were owned by CP Holdings Limited, a UK private company, and companies controlled by CP Holdings Limited. The ultimate controlling party of the Group is the Schreier family.

The consolidated financial statements of the Company as at and for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The Company's principal subsidiary companies are as follows:

Name	Principal Activity	Country of Incorporation	Group interest held at December 31, 2009	Group interest held at December 31, 2008
Danubius Szállodaüzemeltető és Szolgáltató Zrt.	Hotel operator	Hungary	100%	100%
Gundel Kft.	Restaurant operator	Hungary	100%	66.67%
Preventív-Security ZRt	Security	Hungary	78.6%	78.6%
Léčebné Lázně a.s.	Hotel operator	Czech Republic	95.36%	95.36%
Gama 45 s.r.o	Hotel owner	Czech Republic	100%	100%
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%
Egészségsziget Kft.	Project company	Hungary	50%	50%

At the 2007 General Shareholders Meeting of SC Balneoclimaterica SA it was decided to decrease the participation of the state in the share capital of the Company equivalent with the value of properties lost by legal suits. As the result of the capital decrease, administratively done in April 2008, Danubius had a 97.97% effective interest in SC Balneoclimaterica SA as of 31 December 2009 and 2008.

In August 2009, based on the original agreement made on 7th July 2004, Danubius purchased the remaining 33.33% minority shareholding in Gundel Kft. from LL Partners, L.P. Considering this share purchase transaction, Danubius Hotels Nyrt. became the sole owner of Gundel Kft.

In 2009 Egészségsziget Kft. became a fully consolidated subsidiary, for further information see Note 9.

2. Significant accounting policies

Statement of Compliance

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

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 24).

The significant accounting policies have been consistently applied by the Group enterprises.

The financial statements were authorised for issue by the Board of Directors on 30 March 2010 and by the Supervisory Board on 31 March 2010.

Use of estimates and assumptions

The preparation of financial statements in conformity with 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 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 26.

Basis of consolidation

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. In assessing control, potential voting rights that currently are exercisable are taken into account. 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

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates 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 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.

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.

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 income statement.

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, plus, in the case of financial assets and liabilities not at fair value through profit or loss, directly attributable transaction costs. 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 income statement.

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.

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 income statement 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 income statement 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 in the fair valuation reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement.

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.

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, 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.

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 proceeds from disposal with the carrying amount and are recognised net within "other income" in profit or loss.

Subsequent costs

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

Depreciation

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

Business combinations are accounted for by applying the purchase method and are allocated to cash-generating units upon initial recognition.

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 on or after 31 March 2004, the date that 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 minority interests

No goodwill is recognised when acquiring the minority interest in a subsidiary. The difference between the acquisition price and the carrying value of the minority interest is recorded directly in equity.

Other Intangible assets

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

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

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

Subsequent expenditure

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

Inventory

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

Cash and cash equivalents

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

Trade and other receivables

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

Impairment

Financial assets

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

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

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

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

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

financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. 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 a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Imparment 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.

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 income statement 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.

Operating lease payments

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

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

Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement 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 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 7% for both 2009 and 2008, while the average salary increase was 0% at 31 December 2009 and 5% at 31 December 2008, repectively. Assumptions regarding future mortality and job leavers are based on published statistics and mortality tables.

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 in case of jubilee programs while gains and losses only outside the corridor of 10% are recognised as income or expense immediately in case of retirement plans. 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.

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 2009

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements:

The scope of the *revised IFRS 3 Business Combinations* (effective for annual periods beginning on or after 1 July 2009) has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:

- All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
- Subsequent change in contingent consideration will be recognized in profit or loss.
- Transaction costs, other than share and debt issuance costs, will be expensed as incurred.
- The acquirer can elect to measure any minority interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

As the revised Standard should not be applied to business combinations prior to the date of adoption, the revised Standard is expected to have no impact on the financial statements with respect to business combinations that occur before the date of adoption of the revised Standard.

In the *revised IAS 27 Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009) the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for minority interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and minority interest. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

The amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual period beginning on or after 1 February 2010) requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency, are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Group's financial statements as the Group has not issued such instruments at any time in the past.

The amended IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances. The amendments to IAS 39 are not relevant to the Group's financial statements.

IFRIC 12 Service Concession Arrangements (effective for first annual reporting period beginning on or after 1 April 2009) provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations as none of the Group entities have entered into any service concession arrangements.

IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2010) clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

- the agreement meets the definition of a construction contract in accordance with IAS 11.3;
- the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
- the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Group's financial statements as the Group does not provide real estate construction services or develop real estate for sale.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 July 2009) explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation. IFRIC 16 is not relevant to the Group's financial statements as the Group has not designated any hedges of a net investment in a foreign operation.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after 1 November 2009) applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is

settled, the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss. As the Interpretation is applicable only from the date of application, it will have no impact on the financial statements for periods prior to the date of adoption of the interpretation. Further, since it relates to future dividends that will be at the discretion of the board of directors/shareholders, it is not possible to determine the effects of application in advance.

IFRIC 18 Transfers of Assets from Customers (effective prospectively for annual period beginning on or after 1 November 2009) requires an entity that receives a contribution in the scope of the Interpretation to recognize the item as an asset at its fair value if the transferred item meets the criteria for property, plant, and equipment in IAS 16, Property, Plant and Equipment. The Interpretation also requires the entity to recognize the amount as revenue; the timing of revenue recognition depends on the facts and circumstances of the particular arrangement. IFRIC 18 is not relevant to the Group's financial statements as the Group does normally receive contributions from customers.

3. Cash and cash equivalents

	31 December 2009	31 December 2008
Bank balances	2,340	1,689
Call deposits	1,197	2,108
Cash and cash equivalents	3,537	3,797
Overdraft (see Note 11)	(1,556)	(626)
Cash and cash equivalents, net (per cash flow statement)	1,981	3,171

4. Trade and other receivables

	31 December 2009	31 December 2008
Trade receivables, net	1,372	1,913
Recoverable taxes and duties	301	443
Advance payments to suppliers	110	170
Receivables from employees	33	88
Other receivables	406	930
	2,222	3,544

The ageing of trade receivables at the reporting date was:

	31 December 2009			31 December 2008		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	861	-	861	1,156	-	1,156
Past due 0-60 days	484	-	484	636	-	636
Past due 61-90 days	30	(3)	27	99	(12)	87
Past due 91-120 days	40	(40)	-	67	(33)	34
More than 121 days	180	(180)	-	172	(172)	-
	1,595	(223)	1,372	2,130	(217)	1,913

Reconciliation of allowance for doubtful receivables:

Opening balance, 1 January 2008	**331**
Impairment loss recognised	48
Write-offs	(162)
Closing balance, 31 December 2008	**217**
Impairment loss recognised	6
Write-offs	-
Closing balance, 31 December 2009	**223**

5. Inventory

	31 December 2009	31 December 2008
Food and beverages	270	249
Wine in barrels	317	318
Materials	157	207
Goods for resale	80	93
	824	867

6. Long-term assets classified as held for sale

Long-term assets classified as held for sale comprises the lower of the net carrying value and the fair value less cost to sell, 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. In addition to Hotel Hullám, as at 31 December 2008 hotel and hospitality properties held for sale comprised Hotel Slovan and Park Hotel Hévíz, that have been reclassified to Property, Plant and equipment since it is not expected that these properties will be sold 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 2008					
Gross book value	10,138	82,255	21,783	2,064	116,240
Accumulated depreciation and impairment	-	24,987	18,422	-	43,409
Net book value	10,138	57,268	3,361	2,064	72,831
For year ended 31 December 2008					
- Additions and capitalisations	2	2,625	1,219	1,012	4,858
- Effect of movements in exchange rates	718	2,098	231	171	3,218
- Depreciation charge for the year	-	(3,061)	(1,380)	-	(4,441)
- Disposals	(61)	(69)	(16)	-	(146)
- Other	-	27	-	-	27
Closing net book value	10,797	58,888	3,415	3,247	76,347
At 31 December 2008					
Gross book value	10,797	88,203	23,051	3,247	125,298
Accumulated depreciation and impairment	-	29,315	19,636	-	48,951
Net book value	10,797	58,888	3,415	3,247	76,347
For year ended 31 December 2009					
- Additions and capitalisations	10	1,296	1,785	(1,181)	1,910
- Acquisition	1,441	801	-	1	2,243
- Effect of movements in exchange rates	139	509	31	40	719
- Depreciation charge for the year	-	(2,905)	(1,475)	-	(4,380)
- Disposals	(5)	(2)	(9)	(36)	(52)
- Other	-	5	33	(30)	8
Closing net book value	12,382	58,592	3,780	2,041	76,795
At 31 December 2009					
Gross book value	12,382	91,104	23,970	2,041	129,497
Accumulated depreciation and impairment	-	32,512	20,190	-	52,702
Net book value	12,382	58,592	3,780	2,041	76,795

The net book value of property, plant and equipment pledged as loan security was HUF 28,378 million as of 31 December 2009 and HUF 30,171 million as of 31 December 2008.

