



**DANUBIUS HOTELS
GROUP**

Documents of the Annual General Meeting of Danubius Hotels Rt. to be held on 24th April 2006

Danubius Hotels Rt. consolidated B/S and P&L according to IFRS
and not consolidated B/S and P&L according to the Hungarian Accounting Standards



**DANUBIUS HOTELS
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Date:

Monday, 24th April 2006 at 10.00 a.m.

In case the Meeting has no quorum, it is held on Monday, 24th April 2006
at 10.30 a.m.

Place:

**Grand Hotel Margitsziget
(1138 Budapest, Margitsziget)
Ybl Room**

Agenda:

1. To submit and review the 2005 Balance Sheet
 - To receive the Board's report about the 2005 business activities
 - To receive the report of the Auditor on the 2005 B/S
 - To receive the report of the Supervisory Board on the 2005 operating activities and B/S
2. To pass decision on the 2005 profit allocation
3. To inform the Meeting about the 2006 business targets
4. To elect members to the Board of Directors *
5. To modify the Articles **
6. To appoint the Auditor and approve his/her 2006 remuneration
7. To establish the remuneration of the members of the Board of Directors and the Supervisory Board

*: The mandate of the following Board members expires in April 2006 and their election for another five years will be proposed to the AGM:

Sir Bernard Schreier, John Smith, Sándor Betegh, Dr. Imre Deák, Dr. István Fluck, János Tóbiás

** : The modification of the Articles is necessary according to the regulations of the Company Act: the name of Danubius Hotel and Spa Rt. has to be modified to Danubius Hotel and Spa Public Limited Company. The Hungarian, German and abbreviated name of the company also changes accordingly.



**DANUBIUS HOTELS
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REPORT OF THE BOARD OF DIRECTORS
on the consolidated financial statements prepared according to IFRS

Introduction

According to international tourist statistics the growth continued in 2005 and the number of international tourist arrivals recorded a worldwide peak. This shows that various terrorist attacks and natural disasters during the year had no negative global effect. The rate growth reached the yearly level of 5.5% worldwide in 2005 and it was 4% in Central-Eastern-Europe. It is forecasted to reach a worldwide growth of 4-5% in 2006.

Demand has become lively in Hungary as well: the number of hotel guestnights increased by 6.4%, and there were 8.7% more guestnights registered at the spa hotels. At the same time, capacity has increased too, overall, there are 3.5% more room operating than a year earlier, and supply is of a wider scale especially in case of the spa hotels (+9.4%). Price increase commenced on the market, and thus, over the year-end, average hotel room rate exceeded that of the previous year by 11.3%.

The operating profit of the Danubius Group increased by 24.1%: the turnover of the Budapest hotels was remarkable while spa hotels faced market difficulties - both in Hungary and abroad -, still contributing to the improvement of group operating profits.

Profit before tax and minority interest was lagging behind the previous year's by 27.3% as the HUF weakened by 2.8% against the Euro in one year and we had to record a HUF 379 million non-realised exchange rate loss last year against the HUF 989 million non-realised exchange rate gain of 2004. This extent of difference (HUF 1.37 billion) could not be compensated even by the significant improvement of our business results.

Changes in the Danubius Group

The number of affiliated companies increased in August 2005 with CP Regents Park Two Limited in which Danubius acquired 25% interest and concluded a cooperation package agreement with its major shareholder CP Holdings Ltd. concerning Danubius Hotel Regents Park, London. The Q3 and Q4 reports already show the related management support fee revenues and financial expenditures.

In October 2005 the merger of Danubius Beta Hotels Kft and Danubius Hotel Operation and Services Private Co. Ltd. was registered. Beta was formerly a 100% owned subsidiary of Danubius Hotels Rt. It was responsible for the activities of smaller, mainly 2 and 3 star hotels operating primarily on a franchise basis. Following the transformation, Danubius Hotel Operation and Services Private Co. Ltd. undertakes this activity as general successor.

