

DANUBIUS HOTELS
GROUP

ANNUAL REPORT
2004

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annual report

Dear Shareholders,

I am pleased to be able to present to you our Annual Report for 2004.

As I reported to you, last year was a difficult period for the company and, although 2004 started quite difficult, positive signs began to emerge and our revenue grew by nearly 6% to HUF 39 billion and our profit before tax was over HUF 1.55 billion. It is encouraging to see that international tourism has returned to a growth path. We have, however, increased competition and other challenges, which we are still facing in 2005.

In recent years our business has laboured in the shadow of war and terrorism but, at least for the present, the situation has become more stable. We must keep our fingers crossed! Tourists and businessmen started to travel more and the number of American guests increased in our Hungarian hotels. Overall, our city hotels in Budapest performed strongly in 2004. European accession, including the boom in budget airlines after the liberalisation of air travel, contributed a lot to this. For many years Prague has been the leader of the region in this respect but Budapest and also Bratislava are becoming much more popular. Guest numbers are also increasing from Russia and Asia, but Germany remains extremely depressed and this continues to be a major problem for our health spa business.



Another two reasons which adversely affected our performance are: First, the strengthening of the Forint and the weak Dollar. Second, the other reason was the decision to increase VAT rates after our prices were set. This had a direct effect on our profit in Hungary and in the Czech Republic in 2005.

All of these factors, together with increased operating costs, led to a tightening of operating margins. Personnel costs are a particular concern because of pressure arising from the more flexible labour market following EU accession. I cannot emphasise enough that we are continuously searching for ways to reduce costs through improving the performance and efficiency of our operation.

Despite these challenges your Board has continued to pursue its long term policy of expansion with carefully chosen new investments.

In 2004 Danubius acquired a two-thirds share in the world famous Gundel Restaurant and its connected wineries in Tokaj and Eger. We are delighted to say that Mr Ronald Lauder, who took the initiative with George Lang to restore Gundel to its former glory, has agreed to remain as the other shareholder. We believe there is great potential for co-operation between Danubius and Gundel which will contribute its entire performance to the Group in 2005.

STATEMENT BY THE CHAIRMAN

At the beginning of this year, we made an announcement that Danubius was in talks with its major shareholder, CP Holdings, concerning the acquisition of a London hotel, the Ramada Plaza, Regents Park. I am pleased to inform you that this hotel has now been acquired by CP Holdings and Danubius will have a 25% interest in this hotel and provide management services. I hope, when possible, I would like Danubius to have complete control over this hotel, as I intend to make Danubius an international operator, which we practically are now.

In 2005 our major task is to take advantage of the stronger occupancy of the Budapest hotels. Whilst guest numbers grew in 2004, average rates continued to decline in line with general market experience and our task now is to improve average rates whilst retaining market share. The completion of the first stage of the refurbishment of the historical Hotel Astoria and other improvements to rooms in Hotel Helia and Béke should help this process.

Another problem which has arisen lately is that quite a number of new health spa hotels have been opened in Hungary. This increased capacity represents very tough competition, particularly as a fall in the number of classical German spa guests created a difficult market environment. We are doing everything possible to compete by restructuring aspect of the health spa departments and pools in Bük, Sárvár and Hévíz. We also installed air conditioning in a number of hotels and this should help us to fight our competition.

Fortunately, in Hungary, demand from domestic guests is increasing year by year particularly due to co-operation with the Health Funds, but for the time being this positive trend cannot fully compensate the revenues lost by the lack of German guests.

Both Slovakia and the Czech Republic were also adversely affected by the German market. However in both these countries domestic demand also diminished significantly on account of the restrictions in the social insurance budget. In both countries we continue our policy of improving our facilities and concentrating on providing services of a higher quality to guests with greater spending power.

In 2004 we embarked on a programme of significant reconstruction works. In Marienbad, the major refurbishment of Hotel Pacifik was continued and the impressive health spa in Hotel Nové Lázně was completed. In Slovakia, Hotel Balnea Palace was fully refurbished and the hotel will be upgraded to a 4 star level. In addition essential investments were made in new IT systems.

In Sovata we are pleased to report an encouraging first full year for our renewed Romanian hotel and spa. Both revenue and results were ahead of forecast and we expect a further improvement in 2005. Based on this experience we are planning the refurbishment of Hotel Bradet as a 4 star hotel, which will be part of the same complex as Hotel Sovata and its new health spa.

STATEMENT BY THE CHAIRMAN

Looking at our share price: at the end of 2004 the share price closed some 56% higher than at the beginning of the year. I believe this was partly due to the recovery of the general market, but also it created opportunities for Danubius within the tourism and hospitality sector which has shared in this recovery. You will have read that Danubius is no longer included in the index basket of the BSE which has had some effect. However, only a few shareholders have moved on for this reason and it seems that most shareholders continue to take a longer term view which, as you will know, is very much after my own heart.

As your Chairman, it has always been my intention to work to maximise the long term value of the Company's assets as I believe this will, in due course, produce the best return for shareholders. As you will see from the accounts, although our bottom line is improved compared to 2003, our operating profits have remained under severe pressure and our pre tax results were bolstered by favourable currency adjustments.

I hope you will understand that our Board proposed and the AGM approved not to pay a dividend this year, as the cash flow of the Group should be utilised to continue the capital expenditure required to be successful in meeting the fierce challenge represented today by our competition. I hope our results will allow us to pay a dividend in the coming year.

I would like to conclude by thanking you, our shareholders, for your continued support. I would like to assure you that as your Chairman I am not at all content with our performance and I can promise you we will do everything possible to show a real improvement in 2005.



Sir Bernard Schreier

Dear Shareholders,

Let me present to you our 2004 Annual Report in my short introduction. Most of the tourism experts have mixed feelings about last year and that is not different for me either. When we look at our company, it is especially hard to value the yearly performance clearly as positive or negative since we are present in numerous market segments of the tourism in several countries. We have to take it for granted that different market effects rule on each territory, not once of opposite kinds.

I am pleased to report that a steady recovery took place on the Budapest market that has been facing difficulties during the last couple of years. The number of low cost airlines increased and all airlines raised the number of their flights during the year. It is mostly due to this that our Budapest hotels welcomed 25% more foreign guests. However, we must bear in mind that the increase of demand is coupled with keen competition, therefore we were not able to achieve an increase of rates. Still, we do trust that in 2005 we will have the possibility to increase our prices, in addition to maintaining our market share. I think the majority of the participants of the Budapest market would agree that considering the situation of other capitals in the region, there is a chance for increasing the hotel rates in Budapest.

Reading the news about country spa hotels in earlier years, it stood to reason that they continuously closed the years with occupancy and average spending exceeding way above the average. Unfortunately, several investors had in mind exploiting the advantages of this promising market and a row of new hotels was built on the popular spa resorts. This surplus capacity, however, appeared at a very bad time just as the number of German spa guests arriving to Hungary went down significantly and the domestic guests only just started to be aware of the benefits of spa and wellness hotels. This had a negative impact on the old participants of the market as they – as well as we – have to do our utmost in order to be able to compete successfully with hotels meeting the most up-to-date criteria. I am, however, confident that Danubius relying on more than 30 years of spa managing experience, represents outstanding value and the greater part of our frequent guests keep on returning since they feel that we also do everything in our power to offer the most modern services and continuously develop our hotels. This was the aim of one of the most important reconstruction projects last year: the overall air-conditioning of the rooms and common areas of all spa hotels. In 2005 we focus on the refurbishment of the therapy sections.

Mentioning our activities in Hungary, I definitely have to emphasize the acquisition of 66.67% of the Gundel restaurant and winery, which was executed in several steps during the year, as well as the merger of our two main Hungarian subsidiaries which became necessary due to the disappearance of the advantages existing at the time of their establishment.



PRESIDENTIAL GREETING

Looking at our Czech and Slovakian subsidiaries, the social insurance restrictions – also mentioned in the interim reports – caused a fall back in the number of domestic guests. We plan to replace the shortage from foreign markets through effective marketing activity in which the long established sales channels of the Danubius group could be of great help to the two subsidiaries. It remains our aim to integrate the operation of the Czech and Slovakian hotels into the group and there are already signs of a smoother co-operation. In Slovakia the execution of the SKK 700 million reconstruction obligation undertaken at the acquisition of the company is in process as scheduled. This will be spent on the reconstruction of the central spa-house and the improvement of the quality of certain hotels. Similar hotel standard increasing works were completed in the Czech Republic last year.

We achieved tremendous success in Sovata, Transylvania in 2004, as the reconstructed Hotel Sovata surpassed all expectations with the very first full year operation. The Transylvanian subsidiary of Danubius is gaining popularity among both Hungarian and Romanian guests, therefore further developments are justified here in the future.

You will be able to read about the factors influencing business and the results in the report of the Board of Directors. I would like to emphasize at this point, however, that the achieved profit may reflect growth compared to the previous year, still we think that the improvement shown in certain segments coupled with the uncertainties of other areas do not allow our company to support the payment of a dividend. I trust that you – our shareholders – nevertheless appreciate the operation of Danubius Hotels Rt. and continue to help our company with your support.

Finally, I would like to express my acknowledgment for the constant hard work of the Danubius employees the whole year through and the co-operation of our business partners. Let me finish my greeting by hoping that no unexpected event would disturb the recovery started in the tourism industry and we will be able to realise our business targets set for the year 2005.



Sándor Betegh

danubiushotels.com



Click: Business & Conference

Business

Leisure

Wellness
and Spa

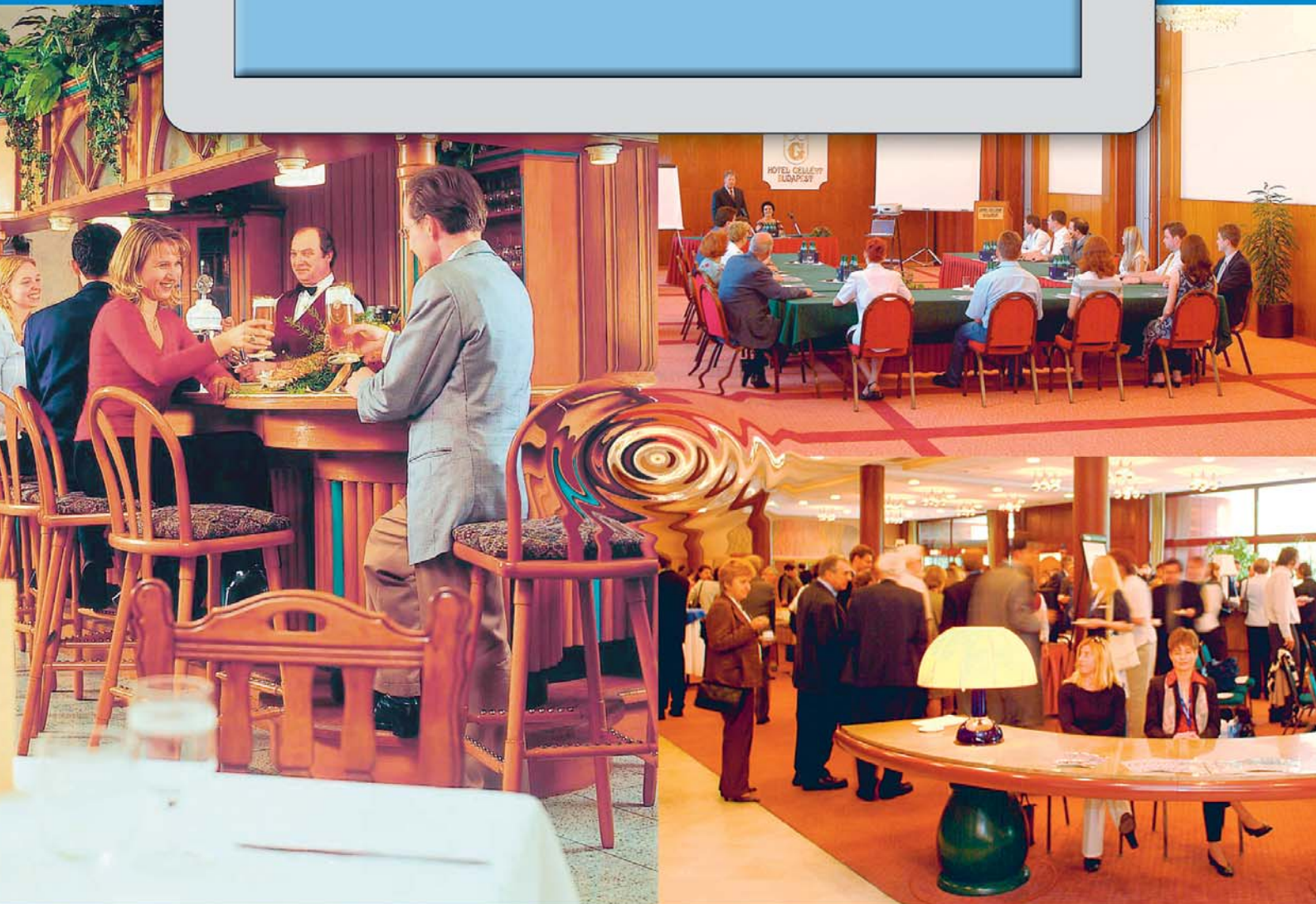
Our hotels

Business & Conference Hotels

Our business and conference hotels located in Budapest and in provincial centres of commercial, tourist and cultural importance offer high quality services.