8. Intangible assets

	Goodwill	Land usage rights	Software and other intangibles	Total
At 1 January 2008				
Gross book value	1,626	595	1,520	3,741
Accumulated amortisation and impairment	-	151	1,098	1,249
Net book value	1,626	444	422	2,492
Year ended 31 December 2008				
- Additions and capitalisations	-	-	386	386
- Effect of movements in exchange rates	-	-	14	14
- Amortisation charge for the year	-	(20)	(169)	(189)
- Other	-	-	(1)	(1)
Closing net book value	1,626	424	653	2,703
At 31 December 2008				
Gross book value	1,626	595	1,965	4,186
Accumulated amortisation and impairment	-	171	1,312	1,483
Net book value	1,626	424	653	2,703
Year ended 31 December 2009				
- Additions and capitalisations	-	-	238	238
- Acquisition	549	-	-	549
- Effect of movements in exchange rates	-	-	3	3
- Amortisation charge for the year	-	(19)	(220)	(239)
- Disposals	-	-	(40)	(40)
- Other	-	-	(6)	(6)
Closing net book value	2,175	405	628	3,208
At 31 December 2009				
Gross book value	2,175	595	2,116	4,886
Accumulated amortisation and impairment	-	190	1,488	1,678
Net book value	2,175	405	628	3,208

At 31 December 2009 intangible assets include HUF 405 million, net of amortisation (2008: HUF 424 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	
	2009	2008
Léčebné Lázně a.s.	565	565
Gundel Kft.	944	944
Egészségsziget Kft.	549	-
Preventiv-Security Zrt.	117	117
Total goodwill	2,175	1,626

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, loss 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 9.5 percent (2008: 11.5%) was applied in determining the net present value of future cash flows. The discount rate was estimated based on the risk free interest rate, market risk premium, industry beta and company's leverage.

In 2009 and 2008 no impairment loss was recognised in respect of goodwill.

9. Investments in associates, Business combinations

Egészségsziget Kft.

As of 31 December 2009 there is no associate company within Danubius Group. As of 31 December 2008 a 50% shareholding in Egészségsziget Kft, a project company with two owners were presented as an associate, as no joint venture agreement has been concluded between the shareholders.

Egészségsziget Kft acquired a property close to Hotel Gellert in Budapest in December 2007, on which it plans to develop hotel and residential units. Egészségsziget Kft. received a loan of HUF 2,060 million from Danubius Hotels Nyrt. to finance the land acquisition. This receivable was included in other investments in 2008. At the end of 2008 the investments in associated companies amounted to nil, as the historic cost of the investment in Egészségsziget Kft. was offset by the share of its loss. The total unrecognised share of loss was HUF 58 million, all of which related to year 2008.

The Company's share of post acquisition total recognised loss in the above associate for the year ended 31 December 2008 was HUF 76 million.

From August 2009 the 50% investment in Egészségsziget Kft., our established associate to utilise the land acquired near Hotel Gellért became a fully consolidated subsidiary (before this date it was treated as an associate). In August 2009 CP Holdings purchased Kemenes Invest Kft. that holds the remaining 50% shareholding in Egészségsziget Kft. and Danubius simultaneously entered into a put and call option agreement with CP Holdings to purchase this shareholding in Kemenes Invest Kft. The Group consolidates Kemenes Invest Kft. in 100%.

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 100,000 and, if relevant, interest from August 2010. Since the Company has the right to delay the exercise of the put option for up to a further two years and the option is not expected to be exercised in 2010 the obligation is considered non-current.

The carrying and fair values of the assets and liabilities as of 31 August 2009 were as follows:

	Fair values	Carrying values
Property, Plant and Equipment	2,243	2,243
Current assets	7	7
Liabilities	(2,334)	(2,334)
Fair value of net assets	**(84)**	
Goodwill arising on acquisition	549	
Total consideration	**465**	
Total cash consideration	-	
Net cash acquired	6	
Net cash inflow	**6**	

Gundel Kft.

Danubius purchased a 66,67% interest in Gundel Kft. (formerly Lángastronomia Kft) from LL Partners on 7 July 2004. Based on an agreement with LL Partners, dated 7 July 2004, LL Partners had an option to sell to Danubius the remaining 33.33% shareholding in Gundel Kft between 7 July 2009 and 7 July 2011. The option was exercised in July 2009 and Danubius became the sole owner of Gundel Kft. The exercise price was USD 5 million plus compound annual interest at a rate of 7%, accumulated from 7 July 2004.

In August 2009, based on the original agreement made on 7th July 2004, Danubius purchased the remaining 33.33% minority shareholding in Gundel Kft. from LL Partners, L.P for cash consideration of HUF 1,274 million. Considering this share purchase transaction, Danubius Hotels Nyrt. became the sole owner of Gundel Kft.

The net cash outflow in respect of the acquisitions in 2009 consisted of the following:

Net cash acquired with Egészségsziget Kft.	6
Cash paid for the minority shareholding in Gundel Kft.	(1,274)
Net cash outflow	**(1,268)**

10. Other payables and accruals, including derivatives

	31 December 2009	31 December 2008
Wages and salaries	840	735
Social security	368	456
Taxes payable	407	514
Accrued expenses	799	642
Derivatives	158	98
Other	329	804
	2,901	3,249

11. Interest-bearing loans and borrowings

Non-current liabilities	31 December	
	2009	2008
Secured bank loans	20,533	21,812
Obligation due to written put option to acquire the remaining 50% shareholding in Egészségsziget Kft. (see Note 9)	472	-
	21,005	21,812

Current liabilities	31 December	
	2009	2008
Current portion of secured bank loans	3,734	3,799
Obligation due to written put option on Gundel Kft. (see Note 9)	-	1,274
Bank overdrafts	1,556	626
	5,290	5,699

As of 31 December 2009 the Group's secured bank loans are denominated in Euro (EUR), total EUR 90.0 million (2008: EUR 96.7 million) and fall due for repayment, as follows:

	31 December	
	2009	2008
Within 1 year	5,290	4,425
1 to 2 years	4,248	4,427
2 to 5 years	13,613	15,677
over 5 years	2,672	1,708
Total debt	25,823	26,237
Less total current debt	(5,290)	(4,425)
Total non-current debt	20,533	21,812

The interest rates for all bank borrowings are floating and determined by 3 months EURIBOR + margin between 0.6% to 3.5% in Czech Republic and Slovakia, 0.75% to 4.25% in Hungary and 4.5% in Romania. The weighted average margin is 2.06% at 31 December 2009 (2008:1.24%), while the average rate of interest is 2.8% (2008: 5.1%).