In order to improve the efficiency of the performance of the Hungarian hotels, we transformed Hotel Helikon in Keszthely into a seasonal hotel.

In November 2005 the Danubius Group acquired 1.75% shares which Smrdaky Local Government held in Slovenské Liečebné Kúpele Piestany a.s., and the total share of the group has increased to 89.96%. In December the Group increased its share in Preventív-Security Zrt., the company responsible for the security of the Hungarian hotels from 32.75% to 78.60% so the firm is consolidated again.

The changes in 2004 had an impact on the evaluation of last year's performance:



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The performance of Gundel and Bagolyvár as well as the winery was first consolidated in the 2004 Q4 data, therefore when comparing the 2005 performance of the Group to the basic data this difference will have to be taken into consideration.

The merger of the Hungarian subsidiaries in September 2004 had no effect on the group level profits, but the direct ownership and operation of the properties produced a decrease in the depreciation.

Performance of major subsidiaries

Hungarian hotels achieved 69.1% occupancy in 2005, 3.3% higher than one year earlier. Average rates were HUF 11 309, surpassing that of 2004 by 4.9% and calculating in Euro it shows an even higher increase of 6.4%. We managed to fulfil the volume and average rate growth targeted in the business policy for 2005.

The improvement of the performance of the hotels continued in Q4, especially in terms of average rates. Owing to the seasonal characteristic of hotels, both occupancy and average rates are usually lower in Q4 than in Q3 but this year the increase in average rates started in Q3 continued till the end of the year. This way we achieved in the last three months of the year 0.6% higher average rates than in the July-September period as opposed to the even 10% decrease experienced in earlier years.

The revenues of all departments went up, room and spa sales were remarkable. Hungarian hotels achieved a total revenue of HUF 27.4 billion, surpassing last year's by 6.6%. General costs went up to a smaller extent by 4.8% and almost 70% of the HUF 345 million surplus was due to the increase of the sum spent on energy. Besides those mentioned above, departmental profitability also went up and we achieved HUF 7.59 billion profit at gross operating level in 2005, 11.3% more than last year. The Budapest hotels produced an outstanding performance in 2005. They recorded 73.1% occupancy, 4.3% higher compared to the previous year, owing principally to the widening guest circle of the low cost airlines. This is reflected by the fact that British guest nights in our Budapest hotels went up by 41%, in certain hotels by more than 50% and the increasing number and share of Irish, Scandinavian and Spanish guests is also considerable. In line with our plans we managed to increase average rates (+6.1%), however, there are still reserves in this respect in the market.

2005 was a difficult year for our country spa hotels. The luring effect of the favourable air travel decreased the number of traditional bus tours at the same time the capacity surplus of the recent years caused very keen rate competition. The occupancy of the country spa hotels of Danubius was 73%, exceeding the previous period by 5.4%, which can be recorded as a positive result considering the great number of new market participants. Experience shows that the guests preferring traditional health services, having tried the newly opened hotels return to our ones. The market competition put a pressure primarily on prices: while our average rates went down by 11.5%, average spending fell back only by 5.5% in 2005 but in the last quarter of the year favourable changes unfolded on this market.

Occupancy in the **Czech hotels** was 80.8% in 2005, 5.5% higher than in the previous year. The number of guest nights spent by Russian and Israeli guests was up significantly and an increase was recorded from Germany too (+11%). The HUF weakened against the CzK, therefore the performance of the hotels shows a better picture when calculated into HUF. Average rates calculated in CzK went up by 2.6%, while average spending was down by 2.2% compared to the previous period. Out of the main departmental units only the revenues from room sales improved (by 8.6% calculated in CzK) while profits from F&B and spa were lagging behind compared to 2004. As to general costs, administrative costs and the sum spent on energy also increased (+10 and +25% respectively). At gross operating profit level – calculated in local currency – the Marienbad hotels achieved 2% increase, contributing to the group level GOP by HUF 2.36 billion (HUF +200 million compared to the previous year).