These hotels provide restaurants, business centres, well-equipped meeting rooms, exceptional facilities, equipment and fitness centres.

To ensure the highest quality we bring you **Danubius Quality Conference**, a product which is a guarantee of the best possible services.



Danubius Hotels in Hungary offering Business & Conference facilities

Budapest: Hilton Budapest • Danubius Hotel Gellért
Radisson SAS Béke Hotel • Danubius Thermal Hotel Margitsziget • Danubius Grand Hotel Margitsziget
Danubius Thermal & Conference Hotel Helia • Hotel Astoria
Congress Park Hotel Flamenco • Best Western Grand Hotel Hungaria • Hotel Budapest • Hotel Erzsébet • Hotel Stadion

Countryside: Danubius Thermal Hotel Hévíz, Hévíz • Danubius Thermal Hotel Aqua, Hévíz
Danubius Thermal & Sport Hotel Bük, Bükfürdő • Danubius Thermal Hotel Sárovar, Sárovar
Bio-Sport Hotel Lővér, Sopron • Hotel Palatinus, Pécs • Hotel Pátia, Pécs • Hotel Rába, Győr • Hotel Marina, Balatonfüred
Hotel Annabella, Balatonfüred • Hotel Helikon, Keszthely

*Spend your holiday in Hungary in Danubius World!
Hotels in Budapest and the countryside!*

Hungary and Budapest have now become the latest, most exciting European holiday destinations.

Beautiful countryside, stunning architecture and a unique culture are attracting visitors from all over the world. Whether you are looking for a city break, relaxing on a beach by Europe's largest lake, soaking your stresses away in a Thermal Spa or experiencing many of the exciting outdoor sports and possibilities, Hungary offers this and much more...

If you would like to find out for yourself, why Hungary is the latest 'must' on every travellers' list, look at some of our city, weekend, special holiday packages and round trips. You will also experience first class cultural events with our varied programs.



Danubius Hotels in Hungary offering Leisure stays

- Danubius Hotel Gellért, Budapest ▪ Hilton Budapest, Budapest ▪ Radisson SAS Béke Hotel, Budapest
- Danubius Thermal Hotel Margitsziget, Budapest ▪ Danubius Grand Hotel Margitsziget, Budapest ▪ Danubius Thermal & Conference Hotel Helia, Budapest
- Congress Park Hotel Flamenco, Budapest ▪ Best Western Grand Hotel Hungaria, Budapest ▪ Hotel Budapest, Budapest
- Hotel Astoria, Budapest ▪ Hotel Erzsébet, Budapest ▪ Hotel Stadion, Budapest ▪ Danubius Thermal Hotel Hévíz, Hévíz ▪ Danubius Thermal Hotel Aqua, Hévíz
- Danubius Thermal & Sport Hotel Bük, Bükfürdő ▪ Danubius Thermal Hotel Sárovar, Sárovar ▪ Bio-Sport Hotel Lövér, Sopron
- Hotel Marina, Balatonfüred ▪ Hotel Annabella, Balatonfüred ▪ Hotel Helikon, Keszthely
- Hotel Rába, Győr ▪ Hotel Palatinus, Pécs ▪ Hotel Pátia, Pécs

danubiushotels.com



Click: Wellness and Spa

Business

Leisure

Wellness
and Spa

Our hotels

DANUBIUS *HealthSpa*

Thermal waters of Hungary, Czech Republic and Slovakia is famous not only across Europe, but throughout the world.

Danubius Health Spa hotels are located in resorts well-known of their thermal springs, offering benefit from the curative effects of their natural resources.

We also offer a wide range of relaxation and well-being treatments and activities also available in combination with medical treatments to ensure that you leave feeling relaxed and refreshed.



Hotels in Hungary!

Hungary is extremely rich in thermal waters with valuable healing components especially effective for the treatment of locomotive disorders, joint and muscle problems.

Our hotels combine thermal water treatments with physiotherapy, hydrotherapy, electrotherapy, packing and medical massage to achieve excellent results. The effect is so successful that we have guests returning from time to time again.

Danubius has more than 30 years of experience in therapeutic treatments and was always among the first to introduce new services in line with the needs of the most modern times. Our well-being programs enable you to personally benefit from this expertise. You will also have the opportunity to experience numerous possibilities ranging from adventure pools through saunas, steam rooms, whirlpools, fitness rooms to diet consultations and weight loss programs, etc.

Try one of our Well-being Stays and relieve the stress and tension, recuperate with renewed energy and enthusiasm for life!



Danubius Hotels in Hungary offering spa treatments and wellness stays

Danubius Hotel Gellért, Budapest ▪ Radisson SAS Béke Hotel, Budapest ▪ Danubius Thermal Hotel Margitsziget, Budapest
Danubius Grand Hotel Margitsziget, Budapest ▪ Danubius Thermal & Conference Hotel Helia, Budapest ▪ Congress Park Hotel Flamenco, Budapest
Hotel Stadion, Budapest ▪ Danubius Thermal Hotel Hévíz, Hévíz ▪ Danubius Thermal Hotel Aqua, Hévíz
Danubius Thermal & Sport Hotel Bük, Bükfürdő ▪ Danubius Thermal Hotel Sárovar, Sárovar ▪ Bio-Sport Hotel Lóvér, Sopron
Hotel Marina, Balatonfüred ▪ Hotel Annabella, Balatonfüred ▪ Hotel Helikon, Keszthely

Hotels in Czech Republic!

In the Czech Republic's Bohemian Mountains lies the world-famous Marienbad health resort. The town's significance is due to its beautiful location together with its mineral springs and its unique health complex found in the heart of the town's health district. The valley encircled by hills, clean air, and quiet forests together lend a special atmosphere to this place.

Applications of the famous Marienbad mineral water include treatments for gastric, circulatory and urological ailments as well as locomotive disorders.

We also offer wellness and beauty programs, which specialize in consistent regeneration of the whole body. A few days are enough and you could again feel full of energy and inner harmony.



Hotels in Marienbad

Hotel Villa Butterfly ▪ Spa Hotel Hvězda-Skalník ▪ Spa Hotel Nové Lázně
Spa Hotel Pacifik ▪ Spa Hotel Centralní Lázně, Neapol
Spa Hotel Labe, Ulrika ▪ Spa Hotel Svoboda, Windsor, Palladio, Margareta
Spa Hotel Vltava-Berounka ▪ Miramonte

Hotels in Slovakia!

Piešťany is one of Europe's favorite spas. Its fame is duly enhanced by the healing powers of its thermal water and mud, along with the high-quality medical service and picturesque setting. Located in the Valley of the River Váh in Slovakia, this exquisite spa is just 80 kilometers from the airport in Bratislava and 140 kilometers from Vienna.

A high degree of expertise coupled with quality service offers relief for rheumatic ailments, spinal pains, motor disorders and also provides ample opportunities for rejuvenation for those in search of a relaxing experience.



Hotels in Piešťany

Balnea Esplanade ▪ Balnea Splendid ▪ Balnea Grand
Balnea Palace ▪ Thermia Palace ▪ Jalta ▪ Park ▪ Pro Patria ▪ Riviera ▪ Smaragd ▪ Sumava ▪ Villa Berlin ▪ Pavla
Boarding House Victoria Regia

Hotels in Romania!

Located at the western foot of the Transylvanian Harghita and Gurghiu Mountains, 500 meters above sea-level, the resort and spa Sovata has been known across Europe for over a century. Beyond its beautiful landscapes, its fame is largely due to Lake Bear (Lacul Ursu), the only so-called helio-thermal lake on the continent. The high salt content of the ground is dissolved within the lower layers of the lake with temperatures reaching as high as 50 degrees Celsius due to heat absorbed from sunrays through the upper, fresh-water layers. Called also the "Dead Sea" of Transylvania because of its high concentration of dissolved salts, this lake offers relief for a great number of ailments.

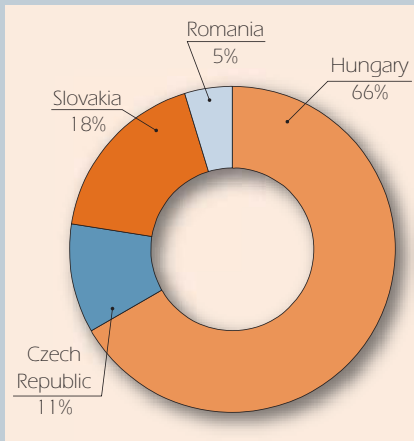


Hotels in Sovata

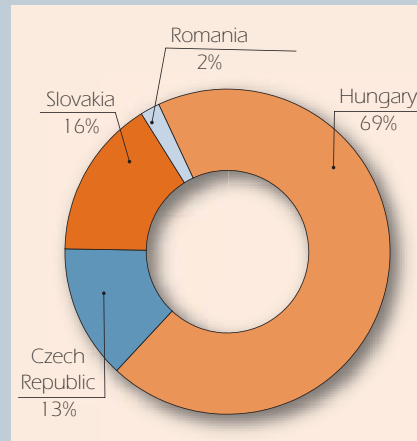
Danubius Hotel Sovata • Hotel Faget • Hotel Bradet

	Hungarian hotels	Czech hotels	Slovakian hotels	Romanian hotels
Number of rooms	5,576	920	1,482	398
Occupancy	65.8%	75.3%	72.2%	51.3%
Average rate (in HUF)	10,781	13,190	5,423	4,412
Number of staff	3,060	688	1,556	264
Average number of staff / rooms	0.55	0.75	1.05	0.66

Distribution of the number of rooms



Distribution of revenues



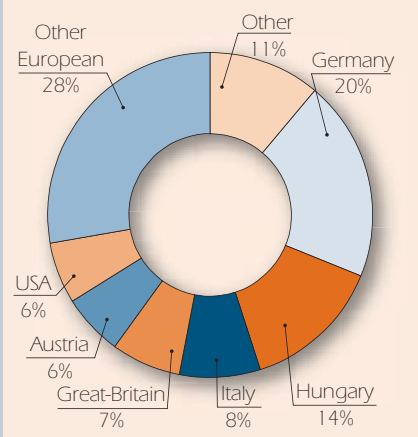
HUF million

	Hungarian hotels	Czech hotels	Slovakian hotels	Romanian hotels
Profit of rooms department	10,547	2,413	1,488	239
Profit of F&B	2,524	303	333	130
Profit of spa department	962	700	1,170	50
Profit of other minor departm.	124	80	-553	38
Departmental profit	14,157	3,496	2,438	457
Profit margin	54.0%	68.5%	40.7%	59.0%

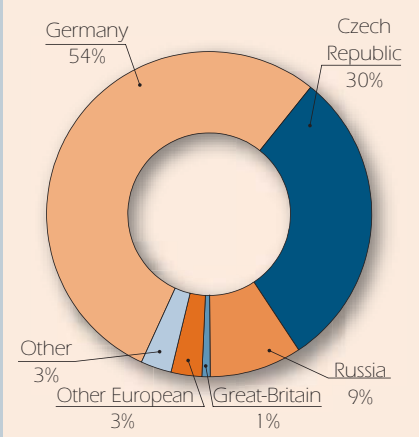


Distribution of guestnights

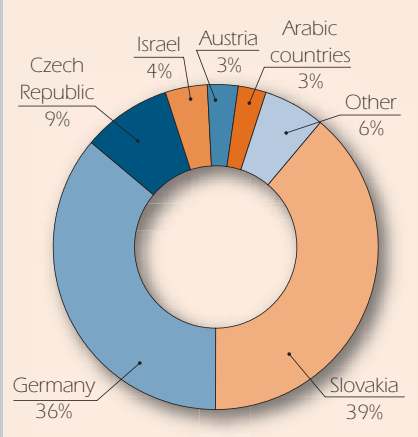
In our Hungarian hotels



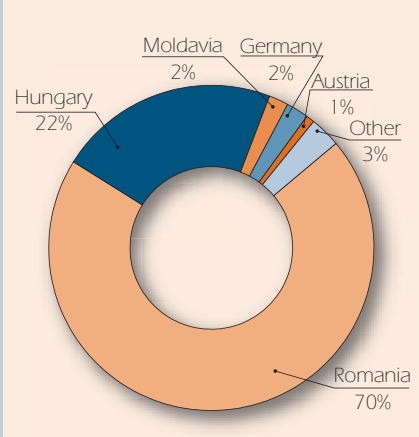
In our Czech hotels



In our Slovakian hotels



In our Romanian hotels



According to the study of the WTO (World Tourism Organisation) world tourism trends are positive. Tourism is returning to a growth path in 2004-2005, though data indicate that among the continents it is Europe that achieved the smallest rate of growth (6%). Demand is picking up in the sector of leisure tourism while business tourism is only just showing signs of recovery.

Tourism statistics in **Hungary** reported about growth both in the field of guest nights and room revenues in 2004 but the various accommodation categories and regions indicate different trends.