12. Provisions

	Acquisition of Piestany	Employee benefits	Termination	Restructuring	Other	Total
Balance at 31 December 2007	**547**	**804**	**264**	**-**	**29**	**1,644**
Provision made during the year	-	-	-	275	-	275
Provision used during the year	-	(88)	(228)	-	-	(316)
Provision reclassified	-	-	(36)	36		
Actuarial (gains) and losses	-	(68)	-	-	-	(68)
Effect of movements in exchange rates	94	11	-	-	-	105
Unwinding of discounts	-	40	-	-	-	40
Balance at 31 December 2008	**641**	**699**	**-**	**311**	**29**	**1,680**
Provision made during the year	-	-	-	217	-	217
Provision used during the year	-	(175)	-	(311)	-	(486)
Actuarial (gains) and losses	-	(74)	-	-	-	(74)
Provision released during the year	-	-	-	-	(24)	(24)
Effect of movements in exchange rates	23	2	-	-	-	25
Unwinding of discounts	-	39	-	-	-	39
Balance at 31 December 2009	**664**	**491**	**-**	**217**	**5**	**1,377**
Current portion 2008	**-**	**134**	**-**	**311**	**-**	**445**
Non-current portion 2008	**641**	**565**	**-**	**-**	**29**	**1,235**
Current portion 2009	**-**	**127**	**-**	**217**		**344**
Non-current portion 2009	**664**	**364**	**-**	**-**	**5**	**1,033**

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 increase 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. As of 31 December 2009 the Group has recognised a provision of HUF 491 million to cover its estimated obligation regarding future retirement and jubilee benefits payable to current employees. Being effective from 1 July 2008 the relevant part of Hungarian Collective Agreement was changed in order to provide more incentives for better performance instead of honour every 5 year employment without evaluating the actual performance. In 2008 due to these changes a provision of HUF 68 million was released. In 2009 HUF 175 million termination benefit payment was made against which the same amount of provision was used, while due to the headcount reduction measures HUF 74 million provision was released since this amount is not expected to be paid out anymore.

Termination
As of 31 December 2007 the Group has recognised a provision of HUF 264 million for termination agreements payable in 2008, of which HUF 228 million was used. At the end of 2008 the remaining balance of HUF 36 million has been reclassified to restructuring provision (see below) since Danubius Group has introduced a restructuring plan and management considers termination as part of this restructuring program.

Restructuring
As part of the efficiency improvement project initiated in 2008 Danubius decided to further optimize its workforce. As the management is committed to these changes and the restructuring plan was communicated in detail to parties involved, the Group recognized a provision of HUF 311 million as of 31 December 2008 for future redundancy payments and related tax and contribution that was fully used during year 2009. As the headcount reduction program is planned to be continued in year 2010 as well, a HUF 217 million provision was recognised to cover the estimated cost of restructuring.

Other
As of 31 December 2009 and 2008 the other provisions of HUF 5 million and HUF 29 million related to various legal cases, respectively.

13. Share Capital

The registered share capital at December 31, 2009 and 2008 consists of 8,285,437 authorised, issued and fully paid ordinary shares, each of par value 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.

14. 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 31 December 2009 and 2008 the Group held 374,523 of the Company’s shares, purchased at a 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 the Company’s retained earnings calculated according to Hungarian Accounting Law. The amount available for distribution as dividends at December 31, 2009 is HUF 24,576 million (2008: HUF 22,704 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).

15. Minority interest

	31 December 2009	31 December 2008
Preventív-Security Zrt.	55	49
Léčebné Lázně a.s.	669	637
Slovenské Liečebné Kúpele Piestany a.s.	1,698	1,637
SC Salina Invest SA and SC Balneoclimaterica SA (see Note 1)	7	(6)
	2,429	2,317

16. Material costs

	2009	2008
Materials used in providing guest services	4,605	4,450
Utility costs (gas, electricity, fuel and water consumption)	3,612	4,314
Other materials used	1,074	1,780
	9,291	10,544

17. Services used

	2009	2008
Washing, cleaning services	1,369	1,721
Maintenance services	1,356	1,417
Safety services	826	747
Professional and membership fees	404	644
Hospitality services	695	795
Marketing, PR services	806	812
Rental of buildings, equipment and vehicles	584	605
Travel agency and other commissions	664	550
Bank and insurance charges	435	465
Hire of temporary personnel	281	226
Telecommunications services	263	257
Software, IT support	311	298
Delivery and transport fees	183	220
Training	81	128
Other	988	1,062
	9,246	9,947

18. Other expenses

	2009	2008
Taxes and contributions	1,863	2,012
Damages	12	38
Impairment of trade receivables	6	48
Other	412	268
	2,293	2,366

19. Income tax

The tax charge / (benefit) for the year comprises:

	2009	2008
Current tax	54	187
Deferred tax	295	(34)
	349	153

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

	2009	2009	2008	2008
Loss before tax		(407)		(199)
Income tax using the Hungarian corporation tax rate	16%	(65)	16%	(32)
Solidarity surplus tax		-		15
Effect of different tax rates in foreign jurisdictions		35		57
Effect of change of Romanian corporate tax law		224		-
Non-deductible expenses		272		145
Tax exempt revenues		(235)		(28)
Tax exempt expenses		(15)		(12)
Effect of tax rate changes, net		75		(13)
Current year losses for which no deferred tax asset was recognised		54		20
Other		4		1
		349		153

In 2009 mid year the Hungarian government changed the corporate tax rate from 16% to 19% effective from 1 January 2010 together with the withdrawal of 4% solidarity surplus tax.

In 2007 S.C. Balneoclimaterica S.A. recognised a deferred tax gain of HUF 251 million due to the revaluation of hotel properties for Romanian tax purposes. In 2009 HUF 224 million deferred tax asset had to be reversed, due to the change of statutory corporate income tax law as the revaluation of properties made in years following 2004 cannot be treated as tax written down allowances.

Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December 2009 and 31 December 2008 are attributable to the following:

	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
Property, plant and equipment	-	222	1,611	1,521	(1,611)	(1,299)
Repairs and maintenance provision	-	-	195	99	(195)	(99)
Legal provisions	126	123	-	-	126	123
Provision for doubtful debts	35	35	-	-	35	35
Provision for employee benefits	87	109	-	-	87	109
Other provisions	-	-	-	-	-	-
Tax loss carry forwards	426	291	-	-	426	291
Other	19	13	18	-	1	13
	693	793	1,824	1,620	(1,131)	(827)
Offset of assets and liabilities within individual legal entities	(492)	(269)	(492)	(269)	-	-
	201	524	1,332	1,351	(1,131)	(827)

Léčebné Lázně a.s. records 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 is not included in these IFRS financial statements and a deferred tax liability of HUF 195 million is set up for this temporary difference.

As at 31 December 2009 HUF 1,611 million deferred tax liabilities are recognised in respect of temporary differences between the tax base of Property, plant and equipment (primarily land and hotel buildings) and their carrying amount recorded in these financial statements.

The net change in deferred tax assets and liabilities differs from the amount of the deferred tax charge or benefit for the period due to the effect of foreign exchange movements. At 31 December 2009 tax loss carry forwards of HUF 78 million will expire in 2010, the remaining balance of HUF 348 million can be utilised over indefinite period of time.

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20. Earnings per share

The calculation of basic earnings per share is based on the net loss attributable to ordinary shareholders of HUF 801 million in 2009 (2008: a net loss of HUF 411 million) and the weighted average number of qualifying ordinary shares outstanding was 7,910,914 during 2009 and 2008.

	31 December	
	2009	2008
Weighted average number of issued ordinary shares	8,285,437	8,285,437
Weighted average number of treasury shares	(374,523)	(374,523)
Weighted average number of qualifying ordinary shares	7,910,914	7,910,914
Net profit/(loss) for the year in million HUF	(801)	(411)
Basic earnings per share (HUF/share)	(101)	(52)

There are no dilutive factors to earnings per share disclosed above.

21. Commitments and contingencies

As of 31 December 2009 and 31 December 2008 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 2009 and 31 December 2008.

As at 31 December 2009 and 31 December 2008 the Group had no lease obligation that is due over a year, leasing agreements can be abandoned at any time without significant penalty suffered.

22. Pension Plans and other post-employment benefits

The Group's employees participate in state pension plans to which employers and employees are required by law 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 contribution pension plan in addition to the state plan, which is available for all Hungarian employees after six months employment. The Group pays contributions equal to 5% of the salary of employees who are members of the fund. The contribution expense in 2009 was HUF 268 million (2008: HUF 282 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 Health Fund, which is available for all Hungarian employees after six months employment. The Group pays contributions equal to 1% of the salary plus HUF 4,000 per month for employees who are members of the fund. The total contribution expense was HUF 174 million in 2009 (2008: HUF 185 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 12 for further details of other post-employment benefits.

23. Related Party Transactions

Transactions with related parties are summarised as follows:

	Expenses / (revenues)	
	2009	2008
Management fee to CP Holdings Limited	319	295
Interest to CP Holdings Limited	-	105
Loan handling fee to CP Holdings Limited	-	15
Management support fee from CP Regents Park Two Limited.	(63)	(99)
Rental fee to Interag Zrt.	165	157
Services provided by Interag Zrt.	2	2
Service provided to Interag Zrt.	(25)	(21)
Service provided by Investor Zrt.	17	18

The GBP 5.1 million loan from CP Holdings was repaid in 2008.