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The **Slovakian** hotels achieved an occupancy of 72.7%, 0.4% higher than in the previous year. Average time spent in the Slovakian hotels is especially long, it exceeded 10 days even in 2005, however, in the last year it fell back considerably (-1.5 days). This is the reason why the guest nights went down by 2.7% while the number of guests was up by 10.5%. Owing to the strengthening of "full service hotel operations" the domestic and Czech guest circle narrowed down (-12.3% and -8.2%). Formerly the number of domestic guest nights was leading the list but in 2005 German guests spent more time in the Slovak hotels (their number stagnated compared to the previous year) and Israeli guest nights represent an increasingly greater share (6%).

The HUF weakened against the SKK too therefore the performance of the hotels shows a better picture in this case when calculated into HUF. Average rates calculated in SKK were up by 5.9% and average spending by 3.5%. Room and F&B sales recorded improving figures but spa results were lagging behind (alongside a fall in revenue and costs). Marketing expenditures grew the most in general costs and the energy cost was also significantly higher (+19%). All in all, the Slovakian subsidiary contributed to group results by HUF 954 million GOP.

The **Romanian** hotels recorded 48.8% occupancy and HUF 5 509 average rate in 2005. In addition to the approx. 20% (HUF 147 million) increase of revenues, departmental profits went up by about 30%. The majority of guests are Hungarians or domestic, representing 46% and 32% respectively in Hotel Sovata. The number of domestic guest nights was up by more than 20% in 2005, unfortunately Hungarian guest nights fell back by the same extent but the German ones increased significantly (by 81%).

Consolidated Balance Sheet

Consolidated asset value was HUF 79.16 billion on 31 December 2005, HUF 6.97 billion higher compared to the previous period. This growth is partly owing to the changes in the IFRS stipulations, as the negative goodwill has been reclassified to retained earnings (to the tune of HUF 3.7 billion). Owing to the acquisition of shares in the London hotel, asset value went up by HUF 1.8 billion and the involvement of Preventív Security Zrt. into the consolidation also increased asset value by HUF 331 million.

Cash and cash equivalents went down by only HUF 33 million. This is partly due to the change in the loans. Cash and cash equivalents were however increased partly by the release of the collateral amount tied up on a separate account in connection with the investment obligation of the Slovakian company. This regrouping is responsible for a part of the decrease in other non-current assets.

The increase in accounts receivable (+194 million HUF) and advance payments from guests (+67 million HUF) are connected to the recovery of the turnover. The income tax receivables line indicates a decrease owing to the use of the advance tax surplus payment of the Hungarian company that was terminated by way of merger in 2004.

The net value of fixed assets went up by HUF 2.1 billion in line with the completed investments less accounted depreciation.

Pursuant to the new IFRS stipulations, investments in the associated companies are shown on a separate line. In the previous period this line showed the value of investment in Preventív Security Rt. This company is entirely consolidated at the end of 2005 due to the share purchase in December. The closing value of investments in associated companies in 2005 (HUF 1 763 million) is the value of the investment in CP Regents Park Two Ltd.

The value of provisions increased by HUF 131 million, which was created by the Hungarian and Slovakian companies.

The Group had Euro 79.9 million and GBP 5.1 million long-term loan on 31 December 2005. The former ROL loan was converted into Euro in July. Our GBP loan taken out from CP Holdings Ltd. was spent on the financing of the share purchase in London.

The entire loans increased by HUF 936 million compared to the previous year, due to the new GBP loan and the loans taken out for the Czech and Slovak reconstruction projects. The Hungarian mother company repaid a significant amount of loan (approx. EUR 9.3 million) in the past year. Both the long-term and short-term loans were affected by the changes in the rate of the Euro.

The value of own capital went up with a total of HUF 5.49 billion because of reclassifying the negative goodwill and putting the profit to retained earnings. The translation reserve increased by about HUF 1.1 billion due to the big exchange rate fluctuations.