The long time capacity expansion continued in 2004 too, however, its focal point shifted. Only 29% of the thousand surplus hotel rooms appearing during the year affected the market in the capital fighting over supply, the greatest proportion of new hotels were built at spa resorts last year.

Key figures:

	2004	2003	Change
Number of guest nights (in hotels, thousand)	12,436	11,699	106.3%
of which: foreign	8,016	7,346	109.1%
domestic	4,420	4,353	101.6%
Room occupancy	46.6%	43.7%	+ 2.9%
Room revenue (in hotels, million HUF)	83,767	74,039	113.2%
of which: foreign	63,088	56,511	111.7%
domestic	20,679	17,528	118.0%

Accommodation places achieved a guest night growth exceeding way above the average (17%) in Budapest clearly owing to the appearance and dynamic expansion of low cost airlines. Outside of the capital only two regions showed positive trends (the Danube Bend and Sopron-Kőszeghegyalja).

Changes in the share of sending countries also show the effect of the budget airlines: the number of nights spent by British and Irish guests went up by more than 50%. The number of guests arriving from Italy, France, Japan, Israel and the USA also increased significantly. However we have experienced a 3.5% set back in case of Germany, still continuing to represent more than 18% share in the guest nights.

The 46.6% hotel room occupancy achieved in 2004 – following rather low figures of the previous two years – now reaches the 2000–2001 level.

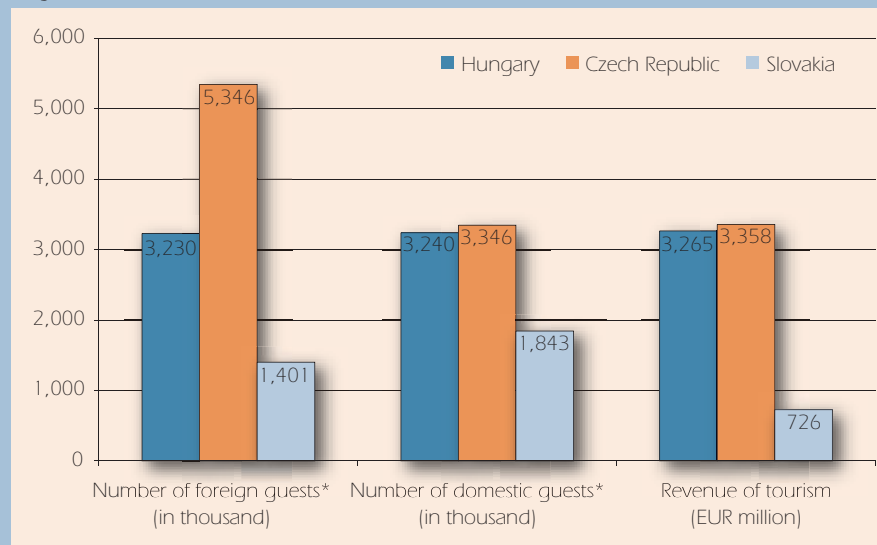
The demand for accommodation places went up mostly in the higher categories in 2004, which can be partly explained by the movement of the rates. While average rates of the hotel rooms went up by an average 2.8% compared to the previous period, the five star category saw 2.3% increase still the four star hotels experienced a 6.1% drop. The room revenue of the hotels was HUF 83.8 billion, 13.2% more than the previous year and it is clear that the majority part of the growth is owing to an increase in volume.

TOURISM IN HUNGARY, IN CZECH REPUBLIC AND IN SLOVAKIA

According to border statistics 5.7% more people entered **Slovakia** in 2004 than the previous year. Airport entries increased the most – doubled – although their ratio is still under 1%, and because the airport in Bratislava is situated near the border, only some of these guests spent time in Slovakia. The the number of guest nights spent at commercial accommodation places went down by 10% (domestic –14%, foreign –6%) and revenues from tourism fell back by 8.4% as opposed to the previous year. At the same time the fact that 8% more contractors were active in the tourism industry in 2004 than a year earlier shows the strengthening of the supply side.

In the **Czech Republic** statistical data also reflect the expansion of low cost airlines since the airport turnover went up by more than 30% last year. Foreigners spent about 64% of the hotel guest nights, and their number increased by 16%, primarily in the 4-5 star category (an increase above 30% was reported in both cases). The number of British, Japanese, Italian and Russian guests went up significantly but in the Czech Republic, the number of Germans also increased (+3.4%). The number of domestic guest nights was lagging behind by 7.4% compared to the previous year still, hotels booked a total of almost 6.2% growth.

Major data of tourism in 2004



*: Number of foreign and domestic guests at commercial accommodation establishments

Source: Hungarian, Czech and Slovakian Statistical Office, and National Bank

Worldwide situation

According to the study of the WTO (World Tourism Organisation) tourism is returning to a growth path in 2004-2005, though data indicate that among the continents it is Europe that achieved the smallest rate of growth (6%). Demand is picking up in the sector of leisure tourism while business tourism is only just showing signs of recovery.

Danubius Group in 2004 – the overall picture

Whilst the Group achieved a consolidated profit before tax of HUF 1,554 million, as compared to a small loss in 2003, this improvement masked another year of tough trading conditions particularly in the second half.

Operational margins came under heavy pressure in all companies through factors such as the strength of Central European currencies, rate reductions due to increased market capacity, increasing operating costs, as employment markets become more flexible following EU accession, and the continuing depressed market in Germany which worsened even further in the 4th quarter.

These factors are likely to continue to represent major challenges in 2005.

Increasing demand in Hungary parallel to keen price competition

The hotel capacities in Hungary – especially in the higher categories – went up to a great extent in the past years. Significant developments have been carried out on the Budapest market and new hotels are opening in the spa resorts (e.g. Hévíz and Bük).

National statistics show that the number of guest nights in 2004 surpassed that of the previous year by an average 6.3%. This resulted in 46.6% occupancy at national level, reaching the 2000-2001 level. The increase of demand is not equal to the earlier growth of capacity and this is a disadvantage to rates. The average rate of hotel rooms at the end of 2004 was higher (+2.8%) than one year before, still it was lagging behind the 2000 level by 25%.

The dynamic growth of budget airlines and the catching up of cancelled trips had a positive effect on foreign guest numbers (+14.7%). The greater part of this growth was realised in Budapest and from volume aspect the capital closed an extremely good year, however, rate competition was the keenest here. The expansion of the domestic guest circle was moderate in 2004 owing to the decrease of financial means available for holidaymaking and the luring effect of cheap foreign trips.

The strong Forint gave cause for serious concern to the tourism industry – especially in case of rates determined in EURO. Hotels suffered severe revenue losses too because of the VAT rates going up and since tariff rates were already set only part of this increase could be charged to guests.

Interest purchase in Gundel Restaurant

At the beginning of the 3rd quarter Danubius purchased a 49% interest in Lángastronomia Kft., the company owning and operating Gundel Restaurant and its related businesses (Bagolyvár, winery, wine cellars in Mád and Eger as well as trading of items with Gundel trademark). After receiving the approval of the Competition Office at the end of September 2004, the company increased its stake up to 66.67%.

Lángastronomia Kft. is fully consolidated according to IFRS from the 4th quarter, but in the interest of better comparison we point out the figures of the new company in the notes to the consolidated B/S and profit and loss statement.

Merger of Hungarian subsidiaries

Hungária Property Company – fully owned subsidiary of Danubius Hotels Rt. – merged with Danubius Hotel Management Rt. – also 100% owned subsidiary of Danubius Hotels Rt. This was registered by the Court of Registration on 23rd September 2004.

The two companies used to deal with hotel property and hotel management activities separately. As the former legal and market advantages – existing at the time of the foundation – ceased to be so significant, both tasks will be handled within one company in the future. With this step the company decreased the number of domestic subsidiaries involved in consolidation, however, this does not affect the consolidated profit and loss figures and the B/S figures of the company.

Consolidated Balance Sheet

Consolidated asset value of Danubius Hotels Rt. was HUF 72.2 billion on 31 December 2004, HUF 3.5 billion higher compared to the previous year.

In connection with the new acquisition, the items of Lángastronomia Kft. are included in the closing B/S figures, modifying the following rows to a great extent:

- value of inventory was up by HUF 351 million,
- fixed assets went up by HUF 1,733 million,
- intangible assets increased (owing to the value of the goodwill) by HUF 413 million and
- the value of accounts receivable and payable also went up due to the newly acquired company.

The decrease of the cash and cash equivalents by HUF 1,372 million can be explained by the financing of the Gundel purchase price (partly from own cash sources) and the significant loan repayments in 2004. The (HUF 465 million) increase of the cash set aside in a separate account in connection with the investment obligation of the Slovak subsidiary appears on the other non current assets row.

Other receivables and prepayments increased because the VAT refund claimed by the Hungarian subsidiaries on the December revenues was significantly higher than last year's.

The value of property, plant and equipment – excluding the Gundel restaurant and winery – were up by HUF 1,364 million owing to the amount of activated investments exceeding the depreciation of the year under review.

Among liabilities and shareholder's equity the value of long-term debts went up by HUF 1.6 billion. This derives from the new loan relating to the acquisition of the Gundel and the loan taken out by the Slovakian subsidiary for fulfilling its investment obligations. The current portion of long-term debts moderated by HUF 1,240 million owing to the repayment instalments changed by the refinancing of the loans.

The value of other payables and accruals went up in connection with the financing of the air-conditioning of hotel rooms in Hungary (HUF 440 million).

Hungarian and foreign subsidiaries of Danubius Hotels Rt. jointly had 79.6 million EUR loans and a ROL loan equivalent to 2.1 million USD on 31 December 2004. The former USD loan was converted into EUR at the end of 2004.

Consolidated Profit and Loss

The comparison of the profit with that of last year's was distorted because Gundel was involved in the 4th quarter, the HungarHotels Tours travel agency was liquidated in 2004, and of the partial operation of Hotel Sovata in 2003.

REVENUES

Operational revenue of the Danubius Group at consolidated level was HUF 38 847 million in 2004, surpassing that of last year's by 5.6%. The group revenue increased by HUF 483 million owing to the consolidation of the 4th quarter profit of Gundel. The HUF 2,070 million revenue increase was credited to the improvement achieved by the Hungarian companies – which was around HUF 2 billion without Gundel too – and the Romanian subsidiary – because of the whole year operation of Hotel Sovata. The revenue of the Czech and Slovak hotels calculated in HUF fell back by 3.3 and 8.7% as opposed to 2003.

Owing to the 3% point increase of the VAT rate relating to the Hungarian hotels, we faced a surplus VAT payment obligation of HUF 647 million, which could only partly be charged to the guests. Furthermore the strengthening of the HUF against the EUR and the USD set back our revenue from room sales by approximately HUF 310 million. However, this change had a positive effect on the exchange rate difference accounted on the loans.

DEPARTMENTAL PROFIT

When presenting the departmental profit we compare the performance of the unchanged network, without Gundel, to last year's figures. The consolidation of Gundel meant HUF 59 million departmental profit in 2004.

HUF million

	2003	2004 without Gundel	Of which:			
			Hungarian without Gundel	Czech	Slovak	Romanian
Revenue	36,534	38,072	26,210	5,104	5,984	774
Share			68.9%	13.4%	15.7%	2.0%
Profit from room sales	13,909	14,687	10,547	2,413	1,488	239
Profit from F&B	2,962	3,290	2,524	303	333	130
Profit from spa	4,033	2,882	962	700	1,170	50
Other minor departmental profit	-678	-311	124	80	-553	38
Departmental profit	20,226	20,548	14,157	3,496	2,438	457
Profit level	55.4%	54.0%	54.0%	68.5%	40.7%	59.0%

The departmental revenue went up by 4.2%. The revenue is made up of 48.8% from room sales, 32.8% from F&B, 13.3% from therapy and fitness activities.

The revenue from room sales increased in every region and F&B decreased only in the Czech Republic. However, the revenues from therapy unfortunately fell back by 16.2% at group level: it stagnated in the Hungarian hotels but in the Czech and Slovak subsidiaries, representing a high rate in volume, it decreased, especially in Slovakia where set back was the highest (above 30%). This was brought forth by the dramatic restrictions of the social insurance contribution and the set back of the number of traditional German spa guests. The costs – with the exception of the F&B – went up exceeding the revenue increase in all major departmental areas, moreover, therapy costs also increased. This resulted in departmental profits going up by HUF 322 million (without Gundel).

GROSS OPERATING PROFIT

In Q4, the revenue increase slowed down to 2.1% and did not compensate an 11.7% increase in operating costs, thus resulting in a setback of gross operating profit in Q4.

Annual gross operating profit of HUF 5,326 million is 90.6% of last year's at consolidated level, which was caused, despite the already mentioned moderate increase of departmental profit, by many factors as described in this report including significantly increased energy and maintenance costs and deteriorating Q4 performance.

PROFIT BEFORE TAX

As a result of the strengthening of the Forint against the EUR and the USD in 2004 (6.2 and 13.3% compared to the end of 2003) we accounted a foreign exchange rate gain – partly realised in connection with our loans – while last year we had to book a significant rate loss.

At profit before tax level we closed the year 2004 with HUF 1,554 million profit.