Related party receivables and payables were not significant as at 31 December 2009 and 2008.

Interag Zrt., Investor Zrt., CP Regents Park Two Limited. are each subsidiary companies 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:

	2009	2008
Short-term employee benefits	272	208
Post employment benefits	10	9
Total	**282**	**217**

24. Financial instruments and financial risk management

A) Categories of financial instruments

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

	2009	2008
Financial Asset		
Loans and receivables [1]	5,332	6,416
Financial Liability measured at		
Amortised cost[3]	30,494	32,914
Financial liability at fair value through profit and loss[2]	158	98

[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, advance payments from guests, other payables and accruals, interest bearing loans and borrowings recognised in the statement of financial position, except for advanced payments from guests and taxes payable.

Carrying value and fair value for all of the Group's financial assets at 31 December 2009 and 2008 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 expense 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 2009 HUF 506 million (2008: HUF 560 million), or approximately 30 percent of the Group's total trade receivables, 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 without taking into account of the value of any collateral obtained.

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 yearly, monthly and weekly cash flow forecasts and continuously monitors liquidity. For cash flow optimisation purposes at the end of 2008 and early 2009 the repayment of approximately half of the borrowings has been rescheduled, the original amount of instalments in 2010 will be reduced by half.

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

	31 December 2009	31 December 2008
Overdraft	1,653	3,001
Long-term loan	-	1,324

The Company pays its trade suppliers in no later than 3 months after receiving products and services. Interest bearing loans and borrowings are paid by quarterly and yearly instalments (see Note 11 for more information), and all other payables and accruals are due within 6 months.

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

HUF million	Financial liabilities		Financial assets		Net asset/(liability)	
	2009	2008	2009	2008	2009	2008
Euros	25,779	27,712	1,002	1,298	(24,777)	(26,414)
Sterling	89	96	-	-	(89)	(96)
US dollars	-	-	11	14	11	14
Financial instruments denominated in foreign currency	25,868	27,808	1,013	1,312	(24,855)	(26,496)
Total financial instruments	30,652	33,012	5,332	6,416	(25,320)	(26,596)

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, but also Pound Sterling (GBP).

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:

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 installments 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 is not material in 2009 and 2008.

Foreign currency sensitivity

The following strengthening of the Euro against each of the following currencies at 31 December would have increased (decreased) profit and 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.

	Strengthening	Profit and Loss
31 December 2009		
Hungarian forint (HUF)	16%	(2,790)
Czech Crown (CZK)	11%	(170)
Romanian Lei (RON)	7%	(20)
31 December 2008		
Hungarian forint (HUF)	15%	(2,573)
Czech Crown (CZK)	10%	(219)
Slovakian Crown (SKK)	5%	(270)
Romanian Lei (RON)	10%	(36)

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 3.5% in Czech Republic and Slovakia, 0.75% to 4.25% in Hungary and 4.5% in Romania. The weighted average margin is 2.06% at 31 December 2009 (2008:1.24%), while the average rate of interest is 2.8% (2008: 5.1%).

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.

As of 31 December 2009 the Company had an interest rate swap (Collar) agreement in effect, with a notional amount of EUR 27.8 million (31 December 2008: EUR 37.0 million), that has a 3 months EURIBOR floor of 3.35% and cap of 4.75%. Having this instrument means that the Company does not have to pay more than 4.75% interest + margin for the covered amount, but cannot pay less than 3.35% interest + margin. As the underlying loan facilities have been rescheduled and the collar agreement was not modified accordingly, the collar is not amortising in line with the underlying loan facilities anymore, therefore, starting from year 2008 no hedge accounting is applied, any change in its fair value is included in the profit or loss. The Collar agreement is gross settled, maturing in 2012. The fair value of this Collar agreement was a liability of HUF 158 million as of 31 December 2009 and an liability of HUF 98 million as of 31 December 2008.

Interest rate sensitivity

3 months EURIBOR was 0.700% as of 31 December 2009 and 2.892% as of 31 December 2008. A change of 30 basis points in interest rates at the reporting date would have increased (decreased) profit and loss by the amounts shown below. Starting from year 2008 the Collar agreement is considered not effective for IFRS reporting purposes, hence the change in the fair value of the Collar agreement affects the Company's profit and loss. This analysis assumes that all other variables, in particular foreign currency rates and interest margins, remain constant.

	Profit and Loss
31 December 2009	
11 basis points increase	(17)
11 basis points decrease	17
31 December 2008	
30 basis points increase	(2)
30 basis points decrease	(7)

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.

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 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.

25. Segment reporting

2009	Hungarian operations			Czech operations	Slovakian operations	Romanian operations	Inter-segment transfers	TOTAL
	Hotel & Hospitality segment	Security segment	Total					
Revenue								
Sales to external customers	24,877	865	25,742	7,067	9,187	1,489	-	43,485
Inter segment sales	523	356	879				(879)	-
Total operating expenses	25,541	1,166	26,707	6,443	8,831	1,261	(879)	42,363
of which Depreciation and amortisation	*2,007*	*15*	*2,022*	*959*	*1,372*	*266*	*-*	*4,619*
Operating profit	**(141)**	**55**	**(86)**	**624**	**356**	**228**	**-**	**1,122**
Financial results	(1,340)	2	(1,338)	(29)	(146)	(16)	-	(1,529)
Profit/(loss) before tax	**(1,481)**	**57**	**(1,424)**	**595**	**210**	**212**	**-**	**(407)**
Assets and liabilities								
Property, plant and equipment	39,889	58	39,947	13,813	21,455	1,580	-	76,795
Cash and cash equivalents	1,376	93	1,469	1,068	427	573	-	3,537
Accounts receivables	678	115	793	267	259	52	-	1,371
Inventories	540	7	547	89	176	12	-	824
Intangibles	2,423	122	2,545	639	22	2	-	3,208
Assets held for sale	78		78	-	-	-	-	78
Other non-allocated assets	-	-	-	-	-	-	-	1,258
Total assets	**44,984**	**395**	**45,379**	**15,876**	**22,339**	**2,219**	**-**	**87,071**
Trade accounts payable	1,203	154	1,357	330	251	57	-	1,995
Advance payments from guests	381	-	381	144	112	35	-	672
Interest bearing loans and borrowings	19,214	8	19,222	1,917	5,032	283	(159)	26,295
Provisions	607	-	607	-	768	2		1,377
Other non-allocated liabilities	-	-	-	-	-	-	-	4,239
Total liabilities	**21,405**	**162**	**21,567**	**2,391**	**6,163**	**377**	**(159)**	**34,578**
Capital expenditure	**1,274**	**-**	**1,274**	**532**	**293**	**49**	**-**	**2,148**

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

25. Segment reporting (continued)

2008	Hungarian operations							
	Hotel & Hospitality segment	Security segment	Total	Czech operations	Slovakian operations	Romanian operations	Inter-segment transfers	TOTAL
<u>Revenue</u>								
Sales to external customers	28,321	729	29,050	7,304	9,041	1,778	-	47,173
Inter segment sales	536	385	921	-	-	-	(921)	-
Total operating expenses	28,900	1,084	29,984	6,413	9,025	1,305	(921)	45,806
of which Depreciation and amortisation	*1,966*	*15*	*1,981*	*893*	*1, 546*	*210*	*-*	*4,630*
Profit/(loss) from operations	**(43)**	**30**	**(13)**	**891**	**16**	**473**	**-**	**1,367**
Financial results	(1,649)	-	(1,649)	(34)	248	(56)	-	(1,491)
Loss of associates	(75)	-	(75)	-	-	-	-	(75)
Profit/(loss) before tax	**(1,767)**	**30**	**(1,737)**	**857**	**264**	**417**	**-**	**(199)**
<u>**Assets and liabilities**</u>								
Property, plant and equipment	38,613	54	38,667	13,834	21,995	1,851	-	76,347
Cash and cash equivalents	2,062	99	2,161	851	458	326	-	3,797
Trade receivables	1,068	151	1,219	292	380	22	-	1,913
Inventories	566	15	581	86	184	16	-	867
Intangibles	1,841	120	1,961	637	103	3	-	2,703
Assets held for sale	184	-	184	-	167	-	-	351
Other non-allocated assets	-	-	-	-	-	-	-	4,284
Total assets	**44,334**	**439**	**44,773**	**15,700**	**23,287**	**2,218**	**-**	**90,262**
Trade accounts payable	1,578	107	1,685	550	525	106	-	2,866
Advance payments from guests	386	-	386	144	110	-	-	640
Interest bearing loans and borrowings	19,168	9	19,177	2,472	5,633	388	(159)	27,511
Provisions	869	26	895	38	745	2	-	1,680
Other non-allocated liabilities	-	-	-	-	-	-	-	4,635
Total liabilities	**22,001**	**142**	**22,143**	**3,204**	**7,013**	**496**	**(159)**	**37,332**
Capital expenditure	**2,970**	**-**	**2,970**	**466**	**1,423**	**385**	**-**	**5,244**

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.