Consolidated Profit and Loss

The Group achieved at consolidated level HUF 42.79 billion operating revenue in 2005, 10.1% higher than in the previous year. Lángastronomia Kft. contributed to the profit of the group with its entire year of operation, while in 2004 it was consolidated only in the last quarter causing + HUF 1.48 billion difference in revenue. In addition to this the Hungarian hotels recorded surplus revenue of approx. HUF 1.54 billion and revenue of the foreign subsidiaries went up by HUF 919 million. So revenues in 2005 exceed that of the previous year by HUF 3.94 billion.

In terms of geographical segments the Hungarian company represents the greatest ratio in revenues by 69.7% while 14.7% was produced by the Slovakian, 13.3% by the Czech, and 2.3% by the Romanian subsidiaries.

The operating costs went up by a total 7.9%, and also grew – calculated without Gundel - in the Hungarian, Czech and Slovakian subsidiaries by 3-4%. Efficiency improved in room and F&B sales but we experienced moderate fall back in the spa. General costs were up - with the exception of the Hungarian companies - exceeding the average cost increase. Other expenditures at consolidated level decreased by HUF 100 million, the majority of which was recorded in the Czech and Slovakian companies because of the decrease of the VAT that is to be accounted as expenditure compared to 2004.

The gross operating profit of the Group was HUF 6.61 billion in 2005, 24.1% higher, that is, HUF 1.29 billion higher than last year and is made up of the following items:

Improvement in the Hungarian companies (excluding Gundel)	+ 710 million HUF
Surplus of the contribution of Gundel	+ 192 million HUF
Improvement in the Czech company	+ 413 million HUF
Set back in the Slovakian companies	- 6 million HUF
Set back in the Romanian company	- 25 million HUF

Depreciation at consolidated level is 3.5% higher than last year. Significant investments were carried out in the Czech and Slovak subsidiaries in the past period, therefore 24% and 20% increases were recorded, but depreciation in the Hungarian companies was 7.7% lower owing to the change in the rates because of the direct management of the properties.

Interest costs did not change considerably, but the value of received interests decreased to its fifth, because owing to our loan repayment obligation we had less cash compared to 2004 and interest rates were also lower. The share from profit of associated companies line is in connection with the CP Regents Park Two Limited.

Under the effect of all the above mentioned, the ordinary activities of the Group in 2005 – before minority interests – was HUF 1.51 billion, which is significantly higher than last year's HUF 565 million. Unfortunately, the profit after accounting exchange rate differences decreased to HUF 1.13 billion, by 27%. The reason for this is that the HUF weakened against the Euro, consequently we had to account HUF 379 million unrealised exchange rate loss on our loans, receivables and liabilities against the significant unrealised rate gain in 2004.

Reconstruction works, renewals

This year our attention continued to be focused on the technical improvement of our hotels as well as the increase of the quality of guest areas. Such works have been completed particularly in the spa hotels. We spent a total of HUF 2 224 million on reconstruction works in our Hungarian hotels in 2005.

At the beginning of the year the hotel lobby underwent a major refurbishments in the Budapest Hilton. Alongside the renewal of the engineering background, the lobby bar was replaced and a brighter lounge area of more modern design was created with magnificent view over the Danube.

We continued the reconstruction of the historical wing of Hotel Astoria this year, too. In the spring we finished the complete refurbishment of the rooms and corridors on the upper three floors and several changes have been implemented with the aim of improving and increasing the comfort and services of the building. The reconstruction of the three lower guest floors was started in Q4, one guest floor was completed till the year-end and works are scheduled to be completed in 2006.

In order to enhance the efficiency of the patisserie production, a central patisserie has been arranged in the Grand Hotel Hungária, to provide the Budapest hotels with semi-finished products. The new confectionery workshop is furnished with modern machines and equipment.

In the kitchen on the restaurant level of Hotel Stadion the equipment for the new cooking island was installed and a new cooling chamber was also built in.

