

**DANUBIUS HOTELS
GROUP**

**ANNUAL REPORT
2008**



**DANUBIUS HOTELS
GROUP**

Contents

Statement by the Chairman	2
Quality in focus –2008	5
The Board of Directors	9
The Supervisory Board	10
Tourism in 2008	11
Report of the Board of Directors	14
Highlights	14
Financial overview	15
Hungarian segment	15
Czech segment	17
Slovakian segment	18
Romanian segment	19
Consolidated statement of income	20
Consolidated balance sheet	20
Cash flow	21
Shareholders' structure	22
Trading on the Budapest Stock Exchange	22
Report of the Supervisory Board	23
Report of the Independent Auditor	25
Consolidated Balance Sheet	27
Consolidated Statement of Income	28
Consolidated Statement of Changes in Shareholders' Equity	29
Consolidated Statement of Cash Flows	30
Notes to the Consolidated Financial Statements	31
Business Targets 2009	67

Dear Shareholders,

One year ago, we expressed our concern both about the implications of the world financial crisis, which was then gathering pace and about the situation in Hungary both economically and politically. As it has turned out these concerns were not just well founded but the severity of the downturn, both globally and in Hungary, has exceeded our worst expectations. The crisis took longer to have a deep impact on Central Europe and Hungary, but now the effects are plain for all to see. Not just in economic indicators such as negative growth, lower industrial production and higher levels of unemployment, but also in the ongoing political uncertainty in Hungary and more recently in the Czech Republic. It is a sad fact that at a time when we should be celebrating 20 years of freedom after the dramatic events of 1989, Hungary's early leadership of economic reforms has been overtaken by other countries to the extent that its economy is now one of the weakest and most vulnerable in the region. Let us hope that the new Prime Minister, Gordon Bajnai, is able to make a start in tackling the problems and so help Hungary take the first few steps on the road to recovery and to regain its rightful place in the region.

Against this background, 2008 was an extremely difficult year for the Danubius Group. As you will know, our business is very seasonal and traditionally the third quarter of the year is the most profitable. In 2008 the third quarter was hit by the growing financial crisis and the negative effect of strong national currencies on our Euro and other revenues. Then, in the fourth quarter, the banking crisis reached its peak and the economic recession started to have a major impact on Central Europe. Unfortunately the consequent reduction in demand was accompanied by a continued increase in hotel capacities as many development projects were started before the effects of the crisis were fully appreciated. This led to unparalleled competition in Budapest and also in the major health spa resorts. With this in mind, I believe it to be a substantial achievement that Group revenues remained at the previous year's levels and exceeded HUF 47 billion. Operating profit was HUF 1.4 billion against HUF 2.9 billion in 2007 as the reduction in second half revenues could not be fully offset by cost saving measures and there was a substantial rise in energy costs. At the bottom line, profit after tax showed a small loss of HUF 352 million.

Looking behind these consolidated figures, in our most important market, Hungary, increased competition led to low prices, a trend which was compounded by a strengthening of the Forint in the busiest periods of the year. Market share was maintained in the business segment, but demand in leisure and spa slowed down and the number of foreign guests, especially from Italy, Japan and the US fell back, together with a continuing reduction in the number of German guests. The decrease in foreign guests also hit revenues of the Gundel restaurant and its results were further affected by the reconstruction of the kitchen earlier in the year. On a more positive note, the number of Hungarian guests in our hotels continued to grow and the outlook for the domestic market seems promising.

In view of the lower revenues in the second half of 2008 and the expectation of even tougher conditions in 2009, management has worked intensively on programmes to reduce costs. Following a major review of the Company's head office organisational structure and its interface with hotels, major changes were put in place during the fourth quarter to streamline our administrative organisation, improve efficiency, benefit from increased synergies within our group and, of course, reduce costs. This process continued into the first quarter of 2009 and, in parallel, substantial cost cutting campaigns were undertaken in all our hotels. The overall impact of all these measures is a reduction in headcount of approximately 13% and a major reduction in outsourcing and other costs. Our objective has been to reduce fixed costs and bring our operating costs as far as possible into line with lower revenues. In doing this, we have focused on actions which will not affect the quality of customer service and have sought to maintain our sales and marketing activity at the maximum possible level given the fiercely competitive environment in which we are operating. We expect our newly upgraded and user friendly web site to generate many more enquiries and increased bookings.



Statement by the Chairman

Generally, our health spa business held up better than the Budapest city centre market. Marienbad produced a strong operating performance with a substantial increase in occupancy of 6%. The German market did not deteriorate further and there was outstanding success in new markets primarily Russia and Italy. More than 27% of guests arrived from these countries and this helped to compensate a fallback in guests from the Czech Republic. It was unfortunate that these substantial improvements were offset in profit terms by a rapid strengthening of the Czech Crown, but the achievements of 2008 show the importance of earlier investments in the newly built swimming pool and wellness centre in Hotel Hvezda and the development of the Nove Lazne/Centralni Lazne refurbished spa hotel complex.

In Slovakia, the market remained difficult and although our average room occupancy was down, revenues increased due to higher average room rates. The mix of business in Piestany continued to change with wellness, relaxation and business customers increasing, as against a moderate decrease in the number of traditional health spa guests. In 2009, we will benefit from a major project to modernise heating systems, which will significantly improve energy efficiency and from Slovakia being a member of the Euro Zone.

It is good to report that the success of the Romanian subsidiary in 2007 was repeated in 2008. The inauguration of the largest conference room in the region opened up new business opportunities in Sovata and allowed a significant increase in average rates. The fact that Sovata produced the highest profit in the Group at operating level in 2008 is a reflection of the major progress achieved over recent years.

As announced in December, the Company's 25% interest in Danubius Hotel Regents Park was sold back to CP Holdings, the owner of the other 75%. The Hotel will continue to use the name Danubius within the framework of a new franchise agreement and so the Danubius brand name will continue to be represented in this important international market. The UK is also now a key feeder market for Hungary and the impact of the UK recession, including a reduction in budget airline flights, will have a significant effect. The timetable for the implementation of the other UK management projects in Buxton and Bath is under review by the investors.

In 2009, capital expenditure will be minimised because of the economic situation, but in 2008 we undertook several important investments in Hungary. We completed the reconstruction and upgrading of Hotel Arena to the 4* level and it now boasts new conference facilities. The renewal of the new 'Icon' restaurant in Hotel Hilton was started and this restaurant has recently opened. This modern all day dining concept is a positive response to the changing tastes of guests and has also freed up significant space for additional meeting rooms. We completed the first phase of the façade reconstruction of Hotel Gellért and, in view of the financial situation, we are revising our plans with a view to continuing the Gellért refurbishment project as soon as practicable.

However the biggest project, which was started in 2008 and will continue in 2009 and 2010 is the introduction of new operating software in our Hungarian hotels. The operating systems are being replaced step by step in Hungary and, in due course, the new systems will be rolled out into our subsidiaries. With a total investment budget of Euro 6 million, we believe this state of the art system will simplify and standardise procedures, improve efficiency, support our brand strategy and provide the platform for a comprehensive central reservation system. Overall, it will be a major tool to improve our competitiveness.

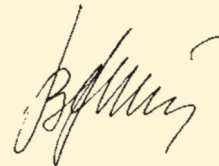
I would now like to inform you that during the last year, CP increased its ownership in the Company from 76.1% of shares entitled to a voting right to a figure of 78.04% today. Stock markets everywhere have been negatively affected by the financial crisis and the Company's recent share price has been a little under HUF 4000, although it did reach a little above HUF 9,100 during the course of 2008. The weak market has continued into the first quarter of 2009 and most commentators believe that we can expect the recession to continue throughout 2009 and into 2010. Cost cutting programmes are continuing into 2009 and we will take all possible steps towards retaining our market share. All necessary action will be taken to maintain appropriate liquidity. In these circumstances and in the light of the 2008 results, I believe it will come as no surprise to you that the Board is not proposing the payment of a dividend this year.

Looking to the medium term, our Company has impressive strengths in its unique asset base, a strong reputation in the countries in which it operates and the loyalty and commitment of its people. We continue to believe these great assets will be vital for the long-term future of Danubius. However, it is also important for our future that whatever government is in power in Hungary takes urgent steps to improve the image of Hungary in the rest of the world, as well as to stabilise and regenerate its economy. A strong tourist industry can play a major role in this, not only by emphasising Hungary's legendary attractions and hospitality, but also, as major employers, by helping to drive economic recovery. There is a real opportunity as a weaker forint should help tourism and other exporters to be competitive in the European market. So this is a time when all interested parties, public and private, should come together to emphasise the benefits Hungary can offer for investment, business and leisure and Danubius is willing to play its full part in this process.

Finally, I would like to thank our shareholders and our business partners for their continuing support in these extraordinary times. I would also like to say a special thank you to all the employees of Danubius. Management have had to make tough and often painful decisions in recent months and I would like to express my admiration for the resilience and loyalty of our employees during this period. I cannot promise that further actions will not be required, given the uncertain economic situation, but I can promise that we will not forget the commitment shown by our employees and will do our best to recognise this as and when the business environment improves. At the end of the day, our main task continues to be to satisfy the needs of our guests and to exceed their expectations. This will only be achieved through the continued commitment of the entire team at Danubius at every level in our organisation.

So, whatever transpires in 2009 – and predictions are extremely difficult to make - it will be an exceedingly testing year for Danubius. I am pleased to say that our management is ready for the challenge and I hope that when we meet again next year we will see a sign of some 'green shoots' and be able to talk more positively about how to take advantage of an emerging recovery.

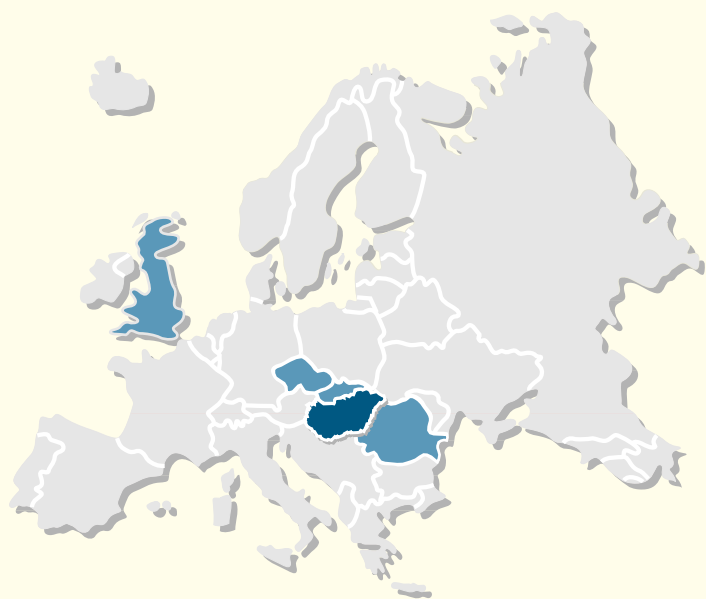
April, 2009



Sir Bernard Schreier, Chairman of the Board



**DANUBIUS HOTELS
GROUP**



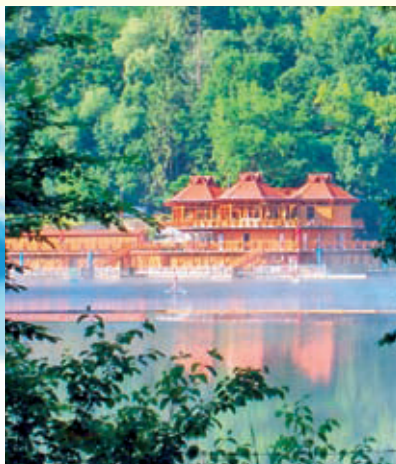
Hungary

United Kingdom

Czech Republic

Slovakia

Romania



5 countries
more than 8600
hotel rooms

**Central Europe's largest
health spa hotel chain**



**DANUBIUS
HEALTH SPA RESORTS**

Music and lights – new hydro
pool with special effects in
Hévíz



Emporium – the world of
indulgence and luxury – newly
opened in Margitsziget, Bük,
Marienbad and Piestany