PROFIT AFTER TAX

The yearly net profit of HUF 1,590 million after taxes and minority shares surpasses the 2003 profit by HUF 1,149 million.

PROFIT OF MAJOR CONSOLIDATED COMPANIES

Hungarian hotels achieved revenues exceeding HUF 25 billion (7.6% up on 2003) alongside 65.8% occupancy (+7.5%point) and HUF 10,781 average rate (+5.3%).

The city hotels – especially in the capital – recorded a good year, revenues in this segment went up by 15% and profitability also improved. The turnover in Budapest was boosted by the increasing number of guests arriving from major budget flight destinations (England, Ireland, France and Italy), and the high (69%) hotel occupancy in the capital is partly due to this. As a result of keen competition and the price war, however, average rates went down by 5.4% (to HUF 12,604).

The problem for country spa hotels is the increasing market capacity and the decreasing number of German guests, the major clientele of former years (a fall back of 15% in Hévíz and 23% in Bük). The lagging behind of the number of German guests is, however, compensated in volume by the growing domestic demand, though unfortunately revenues went down due to the different spending customs and shorter period of stay of the Hungarian guests. The occupancy of our country spa hotels was 67.5% in 2004 but

the average spending of 21,580 HUF (including F&B and therapy) is merely 2.3% higher than in the Budapest city hotels. We strive to put a stop to the decrease of demand in the spa hotels with our reconstruction and marketing policy, including air conditioning of hotel rooms, the refurbishment of health departments and the widening of the services offered. Owing to the 9% average increase of costs, the gross operating profit went up by HUF 270 million compared to the previous year.

In the **Czech Republic** the occupancy of our hotels (75.3%) was 1.2% down compared to the prior year. The average rate calculated in Czech crowns was 8.9% more than that of 2003 and average spending went up by 4.9%. The number of German and Czech guest nights representing more than 80% decreased by 5% and 19% causing the fall back of spa revenues by 4.8%. The reduction in Czech guest nights is connected to the fall in insurance business. Owing to the cost increase surpassing the revenue, the gross operating profit was HUF 246 million down in 2004 as opposed to the previous year. The occupancy of our hotels in **Slovakia** was 72.2% in 2004, 1.7% point lower than the previous year as the number of guest nights fell back by 10.5%. The decrease of domestic guest nights (-12%) was the result of the tightening of the social insurance contribution and unfortunately the set back in the number of German guests can be felt here too (also -12%). Although the average rates calculated in Slovak crown went up by 6.2%, owing to the lagging behind of the two major guest circles of spa services, average spending went down by 14.2% compared to the previous year. Gross operating profit went down by HUF 425 million in 2004 alongside the decrease of revenues. However, this reduction was largely offset by lower overhead costs, including redundancy costs incurred as part of a wider reorganisation and repositioning of the Piestany operation which will be continued in 2005.

In **Sovata** the performance of Hotel Sovata reconstructed in the previous year cannot be compared to the figures of 2003, as full operation was only started during 2003. Occupancy of Hotel Sovata was near 50% in 2004. Forty-four percent of the guests arrived from Hungary, while 39% were local.

Reconstruction and development

In 2004 we performed reconstructions with the purpose of raising the all round technical level of our hotels and improving the general guest convenience with special regard to expanding our services in the wellness and fitness area, offering a promising market segment. During the period under review we have implemented such developments in our **domestic** hotels to the tune of HUF 2,049 million.

In the framework of the comprehensive reconstruction of Hotel Astoria, the entire reconstruction of the 4th floor in the historical wing was completed to provide elegant room units of new and refreshed atmosphere with state-of-the-art technical facilities. The boiler house and ventilation engine house in the loft were also reconstructed. We have replaced the doors and windows of the historical wing on the Magyar street side for modern, energy saving and sound-proofed ones.

In Hotel Hella 60 guest rooms, corridors and common areas were refurbished parallel to the replacement of furniture on the 3rd and 4th floors, as the next step of the guest floor renewals started in 2003.

In Hotel Gellért a smoke free staircase was built to provide a safe exit route to guests in the event of emergency and the outdated equipment ensuring ventilation in the function rooms was replaced.

On the 6th floor of Hotel Béke we have renewed the bathrooms belonging to the guest rooms as well as the guest corridors. The reconstruction of the hotel lobby was completed; the Zsolnay coffee shop was replaced and on its former place a function room was built.

All of the guest rooms of Thermal & Sport Hotel Bük were furnished with air conditioning. The comprehensive refurbishment and extension of the health area of the hotel was completed. The fitness room was refurbished and newly equipped. In the spring 40 rooms were partially refurbished.

Air conditioning in the rooms of Thermal Hotel Hévíz was installed, ensuring cooling of both the common and guest areas. This was an important and necessary development to help fight tough and increasing competition in Hévíz.

At the same time in order to widen the services offered to guests a complex dental surgery was opened.

Partial or entire completion of air conditioning was performed in Hotel Stadion, Thermal Hotel Sárvár and Hotel Palatinus and Pátia in Pécs. In order to increase security for fire protection in Hotel Stadion, we have made the guest area staircases smoke free and at the same time changed the doors and windows of the emergency stairs.

In Hotel Palatinus in Pécs we have created a 250 m² new function room area in the basement from the former bowling room.

In Hotel Pátia we have changed the doors and windows in the restaurant.

First phase reconstruction works started in Pécs on the Nádor, including outside reconstruction of the old building wing and the underground parking as well as the strengthening of the basis of the neighbouring buildings of the hotel.

On the 6th floor of Hotel Lövér in Sopron the Emporium Beauty salon and the connecting tea bar was refurbished and rearranged to meet today's requirements. In addition, a landscape garden was formed by reshaping the park surrounding the hotel to provide top quality possibilities for sports and relaxing outdoors.

In Hotel Annabella in Balatonfüred we standardised the furniture in 42 rooms before the main season and a gate with remote control was placed to the car park of the hotel.

In Marienbad in 2004 we continued the reconstruction of the hotels to the tune of CZK 135 million. Major works were carried out in Hotel Pacifik where 26 rooms were fully refurbished to 4-star level, new guest lifts were put into operation and a new lobby was created with a drinking fountain and a lobby bar. At the Nové Lázně Hotel 6 new 4-star suites and a large whirlpool were added, the hydrotherapy department was upgraded and a new congress room was developed. Further up-grading refurbishments were carried out in Hotel Vltava and Hotel Villa Butterfly.

In Piestany the biggest project of the year 2004 was the reconstruction of the Hotel Balnea Palace as after the total refurbishment of the hotel rooms and the common areas the hotel will be upgraded to 4-star level. The refurbishment of the dome and mud pool of the Irma Bath complex was completed. Other major works were carried out in Balnea Esplanade (new entrance hall and pool-equipment) and in Balnea Grand and Splendid (reconstruction of the lobby, central heating and air-conditioning system). The cost of the reconstruction projects and modernisation works in 2004 was SKK 214 million. The operational IT system is being replaced, most of the work processes have been reorganised and the connection to the financial system is expected to be set up in the first half of 2005.

In Sovata we opened the refurbished conference centre to seat 600 in Hotel Bradet in May. The change of wall-to-wall carpet and wall covers was completed in the conference room of a capacity of 150 in Hotel Sovata in November.

Following environment protection measures were taken in hotels of the Danubius Hotels Rt. in the year 2004:

- The heating oil containers already out of use were terminated in Hotel Marina and Hotel Annabella.
- The cooling aggregates of Hotel Flamenco and the group of cooling equipment in the kitchen of Hotel Marina were replaced by freon-free equipments.
- The air conditioning system put into operation recently in Thermal Hotel Bük, Thermal Hotel Sárvár, Thermal Hotel Hévíz, Hotel Stadion and Hotel Astoria is equally freon-free.

Corporate Governance

Danubius Hotels Rt. deems it important that the operation and procedures of the company be in line with the corporate governance programme. This was declared in a voluntary declaration in March 2004 according to which the company principally agrees to the Corporate Governance Recommendations of the Budapest Stock Exchange Rt. Danubius has published its corporate governance principles and informed those interested about the 2004 changes in form of a declaration.

The Corporate Governance Code comprises the Articles of Association, the strategy of the company, the Rules of Procedure of the Board of Directors and Supervisory Board, introduction of its members as well as members of the management, the Code of Ethics and information about the publication and the system of control. All documents published in connection with the corporate governance programme can be downloaded from our web site.

Ownership structure and Stock Exchange trading

According to 31st December 2004 data, 53.4% of the subscribed capital made up of 8,285,437 ordinary shares is owned by domestic and foreign investments of CP Holdings Ltd., of which shares over 5% are owned by Interag Rt. (29.38%), CP Holdings Ltd. (17.90%) and Israel Tractors (6.12%).

Foreign financial investors own a further 31.94% of the shares of which Citibank Rt. as depository represents 17.60% of shareowners. The shares of the employees of the company represent 0.50%, and Danubius continues to own 4.52% own shares. Domestic private persons, institutions and pension funds own 9.64% of the equities.

A total of 3,448 deals were made for 1,042,541 shares of Danubius Hotels Rt. on 252 trading days to the tune of HUF 4,145 million in 2004 producing an average share price of 3,976 HUF/share, alongside 3,200 HUF/share minimum and 5,600 HUF/share maximum price. The closing price at the yearend was 5,160 HUF/share, 56% higher than last year.

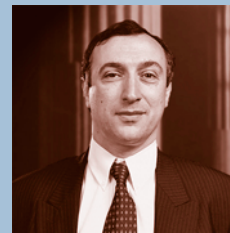
Danubius Hotels Rt. fulfilled its legal obligation and converted its 8,285,437 pieces of printed ordinary shares, each with a nominal value of HUF 1,000, registered on the BSE into dematerialised ones on 4th October 2004.

THE BOARD OF DIRECTORS



Sir Bernard Schreier

Chairman of the Board; Chairman and Chief Executive Officer of CP Holdings Limited and subsidiaries, and Investor Holding Rt.; Vice President of Bank Leumi Plc.



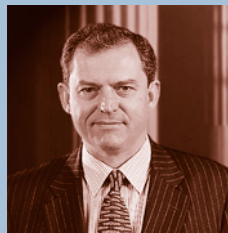
Robert Levy

Joint Managing Director of CP Holdings Ltd. and subsidiaries.



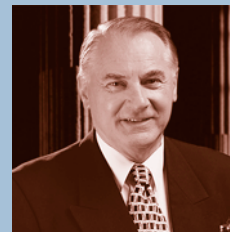
Sándor Betegh

Chief Executive Officer of Danubius as of October 1990 (President and CEO between 1991 and May 1996).



John Smith

Joint Managing Director of CP Holdings Ltd. and subsidiaries



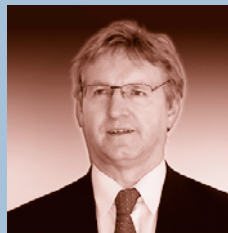
József László

District Manager of Scandinavian Airlines for Hungary for 35 years; currently guest lecturer at Budapest Business School



Iris Gibbor

Director of CP Holdings Ltd.



Ing. Lev Novobilsky

General Manager of Léčebné Lázně a.s.



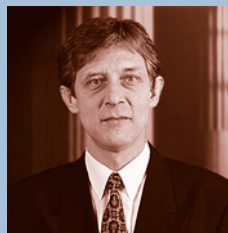
Dr. István Fluck

General Vice President of FEM, Director and Chief Physician of Budapest Spa Rt.



Dr. Imre Deák

Senior Vice President of Danubius as of December 1990.



János Tóbiás

Vice President, Finance of Danubius as of 1991.