In Hotel Helia and Hotel Flamenco we have extended and reconstructed the swimming pool and sauna areas, which became necessary because of the increased guest turnover.

In addition to those listed, we have completed bathroom refurbishments, carpet changes, and elevator modernisations in several Budapest hotels (Astoria, Flamenco, Béke, Budapest, Stadion, Grand Hotel Hungária, Thermal Hotel Margitsziget).

In our country hotels the reconstruction of the health-spa areas continues to claim priority.

In the framework of this project we expanded the spa reception area in Hotel Aqua in Hévíz and through building an outside annex we have established four new treatment rooms adjacent to the mud packing room renewed last year and a further 30 guest rooms were refurbished. Continuing the spreading of the new Danubius beauty brand, Emporium, first launched in the Lövér in Sopron, a new 300sqm beauty salon was arranged in Thermal Hotel Hévíz. In this same hotel we built a multifunction conference room complex of exclusive finish.

In Sárvár with the aim of cutting energy costs we replaced the city district heating service by building a boiler house. The swimming pool area has been re-arranged and it now boasts a new rest area, sauna and aroma chamber and a new exit was opened up to a brand new terrace.

In Thermal Hotel Bük we have executed the complete reconstruction of the entire 6th floor: reconstruction and refurbishing the rooms and bathrooms and renewing the corridors. Considering the former part reconstructions too, 60 % of the rooms have been completed.

The garden surrounding Hotel Lövér in Sopron has a new landscape, a new garden pool, pétanque and children's play ground was arranged as well as new walk ways with flood lights.

The Balaton hotels have been successful in winning state subsidy with the help of which we have scoured the bottom of the lake at the beach areas. Before the beginning of the high season the room refurbishment of 59 rooms was completed in Hotel Helikon in Keszthely while in Hotel Annabella in Balatonfüred 66 bathrooms were successfully refurbished and a new conference room was added. In the Marina a new exit to the beach was established for disabled guests partly from application funds.

The first phase of the overall reconstruction of Hotel Nádor in Pécs came to an end. The façade was renewed and the structure of the building was strengthened and the modern underground parking area to park 65 cars was opened.

In Marienbad we continued the upgrading of hotel rooms and the widening of services. In Hotel Pacifik we refurbished a number of room units and we constructed a swimming pool together with a spa department. In Hotel Villa Butterfly a congress room and new hotel entrance were built and a new swimming pool and whirlpool were also developed. A new pipe for mineral water was established which makes it possible to offer new treatments in this hotel from 2006. External works (e.g. cleaning of the facade of Hotel Hvezda started) and renewing of certain sections of the heating system were carried out. The refurbishment of Centralni Lázně was launched in December, which includes 107 rooms, the restaurants, kitchen and balneo area. For the reconstruction and refurbishment works we spent a total of CZK 161 million (HUF 1.4 billion) in 2005.

We spent SKK 199 million (HUF 1.3 billion) on reconstructions and renewals **in Piestany and Smrdaky** in 2005. Following the completion of the reconstruction of Hotel Palace, the two most significant projects were the renewal of the outdoor and indoor pool area as well as the overall reconstruction of the kitchen in Hotel Balnea Esplanade. A new entrance hall was established in the II. spa block, some massage rooms were refurbished and we had the future design of the lobby and corridors planned. Plans for the reconstruction of Thermia Palace are completed and the tender procedures were started.

In **Sovata**, the bathing platform at Lake Medve and several health treatment rooms have been renewed and some works have been completed on the lake-beach at Lake Mogyorósi with the aim of increasing quality. Plans for a part of the works to be implemented in 2006 were completed: for the strengthening of the lake-beach at Lake Mogyorósi and the renewal of certain catering outlets on the beach at lake Medve.

Ownership structure, Stock Exchange trading and changes in the organisation

According to 31st December 2005 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%).