Danubius Health Spa Resort
Sovata upgraded to a four star
hotel

New Aqua Wellness centre
opened in Danubius Health Spa
Resort Hvezda-Skalník

2008

**Quality in focus
in our health spa resorts**



**DANUBIUS
HOTELS**



improvement
of conference
quality

new coffee breaks

dedicated banquet
specialists



2008

**Quality in focus
in our city hotels**

Refurbishment completed with
a renewed entrance and lobby
in Danubius Hotel Astoria

Classic Collection
DANUBIUS HOTELS GROUP

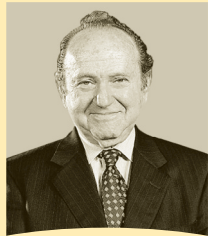


Danubius Health Spa Resort
Thermia Palace became the first
five star spa hotel in Slovakia

2008

Quality in focus
in our hotels with tradition, style & elegance

The Board of Directors



Sir Bernard Schreier

Chairman of the Board;
Chairman of
CP Holdings Limited and subsidiaries;
Vice President of Bank Leumi Plc.



Alexei Schreier

Director of CP Holdings Limited



Iris Gibbor

Director of CP Holdings Limited



John Smith

Deputy Chairman of Danubius Hotels
Group from 2007; Director of
CP Holdings Limited and subsidiaries



Robert Levy

Chief Executive Officer of CP
Holdings Limited from 2007;
Director of subsidiaries



Sándor Betegh

Chief Executive Officer of
Danubius from 1990
till 2006



Dr. Imre Deák

Senior Vice President of
Danubius from 1990,
Chief Executive Officer
from 2006



JánosTóbiás

Vice President, Finance
of Danubius
as of 1991



Ing. Lev Novobilsky

General Manager of
Léc'ebné Lázne' a.s.



József László

Manager of SAS Scandinavian
Airlines in Budapest until 1998;
honorary docent



Dr. István Fluck

General Vice President of FEMTEC,
Medical Director and Chief Physician
of Budapest Spa Zrt.

The Supervisory Board



Tibor Antalpéter

Chairman of the Supervisory Board
from 2002;
Ambassador of the Republic of Hungary
to London from 1990 to 1995



Dr. Gábor Boér

Chief Executive Officer of
Investor Holding Zrt.
and Interag Holding Zrt.



László Polgár

Auditor, forensic auditor in taxation
and accounting

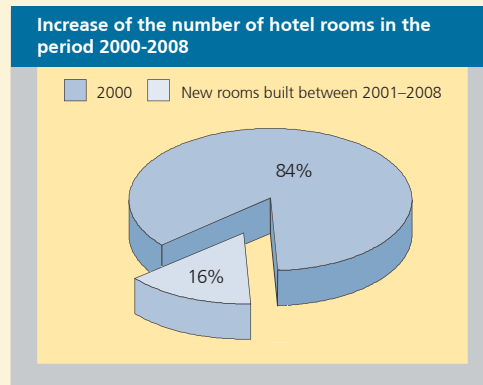
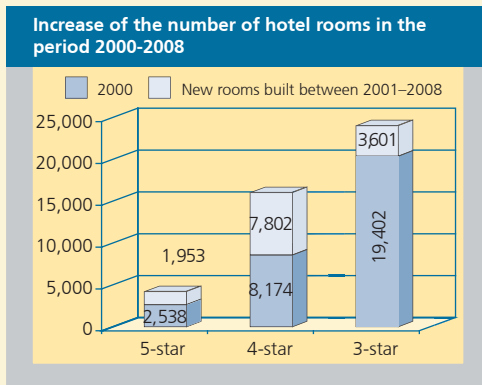


Dr. András Gálszéczy

Retired minister

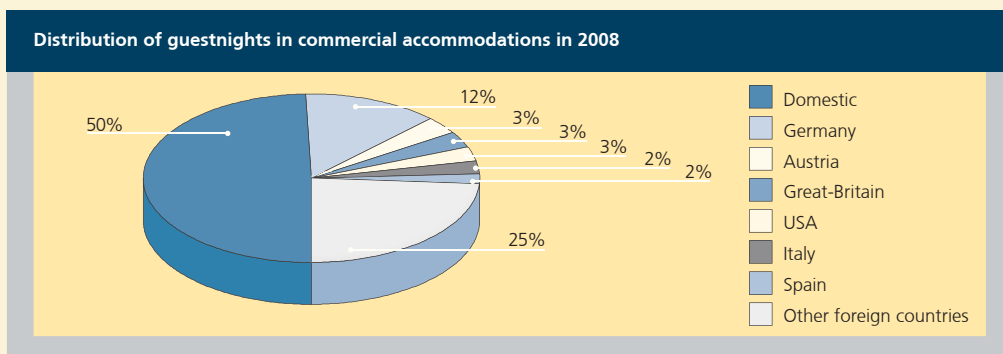
Tourism in 2008

The long-term trend of Hungarian tourism shows that hotel capacity especially in four and five star category is expanding from year to year parallel to which the number of guest nights is also increasing. Hotel capacity went up compared to the year 2000 by 18.5%, meanwhile, demand was up by 22.7%. This tendency was experienced in the five and three star category, at the same time, the 95% increase of four star hotel rooms was coupled with only 82% increase in the number of guest nights.



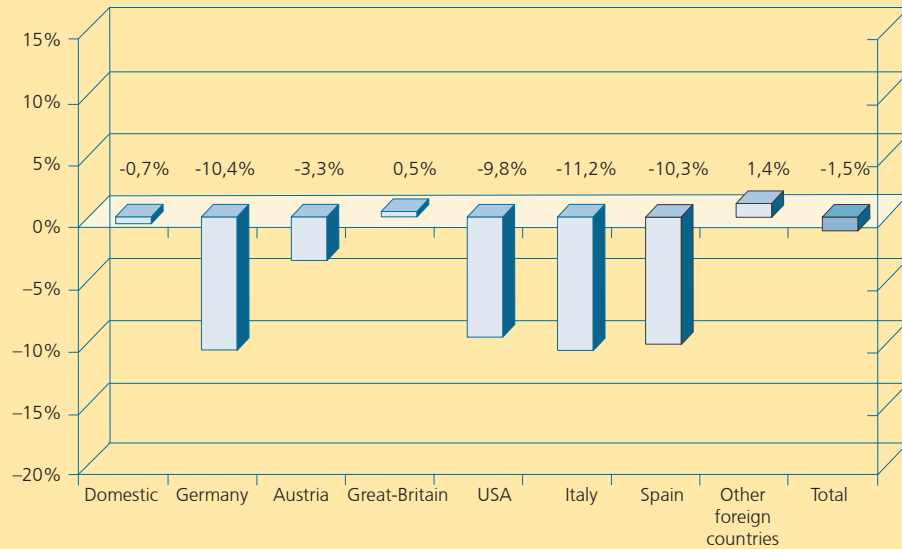
Total hotel capacity did not change significantly in year 2008, however approximately 1,200 new room was opened in spa- and wellness hotels. As to demand the trend of the recent years continued: demand from abroad decreased in 2008, that was coupled with the decrease of domestic demand. This resulted in 1.5% total decrease of guest nights.

The length of stay decreases from year to year. This is partly owing to the increase in the proportion of domestic guests traditionally staying for a shorter period of time mainly for long weekends. The other factor is that the ratio of guests arriving from the German language territory, who spend a longer time even several weeks in Hungary, primarily with health spa tourism purposes, represents a declining ratio among the foreign demand. The shorter stays by foreigners with focus on city sight seeing start to make up a greater ratio, although the appearance of this guest circle is largely influenced by the frequency of budget airlines. This factor did not have a positive impact on Hungarian tourism in the recent years especially German demand fell back significantly again by 10%. At the same time the number of guests arriving from the United States saw an increase, and demand for Hungarian accommodation places from the surrounding countries also went up.



Tourism in 2008

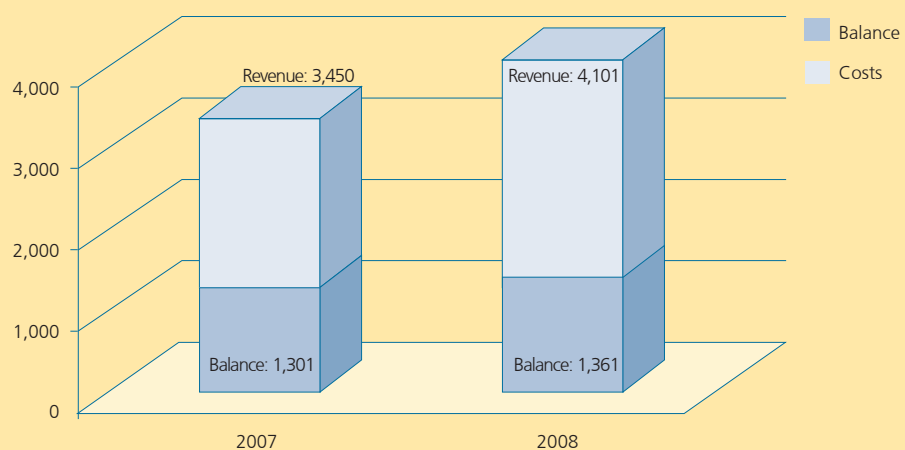
Change of guestnights in hotels (2008/2007)



The hotel gross revenues were down by 0.7% alongside 1.5% decrease of guest nights, which means that hotel average rates were up. The consumer price index calculated by the Central Statistical Office related to accommodation services was 3.8%, and for F&B services 7.8% in 2008 against the 6.1% annual inflation.

The performance of the tourism industry achieved a higher balance compared to the prior year. It closed alongside EUR 4,101 million revenues with a total of EUR 1,361 million balance.

Revenue and balance of tourism - according to the current account balance (EUR million)



The Czech Statistical Office reported, that in the year 2008 tourism recorded a lower interest in accommodation at collective accommodation establishments. The number of overnight stays dropped by 3.8%. The growth was indicated by four and tree-stars hotels only (by 17.6% and 5.2%, respectively). There was a substantial plunge in number of overnight stays at campsites (by 13.6%), boarding houses (by 14.0%) and holiday dwellings and hostels for tourists (by 12.1%). The average length of overnight stays at collective accommodation establishments was 3.1 nights which was 0.1 less than in the year 2007. The number of guests went down more slightly than the number of overnight stays, only by 0.9%.

The total decrease was affected more by residents, both in number of overnight stays (by -4.7%) and in number of guests (by -1.5%). The number of overnight stays by nonresidents dropped by 3.0% only, the number of guest by 0.4%.