26. 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 may need to be written down.

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.

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 income statement and such changes could be material to the net results reported in a particular year. See Note 12 for more information.

REPORT OF THE BOARD OF DIRECTORS ON THE YEAR 2009 PERFORMANCE OF DANUBIUS GROUP

This report contains the audited consolidated financial statements for the period ended 31 December 2009 as prepared by the management in accordance with International Financial Reporting Standards (IFRS).

HIGHLIGHTS

Tight cost control over the year led to operating expenses down 7.5%, more than compensating the 6.6% fall in hotel operational revenues.

Danubius Hotels Group (IFRS)	HUF million			EUR million [1]		
	FY 2009	FY 2008	Ch %	FY 2009	FY 2008	Ch %
Excluding one-off items [2]						
Net sales revenues [2]	43 485	46 573	(6,6)	155,0	186,2	(16,8)
EBITDA [2]	5 739	5 397	6,3	20,5	21,6	(5,2)
Operating profit [2]	1 120	767	45,9	4,0	3,1	30,1
According to IFRS						
Net sales revenues	43 485	47 173	(7,8)	155,0	188,6	(17,8)
EBITDA	5 739	5 997	(4,3)	20,5	24,0	(14,7)
Operating profit	1 120	1 367	(18,1)	4,0	5,5	(27,0)
Financial results	(1 529)	(1 491)	2,5	(5,4)	(6,0)	(8,6)
Profit/(Loss) before tax	(409)	(199)	105,2	(1,5)	(0,8)	82,9
Operating cash flow	3 831	1 716	123,3	13,7	6,9	99,0
CAPEX	2 148	5 244	(59,0)	7,7	21,0	(63,5)
HUF/EUR	280,6	250,1	12,2			n.a.

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

[2] *One-off items have been eliminated from 2008 key figures to serve comparability. In 2008 Hotel Phoenix (in Q3) and Miramonte spa house (in Q4) in Marienbad were disposed-off, realising a net gain of HUF 120 million and HUF 480 million, respectively.*

- In the financial year of 2009 total net sales **revenues** were HUF 43.5 billion, down by 6.6% compared to last year figure after eliminating one-off items. The movements in HUF/EUR FX rate had a considerable positive effect on Hungarian segment revenue in 2009 compared to 2008, but in EUR terms there was a 17% decrease.
- In spite of the revenue drop, **EBITDA** increased by 6% to HUF 5.7 billion and operating profit by 46% to HUF 1.1 billion compared to 2008 figures after eliminating one-off items, due to the significantly positive effect of cost cutting measures.
- When one-off items are included in comparative figures, **operating profit** in FY 2009 is down by only 18% to HUF 1.1 billion from HUF 1.4 billion, due to the following:
  - **Hungarian** segment's revenue for FY 2009 decreased by 11% to HUF 25.7 billion as the occupancy of hotels fell by 7.9% from 63.1% to 55.2%, while the operating result remained at the breakeven level as savings on payroll and other operating expenses compensated the negative effect of lower revenues.
  - **Czech** hotels contributed an operating profit of HUF 623 million in FY 2009 compared to a profit of HUF 892 million in 2008. That is a considerable improvement since October 2008 figures includes a one-off gain of HUF 480 million from the sale of Miramonte spa house.
  - **Slovakian** segment's operating profit was HUF 356 million in FY 2009 compared to a HUF 16 million profit in FY 2008. Revenue in HUF terms increased by 2% to HUF 9.2 billion thanks to the significant EUR strengthening against HUF. Costs were kept tightly under control.
  - In FY 2009 the total revenue of **Romanian** segment decreased by 16% to HUF 1.5 billion, therefore operating result was a profit of HUF 228 million, compared to profit of HUF 473 million.
- The **Financial** results in FY 2009 was a loss of HUF 1.5 billion the same as last year, however the interest expenses decreased by HUF 366 million in 2009 compared to 2008. In 2009 HUF 290 million FX loss (mostly unrealised) was recognised on monetary assets and liabilities, while in 2008 recognised FX gain of HUF 90 million.
- **Loss before tax** in FY 2009 was HUF 0.4 billion, compared to a loss of HUF 0.2 billion in FY 2008.
- **Net cash provided in operating activities** in FY 2009 was HUF 3.8 billion, a significant improvement compared to HUF 1.7 billion net cash provided in FY 2008, due to favourable working capital changes.
- **Capital expenditure** and investments during FY 2009 amounted to HUF 2.1 billion compared to HUF 5.2 billion spending in FY 2008.
- Group level average **headcount** in FY 2009 was 4,876 compared to 5,338.

FINANCIAL OVERVIEW
Hungarian Segment

HUNGARY	HUF million FY 2009	FY 2008	Ch %
Excluding one-off items [1]			
Net sales revenues [1]	25 742	28 930	(11)
Operating profit [1]	(86)	(133)	(35)
According to IFRS			
Net sales revenues	25 742	29 050	(11)
Operating profit	(86)	(13)	547
Financial results	(1 339)	(1 650)	(19)
Profit before tax	(1 426)	(1 738)	(18)
CAPEX	1 274	2 971	(57)

[1] *One-off items have been eliminated from 2008 key figures to serve comparability. In Q3 2008 Hotel Phoenix was disposed-off, realising a net gain of HUF 120 million.*

Total sales revenue and other operating income of FY 2009 decreased by 11% to HUF 25.7 billion, mainly due to lower revenue recognised from room and F&B services and from Gundel banqueting services. However the weakening of HUF against EUR had a considerable positive effect on total 2009 revenue compared to year 2008. Hotel occupancy in FY 2009 was 55.2% compared to 63.1% in FY 2008. The occupancy of Budapest hotels decreased by 10.0 percentage point.

Room revenue of Hungarian hotels decreased by 7% to HUF 13.4 billion compared to FY 2008 due to the combined result of significant occupancy decrease and the increase of average room rate achieved (ARR) to HUF 13,076, higher by HUF 400 than the comparative figure. The average length of stay was 2,9 days in FY 2009, remained at the same level of last year. The number of guest-nights during the financial year of 2009 decreased to 1,716,860 from 1,913,956, out of which domestic guest-nights represented 22.7%, a considerable increase compared to FY 2008 level of 20.0%. In 2009 guests from almost all destinations decreased, guests from Great Britain and Germany decreased the most; more guests arrived from the domestic market and Ukraine, Slovakia, Czech Republic and Italy. Room departmental profit for year 2009 decreased by HUF 920 million, down by 8% compared to FY 2008.

Food and beverage revenue of hotels and restaurants for the financial year of 2009 was HUF 7.7 billion, lower by 16% than comparative figure, as a direct result of lower occupancy and banqueting and the negative effect of VAT increase. In spite of the significant revenue drop 2009 F&B departmental profit of our hotels fell by only HUF 309 million due to the considerable decrease of payroll and cost of sale. Gundel's total revenue and income in FY 2009 decreased by HUF 351 million, down by 22%, however its operational performance was weaker only by HUF 85 million than in FY 2008 thanks to cost cutting measures.

Starting from 1 January 2009, for management accounting purposes the Company decided not to allocate revenue from Room to Spa department in respect of free swimming pool entry given to each guest automatically, to better reflect real life processes. This is a reclassification between two revenue figures, comparative 2008 spa revenue figure included HUF 455 million such an allocated revenue.

Excluding the effect of reclassification from 2008 figures, spa revenue was HUF 1,224 million in 2009, down by only 4% compared to FY 2008, due to the result of lower number of treatments sold. However spa departmental profit was able to increase by 15% as the decrease in payroll and other cost savings more than compensated the revenue drop.