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Foreign financial investors own a further 36.17% of the shares of which British Empire Securities and General Trust Plc. represents 6.29% of shareowners. The shares of the employees of the company represent 0.32%, and the company continues to own 4.52% own shares. Domestic private persons, institutions and pension funds own 5.59% of the equities.

A total of 2 582 deals were made for 909 710 shares of Danubius Hotels Rt. on 252 trading days to the tune of HUF 4 891 million in 2005 producing an average share price of 5 377 HUF/share, alongside 4 355 HUF/share minimum and 6 000 HUF/share maximum price. The number of volume traded was 12.7% down compared to the previous year, however, we experienced 18% increase in the value traded, as the yearly average price was 35.2% higher than in 2004. The closing price in 2005 was HUF 5 845, 13.3% exceeding the prior year.

Changes taking place in the companies belonging to the Group in the course of 2005 were shown in the "Changes in the Danubius Group" part.

A new member, Dr András Gálszécsey was elected to the Supervisory Board at the AGM held on 21 April 2005 and with this the number of Supervisory Board members increased to four.



**DANUBIUS HOTELS
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BALANCE SHEET 2005 (not consolidated)

Hungarian Accounting Standards

ASSETS		LIABILITIES				million HUF
Title	2005		2005		Title	
	1 January	31 Dec.	1 January	31 Dec.		
Invested assets	53 701.475	54 772.664	38 488.261	37 515.985	Own capital	
Intangible assets	255.081	286.560	8 285.437	8 285.437	Subscribed capital	
Cap.value of transformation			<i>374.523</i>	<i>374.523</i>	From this: repurchased share	
Cap.value of exper., developm.					Not yet paid subscrib. capital	
Intangible assets	0.006	0.002	7 138.139	7 138.139	Capital reserve	
Intellectual products	149.941	227.508	16 124.044	21 903.664	Profit reserve	
Goodwill			1 161.021	1 161.021	Tied-up reserve	
Advance payment for intang.a.	105.134	59.050			Revaluation reserve	
Revaluation of intang.assets			5 779.620	-972.276	Profit per balance sheet	
Tangible assets	7 054.709	6 875.373	0.000	140.000	Provisions	
Real estates and rel. intanq.ass	6 991.280	6 767.746		140.000	Provision for possible losses	
Techn. equipments, machines	27.544	73.035			Provision for possible liability	
Other equipments, accessoire	19.729	19.763			Other provisions	
Breeding stock			18 642.962	18 660.136	Liabilities	
Capital projects	16.156	14.829	0.000	0.000	Subordinated liabilities	
Advance payments for projects					Subord. liab.to daughter co	
Revaluation of tangible assets					Subord. liab.to other investm.	
Financial investments	46 391.685	47 610.731			Other subordinated liabilities	
Shares in daughter co-s	38 902.680	40 823.567	14 905.539	15 722.231	Long term liabilities	
Loans to daughter co-s	7 472.451	6 770.515			Long term loans	
Other investments	15.218	15.217			Convertible bonds	
Loans given to other investm.					Liability from bond issue	
Other long term loans	1.336	1.432	1 418.987		Project loans	
Long term securities			13 486.552	15 722.231	Other long term loans	
Revaluation of financ. investm.					Long t. liab. to daughter co-s	
Working assets	3 544.051	1 661.543			Long t. liab. to other investm.	
Stocks	0.916	0.006			Other long term liabilities	
Raw materials			3 737.423	2 937.905	Short term liabilities	
Intermed. & semi-finished prod			9.000		Short term credits	
Livestocks					From this: convertible bonds	
Finished goods			3 252.127	2 309.767	Short term loans	
Goods	0.916	0.006	23.140	11.712	Advance paym. from debtors	
Advance payments for stocks			65.076	107.106	Creditors	
Receivables	2 297.476	441.868			Bills of exchange	
Debtors	64.785	10.152	28.030	356.457	Short t. liab. to daughter co-s	
Amounts owned by daugh.co-s	2 175.730	158.692		0.342	Short t liab. to other investm.	
Amounts owned by other inv.	12.848	12.848	360.050	152.521	Other short term liabilities	
Bills of exchange			196.934	203.504	Accruals	
Other receivables	44.113	260.176			Accrual of revenues	
Securities	1 161.021	1 161.021	195.390	202.034	Accrual of costs and expend.	
Shares in daughter co-s			1.544	1.470	Deferred revenues	
Other investments						
Treasury shares	1 161.021	1 161.021				
Short term securities						
Total cash and bank	84.638	58.648				
Cash at hand	1.318	0.643				
Bank deposits	83.320	58.005				
Accruals	82.631	85.418				
Accruals of revenues	49.387	54.903				
Accruals of costs and expend.	33.244	30.515				
Deferred expenditures						
TOTAL ASSETS	57 328.157	56 519.625	57 328.157	56 519.625	TOTAL LIABILITIES	