As for regions, the number of overnight stays of guest went up in Karlovarsky Region only (by 1.6%) and at the same level compared with the year 2007 remained Prague. The total number of guest accommodated at collective accommodation establishments in 2008 included 51.8% of foreign guests. The most visited were Prague (4.6 million guests), in which 88.3% were nonresidents. Net use of rooms of hotels and similar establishments was by 0.1 p.p. lower in 2008 than in 2007 and reached 42.7%.

According to data by the Slovakian statistical office revenues from the tourism sector went up by 10,9% in 2008. The capacity of accommodation has increased by 7,9% at national level. The number of guests visiting the commercial accommodation places was up by 8,1% (last year it was 5.4%). Both domestic (+10,7%) and foreign (+4.9%) demand showed an increase. In Slovakia the majority (57%) of guests is domestic similar to the the previous years. The number of guestnights in 2008 went up by 7,8% (from this foreign guestnights +1,2%; domestic guestnights +13,1%).

Those arriving from the neighbouring countries represent the greatest proportion among the foreign guests here (30% from the Czech Republic, 17% from Poland), and these figures showed an increase in the past years. The German demand is lagging behind in Slovakia (-6,5%), but at the same time Spanish, Swedish, Romanian, Chinese, Indian demand indicates increase in 2008.

Source: Hungarian, Czech and Slovakian Statistical Office, National Bank of Hungary, Hungarian Tourism Zrt.

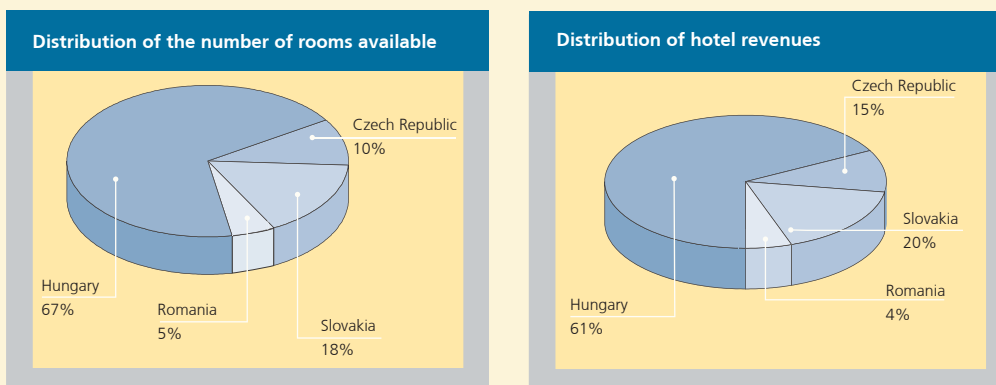
This report contains audited consolidated financial statements for the period ended 31 December 2008 as prepared by the management in accordance with International Financial Reporting Standards (IFRS).

HIGHLIGHTS

Danubius Hotels Group (IFRS)	HUF million			EUR million		
	FY 2008	FY 2007	Change%	FY 2008	FY 2007	Change%
Net sales revenues	47,173	47,342	0	187.8	188.4	0
EBITDA	5,997	7,609	(21)	23.9	30.3	(21)
Operating profit / (loss)	1,367	2,907	(53)	5.4	11.6	(53)
Financial results	(1,491)	(1,076)	39	(5.9)	(4.3)	39
Profit before tax	(199)	1,766	n.a.	(0.8)	7.0	n. a.
Operating cash flow	1,716	3,871	(56)	6.8	15.4	(56)
CAPEX	5,244	3,665	43	20.9	14.6	43
HUF/EUR	251	251	0			n.a.

- In 2008 total net sales **revenues** was HUF 47.2 billion, remained the same level of last year in spite of the strong forint in peak season and low demand in the last quarter. Group level **occupancy** was 66.2% in 2008 compared to 67.9% achieved in 2007. FY 2007 figures include the one off gain of selling Hotel Esztergom (HUF 286 million), Lóvér Sportcentre (HUF 208 million) and Kastélykert Kft. (HUF 121 million), while in 2008 Hotel Phoenix and Miramonte spa house in Marienbad were disposed-off, realising a net gain of HUF 120 million and HUF 480 million, respectively.
- Operating profit in 2008 is down by 53% to HUF 1.4 billion from HUF 2.9 bn, due to the following:
 - Operating result of **Hungarian** segment for 2008 amounted to a loss of HUF 14 million compared to HUF profit of HUF 1,871 million as costs savings could not compensate for the HUF 2.0 bn revenue setback of hotels and restaurants. Comparative 2007 figure also includes the HUF 615 mn one-off effect of selling certain properties, while only HUF 120 mn is included in 2008.
 - **Czech** hotels contributed an operating profit of HUF 892 million in 2008 compared to a profit of HUF 770 million. Excluding the HUF 480 million one-off effect of selling Miramonte spa house y-o-y operating profit decreased by 47%, due to the increased costs of energy, payroll and maintenance, while operational revenue remained at the same level.
 - **Slovakian** segment's operating profit was HUF 16 million in 2008 compared to a loss of HUF 149 million loss in 2007. Revenue in HUF terms increased by 11% to HUF 9,0 bn, mainly thanks to the 8% SKK strengthening against HUF.
 - In 2008 total revenue of **Romanian** segment increased by 11% to HUF 1,778 million, operating result was a profit of HUF 473 million, compared to profit of HUF 414 million.
- The **Financial** results in 2008 was a loss of HUF 1.5 billion, compared to a loss of HUF 1.1 billion in 2007 as, 2008 includes interest expense of HUF 1.8 billion while comparative figure includes HUF 1.5 billion and there was a HUF 420 million FX gain in 2007, while only HUF 90 million FX gain was included in 2008.
- **Loss before tax** in 2008 was HUF 0.2 billion compared to a profit of HUF 1.8 billion in 2007.
- **Net cash provided by operating activities** in 2008 was HUF 1,7 billion, a 56% decrease compared to HUF 3.9 billion in 2007.
- **Capital expenditure** and investments during year 2008 amounted to HUF 5.2 billion compared to HUF 3.7 billion spending in 2007. Of which app. HUF 990 million was for new heating system in Slovakia which will substantially reduce energy consumption.
- Group level average **headcount** in 2008 was 5,338 compared to 5,483. Considering the fall in demand further reduction measures are planned to be introduced in 2009.

FIGURES AND RATIOS IN HOTEL BUSINESS – 2008



	Hungarian hotels	Czech hotels	Slovakian hotels	Romanian hotels
Number of rooms	5,544	825	1,340	400
Occupancy	63.1%	79.0%	72.1%	55.3%
Average rate (HUF)	12,288	15,624	9,064	8,008
Number of staff	2,725	658	1,296	251
Average number of staff / rooms	0.49	0.80	0.97	0.63
Profit of rooms department (HUF million)	10,964	3,106	2,662	552
Profit of F&B (HUF million)	2,081	162	623	299
Profit of spa department (HUF million)	771	818	1,903	114
Profit of other minor departments (HUF million)	(29)	139	110	95
Departmental profit	13,787	4,225	5,298	1,060
<i>Profit margin</i>	51.6%	62.8%	59.0%	67.1%

FINANCIAL OVERVIEW

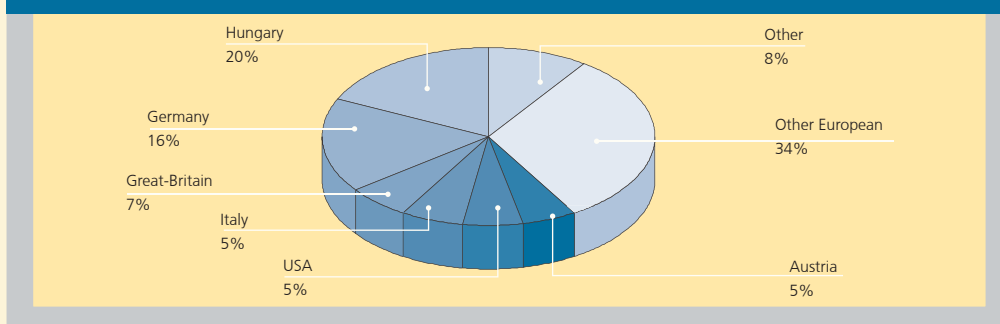
Hungarian Segment

HUNGARY	HUF million			EUR million		
	FY 2008	FY 2007	Change%	FY 2008	FY 2007	Change%
Net sales revenues	29,050	31,519	(88)	115.6	125.4	(8)
Operating profit	(14)	1,872	n.a.	(0.0)	7.5	n.a.
Financial results	(1,649)	(822)	101	(6.6)	(3.3)	101
Profit before tax	(1,737)	985	n.a.	(6.9)	3.9	n.a.
CAPEX	2,971	1,307	127	11.8	5.2	127

Total sales revenue and other operating income in 2008 decreased by 8% to HUF 29.1 billion, mainly due to lower revenue recognised from room and F&B services and from Gundel restaurants. During the peak seasons of Q2 and Q3 the strong forint negatively effected our revenue. In the last quarter of the year, the market demand dropped due to economic downturn, particularly in Budapest. In 2008 hotel occupancy was 63.1%, while it was 65.1% in 2007.

Room revenue of Hungarian hotels decreased by 7% to HUF 14.3 billion compared to year 2007 due to the combined result of occupancy decrease and the decrease of average room rate achieved (ARR) to HUF 12,288, down by HUF 166 than the comparative figure. The average length of stay was 2,9 days in 2008, no material change compared to last year. The number of guest-nights during 2008 decreased to 1,913,956 from 2,009,606 out of which domestic guest-nights represents 20%, a considerable increase compared to 2007 level of 18%. In 2008 guests from Germany, Italy, Japan, USA decreased the most, partly compensated by more guest arrivals from Russia, Turkey and France. Room departmental profit for the whole year decreased by HUF 1.0 billion, down by 8% compared to 2007.

Distribution of guestnights in our Hungarian hotels



Food and beverage revenue of hotels and restaurants for the whole year of 2008 was HUF 9.1 billion, lower by 3% than comparative figure. 2008 F&B departmental profit of our hotels fell by HUF 0.4 billion mainly as the result of lower revenue and high inflation on raw materials that could not be compensated by the decrease of payroll. Partly as a result of kitchen reconstruction works Gundel's total revenue and income in 2008 decreased by HUF 406 million, down by 21% y-o-y, however, thanks to our cost cutting measures, operational performance decreased by HUF 163 million.

In 2008 Spa revenue was HUF 1.7 billion, down by 2% compared to 2007, due to the combined result of lower number of treatments sold and the decrease of average rate of a treatment. Spa departmental profit was lower by 2% as the decrease in payroll and other cost savings could not compensated the revenue drop.

Revenue from security services in 2008 was HUF 717 million, down by 8% compared to year 2007.

Due to the combined effect of high inflation on materials and the drop in occupancy raw material expenses increased by 7% to HUF 6.1 billion. The value of services used in 2008 decreased by 4% to HUF 6.1 billion, within this energy cost grew significantly by 18% to HUF 2.7 billion, while the amount spent on maintenance work at the hotels decreased by 11% to HUF 819 million. Personnel expenses for 2008 were HUF 11.5 billion, up by 3% reflecting the combined effect of yearly salary increase, lower average headcount and HUF 275 million provision recognised for further headcount reduction measures.