CONSOLIDATED BALANCE SHEET



All amounts in million HUF

	Notes	At December 31,	
		2004	2003
Assets			
Cash and cash equivalents	3	2,396	3,768
Accounts receivable	4	1,695	1,467
Other receivables and prepayments	5	1,435	1,171
Income tax receivable	19	391	439
Inventory	6	844	566
Total current assets		6,761	7,411
Property, plant and equipment	7	65,573	62,476
Intangible assets	8	(1,857)	(2,471)
Other non-current assets	9	1,313	881
Deferred tax assets	19	402	432
Total non-current assets		65,431	61,318
Total assets		72,192	68,729
Liabilities and Shareholders' Equity			
Trade accounts payable		2,093	1,687
Advance payments from guests		366	240
Income tax payable		262	44
Other payables and accruals	11	2,535	2,034
Interest-bearing loans and borrowings	12	4,202	5,442
Provisions	10	709	701
Total current liabilities		10,167	10,148
Interest-bearing loans and borrowings	12	17,068	15,434
Deferred tax liabilities	19	1,541	1,801
Total non-current liabilities		18,609	17,235
Minority interests	13	2,896	2,462
Shareholders' Equity			
Share capital	14	8,285	8,285
Capital reserve		7,435	7,435
Treasury shares	14	(1,162)	(1,162)
Retained earnings		24,666	23,076
Translation reserve		1,296	1,250
Total shareholders' equity		40,520	38,884
Total liabilities and shareholders' equity		72,192	68,729

CONSOLIDATED STATEMENT OF INCOME



All amounts in million HUF

	Notes	Year ended December 31,	
		2004	2003
Revenue			
Rooms		18,591	17,355
Food and beverage		12,502	11,165
Spa		5,050	6,027
Other departmental revenues		2,398	1,987
Interest income		256	110
Other revenue	16	306	243
Total revenue	28	39,103	36,887
Costs and expenses			
Rooms		3,904	3,446
Food and beverage		9,183	8,203
Spa		2,168	1,994
Other departmental expenses		2,679	2,665
Administrative and general	17	14,166	12,986
Interest expense		838	806
Foreign currency loss / (gain)		(989)	1,325
Depreciation and amortisation		4,179	3,983
Other expenses	18	1,421	1,605
Total costs and expenses		37,549	37,013
Profit / (loss) before tax		1,554	(126)
Income tax (expense) / benefit	19	13	473
Net profit after tax		1,567	347
Minority interests	13	23	94
Net profit for the year		1,590	441
Earnings per share (expressed in HUF per share):	20	201	56

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY



Danubius Hotel and Spa Rt. and Subsidiaries
Consolidated Statement of Changes in Shareholders' Equity

All amounts in million HUF

	Note	Share Capital	Capital Reserve	Treasury Shares	Retained Earnings	Translation Reserve	Total
December 31, 2002		8,285	7,847	(1,574)	22,635	94	37,287
Net profit for the year					441		441
Loss on treasury shares transactions	14		(412)	412			–
Translation of foreign subsidiaries						1,156	1,156
December 31, 2003		8,285	7,435	(1,162)	23,076	1,250	38,884
Net profit for the year					1,590		1,590
Translation of foreign subsidiaries						46	46
December 31, 2004		8,285	7,435	(1,162)	24,666	1,296	40,520

CONSOLIDATED STATEMENT OF CASH FLOWS

Danubius Hotel and Spa Rt. and Subsidiaries
Consolidated Statement of Cash Flows

All amounts in million HUF

	Note	Year ended December 31,	
		2004	2003
Cash flows from operating activities:			
Net profit for the year		1,590	441
Adjustments for:			
Income tax	19	(13)	(473)
Minority interest	13	(23)	(94)
Interest income		(256)	(110)
Interest expense		838	806
Depreciation and amortisation		4,179	3,983
Foreign exchange (gain) / loss		(989)	1,325
Gain on sale of fixed assets	16	(71)	(59)
Changes in assets and liabilities:			
Accounts receivable and other receivables		(105)	651
Inventory		(21)	(39)
Accounts payable and other current liabilities		1,025	(254)
Cash generated from operations		6,154	6,177
Interest paid		(866)	(830)
Corporate income tax paid		(247)	(523)
Net cash provided by operations		5,041	4,824
Cash flows from investing activities:			
Purchase of fixed assets and intangible assets		(6,048)	(3,684)
Acquisition of subsidiary, net of cash acquired	25	(1,807)	–
Interest received		278	70
Proceeds on sale of fixed assets		198	375
Increase in restricted cash		(465)	(381)
Other cash inflows/(outflows)		21	(198)
Net cash used in investing activities		(7,823)	(3,818)
Cash flows from financing activities:			
Net increase / (decrease) in long-term debt		1,358	(1,063)
Payment of finance lease liabilities		(120)	–
Sale of treasury shares		–	1,162
Purchase of treasury shares		–	(1,162)
Net cash provided by / (used in) financing activities		1,238	(1,063)
Increase / (decrease) in cash and cash equivalents		(1,544)	(57)
Cash and cash equivalents at beginning of year		3,768	3,825
Cash and cash equivalents at end of year, net	3	2,224	3,768

1 The Company and its recent history

Danubius Hotel and Spa Rt. ("Danubius" or "the Company") is a company limited by shares which is incorporated under the laws of the Republic of 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 2004, 53.4% of the Company's shares are owned by CP Holdings Limited, a UK private company, and companies controlled by CP Holdings Limited.

Danubius is a holding company. A wholly owned subsidiary, Danubius Szállodaüzemeltető és Szolgáltató Rt, owns and operates the Group's hotel properties in Hungary. On 23 September 2004 the formerly separate Hungarian property management company was merged at book value into this company which had previously been the Hungarian hotel operator company.

Danubius has a 95.36% shareholding in Léčebné Lázně a.s., a hotel company with operations in Marienbad, Czech Republic and a 100% shareholding in Gama 45 s.r.o (which owns a hotel in Marienbad).

Danubius owns 56.43% of the shares of Salina Invest SA, a holding company which owns a 93.97% interest in Balneoclimaterica SA. Balneoclimaterica SA owns a hotel and real estate complex in Sovata, Romania. Danubius has a 53.03% effective interest in Balneoclimaterica SA.

As at December 31, 2004 the Group owned an 87.10% effective interest (2003: 84.55%) in Slovenské Liečebné Kúpele Piestany a.s. ("Piestany"), a Slovakian hotel company with operations in Piestany and Smrdaky.

In 2004 Danubius acquired a 66.67% shareholding in Lángastronomia Kft, a company operating the Gundel and Bagolyvár restaurants in Budapest and wineries in the Tokaj and Eger regions (see note 25).

2 Significant accounting policies

Statement of Compliance

The Company and its subsidiaries maintain their accounting records and prepare financial statements for domestic purposes in accordance with national accounting regulations in Hungary, Czech Republic, Slovakia and Romania as appropriate. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB and, as a consequence, reflect adjustments not recorded in the statutory records of the respective group companies.

Basis of preparation

The consolidated financial statements are prepared in Hungarian Forint (HUF) and are presented in millions of Forints.

The consolidated financial statements are prepared under the historical cost convention. The accounting policies have been consistently applied by the Group enterprises and are consistent with those used in the previous year.

The Company has applied IFRS 3 “Business Combinations” and IAS 36 “Impairment of Assets” (revised 2004) in accounting for the acquisition of Lángastronomia Kft (see note 25).

The financial statements were authorised for issue by the Board of Directors on March 18, 2005.

Use of estimates and assumptions

The preparation of financial statements in conformity with IFRS 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.

Basis of consolidation

SUBSIDIARIES

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The 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 significant subsidiaries after elimination of all material inter-company transactions and balances, including any unrealised gains.

ASSOCIATES

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group’s share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group’s share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

INVESTMENTS

Investments in which the Company has less than 20% ownership are carried at cost, less provision for impairment.

The Company's principal subsidiary companies are as follows:

Name	Principal Activity	Country of Incorporation	Group interest held at December 31, 2004	Group interest held at December 31, 2003
Danubius Szálloda-üzemeltető és Szolgáltató Rt.	Hotel operator	Hungary	100%	100%
Hungária Szálloda-Ingatlankezelő Rt.	Property management	Hungary	(a)	99.90%
Lángastronomia Kft.	Restaurant operator	Hungary	66.67%	–
Léčebné Lázně a.s.	Hotel operator	Czech Republic	95.36%	95.36%
Gama 45 s.r.o	Hotel operator	Czech Republic	100%	100%
Slovenské Léčebné Kúpele Piestany a.s.	Hotel operator	Slovakia	87.10%	84.55%
Salina Invest SA	Holding company	Romania	56.43%	56.43%
SC Balneoclimaterica SA	Hotel operator	Romania	53.03%	53.03%

(a) Hungária Szálloda-Ingatlankezelő Rt. was merged into Danubius Szállodaüzemeltető és Szolgáltató Rt. at 23 September 2004.

Financial statements of foreign operations

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations are translated to HUF at foreign exchange rates ruling at the balance sheet date. Goodwill and any fair value adjustments arising on consolidation are treated as assets and liabilities of the reporting entity and therefore are not retranslated. The revenues and expenses of foreign operations are translated to HUF at the average exchange rate for the year. Foreign exchange differences arising on translation are recognised directly in equity.

Foreign currency transactions

Transactions in foreign currencies are translated 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 measurement currency of the relevant company at the foreign exchange rate ruling at that date. Foreign exchange differences

arising on translation are recognised in the income statement. 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.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

DEPRECIATION

Depreciation is provided using the straight-line method. 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 capital projects in progress are not depreciated.

REFURBISHMENT

Significant refurbishment costs which increase the future economic benefits embodied in the item of property, plant and equipment are capitalised and depreciated in accordance with the policy described above. All other costs are recognised in the income statement as an expense as incurred.

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 stated 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, less accumulated depreciation (see above) and impairment losses.

Intangible assets

GOODWILL

Business combinations are accounted for by applying the purchase method. Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill arising in respect of business combinations which occurred prior to 31 March 2004 is stated at cost less accumulated amortisation (see below) and impairment losses. Goodwill arising in respect of business combinations which occurred on or after 31 March 2004 is stated at cost less any accumulated impairment losses. Such goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment.

NEGATIVE GOODWILL

Negative goodwill arising on an acquisition which occurred prior to 31 March 2004 represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

The carrying amount of negative goodwill is deducted from the carrying amount of intangible assets.

Negative goodwill arising on an acquisition on or after 31 March 2004 is recognised directly in profit or loss.

AMORTISATION

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill arising in respect of business combinations which occurred prior to 31 March 2004 is amortised from the date of initial recognition on a straight-line basis over 20 years and negative goodwill is amortised over 20 and 30 years depending on the useful life of the underlying hotel assets; other intangible assets are amortised from the date they are available for use.

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, including property rights on Margaret Island, Budapest, which are being amortised over 100 years.

Debt securities

Debt securities are classified as held to maturity and are stated at amortised cost. Investments held to maturity are recognised/derecognised on the day they are transferred to/by the Group.

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 at their cost less impairment losses (see below).

Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Trade and other payables

Trade and other payables are stated at their cost.

Interest-bearing loans

Interest-bearing loans are stated at their cost, being the net proceeds received. Loan interest is recognized on an accrual basis and expensed when incurred. Loans denominated in foreign currencies at the balance sheet date are translated at the year-end rates of exchange.

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 and other departmental revenues are each recognised as the service is provided, net of VAT.

RENTAL INCOME

Rental income from property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

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.

Interest Income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

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 liability 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 provided for temporary differences on goodwill not deductible for tax purposes. 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.

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.

Pension Plan

The Company operates a defined contribution pension plan for Hungarian employees. Pension costs are charged against profit in the period in which the contributions are payable. The assets of the fund are held in a separate trustee administered fund.

Fair value of financial instruments

The carrying values of financial instruments approximate fair values due to either the short-term duration or the proximity of interest rates of the various instruments to market rates.

Segment reporting

Group operations are presented in respect of geographical areas only. Management considers that it operates in a single business segment, hotel operations.

3 Cash and cash equivalents

	December 31,	
	2004	2003
Cash in hand and at bank	2,363	3,727
Marketable securities	33	41
Cash and cash equivalents	2,396	3,768
Overdraft (see Note 12)	(172)	–
Cash and cash equivalents in the statement of cash flows	2,224	3,768

4 Accounts receivable

	December 31,	
	2004	2003
Trade receivables	2,036	1,851
Allowance for doubtful receivables	(341)	(384)
	1,695	1,467

5 Other receivables and prepayments

	December 31,	
	2004	2003
Receivables from non-consolidated subsidiaries	29	36
Prepayments and accrued income	605	696
VAT receivables	383	61
Other receivables	418	378
	1,435	1,171

6 Inventory

	December 31,	
	2004	2003
Food and beverages	289	232
Wine in barrels	203	–
Materials	284	318
Goods for resale	68	16
	844	566

7 Property, plant and equipment

	Land	Buildings and improvements	Furniture, fittings and equipment	Capital projects in progress	Total
Cost/Valuation:					
December 31, 2003	9,470	68,688	16,887	405	95,450
Acquisitions through business combinations	10	1,496	227	–	1,733
Effect of movements in exchange rates	(14)	(300)	(34)	(2)	(350)
Additions	75	3,226	1,218	1,397	5,916
Disposals	(50)	(145)	(292)	(12)	(499)
December 31, 2004	9,491	72,965	18,006	1,788	102,250
Depreciation:					
December 31, 2003	–	20,362	12,612	–	32,974
Effect of movements in exchange rates	–	(161)	(12)	–	(173)
Depreciation charge for year	–	2,604	1,646	–	4,250
Disposals	–	(94)	(280)	–	(374)
December 31, 2004	–	22,711	13,966	–	36,677
Net book value:					
December 31, 2003	9,470	48,326	4,275	405	62,476
December 31, 2004	9,491	50,254	4,040	1,788	65,573

The net book value of property, plant and equipment pledged was HUF 27,382 million as at 31 December 2004 (HUF 28,266 million as at 31 December 2003). Further information about assets pledged as security for mortgages is given in note 12.

As of 30 September 2004, Danubius updated the estimated depreciation rates of buildings in the merged Hungarian hotel operating company. As a result of this change the 2004 depreciation charge decreased by HUF 79 million.

The Group leases air conditioning equipment under a finance lease agreement. At the end of the lease the Group has the option to purchase the equipment at a beneficial price. At 31 December 2004, the net carrying amount of the leased equipment was HUF 469 million (2003: nil). The leased equipment secures lease obligations (see note 12).