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PROFIT AND LOSS STATEMENT 2005 (not consolidated)
Hungarian Accounting Standards

million HUF

				Distribution in revenue %	
	2004	2005	index	2004	2005
Net domestic sales revenue	2 809.049	2 890.003	102.9%	100%	100%
Cap.value of own performance					
Other income	12.100	8.368	69.2%	0.4%	0.3%
<i>From this: rewritten loss of value</i>					
Raw material costs	33.048	29.396	88.9%	1.2%	1.0%
Value of services used	927.940	906.840	97.7%	33.0%	31.4%
Value of other services	39.151	48.374	123.6%	1.4%	1.7%
Purchase price of goods sold					
Value of services sold	680.337	463.890	68.2%	24.2%	16.1%
Material-type expenditures	1 680.476	1 448.500	86.2%	59.8%	50.1%
Salaries and wages	842.071	831.038	98.7%	30.0%	28.8%
Other payments for personnel	144.795	147.122	101.6%	5.2%	5.1%
Contribution to salaries and wages	309.057	305.361	98.8%	11.0%	10.6%
Total payroll and related costs	1 295.923	1 283.521	99.0%	46.1%	44.4%
Depreciation	412.371	391.572	95.0%	14.7%	13.5%
Other expenditures	147.091	268.997	182.9%	5.2%	9.3%
<i>From this: loss of value</i>					
Operating profit	-714.712	-494.219			
Dividend and profit sharing receiv.	8.132	18.095	222.5%	0.3%	0.6%
<i>From this: mother - daughter</i>	<i>8.132</i>	<i>11.164</i>	<i>137.3%</i>	<i>0.3%</i>	<i>0.4%</i>
Exchange gain on sale of shares					
<i>From this: mother - daughter</i>					
Interest, exch.gain of inv.fin.assets					
<i>From this: mother - daughter</i>					
Other interests received	411.907	285.117	69.2%	14.7%	9.9%
<i>From this: mother - daughter</i>	<i>288.305</i>	<i>279.427</i>	<i>96.9%</i>	<i>10.3%</i>	<i>9.7%</i>
Other financial income	1 107.247	364.479	32.9%	39.4%	12.6%
Financial income	1 527.286	667.691	43.7%	54.4%	23.1%
Exchange loss of inv.financial asset					
<i>From this: mother - daughter</i>					
Interests payable	504.382	613.601	121.7%	18.0%	21.2%
<i>From this: mother - daughter</i>		<i>0.820</i>			
Loss of value of share, sec., deposit					
Other financial expenditures	316.909	606.101	191.3%	11.3%	21.0%
Financial expenditures	821.291	1 219.702	148.5%	29.2%	42.2%
Financial profit or loss	705.995	-552.011			
Profit from ordinary activities	-8.717	-1 046.230			
Extraordinary income	27 476.867	278.486			
Extraordinary losses	21 688.530	190.697		772.1%	
Extraordinary profit or loss	5 788.337	87.789			
Profit before tax	5 779.620	-958.441			
Taxes payable		13.835			
Profit after tax	5 779.620	-972.276			