Due to the increase of 3 months EURIBOR, the increase of average borrowings over the period and the change in the fair value of interest swap derivatives interest expenses grew to HUF 1.3 billion from HUF 1.1 billion. Primarily as the result of depreciation of HUF in 2008 against EUR, in which majority of our long-term borrowings are denominated, a HUF 480 million foreign exchange loss (mostly unrealised) was recognised in profit and loss, compared to a gain of HUF 243 million in 2007.

Capital expenditures during 2008 was HUF 3.0 billion compared to HUF 1.3 billion spent in 2007, including spending on Hilton Corvina restaurant, Hotel Gellért's façade renovations and four star upgrade of Hotel Arena.

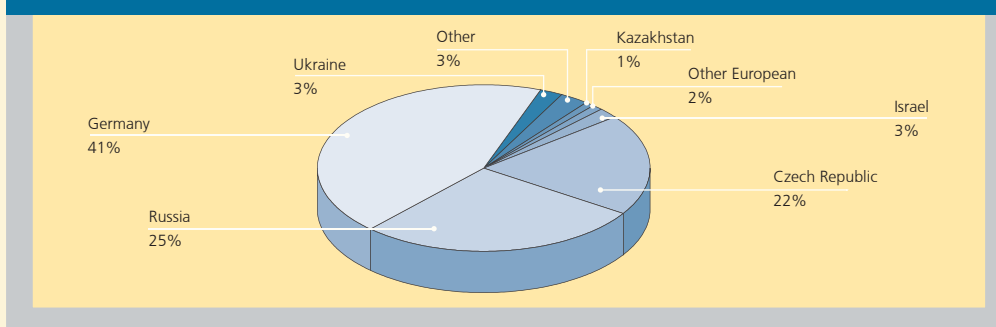
Due to lower operational and financial result the loss before tax of Hungarian segment was HUF 1.7 billion in 2008 compared to 2007 profit of HUF 1.0 billion.

Czech Segment

CZECH REPUBLIC	HUF million		
	FY 2008	FY 2007	Change%
Total revenue and income	7,304	6,085	20
Operating profit	892	770	16
Financial results	(34)	(68)	(50)
Profit before tax	857	702	22
CAPEX	466	1,095	(57)
HUF/CZK average rate	10.07	9.05	11
CZK/EUR average rate	24.95	27.77	(10)

Total sales revenue and other operating income in HUF term increased by 20% to HUF 7.3 billion in 2008, due to the HUF 480 million one-off effect of selling Miramionte spa house and the continuous weakening of Hungarian forint against the Czech crown over the period. Whole year room revenue was HUF 3.6 billion, up by 9%. Occupancy of Marianbad hotels in 2008 improved significantly to 79.0% from 73.0%, while the average room rate achieved (ARR) in CZK term decreased to 1,550 from 1,695. The average length of stay was 9.2 days in 2008 while it was 8.6 days in 2007. The number of guestnights in 2008 was 382,167 compared to 351,214 as more guests arrived from Germany again and the significant drop of domestic guests was more than compensated by increasing number of guests arriving from certain former Soviet Union countries.

Distribution of guestnights in our Czech hotels



The amount of material expenses and services used in 2008 increased by 27% to HUF 3.0 billion, partly due to combined effect of average inflation, CZK strengthening against HUF and the increase in occupancy, within this energy costs increased by 23% to HUF 568 million and maintenance expenses grew by 54% to HUF 472 million. Total personnel expenses in 2008 were HUF 2.1 billion, up by 20% compared to 2007, due to average salary increase and the effect of CZK strengthening against HUF.

In spite of the increase of 3 months EURIBOR interest expense for 2008 was HUF 130 million compared to HUF 147 million, due to the lower level of average borrowings during the period. As the result of overall strengthening of CZK in 2008 against EUR in which all of LLML's long-term borrowings are denominated, a HUF 86 million foreign exchange gain was recognised in profit and loss, compared to a gain of HUF 69 million in 2007.

Capital expenditure in 2008 amounted to HUF 466 million, down by 57% from the previous year's higher expenditure on major projects.

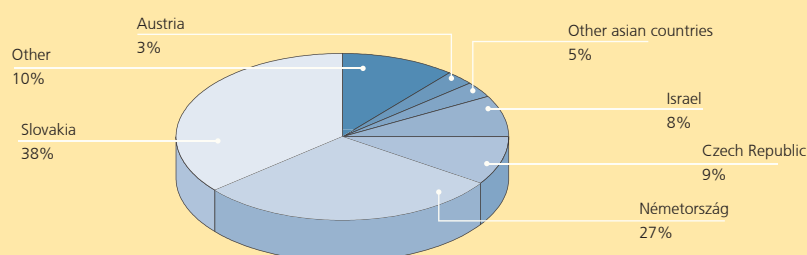
Due to lower operational result but considering the one-off effect of selling a property the profit before tax of Czech operations for 2008 was HUF 857 million compared to HUF 702 million.

Slovakian Segment

SLOVAKIA	HUF million		
	FY 2008	FY 2007	Change%
Total revenue and income	9,041	8,143	11
Operating profit	16	(149)	n.a.
Financial results	248	(141)	n.a.
Profit before tax	264	(290)	n.a.
CAPEX	1,423	839	70
HUF/SKK average rate	8.04	7.44	8
SKK/EUR average rate	31.26	33.78	(7)

Total sales revenue and other operating income in 2008 grew by 11% to HUF 9.0 billion, almost entirely due to the 8% weakening of forint against Slovakian crown compared to 2007. Room revenue in SKK increased by 1% in 2008 as the average room rate (ARR) increased to SKK 1,126 from SKK 1,058 and the occupancy decreased from 77.1% to 72.1%. The number of rooms sold decreased from 372,114 to 351,285 in 2008, however the number of guests increased from 58,353 to 59,254. The number of guest-nights in 2008 was 577,707 compared to 574,242 in 2007, the average length of stay in the whole year of 2008 was 9.7 days, almost the same as of last year.

Distribution of guestnights in our Slovakian hotels



Due to the significant SKK strengthening against HUF the amount of material expenses and services used in 2008 was HUF 3.5 billion, up by 13% compared to last year, within this, energy cost increased by 29% to HUF 863 million, while maintenance expenses was HUF 198 million, down by 13% compared to 2007. Personnel expenses for year 2008 increased only by 3% in HUF terms, reflecting the decrease in the average level of employees and the positive effect of outsourcing of laundry on payroll as well.

Piestany has more business clients requiring only accommodation with breakfast and clients requiring relaxing stays which are not aimed on medical treatment (included in Spa revenues). Therefore Spa revenues are expected to decrease slightly in favour of room revenues as a result of less medical treatment provided as the Company is being concentrated not only on medical treatment stays but also on wellness stays.

Due to the combined effect of the average increase of 3 months EURIBOR and lower average level of borrowings the interest expenses for year 2008 amounted to HUF 275 million, compared to HUF 273 million in 2007. As the result of overall strengthening of SKK in 2008 against EUR in which all of SLKP's long-term borrowings are denominated, a HUF 523 million foreign exchange gain was recognised in profit and loss, compared to a gain of HUF 131 million in 2007.

Capital expenditure during the whole year of 2008 was HUF 1,423 million, including significant spending on heating and recirculation systems, up by 70% compared to the HUF 839 million in 2007.

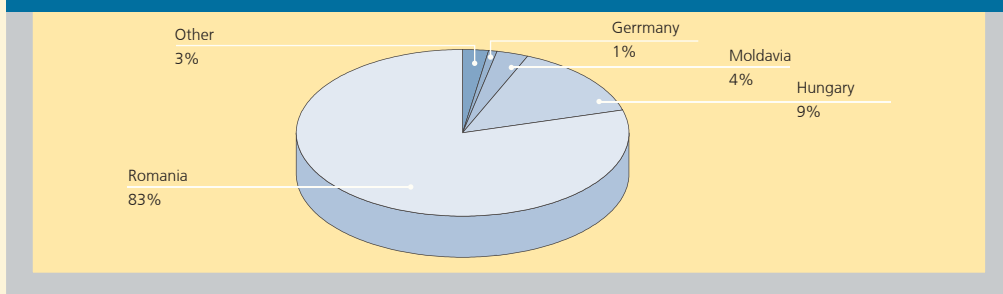
Being the result of the above the profit before tax of Slovakian operations for 2008 was HUF 264 million, compared to a loss of HUF 290 million in 2007.

Romanian Segment

ROMANIA	HUF million		
	FY 2008	FY 2007	Change%
Total revenue and income	1,778	1,595	11
Operating profit	473	414	14
Financial results	(56)	(45)	24
Profit before tax	417	369	13
CAPEX	385	424	(9)
HUF/RON average rate	68.23	75.46	(10)
RON/EUR average rate	3.68	3.33	11

Total sales revenue and other operating income for 2008 increased by 11% in HUF terms compared to the last year and was HUF 1.8 billion, in spite of the significant strengthening of HUF against RON and 2008 total revenue also includes a one-off gain of HUF 73 million as a litigation case with tax authorities has been won by the Company. FY 2008 occupancy decreased from 59.5% to 55.3% (majority of this decrease relates to 2 star hotels), while the average room rate achieved (ARR) increased considerably from RON 99 to RON 117, hence room revenue increased by 11% in RON terms. Room departmental profitability in RON terms improved significantly by 11% in 2008. The number of guests during the whole year of 2008 decreased slightly to 40,635 from 40,882 due to the decreasing number of state pension guests and guests arrived from Hungary.

Vendégéjszakák számának megoszlása román szállodáinkban



Due to the combined effect of FX differences, inflation and the drop in occupancy total material expenses and services used in 2008 increased by 5% amounting to HUF 650 million. Within this, energy cost decreased by 1% to HUF 150 million, and raw material cost was HUF 424 million, down by 3%, in spite of high inflationary effect.

Due to the increase of average 3 months EURIBOR and lower average borrowings, interest expense in 2008 was HUF 37 million, the same as of last year.

Capital expenditure during the whole year of 2008 was HUF 385 million, the majority of which relates to the reconstruction of Hotel Sovata Lobby bar and new headquarter offices. The comparative yearly figure includes significant spending on Hotel Sovata Conference room.

Being the result of the above the loss before tax of Romanian operations for 2008 increased by 13% to HUF 417 million compared to a profit of HUF 369 million in 2007.