Revenue from security services increased by HUF 118 million in FY 2009 to HUF 835 million.

Due to the combined effect of inflation on materials, cost saving measures and the drop in occupancy full year raw material expenses decreased by 12% to HUF 5.4 billion in our hotels, within this energy cost felt by 5% to HUF 2,524 million. The value of services used in FY 2009 decreased by 12% to HUF 5.3 billion million, within this the amount spent on maintenance work at the hotels decreased by 14% to HUF 704 million. Personnel expenses of hotel operation in FY 2009 were HUF 10.0 billion, down by 13%, reflecting the effect of considerable headcount reduction.

Due to the combined effect of the decrease of 3 months EURIBOR, the increase of interest margins, the increase of average borrowings over the period and the change in the fair value of interest swap derivatives interest expenses decreased to HUF 1,191 million from HUF 1,364 million in the financial year of 2009. Primarily as the result of depreciation of HUF in FY 2009 against EUR, in which the majority of our long-term borrowings are denominated, a HUF 311 million foreign exchange loss (mostly unrealised) was recognised in profit and loss, compared to a loss of HUF 485 million in FY 2008, when HUF weakened significantly against EUR in the last quarter.

Capital expenditure during FY 2009 was HUF 1,274 million compared to HUF 2,971 million spent in FY 2008, including spending on Hilton Budapest, DHSR Hévíz and new operational software.

Overall the loss before tax of Hungarian segment was HUF 1.4 billion in FY 2009, compared to a loss of HUF 1.7 billion in FY 2008.

Czech Segment

	HUF million		
CZECH	FY 2009	FY 2008	Ch %
***Excluding one-off items* [1]**			
Net sales revenues [1]	7,067	6,824	4
Operating profit [1]	623	412	51
According to IFRS			
Total revenue and income	7,067	7,304	(3)
Operating profit	623	892	(30)
Financial results	(29)	(34)	(16)
Profit before tax	595	857	(31)
CAPEX	532	466	14
HUF/CZK average	10.61	10.07	5
CZK/EUR average	26.45	24.84	6

[1] *One-off items have been eliminated from 2008 key figures to serve comparability. In Q4 2008 Miramonte spa house wase disposed-off, realising a net gain of HUF 480 million.*

Total sales revenue and other operating income in HUF term decreased by 3% to HUF 7.1 billion in the financial year of 2009 as comparative figures includes HUF 480 million one-off revenue from selling Miramonte spa house. Room revenue of FY 2009 was HUF 3.9 billion, up by 7%. In FY 2009 Marienbad hotels' occupancy was 75.8% compared to 78.9%, however the average room rate achieved (ARR) in CZK term improved considerably to 1,707 from 1,550, due to the weakening of CZK against EUR. The average length of stay was 9.0 days in 2009 compared to 9.2 days in 2008. As the result of lower occupancy and temporary closures in early 2009 the number of guestnights was 346,641 in 2009 compared to 382,167, the significant drop in German and Russian guests is partly compensated by increasing number of guests arriving from the domestic market and certain former Soviet Union and Asian countries.

The amount of material expenses and services used in 2009 was HUF 3.1 billion, no material change compared to last year. Within this energy costs increased by 6% to HUF 599 million, while maintenance expenses decreased by 1% to HUF 464 million. Total personnel expenses in 2009 were HUF 2.1 billion, no change compared to FY 2008 in spite of the CZK strengthening against HUF, due to lower average headcount.

Due to the decrease of 3 months EURIBOR and the outstanding amount of bank loans the interest expense for FY 2009 was HUF 73 million, a significant drop compared to HUF 130 million. As the result of strengthening of CZK in FY 2009 against EUR in which all of LLML's long-term borrowings are denominated, a HUF 43 million foreign exchange gain was recognised in profit and loss, compared to a gain of HUF 86 million in FY 2008.

Capital expenditure in FY 2009 amounted to HUF 532 million, up by 14% compared to previous year's relative low level.

Overall, the profit before tax of Czech operations for FY 2009 decreased by 31% to HUF 595 million compared to HUF 857 million, however eliminating the HUF 480 million one-off gain from selling Miramonte, there is a significant improvement in the underlying business unit profit before tax up to 51%.

Slovakian Segment

	HUF million		
SLOVAKIA	FY 2009	FY 2008	Ch%
Total revenue and income	9,187	9,041	2
Operating profit	356	16	2 087
Financial results	(146)	248	n.a.
Profit before tax	210	264	(21)
CAPEX	293	1,423	(79)
HUF/EUR	280.6	250.1	12
HUF/SKK average	-	7.98	n.a.
SKK/EUR average	-	31.36	n.a.

The functional currency of the Slovakian subsidiary is Euro as of 1 January 2009. Total sales revenue and other operating income in FY 2009 grew by 2% to HUF 9.2 billion, mainly due to the weaker forint against euro. In EUR the total revenue recognised in the Slovakian segment decreased by 12% in 2009 compared to 2008. Room revenue in EUR decreased by 9% in 2009 as the average room rate (ARR) increased to EUR 40.3 from EUR 37.6 while the occupancy decreased from 72.0% to 62.0%. The number of rooms sold decreased from 350,718 to 299,336 in FY 2009. The number of guestnights in 2009 was 484,449 compared to 577,707 in FY 2008, the average length of stay in the year of 2009 was 10.0 days compared to 9.7 days last year.

In spite of the significant EUR strengthening against HUF the amount of material expenses and services used in FY 2009 was HUF 3.3 billion, down by 6%, within this, energy cost decreased by 5% to HUF 802 million and maintenance expenses was HUF 212 million, higher by 9% than in 2008. Personnel expenses for FY 2009 were HUF 3.5 billion, an increase of 5% in HUF terms, reflecting entirely the weaker HUF.

Due to the decrease of 3 months EURIBOR and the lower average level of borrowings the interest expenses for FY 2009 amounted to HUF 152 million, compared to HUF 275 million in FY 2008. Comparative figure includes an FX gain of HUF 523 million on borrowings, current figures do not include such a difference as EUR is the functional currency.

Capital expenditure during the year of 2009 was HUF 293 million, including spending on heating and recirculation systems and refurbishments, compared to the HUF 1,423 million in FY 2008.

Overall, the profit before tax of Slovakian operations for FY 2009 decreased by 21% to HUF 210 million, compared to HUF 264 million in FY 2008.

Romanian Segment

ROMANIA	FY 2009 (HUF million)	FY 2008 (HUF million)	Ch%
Total revenue and income	1,489	1,778	(16)
Operating profit	228	473	(52)
Financial results	(16)	(56)	(71)
Profit before tax	212	417	(49)
CAPEX	49	385	(87)
HUF/RON average rate	66.19	68.29	(3)
RON/EUR average rate	4.24	3.66	16

Total sales revenue and other operating income for FY 2009 decreased by 16% in HUF terms compared to the financial year of last year. In FY 2009 the occupancy was 56.6%, an increase of 1.3% compared to last year, however the guest mix changed towards pension guests, hence the average room rate (ARR) decreased from RON 117 to RON 107. Room departmental profitability in RON terms decreased by 7% in FY 2009. The number of guests during the financial year of 2009 decreased to 35,542 from 40,635 primarily due to the decreasing number of leisure and conference tourists.

Due to the combined effect of inflation and the drop in occupancy total material expenses and services used in FY 2009 was HUF 605 million compared to HUF 650 million last year. Within this, energy cost was HUF 140 million, down by 6% compared to FY 2008.

Due to decrease of 3 months EURIBOR the interest expenses for FY 2009 amounted to HUF 23 million compared to HUF 37 million in FY 2008.

Capital expenditure during the year of 2009 was HUF 49 million compared to HUF 385 million in 2008, the majority of which relates to the reconstruction of the elevator system.

Being the result of the above the profit before tax of Romanian operations for FY 2009 was HUF 212 million compared to a profit of HUF 417 million in FY 2008.

Consolidated Balance Sheet

Total consolidated asset value amounted to HUF 87.1 billion as of 31 December 2009, a 4% decrease compared to the end 2008. Current assets include assets held for sale which comprises the net carrying value, less cost of sale, of a hotel and hospitality property in Hungary. The Group expects to sell these assets within the next twelve months. Trade receivables decreased by 28%, reflecting lower revenues and the positive effect of our debt collection activities.