All amounts in million HUF

8 Intangible assets

	Goodwill	Negative goodwill	Land usage rights	Software and other intangibles	Total
Cost:					
December 31, 2003	733	(5,095)	537	1,252	(2,573)
Acquisitions through business combinations	413	–	–	–	413
Effect of movements in exchange rates	–	–	–	–	–
Additions	–	–	–	132	132
Disposals	–	–	–	(7)	(7)
December 31, 2004	1,146	(5,095)	537	1,377	(2,035)
Depreciation:					
December 31, 2003	132	(1,216)	89	893	(102)
Effect of movements in exchange rates	–	–	–	–	–
Amortisation charge for year	36	(228)	13	108	(71)
Relating to disposals	–	–	–	(5)	(5)
December 31, 2004	168	(1,444)	102	996	(178)
Net book value:					
December 31, 2003	601	(3,879)	448	359	(2,471)
December 31, 2004	978	(3,651)	435	381	(1,857)

At 31 December 2004 intangible assets include HUF 435 million, net of amortisation (2003: HUF 448 million) for land usage rights relating to two hotels on Margaret Island held under licenses given by the Municipality of Budapest.

All amounts in million HUF

Positive and negative goodwill relates to the following acquisitions:

	December 31,	
	2004	2003
Léčebné Lázně a.s.	733	733
Lángastronomia Kft. (see note 25)	413	–
Accumulated amortisation	(168)	(132)
Total positive goodwill	978	601
HungarHotels	2,993	2,993
Hotel Hélla	154	154
Gama 45 s.r.o.	407	407
Slovenské Liečebné Kúpele Piestany a.s.	1,541	1,541
Accumulated amortisation	(1,444)	(1,216)
Total negative goodwill	3,651	3,879

9 Other non-current assets

	December 31,	
	2004	2003
Investments in non-consolidated subsidiaries	183	186
Investments in associates	31	31
Loans given to employees	7	8
Long-term receivable	50	75
Restricted cash	1,031	566
Other investments, unquoted	11	15
	1,313	881

The non-consolidated subsidiaries are:

Name	Principal activity	2004		2003	
			Share %		Share %
Marcali Szálloda Kft.	Hotel	121	50.2	121	50.2
Kastélykert Kft.	Hotel	43	100	43	100
Hungaria Hotel und Reisen GmbH.	Travel agency	9	100	9	100
Sopron Szakképző Iskola és Kollégium Alapítvány	College	5	100	5	100
Danubius Rendezvényszervező Kft.	Agency	–	–	3	100
Nádor Konferenciaközpont	Conference	3	100	3	100
Hotel Kastély Kft.	Hotel	2	50	2	50
		183		186	

The above subsidiaries are immaterial to the Group and have not been consolidated. Investments in associates represent a 32.75% share in Preventív Rt. a company which provides security services to the Group in Hungary.

The long term receivable relates to proceeds from the sale of a hotel in Romania and is due in six instalments with the final instalment due on 1 October 2007. The long-term receivable is presented at discounted value.

As at 31 December 2004 other non-current assets includes HUF 1,031 million (as at 31 December 2003 HUF 566 million) cash held on deposit for the restricted purpose of financing reconstruction at Piestany (see note 22).

10 Provisions

	Acquisition of Piestany	Other	Total
Balance at 31 December 2003	610	91	701
Provision made during the year	–	12	12
Provision used during the year	–	4	4
Balance at 31 December 2004	610	99	709

In 2002 a provision for legal cases of HUF 621 million was provided at the acquisition of Piestany from which HUF 11 million was utilized in 2003 as a result of a lost legal case. At December 31, 2004 other provisions comprise a provision of HUF 48 million for obligations related to termination and long service benefits agreed in 2003 for employees in Slovakia and HUF 51 million in respect of various legal cases.

All amounts in million HUF

11 Other payables and accruals

	December 31,	
	2004	2003
Payroll	685	543
Social security	408	324
Taxes payable	630	346
Accrued expenses	476	636
Other	336	185
	2,535	2,034

12 Interest-bearing loans and borrowings

Non-current liabilities	December 31,	
	2004	2003
Secured bank loans	16,753	15,434
Finance lease liabilities	315	–
	17,068	15,434
Current liabilities	December 31,	
	2004	2003
Current portion of secured bank loans	4,077	5,442
Current portion of finance lease liabilities	125	–
	4,202	5,442

The group leases air conditioning equipment for certain Hungarian hotels. The finance lease liabilities are payable as follows:

	December 31, 2004			December 31, 2003		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Within 1 year	160	35	125	–	–	–
1 to 2 years	160	24	136	–	–	–
2 to 5 years	191	12	179	–	–	–
Over 5 years	–	–	–	–	–	–
Total debt	511	71	440	–	–	–
Amounts due in less than one year	(160)	(35)	(125)	–	–	–
	351	36	315	–	–	–

All amounts in million HUF

The Group's bank loans fall due for repayment, as follows:

	December 31,	
	2004	2003
Within 1 year	4,077	5,442
1 to 2 years	3,209	4,600
2 to 5 years	9,534	10,537
Over 5 years	4,010	297
Total debt	20,830	20,876
Amounts due in less than one year	(4,077)	(5,442)
	16,753	15,434

Outstanding loans comprise the following:

	December 31,	
	2004	2003
Danubius Hotel and Spa Rt.		
1. MKB long term USD loan at interest rate of LIBOR + 0.75%, secured by mortgages on the Budapest Hilton	–	1,354
2. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0.75%, secured by mortgages on the Budapest Hilton	934	1,325
3. K&H long term Euro loan, interest rate of (3 months) EURIBOR + 0.75%, secured by mortgages on the Hotel Radisson SAS Béke and Hotel Flamenco	–	1,652
4. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0.75%, secured by mortgages on the Budapest Hilton and Hotel Budapest	1,402	1,987
5. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0.75%, secured by mortgages on the Budapest Hilton and Hotel Budapest	914	1,295
6. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0.75%, secured by mortgages on the Thermal Hotel Sárvár	1,371	1,943
7. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0,95%, secured by mortgages on the Thermal Hotel Sárvár	1,267	1,347
8. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0,95%, secured by mortgages on the Hotel Hélia	1,218	1,295
9. OTP long term Euro loan at interest rate of (3 months) EURIBOR + 0,95% secured by mortgages on Hotels	10,094	–
10. MKB long term Euro loan at interest rate of (3 months) EURIBOR + 0,75%	844	–
11. Bank overdraft	114	–

All amounts in million HUF

	December 31,	
	2004	2003
Hungária Szálloda–Ingatlankezelő Rt.		
1. K&H long term Euro loan, interest rate of (3 months) EURIBOR + 0.75%, secured by mortgages on the Hotel Radisson SAS Béke and Hotel Flamenco	–	1,749
2. K&H long term Euro loan, interest rate of (3 months) EURIBOR + 1.4%, secured by mortgages on the Hotel Radisson SAS Béke and Hotel Flamenco	–	1,818
Léčebné Lázně a.s.		
1. K&H and ČSOB long term Euro loan, interest rate of (3 months) EURIBOR + 1.4%, secured by mortgages on the Hotel Radisson SAS Béke and Hotel Flamenco	–	3,639
2. Komerční Banka overdraft secured by fixed assets and by blank bill of exchange	58	–
Slovenské Liečebné Kúpele Piestany a.s.		
1. Short term loan in SKK and Euro at interest rate of 3-5% and (3 months) EURIBOR + 1.25%, secured by mortgages on land and buildings	663	828
2. Long term loan in Euro at interest rate of (3 months) EURIBOR + 1.3%, secured by mortgages on land and buildings	1,359	–
Sovata		
Long term loan, 24% interest, guaranteed by a first rank mortgage on Sovata Hotel and bank accounts of Balneoclimaterica with the Romanian Commercial Bank	577	615
Other bank loans	15	29
Total debt	20,830	20,876

LIBOR was 2.154% and EURIBOR was 2.174% at December 31, 2004.
(LIBOR was 2.39%, EURIBOR was 2.09% and BRIBOR was 6.06% at December 31, 2003.)

All amounts in million HUF

13 Minority Interests

	December 31,	
	2004	2003
Hungária Szálloda-Ingatlankezelő Rt.	–	6
Lángastronomia Kft.	469	–
Léčebné Lázně a.s.	417	406
Slovenské Liečebné Kúpele Piestany a.s.	1,321	1,335
Salina Invest SA and SC Balneoclimaterica SA	689	715
	2,896	2,462

	December 31,	
	2004	2003
Opening balance at 1 January	2,462	2,538
Income attributable to minority shareholders	(23)	(94)
Deconsolidation of Preventív Rt.	–	(72)
Capital increase in subsidiary	–	90
Share in subsidiary purchased from minority Shareholders	(5)	–
Minority share in subsidiary acquired	462	–
Closing balance at 31 December	2,896	2,462

In 2003 Preventív Rt. ceased to be consolidated as the Group's interest in that company reduced to 32.75%. In 2004 a controlling interest was acquired in Lángastronomia Kft (see note 25).

14 Share Capital

	December 31,	
	2004	2003
Ordinary shares	8,285	8,285

Registered share capital at December 31, 2004 consists of 8,285,437 (2003: 8,285,437) authorised, issued and fully paid ordinary shares, each of par value HUF 1,000.

At December 31, 2004, the Company owned 374,523 of its own shares (Treasury shares) which cost HUF 1,162 million (2003: 374,523 shares, which cost HUF 1,162 million). (The Hungarian Companies Act formerly required Treasury shares to be sold within one year from the date of purchase. In 2003 a loss of HUF 412 million was recorded in Capital Reserve on the sale of treasury shares which were subsequently repurchased. From 1 January 2004, there is no such requirement.)

15 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, 2004 is HUF 21,904 million (2003: HUF 23,263 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, on the period and number of the shares held. (Qualifying shareholding is holding of 20% of the shares for an uninterrupted period of at least 2 years.) The withholding tax is also payable by individual shareholders who are resident in Hungary (resident legal entities are exempt).

16 Other revenue

	2004	2003
Gain on sale of fixed assets	71	59
Proceeds from insurance	35	112
Other revenue	200	72
	306	243

17 Administrative and general expenses

	2004	2003
Payroll and related costs	5,491	4,557
Utility costs	2,829	2,315
Maintenance expenses	1,603	1,436
Management fees to CP Holdings Limited (related party)	310	301
Fees to branded hotel chains	123	171
Marketing expenses	672	661
Bank and insurance fees	523	473
Commissions	52	53
Professional and membership fees	292	336
Telecommunication charges	194	212
Rental expense	547	482
Release of rental fee provision	–	(229)
Security costs	250	245
Miscellaneous expenses	1,280	1,973
	14,166	12,986

The Group had 5,608 employees as at 31 December 2004 (5,736 as at 31 December 2003).

18 Other expenses

	2004	2003
Local taxes	713	695
Other taxes	386	687
Doubtful debt and other provisions	322	223
	1,421	1,605

19 Income tax

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

	2004	2003
Current tax	358	271
Deferred tax	(371)	(744)
	(13)	(473)

The deferred tax charge / (benefit) comprises:

	2004	2003
Origination and reversal of temporary differences	(148)	(225)
Reduction in tax rate	(143)	(213)
Benefit of tax losses recognized	(80)	(306)
	(371)	(744)

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

	2004	2004	2003	2003
Profit / (loss) before tax and minority interest		1,554		(126)
Income tax using the domestic corporation tax rate	16.0%	249	18.0%	(23)
Effect of tax rates in foreign jurisdictions		47		60
Non-deductible expenses		35		61
Tax exempt revenues		(23)		-
Tax incentives not recognised in the income statement		(25)		(14)
Effect of tax losses utilised / (deferred)		(207)		(405)
Impact of changed income tax rates on deferred tax		(143)		(213)
Under provided in prior years		9		12
Others		45		49
		(13)		(473)

Current corporate income tax receivables

Corporate income taxes receivables include overpayments of HUF 391 million (2003: HUF 439 million) as a result of advance payments required by the tax authorities for certain group companies in 2004, based on the actual income taxes paid for 2003.

Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December 2004 and 31 December 2003 are attributable to the following:

	Assets		Liabilities	
	2004	2003	2004	2003
Property, plant and equipment	89	85	1,408	1,364
Repairs and maintenance provision	–	–	390	543
Legal provisions	115	116	–	–
Other items	45	35	–	28
Tax value of tax loss carry forwards	410	330	–	–
	659	566	1,798	1,935
Offset of assets and liabilities	(257)	(134)	(257)	(134)
	402	432	1,541	1,801

Deferred tax liabilities are recognised in respect of the differences between the value of fixed assets (primarily land and hotel building) 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, in accordance with Czech accounting and tax legislation. This provision is reversed in these IFRS financial statements and a deferred tax liability is set up for this timing difference.

The tax value of the losses carried forward at 31 December 2004 will expire as follows, if not previously utilised: HUF 175 million, 1 January 2008, HUF 218 million, 1 January 2009, HUF 12 million 1 January 2010. HUF 5 million can be carried forward indefinitely.

All amounts in million HUF

20 Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of HUF 1,590 million in 2004 (2003: HUF 441 million) and the weighted average number of ordinary shares outstanding during 2004 of 7,910,914 (2003: 7,910,914).