Consolidated Statement of Income

HUF million	2008	2007
Total operating revenue and other income	47,173	47,342
Total operating expenses	45,806	44,435
Profit from operations	1,367	2,907
Financial loss	(1,491)	(1,076)
Share of loss of associates	(75)	(65)
Profit/(loss) before tax	(199)	1,766
Current tax expense	187	501
Deferred tax benefit	(34)	(139)
Profit/(loss) for the year	(352)	1,404
Attributable to: Equity holders of the parent	(411)	1,368
Minority interest	59	36

Consolidated Balance Sheet

Assets HUF million	31 December 2008	31 December 2007
Total current assets	8,580	8,661
Total non-current assets	81,682	77,672
Total assets	90,262	86,333
Liabilities and Shareholders' Equity HUF million	31 December 2008	31 December 2007
Total current liabilities	12,934	12,553
Total non-current liabilities	24,398	22,681
Total liabilities	37,332	35,234
Attributable to equity holders of the parent	50,613	49,433
Minority interests	2,317	1,666
Total shareholders' equity	52,930	51,099
Total liabilities and shareholders' equity	90,262	86,333

Total consolidated asset value amounted to HUF 90.3 billion as of 31 December 2008, a 5% increase compared to the period end of year 2007. Current assets include assets held for sale which comprises the net carrying value, less cost of sale, of certain hotel and hospitality properties in both Hungary and Slovakia. The Group expects to sell these assets within the next twelve months. Trade receivables decreased by 7% y-o-y, reflecting the effectiveness of our intensive debt collection activities carried out in the last quarter. The amount of property, plant and equipment was HUF 76.3 billion at the end of 2008, an increase of 5% 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. At the end of 2008 the investments in associated companies amounted to nil, as the historic cost of the investment in Egészségsgiget Kft. was offset by the share of its loss. Egészségsgiget Kft. is our associate company to utilise the land acquired near Hotel Gellért. Other non-current assets include HUF 2 billion loan granted to Egészségsgiget Kft. in order to finance its land acquisition. Total liabilities at the end of 2008 was HUF 37.3 billion, a 6% increase compared to 31 December 2007, mainly due to the 7% net increase of long-term borrowings, including those repayable within one year, a considerable part of this increase is due to FX movements. The Group had EUR 96.7 million long-term loans as of 31 December 2008.

The value of shareholders' equity grew by HUF 1.9 billion compared to 31 December 2007 due to net after tax loss of HUF 0.4 billion over the past 12 months, the significant, HUF 1.6 billion, increase of translation reserve and HUF 0.7 billion increase in minority interest, due to the weakening 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 fair valuation reserve and P&L in accordance with IAS 39.

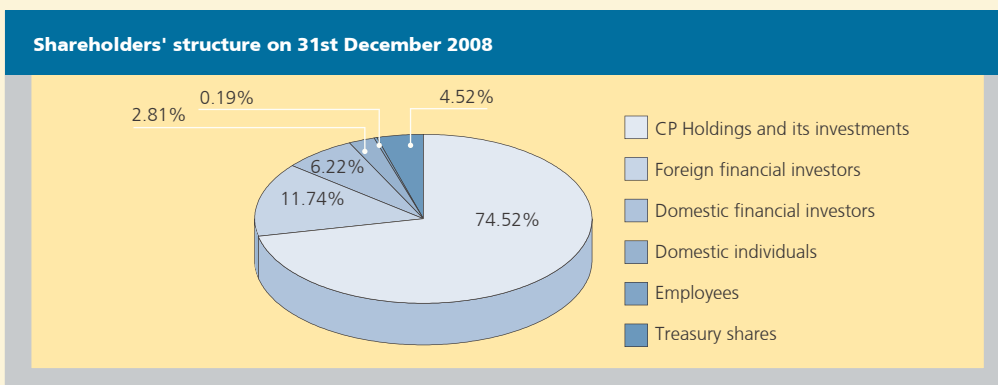
Cash flow

HUF million	2008	2007
Net cash provided by operating activities	1,716	3,871
Net cash used in investing activities	(2,789)	(4,385)
Net cash provided by financing activities	2,323	420
Net increase (decrease) in cash held	1,250	(94)
Cash and cash equivalents at the beginning of the period, net ¹	1,921	2,015
Cash and cash equivalents at the end of the period, net¹	3,171	1,921

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

Net cash provided by operating activities in year 2008 was HUF 1,716 million, down by 56% compared to 2007 primarily due to lower operating performance. Capital expenditure in 2008 was HUF 5,244 million, a 43% growth compared to year 2007, including significant spending in Hungary and Slovakia. During the whole year of 2008 EUR 14.6 million and GBP 5.1 million repayments of borrowings has taken place. In Q1 2008 a EUR 8.0 million, in Q3 2008 EUR 5 million and in Q4 app. EUR 15 million long-term bank loan has been drawn down for corporate financing purposes.

Shareholders' structure



Trading on the Budapest Stock Exchange

	2007	2008
Number of trading days	245	251
Number of deals	8,838	3,496
Number of securities traded	1,851,100	840,001
Value of securities traded (HUF million)	17,610	5,550
Average price (HUF)	9,513	6,607
Minimum price (HUF)	6,770	3,995
Maximum price (HUF)	11,000	9,150
Closing price (HUF)	9,200	4,440

Report of the Supervisory Board of Danubius Hotels Nyrt. about the 2008 B/S of the Company and the report of the Board of Directors

The Supervisory Board of Danubius pursued its activities according to the prevailing Act on Business Associations, the Articles of Association, the Rules of Procedure approved by the AGM and the annual work schedule of the Supervisory Board. The Supervisory Board submits its report before the AGM based on the report of the Board of Directors, the report of the independent Auditor, as well as the Audit Committee established last year and the regular interim control of the operation of the company.

The chairman of the Supervisory Board was invited – in line with the practise of former years – in 2008 too to all meetings held by the Board of Directors, thus getting direct information about the discussions on major issues and overall decisions related to the entire company simultaneously to the management and passing on this information to the members of the Supervisory Board at its next meeting. The President and the Senior Vice President of the company participate regularly at the meetings of the Supervisory Board where the members are informed about the business results of the company's activities, the financial position and the forecast figures based on the quarter year flash reports submitted to the stock exchange.

The Supervisory Board of the company group continues to invite to its meetings the representative of the auditor, the presidential internal auditor the head of internal audit and upon invitation by the chairman the chairman and the members of the Supervisory Board of Danubius Zrt.

Following the termination of the mandate of Mrs Imre Surányi, the owners appointed László Polgár at the AGM to be the new member of the Supervisory Board. The Supervisory Board held five meetings and one extraordinary meeting in 2008 and the decisions passed on the items discussed were recorded in the minutes of each meeting.

In addition to reviewing the already mentioned quarter year flash reports, the board dealt with the following issues based on previous written information from competent managers and experts of the company and verbal comments made at the meetings:

- the working plan of the internal control
- the experience gathered about the introduction of the new software system,
- the new organisation of sales and marketing activities,
- the observations and consequences of the audit examinations, the outcome of the quality ambassador system, the maintenance of the Danubius standards,
- F&B standards, healthy meals for guests and employees, cook and pastry cook trainings and culinary connections among the hotels of the group.
- the organisational structure and economic efficiency of the purchasing activities,
- the development of health spa services,

The Supervisory Board established that the 2008 report of the Board of Directors is reliable and shows a realistic picture about the operations and financial position of the Company, therefore it agrees and proposes it for approval by the AGM and supports the 2009 plans and concepts.

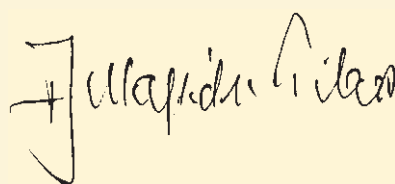
Report of the Supervisory Board

The Supervisory Board discussed the 2008 annual report prepared by Danubius Hotels Nyrt. in line with the Hungarian Accounting Act with 54,240,603 thousand HUF total assets and 165,113 thousand HUF loss, as well as the annual consolidated report prepared by the Danubius group in line with the International Financial Reporting Standard (IFRS) with 90,262 million HUF total assets and 352 million HUF loss and proposes it to the AGM for approval.

The Supervisory Board agrees with the proposal of the Board of Directors regarding the allocation of the achieved profit.

The Supervisory Board analysed and agreed with the Corporate Governance Report of the Company.

Budapest, 8 April 2009



Tibor Antalpéter
Chairman of the Supervisory Board

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

Opinion

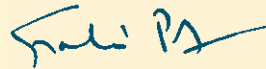
We have audited the consolidated financial statements of Danubius Hotel and Spa Nyrt., its components and elements and their documentary support in accordance with Hungarian National Standards on Auditing and gained sufficient and appropriate evidence that the consolidated financial statements have been 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. as of 31 December 2008, and of its consolidated financial performance and of its consolidated cash flows 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, 8 April 2009

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 2008 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.

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

Consolidated Balance Sheet

Danubius Hotel and Spa Nyrt. and Subsidiaries

Consolidated Balance Sheet

(All amounts in million HUF)

	Notes	31 December 2008	31 December 2007
Assets			
Cash and cash equivalents	3	3,797	3,931
Trade and other receivables	4	3,062	2,905
Inventory	5	867	859
Long-term assets classified as held for sale	6	351	257
Other current assets		482	709
Income tax receivables		21	-
Total current assets		8,580	8,661
Property, plant and equipment	7	76,347	72,831
Intangible assets	8	2,703	2,492
Investments in associates	9	-	1,650
Other investments, including derivatives		2,108	72
Deferred tax assets	20	524	627
Total non-current assets		81,682	77,672
Total assets		90,262	86,333
Liabilities and Shareholders' Equity			
Trade accounts payable		2,866	2,600
Advance payments from guests		640	494
Income tax payable		35	396
Other payables and accruals	10	3,249	3,006
Interest-bearing loans and borrowings	11	5,699	5,678
Provisions	12	445	379
Total current liabilities		12,934	12,553
Interest-bearing loans and borrowings	11	21,812	18,241
Loan from related party	25	-	1,708
Deferred tax liabilities	20	1,351	1,467
Provisions	12	1,235	1,265
Total non-current liabilities		24,398	22,681
Total liabilities		37,332	35,234
Shareholders' Equity			
Share capital	13	8,285	8,285
Capital reserve		7,435	7,435
Treasury shares	14	(1,162)	(1,162)
Translation reserve		6,032	4,441
Hedging reserve		-	24
Retained earnings		30,023	30,410
Attributable to equity holders of the parent		50,613	49,433
Minority interest		2,317	1,666
Total shareholders' equity		52,930	51,099
Total liabilities and shareholders' equity		90,262	86,333

The notes set out on pages 31 to 66 are an integral part of the consolidated financial statements.