The amount of property, plant and equipment was HUF 76.8 billion at the end of December 2009, an increase of 1% over the last 12 months. The majority of this increase is due to the FX translation effect of foreign subsidiaries. In December 2008 Danubius sold its 25% minority shareholding in CP Regents Park Two Ltd. to CP Holdings, the majority shareholder of Danubius, and the consideration for the sale was the repayment of the GBP 5.1 million loan. From August 2009 the 50% investment in Egészségsziget Kft., our established associate to utilise the land acquired near Hotel Gellért became a fully consolidated subsidiary (before this date it was treated as an associate). CP Holdings purchased the remaining 50% shareholding in August 2009 and Danubius simultaneously entered into a put and call option agreement with a view to purchase this shareholding. The underlying purchase price paid by CP Holdings and the amount to be paid by Danubius under the option agreement is the same (EUR 1.7m). The option agreements provide for an option fee of EUR 100,000 and, if relevant, interest from August 2010.

Total liabilities at the end of 2009 was HUF 34.6 billion, a 7% decrease compared to 31 December 2008 due to the decrease of bank loans and trade payables. The Group had EUR 90.0 million long-term loans, including short-term portion as of 31 December 2009.

The value of shareholders' equity decreased by 1% compared to 31 December 2008 being the combined effect of the after tax loss of HUF 0.9 billion of previous 12 months, the HUF 0.3 billion increase of translation reserve and HUF 0.1 billion increase in minority interest, due to the weakening of forint against the national currency of subsidiaries. The parent company mitigates its interest exposure by means of hedging instruments the effect of which is included in P&L in accordance with IAS 39.

Cash flow

Net cash provided by operating activities in the financial year of 2009 was HUF 3.8 billion, a significant improvement compared to HUF 1.7 billion net cash provided in FY 2008, due to the positive result of working capital changes. Capital expenditure in 2009 was HUF 2.1 billion, a 59% decrease compared to FY 2008, reflecting our tight cash management program.

In August 2009, based on the original agreement, Danubius purchased the remaining 33.33% minority shareholding in Gundel Kft. from LL Partners, L.P. Considering this share purchase transaction, Danubius Hotels Nyrt. became the sole owner of Gundel Kft.

During the year of 2009 EUR 5.3 million loan has been drawn down, the majority of which was used to finance the Gundel acquisition, and EUR 11.9 million repayment of borrowings has taken place. Comparative figures include the loan received to finance the land acquisition near Hotel Gellért.

APPENDIX I - Audited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED IN ACCORDANCE WITH IFRS

(HUF million)

	At 31 December	
	2009	2008
Assets		
Cash and cash equivalents	3,537	3,797
Trade and other receivables	2,222	3,544
Inventory	824	867
Long-term assets classified as held for sale	78	351
Current income tax receivables	134	21
Total current assets	**6,795**	**8,580**
Property, plant and equipment	76,795	76,347
Intangible assets	3,208	2,703
Other investments	72	2,108
Deferred tax assets	201	524
Total non-current assets	**80,276**	**81,682**
Total assets	**87,071**	**90,262**
Liabilities and Shareholders' Equity		
Trade accounts payable	1,995	2,866
Advance payments from guests	672	640
Current income tax payables	6	35
Other payables and accruals, including derivatives	2,901	3,249
Interest-bearing loans and borrowings	5,290	5,699
Provisions	344	445
Total current liabilities	**11,208**	**12,934**
Interest-bearing loans and borrowings	21,005	21,812
Deferred tax liabilities	1,332	1,351
Provisions	1,033	1,235
Total non-current liabilities	**23,370**	**24,398**
Total liabilities	**34,578**	**37,332**
Shareholders' Equity		
Share capital	8,285	8,285
Capital reserve	7,435	7,435
Treasury shares	(1,162)	(1,162)
Translation reserve	6,354	6,032
Retained earnings	29,152	30,023
Attributable to equity holders of the parent	**50,064**	**50,613**
Minority interest	**2,429**	**2,317**
Total shareholders' equity	**52,493**	**52,930**
Total liabilities and shareholders' equity	**87,071**	**90,262**

APPENDIX II - Audited

CONSOLIDATED INCOME STATEMENT PREPARED IN ACCORDANCE WITH IFRS
(HUF million)

	Year ended 31 December	
	2009	2008
Room revenue	21,215	21,811
Food and beverage revenue	13,020	14,996
Spa revenue	5,841	6,197
Other departmental revenue	1,777	2,138
Revenue from wineries	155	155
Revenue from security services	835	717
Other income	642	1,159
Total operating revenue and other income	**43,485**	**47,173**
Cost of goods purchased for resale	432	265
Material costs	9,291	10,544
Services used	9,246	9,947
Material expenses and services used	**18,969**	**20,756**
Wages and salaries	11,407	12,341
Other personnel expenses	1,393	1,472
Taxes and contributions	3,771	4,331
Personnel expenses	**16,571**	**18,144**
Depreciation and amortisation	4,619	4,630
Other expenses	2,293	2,366
Changes in inventories of finished goods and w.i.p.	(4)	(8)
Work performed and capitalised	(85)	(82)
Total operating expenses	**42,363**	**45,806**
Profit from operations	**1,122**	**1,367**
Interest income	200	224
Interest expense	(1,439)	(1,805)
Foreign currency gain / (loss)	(290)	90
Financial loss	**(1,529)**	**(1,491)**
Share of loss of associates	**-**	**(75)**
Loss before tax	**(407)**	**(199)**
Current tax expense	54	187
Deferred tax expense / (benefit)	295	(34)
Loss for the year	**(756)**	**(352)**
Attributable to:		
Owners of the Company	(801)	(411)
Minority interest	45	59
Basic and diluted earnings per share (HUF per share):	**(101)**	**(52)**

APPENDIX III - Audited
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IN ACCORDANCE WITH IFRS
(HUF million)

	Year ended 31 December	
	2009	2008
Loss for the year	**(756)**	**(352)**
Other comprehensive income		
Foreign currency translation differencies for foreign operations	394	2,207
Release of hedging reserve due to loss of effectiveness	-	(24)
Total other comprehensive income	**394**	**2,183**
Total comprehensive income for the period	**(362)**	**1,831**
Attributable to:		
Owners of the Company	(479)	1,156
Minority interest	117	675
Total comprehensive income for the period	**(362)**	**1,831**

APPENDIX IV - Audited
CONSOLIDATED STATEMENT OF CASH FLOWS PREPARED IN ACCORDANCE WITH IFRS (HUF million)

	Year ended 31 December	
	2009	2008
Profit from operations	**1,122**	**1,367**
Depreciation and amortisation	4,619	4,630
Gain/on sale of property, plant and equipment and intangibles	(90)	(702)
Change of provisions	(303)	36
Impairment of receivables	6	48
<u>*Changes in working capital*</u>		
(Increase)/ decrease of accounts receivable and other current assets	*1,064*	*(1,679)*
(Increase)/ decrease of inventory	*43*	*(8)*
Increase / (decrease) of accounts payable and other current liabilities	*(1,148)*	*144*
Interest paid	(1,301)	(1,698)
Income tax paid	(196)	(424)
Net cash provided by operating activities	**3,816**	**1,714**
Purchase of property, plant and equipment and intangibles	(2,148)	(5,244)
Interest received	192	224
Proceeds on sale of property, plant and equipment and intangibles	125	844
Cash paid on acquisition	(1,268)	-
Other cash inflow	-	1,387
Net cash used in investing activities	**(3,099)**	**(2,789)**
Receipt of long-term bank loans	1,369	7,396
Repayment of long-term bank loans	(3,285)	(5,067)
Payment of finance lease liabilities	-	(6)
Net cash provided by financing activities	**(1,916)**	**2,323**
Net increase (decrease) in cash held	(1,199)	1,248
Cash and cash equivalents at the beginning of the period, net	3,171	1,921
Effect of exchange rate fluctuations on cash held	9	2
Cash and cash equivalents at the end of the period, net	**1,981**	**3,171**

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

APPENDIX V
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 VI
SHAREHOLDER STRUCTURES AND CHANGES IN ORGANISATION

In 2009 there were no significant organisational changes within the Group.