	December 31,	
	2004	2003
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 for the year in million HUF	1,590	441
Earnings per share (HUF/share)	201	56

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

21 Operating leases

LEASES AS LESSEE

Non-cancellable operating lease rentals are payable as follows:

	December 31,	
	2004	2003
Less than one year	132	125
More than one year	–	–
	132	125

The Group leases its head office building from a related party under an operating lease which has a twelve month notice period.

During the year ended 31 December 2004 HUF 453 million was recognised as an expense in the income statement in respect of operating leases (2003: HUF 401 million).

LEASES AS LESSOR

The group has no significant non-cancellable operating or finance lease rental receivables as at 31 December 2004 and 31 December 2003.

22 Commitments

The Group plans to spend approximately HUF 3 billion on hotel refurbishment and construction in 2005.

At the acquisition of Piestany, the Group committed to a SKK 700 million (HUF 4,459 million) reconstruction program on hotel buildings by 2006. The remaining amount of the commitment at 31 December 2004 is SKK 480 million (HUF 3,058 million). Included in other non-current assets is restricted cash of HUF 1,031 million in respect of this commitment (see note 9).

The Group has an obligation to renew the façade and the garage of Hotel Nádor, Pécs (Hungary) for an estimated cost of HUF 555 million. The reconstruction started in 2004 and the remaining works are estimated to cost HUF 366 million.

LL Partners, the company from which Danubius purchased its 66,67% interest in Lángastronomia Kft, has an option to sell to Danubius the remaining 33.3% shareholding in Lángastronomia Kft between July 7, 2009 and July 7, 2011. The purchase price is USD 5 million plus compound annual interest of 7%, accumulated from 7 July 2004.

23 Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2004.

24 Pension Plans

The Group's employees participate in State pension plans to which employers and employees pay contributions. The pension liability resides with the State in Hungary, Czech Republic, Slovakia and Romania.

The Group has a 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 2004 was HUF 234 million (2003: HUF 220 million). The assets of the fund are held in separate trustee administered funds and are not included in these financial statements. On February 1, 2004 the Group formed 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 decided to become members of the fund. The total contribution expense in 2004 was HUF 166 million. The assets of the fund are held in separate trustee administered funds and are not included in these financial statements.

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

All amounts in million HUF

25 Acquisition of Lángastronomia Kft.

In July 2004 Danubius acquired a 49% interest in Lángastronomia Kft., a company owning and operating the Gundel Restaurant and its related businesses (the Bagolyvár Restaurant, wineries in Tokaj and Eger). Subsequently in September 2004, Danubius acquired a further 17.67% interest in Lángastronomia Kft.

Lángastronomia Kft has been consolidated since October 1, 2004. In the 3 months to 31 December 2004 Lángastronomia Kft contributed HUF 13 million to the consolidated net profit for the year.

The effect of the acquisition on the consolidated financial statements was:

Balance Sheet at acquisition	
Property, plant and equipment	757
Fair value adjustment to property, plant and equipment	976
Deferred tax liability on fair value adjustment	(156)
Cash and cash equivalents	218
Inventories and receivables	540
Loans	(688)
Other short term liabilities	(261)
Net identifiable assets and liabilities	1,386
Danubius Group share of net assets (66.67%)	924
Goodwill on acquisition (see note 8)	413
Net purchase consideration	1,337
Add: Waiver of intercompany loans	688
Total purchase consideration, paid in cash	2,025
Less: Cash acquired	(218)
Net cash outflow	1,807

Other than the property, plant and equipment as disclosed above, the carrying amounts of the assets and liabilities of Lángastronomia Kft immediately prior to the acquisition corresponded to their fair values.

The goodwill arising on the acquisition of Lángastronomia Kft is attributable mainly to the expected future earnings of the Gundel restaurant business which does not meet the criteria for recognition as an intangible asset at the date of acquisition.

At 31 December 2004, Danubius determined that there is no impairment of the investment in Lángastronomia Kft. The recoverable amount of the investment is determined on the basis of value in use which is higher than the net book value.

All amounts in million HUF

26 Related Party Transactions

Transactions with related parties are summarised as follows:

	2004	2003
Management fee to CP Holdings Ltd.	310	301
Rental fee to Interag Rt.	149	146
Services provided by Interag Rt.	5	5
Service provided to Interag Rt.	(1)	(1)
Service provided by Investor Rt.	13	13
Service provided to Investor Rt.	(2)	(3)
Service provided by Preventív Security Rt.	250	242

Related party receivables and payables are not significant as at December 31, 2004.

Interag Rt., Investor Rt. and Preventív Security Rt. are each subsidiary companies of CP Holdings Ltd.

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

27 Financial instruments

The Group has financial assets, which include cash and cash equivalents, investments in state treasury bills and accounts receivable. The Group has financial liabilities which include, inter alia, bank loans, suppliers and accounts payable. The fair values of these financial instruments are not materially different from their stated value.

CURRENCY RISK

The Group's sales prices are primarily quoted in Euro or US dollars and income is received in foreign currency or local currency.

The Group had loans of EUR 82.3 million (2003: EUR 72.1 million), HUF 572.5 million (2003: nil), ROL 92,641 million (2003: ROL 90,000 million), CZK 7.1 million (2003: nil), nil USD (2003: USD 6.6 million) and nil SKK (2003: SKK 27.4 million) outstanding at 31 December 2004 (see note 12).

Management periodically reviews the merits of entering into foreign currency hedging contracts or other derivative products, but has not entered into any such contracts.

INTEREST RATE RISK

Interest rates on loans are listed in note 12. Management has not entered into any interest rate hedging contract as management believes the contracted interest rates are favourable for the Company.

CREDIT RISK

Financial assets which may be subject to credit risk consist of short term investments, cash at bank and trade receivables. Short term investments are government securities, cash is held at reputable banks and the allowance for doubtful receivables reflects credit risk on trade receivables. The Company has no significant concentrations of credit risk.

All amounts in million HUF

28 Segment reporting

Geographical segments

DECEMBER 31, 2004

	Operations in Hungary	Operations in Czech Republic	Operations in Slovakia	Operations in Romania	Elimination	Consolidated
Revenue	27,013	5,131	6,119	840	–	39,103
Inter-segment revenue	311	126	–	–	(437)	–
Total revenue	27,324	5,257	6,119	840	(437)	39,103
Profit/(loss) per segment	1,250	386	(18)	(24)	(4)	1,590
Cost to acquire fixed assets	3,097	1,102	1,779	70	–	6,048
Depreciation and amortisation	2,614	535	836	194	–	4,179
Current assets	4,466	1,421	1,016	215	(357)	6,761
Non-current assets	60,711	10,812	14,892	1,393	(22,377)	65,431
Current liabilities	6,870	1,310	2,121	223	(357)	10,167
Non-current liabilities	13,553	3,889	1,359	526	(718)	18,609
Minority interest	469	417	1,321	689	–	2,896
Net assets	44,285	6,617	11,107	170	(21,659)	40,520

All amounts in million HUF

DECEMBER 31, 2003

	Operations in Hungary	Operations in Czech Republic	Operations in Slovakia	Operations in Romania	Elimination	Consolidated
Revenue	24,463	5,388	6,701	335	–	36,887
Inter-segment revenue	426	–	–	–	(426)	–
Total revenue	24,889	5,388	6,701	335	(426)	36,887
Profit/(loss) per segment	3	505	60	(127)	–	441
Cost to acquire fixed assets	1,614	394	351	1,325	–	3,684
Depreciation and amortisation	2,599	550	704	130	–	3,983
Current assets	5,934	1,008	653	253	(437)	7,411
Non-current assets	49,315	13,982	14,090	1,740	(17,809)	61,318
Current liabilities	6,367	1,389	2,319	510	(437)	10,148
Non-current liabilities	12,009	7,010	–	657	(2,441)	17,235
Minority interest	8	404	1,335	715	–	2,462
Net assets	36,865	6,187	11,089	111	(15,368)	38,884

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

Business segments

Management considers hotel and hospitality operations as the only business segment, therefore all amounts included in the financial statements are part of that segment.

RECONCILIATION OF THE PROFIT

Reconciliation of the profit according to the Hungarian Accounting Standards to the profit according to the International Financial Reporting Standards

in million HUF

	Changes in income	
	+	-
Profit after tax according to the HAS	1,124	
Difference in negative goodwill depreciation	243	
Difference in positive goodwill depreciation		196
Exchange rate difference of foreign subsidiaries' revaluation		108
Exchange rate difference of the 43% LLML buy-out	107	
Deferred tax	371	
Other minor items	26	
Profit for the year according to the IFRS	1,567	

CONSOLIDATED STATEMENT OF INCOME

(according to Hungarian Accounting Standards)

HUF 000

				Distribution of revenue %	
	2003	2004	index	2003	2004
Net domestic revenue	38,048,149	38,884,948	102.2%	100%	100%
Capitalized value of own performance	9	80,460			0.2%
Other revenues	450,356	555,351	123.3%	1.2%	1.4%
From this: re-booked loss in value of assets	12,134	6,679	55.0%		
Raw material costs	7,018,039	7,703,151	109.8%	18.4%	19.8%
Value of services used	8,447,099	8,040,920	95.2%	22.2%	20.7%
Value of other services	924,266	1,242,532	134.4%	2.4%	3.2%
Purchase price of goods sold	218,282	160,884	73.7%	0.6%	0.4%
Value of services sold	592,375	643,692	108.7%	1.6%	1.7%
Material-type expenditures	17,200,061	17,791,179	103.4%	45.2%	45.8%
Salaries and wages	9,614,766	10,255,033	106.7%	25.3%	26.4%
Other payments to personnel	885,636	1,123,169	126.8%	2.3%	2.9%
Contribution to salaries and wages	3,419,721	3,619,837	105.9%	9.0%	9.3%
Total payroll and related costs	13,920,123	14,998,039	107.7%	36.6%	38.6%
Depreciation	3,958,338	4,179,233	105.6%	10.4%	10.7%
Other expenditures	1,266,223	1,353,605	106.9%	3.3%	3.5%
From this: loss in value of assets	21,518	44,851	208.4%	0.1%	0.1%
Operating profit	2,153,769	1,198,703	55.7%	5.7%	3.1%
Dividend received from daughter companies	6,813	508	7.5%		
Dividend received from other investments					
Exchange gain on sale of shares					
From this: mother – daughter					
Interest, exchange gain of financial investments					
From this: mother – daughter					
Other interests received	106,541	257,799	242.0%	0.3%	0.7%
From this: mother – daughter					
Other financial income	1,435,006	1,923,295	134.0%	3.8%	4.9%
Revenues from financial activities	1,548,360	2,181,602	140.9%	4.1%	5.6%
Exchange loss of financial investments		2,836			
From this: mother – daughter					
Interests payable	763,968	823,236	107.8%	2.0%	2.1%
From this: mother – daughter					
Loss of value of shares, securities and bank deposits					
Other financial expenditures	1,651,421	1,041,251	63.1%	4.3%	2.7%
Expenditures from financial activities	2,415,389	1,867,323	77.3%	6.3%	4.8%
Financial profit or loss	-867,029	314,279			0.8%
Profit from ordinary activities	1,286,740	1,512,982	117.6%	3.4%	3.9%
Extraordinary revenues	6,096	19,442	318.9%		
Extraordinary expenditures	231,560	113,813	49.2%	0.6%	0.3%
Extraordinary profit or loss	-225,464	-94,371			
Profit before tax	1,061,276	1,418,611	133.7%	2.8%	3.6%
Corporate tax payable	230,070	294,941	128.2%	0.6%	0.8%
Profit after tax	831,206	1,123,670	135.2%	2.2%	2.9%
Dividend payable					
Use of profit reserve for dividends	44,683	204			
Minority interests	-75,347	-2,783			
Net profit as per balance sheet	951,236	1,126,657	118.4%	2.5%	2.9%

CONSOLIDATED BALANCE SHEET

(according to Hungarian Accounting Standards)

ASSETS

HUF 000

Title	2004	
	1 January	31 December
Invested assets	63,022,418	65,960,050
Intangible assets	486,151	428,572
Capitalized value of transformation		
Capitalized value of research and development		
Intangible assets	21,530	5,435
Intellectual products	403,971	318,003
Goodwill		
Advanced payment for intangible assets	60,650	105,134
Revaluation of intangible assets		
Tangible assets	62,200,190	65,224,676
Real estates and related intangible assets	57,117,954	58,944,616
Technical equipment, machinery and vehicles	3,241,973	3,002,950
Other equipment, fittings and vehicles	805,788	760,597
Breeding stock		
Capital projects	1,019,774	2,429,380
Advanced payments for capital projects	14,701	87,133
Revaluation of tangible assets		
Financial investments	336,077	306,802
Long-term shares in daughter companies	220,671	217,670
Long-term loans to daughter companies		
Other long-term investments	15,550	15,450
Long-term loans given to other investments		
Other long-term loans	99,856	73,682
Long-term securities		
Revaluation of financial investments		
Working assets	8,591,600	8,274,275
Stocks	566,818	851,204
Raw materials	508,641	481,054
Work in process, intermediate and semi-finished products		203,294
Livestock		
Finished goods		63,381
Goods	57,482	100,093
Advance payments for stocks	695	3,382
Receivables	2,504,831	2,922,167
Debtors	1,596,396	1,852,005
Receivables from daughter companies	61,924	58,742
Receivables from other investments	12,848	12,848
Bills of exchange		
Other receivables	833,663	998,572
Securities	1,255,401	1,194,230
Shares in daughter companies		
Other investments		
Treasury shares	1,214,223	1,161,021
Short-term securities	41,178	33,209
Total cash and bank	4,264,550	3,306,674
Cash at hand and cheques	141,160	125,061
Bank deposits	4,123,390	3,181,613
Accruals	683,110	631,053
Accruals of revenues	420,839	419,264
Accruals of costs and expenditures	262,271	211,789
Deferred expenses		
TOTAL ASSETS	72,297,128	74,865,378