Consolidated Statement of Income

Danubius Hotel and Spa Nyrt. and Subsidiaries

Consolidated Statement of Income

(All amounts in million HUF)

	Notes	Year ended 31 December	
		2008	2007
Room revenue		21,811	22,249
Food and beverage revenue		14,996	14,999
Spa revenue		6,197	5,875
Other departmental revenue		2,138	2,313
Revenue from wineries		155	197
Revenue from security services		717	777
Other income	16	1,159	932
Total operating revenue and other income		47,173	47,342
Cost of goods purchased for resale		265	270
Material costs	17	10,544	9,835
Services used	18	9,947	9,814
Material expenses and services used		20,756	19,919
Wages and salaries		12,341	11,816
Other personnel expenses		1,472	1,413
Taxes and contributions		4,331	4,097
Personnel expenses		18,144	17,326
Depreciation and amortisation		4,630	4,702
Other expenses	19	2,366	2,539
Changes in inventories of finished goods and w.i.p.		(8)	7
Work performed by the entity and capitalised		(82)	(58)
Total operating expenses		45,806	44,435
Profit from operations		1,367	2,907
Interest income		224	52
Interest expense		(1,805)	(1,548)
Foreign currency gain		90	420
Financial loss		(1,491)	(1,076)
Share of loss of associates		(75)	(65)
Profit/(loss) before tax		(199)	1,766
Current tax expense	20	187	501
Deferred tax benefit	20	(34)	(139)
Profit/(loss) for the year		(352)	1,404
Attributable to: Equity holders of the parent		(411)	1,368
Minority interest	15	59	36
Basic and diluted earnings per share (HUF per share):	21	(52)	173

The notes set out on pages 31 to 66 are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

Danubius Hotel and Spa Nyrt. and Subsidiaries

Consolidated Statement of Changes in Shareholders' Equity

(All amounts in million HUF)

	Attributable to equity holders of the parent							Minority Interests	Total Equity
	Share Capital	Capital Reserve	Treasury Shares	Retained Earnings	Translation Reserve	Hedging Reserve	Total		
1 January 2007	8,285	7,435	(1,162)	29,944	3,850	8	48,360	2,328	50,688
Fair valuation of hedging instruments (see Note 27)	-	-	-	-	-	16	16	-	16
Translation of foreign subsidiaries	-	-	-	-	591	-	591	-	591
<i>Subtotal: net income recognized directly in equity</i>	-	-	-	-	591	16	607	-	607
Net profit for the year	-	-	-	1,368	-	-	1,368	36	1,404
<i>Subtotal: total recognized income and expense for the year</i>	-	-	-	1,368	591	16	1,975	36	2,011
Share in subsidiary purchased from minority interest (see Note 1)	-	-	-	(902)	-	-	(902)	(698)	(1,600)
31 December 2007	8,285	7,435	(1,162)	30,410	4,441	24	49,433	1,666	51,099
Release of hedging reserve due to loss of effectiveness	-	-	-	-	-	(24)	(24)	-	(24)
Translation of foreign subsidiaries	-	-	-	-	1,591	-	1,591	616	2,207
<i>Subtotal: net income recognized directly in equity</i>	-	-	-	-	1,591	(24)	1,567	616	2,183
Net profit for the year	-	-	-	(411)	-	-	(411)	59	(352)
<i>Subtotal: total recognized income and expense for the year</i>	-	-	-	(411)	-	-	(411)	59	(352)
Capital decrease of Balneoclimaterica	-	-	-	24	-	-	24	(24)	-
31 December 2008	8,285	7,435	(1,162)	30,023	6,032	-	50,613	2,317	52,930

The notes set out on pages 31 to 66 are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

Danubius Hotel and Spa Nyrt. and Subsidiaries

Consolidated Statement of Cash Flows

(All amounts in million HUF)

	Notes	Year ended 31 December	
		2008	2007
Profit from operations		1,367	2,907
Depreciation and amortisation	7,8	4,630	4,702
(Gain)/loss on sale of fixed assets	16	(702)	(667)
Change of provisions	12	36	162
Impairment of receivables	4	48	42
Changes in working capital			
(Increase)/ decrease of accounts receivable and other current assets		(1,677)	(563)
(Increase)/ decrease of inventory		(8)	(15)
Increase / (decrease) of accounts payable and other current liabilities		144	(1,002)
Interest paid		(1,698)	(1,529)
Income tax paid		(424)	(166)
Net cash provided by operating activities		1,716	3,871
Purchase of property, plant and equipment and intangibles	7,8	(5,244)	(3,665)
Interest received		224	52
Proceeds on sale of property, plant and equipment		844	829
Cash paid to acquire additional shares in subsidiaries	1		(1,600)
Disposal of investment		1,387	
Other cash inflow / (outflow)			(1)
Net cash used in investing activities		(2,789)	(4,385)
Receipt of long-term bank loans		7,396	3,352
Repayment of long-term bank loans		(5,067)	(2,753)
Payment of finance lease liabilities	11	(6)	(179)
Net cash provided by financing activities		2,323	420
Net increase (decrease) in cash held		1,250	(94)
Cash and cash equivalents at the beginning of the period, net		1,921	2,015
Cash and cash equivalents at the end of the period, net	3	3,171	1,921

The notes set out on pages 31 to 66 are an integral part of the consolidated financial statements.

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 2008, 74.52% 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 2008 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, 2008	Group interest held at December 31, 2007
Danubius Szállodaüzemeltető és Szolgáltató Zrt.	Hotel operator	Hungary	100.00%	100.00%
Gundel Kft.	Restaurant operator	Hungary	66.67%	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	100.00%	100.00%
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%	95.80%

In June 2007 the Company acquired an additional 43.51% shareholding in SC Salina Invest SA for HUF 1,600 million. Salina Invest SA is a holding company which owns a 95.86% interest in SC Balneoclimaterica SA. SC Balneoclimaterica SA owns a hotel and real estate complex in Sovata, Romania. Danubius had a 95.80% effective interest in SC Balneoclimaterica SA as of 31 December 2007.

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 has a 97.97% effective interest in SC Balneoclimaterica SA as of 31 December 2008.

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 26).

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 20 March 2009 and by the Supervisory Board on 8 April 2009.

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 28.

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 balance sheet 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 balance sheet 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 investments 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

For investments that are actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date. For investments where 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 balance sheet 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. 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. Impairment loss on property, plant and equipment is included in depreciation and amortisation, while impairment on trade and other receivables is included in other expenses. 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 equity.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying

amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Non-current assets held for sale

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

Provisions

A provision is recognised in the balance sheet 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.

Borrowing costs

The Group recognises all borrowing costs immediately when incurred to profit and loss and does not capitalise any borrowing cost to qualifying assets.

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, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted at the balance sheet 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 balance sheet 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

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group operates long term defined employee benefit programmes for retirement and 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 other than pension plans 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% and the average salary increase was 5% at 31 December 2008 and 31 December 2007. 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 completely 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 business segments that are separately evaluated for management reporting purposes. Management considers that it 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 (business 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 business and geographical segments. The Group's primary format for segment reporting is based on geographic segments identified by location of assets. The business 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 accounting pronouncements not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

Revised IFRS 2 *Share-based Payment* (effective from 1 January 2009) clarifies the definition of *vesting* conditions and *non-vesting* conditions. Based on the revised Standards failure to meet non-vesting conditions will generally result in treatment as a cancellation. Revised IFRS 2 is not relevant to the Group's operations as the Group does not have any share-based compensation plans.

IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Standard will have no effect on the profit or loss or equity and the Group does not expect the new Standard to significantly alter the presentation and disclosure of its operating segments in the consolidated financial statements.

Revised IAS 1 *Presentation of Financial Statements* (effective from 1 January 2009) requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income).

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.

Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 becomes mandatory for periods starting on and after 1 January 2009 and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply Revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

Amendments to IAS 32 *Financial Instruments: Presentation*, and IAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009) introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if and only if they meet certain conditions. The amendments are not relevant to the Group's financial statements as none of the Group entities have in the past issued puttable instruments that would be affected by the amendments.

IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have material effect on the consolidated financial statements.

Improvements to International Financial Reporting Standards 2008, released by the IASB in May 2008 introduce 35 amendments to 24 standards, none of which are applicable for annual periods beginning before 1 January 2009. Most of these changes are not expected to have a significant impact on the Group's financial statements.

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

3 Cash and cash equivalents

	31 December	
	2008	2007
Bank balances	1,689	1,443
Call deposits	2,108	2,488
Cash and cash equivalents	3,797	3,931
Overdraft (see Note 11)	(626)	(2,010)
Cash and cash equivalents, net (per cash flow statement)	3,171	1,921

4 Trade and other receivables

	31 December	
	2008	2007
Trade receivables, net	1,913	2,056
Recoverable taxes and duties	443	219
Advance payments to suppliers	170	61
Receivables from employees	88	44
Other receivables	448	525
	3,062	2,905

The ageing of trade receivables at the reporting date was:

	31 December 2008			31 December 2007		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	1,156	-	1,156	1,118	-	1,118
Past due 0-60 days	636	-	636	815	-	815
Past due 61-90 days	99	12	87	111	16	95
Past due 91-120 days	67	33	34	56	28	28
More than 121 days	172	172	-	287	287	-
	2,130	217	1,913	2,387	331	2,056

Reconciliation of allowance for doubtful receivables:

Opening balance, 1 January 2007	411
Impairment loss recognised	42
Write-offs	(122)
Closing balance, 31 December 2007	331
Impairment loss recognised	48
Write-offs	(162)
Closing balance, 31 December 2008	217

5 Inventory

	31 December	
	2008	2007
Food and beverages	249	255
Wine in barrels	318	311
Materials	207	202
Goods for resale	93	91
	867	859

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 certain hotel and hospitality properties in Hungary and Slovak Republic. Hotel Phoenix in Keszthely, Hungary was sold in 2008, therefore as at 31 December 2008 hotel and hospitality properties comprise: Park Hotel Hévíz, Hotel Hullám and Hotel Slovan, all of which have been advertised for sale and which the Group expects to sell within the next twelve months.

7 Property, plant and equipment

	Land	Buildings and improvements	Furniture, fittings and equipment	Constructions in progress	Total
At 1 January 2007					
Gross book value	10,048	75,825	20,382	5,532	111,787
Accumulated depreciation and impairment		21,891	16,949	-	38,840
Net book value	10,048	53,934	3,433	5,532	72,947
For year ended 31 December 2007					
- Additions and capitalisations	-	5,647	1,560	(3,608)	3,599
- Effect of movements in exchange rates	157	589	7	140	893
- Depreciation charge for the year	-	(2,852)	(1,640)	-	(4,492)
- Disposals	(67)	(50)	-	-	(117)
- Other	-	-	1	-	1
Closing net book value	10,138	57,268	3,361	2,064	72,831
At 31 December 2007					
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

The net book value of property, plant and equipment pledged as loan security was HUF 30,171 million as of 31 December 2008 and HUF 32,220 million as of 31 December 2007.

8 Intangible assets

	Goodwill	Land usage rights	Software and other intangibles	Total
At 1 January 2007				
Gross book value	1,626	595	1,512	3,733
Accumulated amortisation and impairment	-	132	923	1,055
Net book value	1,626	463	589	2,678
Year ended 31 December 2007				
- Additions and capitalisations	-	-	66	66
- Effect of movements in exchange rates	-	-	3	3
- Amortisation charge for the year	-	(19)	(191)	(210)
- Other	-	-	(45)	(45)
Closing net book value	1,626	444	422	2,492
At 31 December 2007				
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)
- Disposals	-	-	(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

At 31 December 2008 intangible assets include HUF 424 million, net of amortisation (2007: HUF 444 million) for land usage rights relating to two hotels on Margaret Island held under licenses given by the Municipality of Budapest.

	31 December	
	2008	2007
Léčebné Lázně a.s.	565	565
Gundel Kft.	944	944
Preventív-Security Zrt.	117	117
Total goodwill	1,626	1,626

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable value of the cash-generating units (CGUs) to which the goodwill is allocated. 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 11.5 percent 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 2008 and 2007 no impairment loss was recognised in respect of goodwill.

9 Investments in associates

As of 31 December 2007 a 25% shareholding in CP Regents Park Two Limited, a United Kingdom company and a 50% shareholding in Egészségsgiget Kft, a project company with two owners were presented as an associate, as no joint venture agreement has been concluded between the shareholders.