Shareholder[1]	Period end of				
	Q4 2008	**Q1 2009**	**Q2 2009**	**Q3 2009**	**Q4 2009**
CP Holdings and its investments[2]	74.52%	74.52%	75.60%	76.41%	76.41%
Of which:					
CP Holdings Ltd.	*37.55%*	*37.55%*	*37.94%*	*37.94%*	*37.94%*
Interag Zrt.[3]	*30.85%*	*30.85%*	*30.85%*	*30.85%*	*31.45%*
Israel Tractors	*6.12%*	*6.12%*	*6.12%*	*6.12%*	*6.12%*
Foreign financial investors	11.74%	11.58%	11.69%	11.77%	11.74%
Domestic financial investors	6.22%	6.51%	5.25%	4.44%	4.45%
Domestic individuals	2.81%	2.68%	2.75%	2.67%	2.70%
Employees	0.19%	0.19%	0.19%	0.19%	0.18%
Treasury shares	4.52%	4.52%	4.52%	4.52%	4.52%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

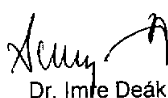
[1] The table shows shareholders separately if their shareholding reaches or exceeds 5%, according to the Book of Shares.

[2] The 76.41% ownership of CP Holdings and its investments results an 80.03% combined direct interest in Danubius Hotels Nyrt. and includes the shares held by Sir Bernard Schreier, the Chairman of CP Holdings and shares held by Agrimill-Agrimpex Zrt.

[3] The Danubius shares previously held by Agrimill-Agrimpex Zrt. are currently owned by Interag Zrt. as the result of their merge in 2009

APPENDIX VII
DECLARATION

Danubius Hotels Nyrt. hereby declares that the figures and statements of this Flash Report give a true and fair view on the Group, and it does 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 Flash Report. 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 VIII - Audited

BALANCE SHEET OF DANUBIUS HOTELS NYRT. PREPARED IN ACCORDANCE WITH HAL

HUF thousand	31 December 2009	Restatement of previous years	31 December 2008
NON-CURRENT ASSETS	**53,753,364**	1,936,899	**52,079,838**
INTANGIBLE ASSETS	**72,472**		**139,996**
Capitalised cost of foundation and restructuring			
Capitalised research and development costs			
Rights and titles			
Intellectual property	72,472		139,996
Goodwill			
Advance payment on intangible assets			
Revaluation of intangible assets			
PROPERTY, PLANT AND EQUIPMENT	**6,370,081**		**6,740,359**
Real estates and relating rights	6,219,467		6,542,563
Equipments, machines, vehicles	11,689		2,792
Other equipments, fixtures, vehicles	8,977		9 934
Livestock			
Capital investments and refurbishments	129,948		159,942
Advance payments on capital investments			
Revaluation of tangible assets			
NON-CURRENT FINANCIAL INVESTMENTS	**47,310,811**	1,936,899	**45,199,483**
Long-term investments	43,728,969	1,936,899	40,300,810
Long-term loan to related parties	3,565,112		4,882,010
Other long-term investments	15,217		15,217
Long-term loan to other investments			
Other long term loans	1,513		1,446
Long term securities			
Revaluation of non-current financial assets			
CURRENT ASSETS	**2,444,089**	39,017	**2,150,534**
INVENTORIES			**33**
Raw materials			
Work in progress and semifinished goods			
Grown, fattened and other livestock			
Finished products			
Goods, Commodities			33
Advance payments on stocks			
RECEIVABLES	**1,199,232**	39,017	**838 043**
Receivables from supply of goods and services	1,715		5,799
Receivables from related parties	1,171,800		797,791
Receivables from other investment			
Bills of exchange			
Other receivables	25,717	39,017	34,453
SECURITIES	**1,161,021**		**1,161,021**
Investment in related parties			
Other investments			
Treasury shares	1,161,021		1,161,021
Short term securities			
TOTAL CASH AND CASH EQUIVALENTS	**83,836**		**151,437**
Cash at hand, cheques	268		312
Bank deposits	83,568		151,125
ACCRUALS AND PREPAYMENTS	**21,165**		**10,231**
Accrued income	14,511		326
Prepaid costs and expenses	6,654		9,905
Deferred expenses			
TOTAL ASSETS	**56,218,618**	1,975,916	**54,240,603**

HUF thousand	31 December 2009	Restatement of previous years	31 December 2008
SHAREHOLDERS' EQUITY	**41,339,062**	1,975,916	**39,288,309**
SHARE CAPITAL	**8,285,437**		**8,285,437**
REGISTERED BUT UNPAID CAPITAL			
Treasury shares at face value	374,523		374,523
SHARE PREMIUM (CAPITAL RESERVE)	7,138,139		7,138,139
RETAINED EARNINGS	24,463,833		22,868,825
COMMITED RESERVES	1,376,815		1,161,021
REVALUATION RESERVE			
NET PROFIT FOR THE PERIOD	74,838	1,975,916	-165,113
PROVISIONS	**75,419**		**36,696**
Provisions for expected liabilities	75,419		36,696
Provisions for future expenses			
Other provisions			
LIABILITIES	**14,723,604**		**14,858,978**
BACKLISTED LIABILITIES			
Backlisted liabilities to related parties			
Backlisted liabilities to other investment			
Backlisted liabilities to third parties			
LONG TERM LIABILITIES	**11,741,641**		**11,453,271**
Long term loans			
Convertible bonds			
Liability from bond issue			
Capital investment and development loans			
Other long term loans	11,741,641		11,453,271
Long term liabilities to related parties			
Long term liabilities to other investments			
Other long term liability			
SHORT TERM LIABILITIES	**2,981,963**		**3,405,707**
Short term credits			
Short term loans	2,739,164		2,334,586
Advance payments from customers	3,644		4,064
Creditors, Suppliers	10,257		47,867
Bills of exchange			
Short term liabilities to related parties	101,909		814,249
Short term liabilities to other investments			
Other short term liabilities	126,990		204,941
DEFERRALS	**80,533**		**56,620**
Deferred revenues			
Deferred costs and expenses	79,781		55,868
Deferred income	752		752
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**56,218,618**	1,975,916	**54,240,603**

INCOME STATEMENT OF DANUBIUS HOTELS NYRT. PREPARED IN ACCORDANCE WITH HAL

HUF thousand	FY 2009	Restatement of previous years	FY 2008
Net domestic sales revenue	**2,757,456**		**3,751,406**
Export sales revenue			
Total net sales revenue	**2,757,456**		**3,751,406**
Change in the stock of own prod.			
Cap. value of assets of own prod.			
Cap. value of own production			
Other income	**36,844**		**183,436**
Raw material costs	8,407		27,173
Value of services used	741,652		1,011,382
Other services	30,260		42,803
Purchase price of goods sold			
Value of sold services	55,913		12,055
Material expenditures	**836,232**		**1,201,908**
Salaries and wages	**413,471**		808,128
Other personnel payments	**71,179**		180,982
Taxes and contributions	**144,162**		299,293
Total payroll & related costs	**628,812**		**1,288,403**
Depreciation	**425,085**		**43,542**
Other expenditures	**220,084**	**(24,285)**	**171,862**
Operating profit	**654,087**	**(24,285)**	**837,249**
Dividend received	100,509		
Capital gain on the sale of shares			
Exchange gain of inv. fin. assets			
Other interests received	325,828		330,007
Other financial income	95,312	1,936,899	641,503
Rev. from financial transact.	**521,649**	1,936,899	**97,151**
Exchange loss of inv. fin. assets			38,904
Interests payable	944,792		1,035,166
Loss of value -securities, deposits			
Other financial expenses	143,275		511,082
Expenditures of fin. transact.	**1,088,067**		**1,935,288**
Financial profit or loss	**(566,418)**	1,936,899	**(963,778)**
Profit from ordinary activities	**87,669**	**1,961,184**	**(126,529)**
Extraordinary income			
Extraordinary loss	**12,831**		25,238
Extraordinary profit or loss	**(12,831)**		**(25,238)**
Profit before tax	**77,581**	**1,961,184**	**(150,381)**
Corporate tax payable		(14, 732)	14,732
Profit after tax	**74,838**	1,975 ,916	**(165,113)**
Dividend paid from profit reserve			
Dividend payable/ Minority			
NET PROFIT FOR THE PERIOD	**74,838**	1,975,916	**(165,113)**