CONSOLIDATED BALANCE SHEET

(according to Hungarian Accounting Standards)

HUF 000

LIABILITIES

2004		Title
1 January	31 December	
41,055,508	42,621,179	Own capital
8,285,437	8,285,437	Subscribed capital
374,523	374,523	From this: par value of repurchased shares
		Not yet paid subscribed capital
7,138,139	7,138,139	Capital reserve
17,186,840	16,124,044	Profit reserve
1,161,021	1,161,021	Tied-up reserve
		Revaluation reserve
951,236	1,126,657	Profit per balance sheet
4,067,557	6,544,239	Change in subsidiaries' capital
2,265,278	2,241,642	Profit sharing of externalities
741,769	825,756	Provisions
741,769	825,756	Provisions for possible liabilities
		Provisions for possible losses
		Other provisions
30,008,655	30,943,739	Liabilities
5,523,500	5,523,500	Subordinated liabilities
		Subordinated liabilities to daughter companies
		Subordinated liabilities to other investments
		Other subordinated liabilities
5,523,500	5,523,500	Capital consolidation difference from subsidiaries
15,839,395	16,791,415	Long-term liabilities
9,000		Long-term loans
		Convertible bonds
		Liabilities from bond issue
3,906,444	1,900,272	Project loans
11,913,827	14,845,300	Other long-term loans
		Long-term liabilities to daughter companies
		Long-term liabilities to other investments
10,124	45,843	Other long-term liabilities
8,645,760	8,628,824	Short-term liabilities
9,000	9,000	Short-term credits
		From this: convertible bonds
5,028,311	4,010,948	Short-term loans
216,736	305,634	Advance payments from debtors
1,556,658	2,539,148	Creditors
		Bills of exchange
145	30,355	Short-term liabilities to daughter companies
		Short-term liabilities to other investments
1,834,910	1,733,739	Other short-term liabilities
491,196	474,704	Accruals
141,971	26,944	Accruals of revenues
342,230	443,559	Accruals of costs and expenditures
6,995	4,201	Deferred revenues
72,297,128	74,865,378	TOTAL LIABILITIES

The report of the Supervisory Board of Danubius Hotels Rt. related to the 2004 Balance Sheet of the company and the Report of the Board of Directors

The Supervisory Board of Danubius pursued its activities properly and regularly in the 2004 business year, maintaining its quorum with the minimum of 3 members owing to the sad death of Mr Ákos Horváth, according to the approved work schedule. The Supervisory Board submits its 2004 report before the AGM based on the report of the Board of Directors, the report of the independent Auditor and the regular interim control of the operation of the company.

The Supervisory Board obtained from the Board and the management of the company all the information necessary to pursue the tasks set in the related legal regulations and the internal Rules of Procedure. Senior managers of the Rt. participated regularly at the meetings of the Supervisory Board and the chairman of the Supervisory Board attended all meetings held by the Board. The auditor of the company was also invited to the meetings. From practical aspects, members of the supervisory boards of the company and its subsidiaries had joint meetings several times.

The Supervisory Board deemed the operation and measures taken by the Rt. last year to be in line with prevailing legal regulations, the Articles of the company and other internal regulations. The information system and the organisation of the company can ensure the transparency and regular control of the operation of the Rt.

Based on information from the management of the company, the Supervisory Board regularly dealt with the business activities, financial situation and the state of the business plan at its meetings. In the course of this, it discussed the negative effect of the economic recession of the major sending countries on Hungarian tourism, the keen competition owing to the increasing domestic capacity and the consequences of the changes of the domestic system of regulations. The report of the internal auditor was also on the agenda every time.

In addition, the Supervisory Board discussed the following key issues at its meetings held in 2004 in accordance with the approved work schedule:

- The impact of the changes of the Czech tax regulations on the Danubius group profit and the proposal prepared for the modification of the key principles of financing.
- Tasks of the Supervisory Board in connection with the corporate governance guidelines of the Budapest Stock Exchange.
- The state and profitability of foreign investments.
- The plans for the organisational restructuring of the company.
- The organisation and economic efficiency of the central purchasing activities.
- The possibilities of introducing and professional control of quality insurance and standardisation. The observation of food safety regulations.
- The status and development of the spa health activities.
- The mid- and long-term business strategy of the company.

Based on the studied reports of the company and the auditors and the information obtained at the meetings of the committee, the Supervisory Board concluded that:

- the Rt. has pursued its activities by fully observing the prevailing acts and legal provisions,
- the financial obligations were entirely met in line with the plan,
- the capital expenditure and reconstruction projects were implemented according to a proper schedule.

The Supervisory Board discussed the 2004 annual report prepared by Danubius Hotels Rt. in line with the Hungarian Accounting Act and having read the report of the auditor proposes it to the AGM for approval with HUF 57,328,157 thousand total assets and HUF 5,779,620 thousand profit after tax.

The Supervisory Board also proposes for approval the 2004 consolidated financial statement of the Danubius Group prepared based on the Hungarian Accounting Act showing total assets at HUF 74,865,378 thousand and HUF 1,123,670 thousand profit after tax.

Considering the volume of investments and the requirements of financing, the Supervisory Board agrees with the proposal of the Board of Directors regarding the allocation of the achieved profit.

Budapest, 19th April 2005



Tibor Antalpéter
Chairman of the Supervisory Board

THE SUPERVISORY BOARD



Tibor Antalpéter

Chairman of the Supervisory Board from
18 October 2002
Ambassador of the Republic of Hungary to
London from 1990 to 1995.



Dr. Gábor Boér

Deputy Chief Executive Officer of Investor
Holding Rt. since 1990,
Chief Executive Officer of
Interag Holding Rt. since 1997.



Dr. Ákos Horvátth

Deceased in July 2004

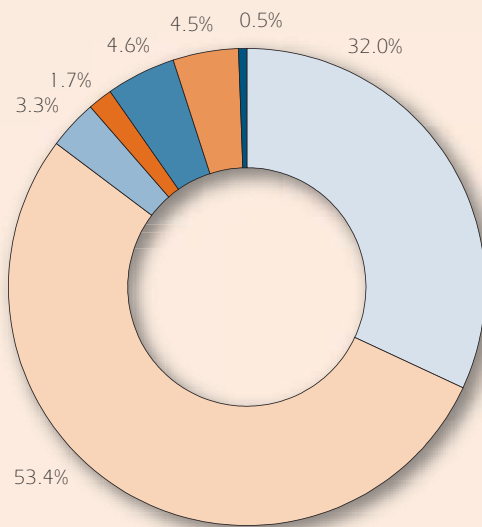


Mrs. Erzsébet Surányi

Worked in the Ministry of Finance from 1967
to 2000; currently Senior Counsellor
in Administration and Tax Advisor.

SHAREHOLDERS' STRUCTURE

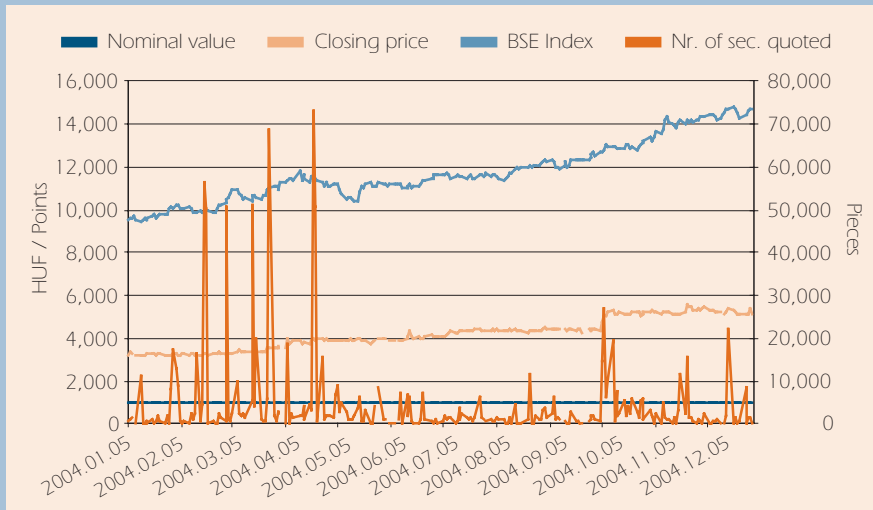
Shareholders' structure
on 31st December 2004



- Foreign Investors
- CP's Investments
- Hungarian Individuals
- Brokerage Firms
- Domestic Firms
- Own Shares
- Danubius Employees

Trading on the Budapest Stock Exchange

	2003	2004
Number of trading days	250	252
Number of deals	4,256	3,448
Number of securities traded	1,356,439	1,042,541
Value of securities traded (HUF million)	4,340	4,145
Average price (HUF)	3,199	3,976
Minimum price (HUF)	2,880	3,200
Maximum price (HUF)	4,000	5,600
Closing price (HUF)	3,305	5,160



Danubius Hotels Rt. plans about 10% revenue increase at consolidated level to HUF 42.9 billion for 2005 based on the international accounting regulations (of which approx. 5% increase arises through including Gundel for a full year in 2005). The company projects HUF 2.6 billion profit before tax. The forecast supposes a stable international environment, similar to the 2004 one. We do not think that the market trends of the previous year would go through any significant changes.

Our Hungarian hotels will achieve the majority of the planned revenue increase, where almost 67% average occupancy is expected in 2005 alongside the increase of average rates, which means hotel revenues going up by 6.4%. As to volume business, Budapest city hotels achieved outstanding figures last year. We aim to keep up this occupancy achieving at the same time higher average rates than the previous year. This is a great challenge on a market struggling with over-supply, therefore, besides carefully increasing our rates we are aiming for increasing the ratio of better paying meeting, incentive, congress and events segment against the leisure guest circle. Over-supply is a serious problem for our country hotels as well and improving the situation in this case will take more time. We are pursuing intensive marketing activities on the traditional German market and searching for new sales channels in other markets. According to our forecast the number of German guests will only stagnate in 2005 assuming the economy does not deteriorate further. However, the number of domestic guests – partly owing to the co-operation with the Health Funds – will continue to go up. We are paying special attention to the improvement of services in our spa hotels. In addition to the traditional health treatments we are continuously developing the range of our services, widening our wellness offers. The beauty and cosmetic services successfully launched last year under the brand name Emporium Beauty will be introduced to several hotels.

The Gundel restaurant and winery will contribute to the performance of the group in 2005 with its entire revenue.

Among our foreign subsidiaries the Czech plans 3%, the Slovak 7% and the Romanian 18% increase of revenue. The number of domestic guests is expected to continue going down in the Czech and Slovakian daughter companies owing to social insurance restrictions. However, the progressive reconstruction works enable us to replace the loss with foreign guests in the increasing number of four-star hotels, simultaneously improving profitability. In Romania last year was the first whole year of operation for the renewed Hotel Sovata, which proved to be very successful. We trust that this dynamic growth continues in the year 2005 too.

Our plans envisage the increase of efficiency of our departmental units in our major subsidiaries in 2005, as there is a possibility to cut costs in several fields, and so these will increase to a smaller extent compared to revenues. The tourism industry is very labour intense, therefore wage type costs represent a major proportion in the group. We will have to face pressure on these costs in the coming years from the labour markets that have become more and more flexible as a result of EU accession, for which reason we will

have to pay special attention to strict head count management and efficient application of outsourcing flexibly adjusting to wages, at the same time we are aware that keeping professionals is becoming a difficult task.

When planning the reconstruction activities our main aspect was the maintenance of our hotels as well as increasing their technical level, which is a must in the present increasing competition. In Hungary we focused primarily on room and bathroom refurbishments and the renewal of health departments; we are planning to carry out reconstructions to the tune of HUF 2 billion in 2005. In order to keep up the high quality of the world famous Gundel restaurant we consider it important to modernise the kitchen. We continue to increase the level of quality in our Czech and Slovak subsidiaries while in Sovata we started the reconstruction and upgrading of Hotel Bradet to a four star level. We are confident that international tourism – in line with projections of the experts – will indeed slowly get back to its growth path and no negative changes will take place in the market that would endanger the realisation of our targets. The management and colleagues of Danubius Hotels Rt. shall continue to do everything in their power to have the hotels operate efficiently to the satisfaction of our guests and shareholders.

DANUBIUS HOTELS RT.
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