CP Regents Park Two Limited owns and operates the Danubius Hotel Regents Park, a 4 star city hotel in London. The investment was acquired in 2005 from CP Holdings Limited for GBP 5.1 million (HUF 1,776 million) and CP Holdings Limited provided a loan of GBP 5.1 million to finance the acquisition. CP Holdings Limited owns the other 75% of the shares in CP Regents Park Two Limited. 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.

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

The Company's share of post acquisition total recognised loss in the above associates for the year ended 31 December 2008 and 2007 was HUF 76 million and HUF 65 million, respectively. Included in Other income for 2008 and 2007 are management support fees from CP Regents Park Two Limited of HUF 99 million and HUF 136 million, respectively. Interest expense includes HUF 105 million and HUF 133 million in 2008 and 2007, respectively, on the loan received from CP Holdings Limited and loan handling fees of HUF 15 million and HUF 19 million were paid to CP Holdings Limited in 2008 and 2007, respectively.

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

Summary financial information on associates – 100 percent of company figures:

	Assets	Liabilities	Equity	Revenues	Net result
Egészségsziget Kft					
2008	2,250	2,240	10	5	(3)
2007	2,012	2,001	11	7	4
CP Regents Park Two Limited					
2008				3,178	(294)
2007	19,986	13,526	6,460	3,835	(267)

10 Other payables and accruals

	31 December	
	2008	2007
Wages and salaries	735	768
Social security	456	429
Taxes payable	514	411
Accrued expenses	642	873
Derivatives	98	-
Other	804	525
	3,249	3,006

11 Interest-bearing loans and borrowings

Non-current liabilities	31 December	
	2008	2007
Secured bank loans	21,812	17,141
Obligation due to written put option on Gundel Kft. shares held by minority interests	-	1,094
Finance lease liabilities	-	6
	21,812	18,241

Current liabilities	31 December	
	2008	2007
Current portion of secured bank loans	3,799	3,668
Obligation due to written put option on Gundel Kft.	1,274	-
Bank overdrafts	626	2,010
	5,699	5,678

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

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 has an option to sell to Danubius the remaining 33.33% shareholding in Gundel Kft between 7 July 2009 and 7 July 2011. The option is exercisable from 7 July 2009, therefore, the related liability is considered current. The exercise price is USD 5 million plus compound annual interest at a rate of 7%, accumulated from 7 July 2004.

As of 31 December 2008 the Group's secured bank loans are denominated in Euro (EUR), total EUR 96.7 million (2007: EUR 82.7 million) and fall due for repayment, as follows:

	31 December	
	2008	2007
Within 1 year	4,425	5,678
1 to 2 years	4,427	3,222
2 to 5 years	15,677	13,539
over 5 years	1,708	380
Total debt	26,237	22,819
Total current debt	(4,425)	(5,678)
Total non-current debt	21,812	17,141

The interest rates for all bank borrowings are floating and determined by 3 months EURIBOR + margin between 0.6% to 1.3% in Czech Republic and Slovakia, 0.95% to 2.15% in Hungary and 3.5% in Romania.

12 Provisions

	Acquisition of Piestany	Employee benefits	Termination	Restructuring	Other	Total
Balance at 31 December 2006	530	714	140	-	98	1,482
Provision made during the year	-	197	264	-	-	461
Provision used during the year	-	(148)	(140)	-	(69)	(357)
Effect of movements in exchange rates	17	4	-	-	-	21
Unwinding of discounts	-	37	-	-	-	37
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	-	-
Provision released during the year	-	(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
Current portion 2007	-	113	264	-	2	379
Non-current portion 2007	547	691	-	-	27	1,265
Current portion 2008	-	134	-	311	-	445
Non-current portion 2008	641	565	-	-	29	1,235

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 2008 the Group has recognised a provision of HUF 699 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. Due to these changes a provision of HUF 68 million was released, the remaining jubilee provision balance of HUF 412 million will be used during the remaining transitional period of 3 years.

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.

Other

As of 31 December 2008 and 2007 the other provisions of HUF 29 million related to various legal cases.

13 Share Capital

The registered share capital at December 31, 2008 and 2007 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 2008 and 2007 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.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

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, 2008 is HUF 22,704 million (2007: HUF 22,869 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	
	2008	2007
Preventív-Security Zrt.	49	44
Léčebné Lázně a.s.	637	484
Slovenské Liečebné Kúpele Piestany a.s.	1,637	1,093
SC Salina Invest SA and SC Balneoclimaterica SA (lásd: 1-es jegyzet)	(6)	45
Total	2,317	1,666

16 Other income

	2008	2007
Gain on sale of fixed assets	702	667
Penalty received	91	33
Legal cases won	97	-
Other	269	232
	1,159	932

17 Material costs

	2008	2007
Materials used in providing guest services	4,450	4,235
Utility costs (gas, electricity, fuel and water consumption)	4,314	3,666
Other materials used	1,780	1,934
	10,544	9,835

18 Services used

	2008	2007
Washing, cleaning services	1,721	1,615
Maintenance services	1,417	1,416
Safety services	747	824
Professional and membership fees	644	781
Hospitality services	795	760
Marketing, PR services	812	777
Rental of buildings, equipment and vehicles	605	507
Travel agency and other commissions	550	557
Bank and insurance charges	465	454
Hire of temporary personnel	226	463
Telecommunications services	257	321
Software, IT support	298	262
Delivery and transport fees	220	224
Training	128	137
Other	892	716
	9,947	9,814

19 Other expenses

	2008	2007
Taxes and contributions	2,012	1,737
Damages	38	9
Impairment of trade receivables	48	42
Other	268	751
	2,366	2,539

20 Income tax

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

	2008	2007
Current tax	187	501
Deferred tax	(34)	(139)
	153	362

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

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

	2008		2007	
Profit before tax		(199)		1,766
Income tax using the Hungarian corporation tax rate	16%	276	16%	283
Solidarity surplus tax		15		49
Effect of different tax rates in foreign jurisdictions		57		56
Revaluation of Romanian properties in statutory books		-		(251)
Non-deductible expenses		58		212
Tax exempt revenues		(12)		(49)
Tax exempt expenses		(69)		(161)
Net change of tax loss carry forwards		(158)		260
Effect of tax rate changes (decreases) in foreign jurisdictions		(13)		(52)
Other		(1)		15
		153		362

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.

Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December 2008 and 31 December 2007 are attributable to the following:

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Property, plant and equipment	222	270	1,521	1,533	1,299	(1,263)
Repairs and maintenance provision	-	-	99	20	(99)	(20)
Legal provisions	123	104	-	-	123	104
Provision for doubtful debts	35	44	-	-	35	44
Provision for employee benefits	109	125	-	-	109	125
Other provisions	-	19	-	-	-	19
Tax loss carry forwards	291	136	-	-	291	136
Other	12	15	-	-	12	15
	793	713	1,620	1,553	(827)	(840)
Offset of assets and liabilities within individual legal entities	(269)	(86)	(269)	(86)	-	-
	524	627	1,351	1,467	(827)	(840)

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 2008 tax loss carry forwards of HUF 66 million can be utilised over indefinite period of time, HUF 70 million will expire in 2010 and HUF 155 million will expire in 2013.

Deferred tax liabilities are recognised in respect of the differences between the value of fixed assets (primarily land and hotel buildings) recorded for taxation purposes and their value recorded in these financial statements.

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 is set up for this timing difference.

At 31 December 2007 deferred tax assets of HUF 161 million had not been recognised in respect of year 2003 tax loss carry-forwards of HUF 1,006 million because it was not probable that future taxable profit would be available against which the Group could utilise the benefits there from. The loss carry-forwards expired in 2008.

21 Earnings per share

The calculation of basic earnings per share is based on the net loss attributable to ordinary shareholders of HUF 411 million in 2008 (2007: a profit of HUF 1,368 million) and the weighted average number of qualifying ordinary shares outstanding during 2008 and 2007 of 7,910,914.

	31 December	
	2008	2007
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	(411)	1,368
Basic earnings per share (HUF/share)	(52)	173

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

22 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	31 December	
	2008	2007
Less than one year	-	60
More than one year	-	-
	-	60

The Group leases its head office from a related party under an operating lease, that is not non-cancellable anymore.

During the year ended 31 December 2008 HUF 605 million was recognised as an expense in the income statement in respect of operating leases (2007: HUF 507 million).

23 Commitments and contingencies

As of 31 December 2008 and 31 December 2007 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 2008 and 31 December 2007.

24 Pension Plans

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 2008 was HUF 282 million (2007: HUF 278 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 185 million in 2008 (2007: HUF 201 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.

25 Related Party Transactions

Transactions with related parties are summarised as follows:

Expenses / (revenues)	2008	2007
Management fee to CP Holdings Limited	295	350
Interest to CP Holdings Limited	105	133
Loan handling fee to CP Holdings Limited	15	19
Management support fee from CP Regents Park Two Limited.	(99)	(136)
Rental fee to Interag Zrt.	157	159
Services provided by Interag Zrt.	2	3
Service provided to Interag Zrt.	(21)	(20)
Service provided by Investor Zrt.	18	18
Service provided to Investor Zrt.	-	(1)

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

The GBP 5.1 million loan from CP Holdings was repaid in 2008, for further details see Note 9.

Related party receivables and payables are not significant as at December 31, 2008.

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

The Group considers the pricing of all transactions with related parties to be at arm's length.

Transactions with key management personnel

Total remuneration is included in personal expenses:

	2008	2007
Short-term employee benefits	208	295
Post employment benefits	9	9
Termination benefits	-	-
Total	217	304

26 Financial instruments and financial risk management

A) Categories of financial instruments

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

	2008	2007
Financial Asset		
Loans and receivables ¹	6,859	6,836
Financial asset at fair value through profit and loss ²	-	24
Financial Liability measured at		
Amortised cost ³	34,068	31,727
Financial liability at fair value through profit and loss ²	98	-

¹ Includes the total amount of cash and cash equivalents and trade and other receivables in the Balance Sheet.

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, and loan from related party recognised in the Balance Sheet.

Carrying value and fair value for all of the Group's financial assets at 31 December 2008 and 2007 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 2008 approximately HUF 560 million (2007: HUF 640 million), or 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 2009 and 2010 will be reduced by half.

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

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

	31 December	
	2008	2007
Overdraft	3,001	1,374
Long-term loan	1,324	5,067

The Company pays its trade suppliers in no later than 3 months after receiving products and services and collects the majority of advance payments from certain clients 2 months before arrival. 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

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:

HUF million	Financial liabilities		Financial assets		Net asset/(liability)	
	2008	2007	2008	2007	2008	2007
Euros	27,712	22,443	1,298	1,142	(26,414)	(21,301)
Sterling	96	1,828	-	44	(96)	(1,784)
US dollars	-	-	14	19	14	19
Financial instruments denominated in foreign currency	27,808	24,271	1,312	1,205	(26,496)	(23,066)
Összes értékpapírok	34,166	31,727	6,859	6,860	(27,307)	(24,867)

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.

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

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 2008 and 2007.

The Company has investments in foreign subsidiaries, and is exposed to currency translation risk in respect of the net assets of these subsidiaries.

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.

	Strengthening	Profit and Loss
31 December 2008		
Hungarian forint (HUF)	15%	(2,573)
Czech Crown (CZK)	10%	(219)
Slovakian Crown (SKK)	5%	(270)
Romanian Lei (RON)	10%	(36)
31 December 2007		
Hungarian forint (HUF)	10%	(1,274)
Czech Crown (CZK)	10%	(255)
Slovakian Crown (SKK)	10%	(412)
Romanian Lei (RON)	10%	(41)

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

ii) Interest rate risk

The interest rates for all bank borrowings are floating and determined by 3 months EURIBOR + margin between 0.6% to 1.3% in Czech Republic and Slovakia, 0.95% to 2.15% in Hungary and 3.5% in Romania. The weighted average margin is 1.24% at 31 December 2008, while the average rate of interest is 5.1% (2007: 5.7%).

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 2008 the Company had an interest rate swap (Collar) agreement in effect, with a notional amount of EUR 37.0 million (31 December 2007: EUR 46.3 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 hedged amount, but cannot pay less than 3.35% interest + margin. As the underlying loan facilities have been or will be 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 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 98 million as of 31 December 2008 and an asset of HUF 24 million as of 31 December 2007.

Interest rate sensitivity

3 months EURIBOR was 2.892% as of 31 December 2008 and 4.684% as of 31 December 2007. 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 2008	
30 basis points increase	(2)
30 basis points decrease	(7)
31 December 2007	
100 basis points increase	(40)
100 basis points decrease	67

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 to capital management during the year.

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

27 Segment reporting

2008	Hungarian operations			Czech operations	Slovakian operations	Romanian operations	Inter-segment transfers	Total
	Hotel & Hospitality segment	Security segment	Total					
Revenue								
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	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)
Profit / (loss) of associates	(75)	-	(75)	-	-	-	-	(75)
Profit/(loss) before tax	(1,767)	30	(1,737)	857	264	417	-	(199)
Assets and liabilities								
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

Notes to the Consolidated Financial Statements

(All amounts in million HUF)

27 Segment reporting (continued)

2007	Hungarian operations			Czech operations	Slovakian operations	Romanian operations	Inter-segment transfers	Total
	Hotel & Hospitality segment	Security segment	Total					
Revenue								
Sales to external customers	30,739	780	31,519	6,085	8,143	1,595	-	47,342
Inter segment sales	421	310	731	-	-	-	(731)	-
Total operating expenses	29,338	1,041	30,379	5,314	8,292	1,181	(731)	44,435
of which Depreciation and amortisation	2,166	17	2,183	934	1,381	204	-	4,702
Profit/(loss) from operations	1,822	49	1,871	771	(149)	414	-	2,907
Financial results	(695)	(2)	(697)	(68)	(141)	(45)	(125)	(1,076)
Profit / (loss) of associates	(65)	-	(65)	-	-	-	-	(65)
Profit/(loss) before tax	1,062	47	1,109	703	(290)	369	(125)	1,766
Assets and liabilities								
Property, plant and equipment	37,987	48	38,035	13,792	19,182	1,822	-	72,831
Investment in associates	1,650	-	1,650	-	-	-	-	1,650
Cash and cash equivalents	2,619	57	2,676	918	117	220	-	3,931
Trade receivables	1,359	135	1,494	216	353	31	(38)	2,056
Inventories	584	5	589	77	178	15	-	859
Intangibles	1,666	122	1,788	634	70	-	-	2,492
Assets held for sale	257	-	257	-	-	-	-	257
Other non-allocated assets	-	-	-	-	-	-	-	2,257
Total assets	46,122	367	46,489	15,637	19,900	2,088	(38)	86,333
Trade accounts payable	1,493	83	1,576	487	467	108	(38)	2,600
Advance payments from guests	291	-	291	104	99	-	-	494
Interest bearing loans and borrowings	17,640	6	17,647	3,237	4,851	418	(526)	25,627
Provisions	932	26	957	36	649	2	-	1,644
Other non-allocated liabilities	-	-	-	-	-	-	-	4,869
Total liabilities	20,356	115	20,471	3,864	6,066	528	(564)	35,234
Capital expenditure	1,305	2	1,307	1,095	839	424	-	3,665

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

28 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 balance sheet 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 balance sheet 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.

Business Targets 2009

At the time of preparing the 2009 budget the multiplying effects of the American subprime crises on real economy, and the greater exposure and vulnerability of the economies of the Central-East European region, as well as the gradual significant depreciation of the national currencies were already showing. The rigid state of the financial markets and the world economic recession, lower sources to finance capital expenditures and working capital needs, the falling demand, the deterioration of solvency all have a negative impact on the profitability and growth of companies engaged in tourism. Budgeting in these uncertain times is difficult. This is particularly the case in 2009 for our industry, when seasonality is harder to assess than before.

The operational performance of the Group is at all times largely influenced by the strengthening and weakening of the forint and other national currencies compared to the euro. When preparing the 2009 budget the management calculated with a HUF/EUR rate resulting in careful HUF prices on the revenue side and stagnating wage on the cost side. Generally, a low 4% inflation and 8-15% increase of energy prices are prognosticated.

In case of our Hungarian hotels the demand from the major guest segments is expected to drop considerably in the year 2009. Mainly the business and meeting tourism and the number of groups of leisure tourists is expected to lessen the most in Budapest. The number of guests arriving from the German markets has been dropping for the past years. We trust that as a result of the renewal of the market representation in Germany we will be able to reach out to wellness and business guests too. The majority of British guests arrive to Budapest for leisure and business purposes, and their number is largely depending on the air traffic between the two countries. Hungary has become a member of the Schengen group, which has a positive effect on foreign demand.

Alongside the expected significant fall in foreign demand the further expansion of domestic guests can be prognosticated, although increase will somewhat slow down. All these are expected to lead to a considerable 9% decrease of occupancy, from 63% to 54% compared to year 2008.

A new operating software is to be introduced in the years 2009 and 2010 with the aim of providing greater efficiency in the field of operations, sales, guest relations as well as the economic and financial area. In addition to this the company is focusing on increasing the turnover through electronic sales channels. The goal is to achieve the adequate ratio of leisure and business guests in the city hotels while in the spa hotels of the Danubius Health Spa Resort brand we plan to achieve better results by introducing new products – e.g. all-inclusive services in Danubius Health Spa Resort Aqua in Hévíz –, and new concepts like family friendly hotel programs. However, in the current strong competition on the market our objective is not to raise prices but to retain the prices set in euro. Besides monitoring the competition, our rates are flexibly adjusted to the requirements of the market demand.

In addition to maximising revenues, optimising costs will have a special role in 2009. Seasonality is of great importance in both our Budapest and country hotels, owing to which we adjust the constant hotel headcount to the staff requirement in the low occupancy months and at times when the number of guests goes up we provide the expected high quality services by employing temporary manpower. Efficiency is enhanced additionally by centralising the functional areas (in finance and accounting, HR, technical and purchasing service centres). The measures for staff reduction have been started at the end of last year and are to be continued intensively throughout 2009. Other operational costs are expected to decrease as well due to our cost cutting measures introduced at the end of 2008 and early 2009 in order to counterbalance the setback of revenues.

Due to demand drop in all market segments and business difficulties we planned decreasing revenues on the Hungarian market for 2009, by approximately HUF 900 million, which besides decreasing fixed costs and the strict control of variable costs will result in a moderate decrease of departmental profit compared to 2008.

For the Czech subsidiary our budget indicates slight occupancy decrease compared to last year. The average rate increase planned earlier on as an effect of investments carried out in recent years could not fully be implemented last year, which was no doubt largely due to the continuous strengthening of the Czech crown. In 2009 we expect slight average rate increase in CZK terms and unchanged departmental level revenues. The number of guests arriving through travel agencies and tour operators is lessening. To compensate this trend, we set the objective of increasing the number of guests booking through other – primarily electronic – channels. The potential future markets for the Czech hotels are the domestic one, the surrounding countries and the former Soviet states.

Besides keeping the level of direct costs – especially the costs of live labour – energy and maintenance costs will go up substantially thus the performance expected for 2009 at gross operating profit level will lag behind as opposed to the previous year.

The impact of the capacity increasing and quality enhancing developments completed in the hotels in Slovakia and Piestany largely affects the forecasts of the hotels. The number of domestic guests financed by social insurance companies is expected to decline further, at the same time, shorter leisure stays by Slovakian guests will become more popular and the number of guests from the Czech, Polish and Russian markets is expected to go up. Alongside a moderate drop in average occupancy, we expect average rates to go up, as a result of more efficient operations the plans indicate a slight improvement of gross operating profit. The functional currency of the Slovakian subsidiary is Euro as of 1 January 2009, owing to which the risks and uncertainties in the operating and financial results will reduce remarkably.

The Romanian hotels achieved outstanding results owing to the positive effect of joining the European Union, the general economic growth and the improvement of the efficiency of operations both in 2007 and 2008. Despite the recession reaching the Romanian economy, as well, the management plans to maintain the profit level of the Company in 2009 using the absolute compatibility of the hotels in Sovata, however the dynamic of recent years revenue increase cannot be obtained.

According to the above mentioned the budget shows a 2% decrease of the group level revenues. The other revenues row recorded a significant one-off impact of property sales in 2008 (e.g. Hotel Phoenix, Miramonte sanatorium). Despite average inflation affecting material costs and the significant growth influencing energy costs, owing to the decreasing number of guests and in wake of the measures taken for cost reduction, the sum of material type expenditures and services used remains at the prior year's level. Personal type expenditures are planned to be cut at consolidated level by 1,5% as a result of strict headcount – and wage management. Other operational expenditures are expected to remain at the previous year's level. Thus the 2009 operating profit of the Danubius Group will be around that of 2008 if the one-off impact of the profit on asset sales is excluded.

The financing opportunities limited by the economic crises, the extended return period and the significantly growing risks force the management of Danubius Nyrt. to distribute investment sources carefully. Among planned investments the development of the new operating software that will not only be implemented in Hungary but in all foreign subsidiaries in the future represents a high ratio. The Company does not plan any significant reconstructions in the hotels and restaurants other than the mandatory maintenance works in 2009. In the event if the financing sources allow it, the management

Business Targets 2009

of the Company will support developments that aim at the minimisation of energy use and extra services required by the customers that generate revenues. Should business deteriorate, the Company will be monitoring its cash position closely and take whatever steps are necessary to maintain appropriate liquidity.

The realization of the budget depends on the fact that the market and economic environment will not deteriorate significantly during the entire year, despite the uncertain economic outlook. Certain factors e.g. increasing energy prices are mounting up further difficulties to retaining profitability. Besides the planned change in operating profit, the interest costs are expected to go up in the financial profit row owing to the growing loans and the increasing financial institutional interest margins. Through the loan evaluations the recent extreme changes of the forint/euro rate may considerably affect the financial profit and thus profit before tax.

April, 2009

Contact persons:

Dr. Imre Deák President & CEO

Phone: (+36-1) 889 4001 Fax: (+36-1) 889 4005

János Tóbiás Vice President for Finance

Phone: (+36-1) 889 4004 Fax: (+36-1) 889 4005

Panni Rozsnyai Investors' Relations

Phone: (+36-1) 889 4007 Fax: (+36-1) 889 4005

E-mail: investor.relations@danubiushotels.com

DANUBIUS HOTELS NYRT.
danubiushotels.com

1051 Budapest, Szent István tér 11. Phone: (+36-1) 889-4000 Fax: (+36-1) 889-4005