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CONSOLIDATED BALANCE SHEET OF DANUBIUS HOTELS RT. 2005

IFRS

million HUF

Assets	2004 31st Dec	2005 31st Dec	Index %
Cash and cash equivalents	2 396	2 363	98.6%
Accounts receivable	1 695	1 889	111.4%
Other receivables and prepayments	1 435	1 489	103.8%
Income tax receivables	391	189	48.3%
Inventory	844	884	104.7%
Total current assets	6 761	6 814	100.8%
Property, plant and equipment	65 573	67 687	103.2%
Intangibles	-1 857	2 111	
Investments in associates	31	1 763	
Other non-current assets	1 282	235	18.3%
Deferred tax assets	402	554	137.8%
Total non-current assets	65 431	72 350	110.6%
Total assets	72 192	79 164	109.7%

Liabilities and Shareholders' Equity	2004 31st Dec	2005 31st Dec	Index %
Trade creditors payable	2 093	2 327	111.2%
Advanced payments from guests	366	433	118.3%
Income tax payable	262	215	82.1%
Other payables and accruals	2 535	2 716	107.1%
Interest-bearing loans and borrowings	4 202	2 769	65.9%
Provision	709	840	118.5%
Total current liabilities	10 167	9 300	91.5%
Interest-bearing loans and borrowings	17 068	17 609	103.2%
Loan from related party		1 828	
Deferred tax liabilities	1 541	1 524	98.9%
Total long-term liabilities	18 609	20 961	112.6%
Total liabilities	28 776	30 261	105.2%
Share capital	8 285	8 285	100.0%
Capital reserve	7 435	7 435	100.0%
Treasury shares	-1 162	-1 162	
Retained earnings	24 666	29 134	118.1%
Translation reserve	1 296	2 400	185.2%
Equity excluding minority interest	40 520	46 092	113.8%
Minority interest	2 896	2 811	97.1%
Total shareholders' equity	43 416	48 903	112.6%
Total liabilities and shareholders' equity	72 192	79 164	109.7%



**DANUBIUS HOTELS
GROUP**

**CONSOLIDATED PROFIT AND LOSS STATEMENT
OF DANUBIUS HOTELS RT. 2004**

IFRS

million HUF

	2004	2005	Index %
Revenue			
Room revenue	18 591	20 462	110.1%
Food and beverage revenue	12 502	14 371	114.9%
Spa revenue	5 050	5 242	103.8%
Other minor departments revenue	2 398	2 454	102.3%
Other revenues	306	256	83.7%
Total operational revenue	38 847	42 785	110.1%
Cost and Expenses			
Cost of room sales	3 904	4 114	105.4%
Cost of food and beverage sales	9 183	10 319	112.4%
Cost of spa sales	2 168	2 254	104.0%
Cost of other minor department sales	2 679	2 837	105.9%
Administrative and General	14 166	15 328	108.2%
Other expenditures	1 421	1 321	93.0%
Total operational costs and expenses	33 521	36 173	107.9%
Operational profit	5 326	6 612	124.1%
Depreciation	4 179	4 324	103.5%
Interest received and other financial revenues	256	57	22.3%
Interest paid and other financial expenditures	-838	-843	100.6%
Share of profit (loss) of associates		6	
Profit from ordinary activities before unrealised foreign currency gain (loss)	565	1 508	266.9%
Unrealised foreign currency gain (loss)	989	-379	
Profit from ordinary activities before income tax and minority interests	1 554	1 129	72.7%
Tax expenses / (benefits)	-13	248	
Net profit after tax	1 567	881	56.2%

PROFIT ALLOCATION

The Board of Directors of Danubius Hotels Rt. does not recommend the payment of dividend to the burden of the 2005 profit, as it intends to continue the utilisation of its sources for capital investments that are indispensably required for us to successfully meet the market challenges and hold our ground amongst fierce competition.

ELECTION OF THE MEMBERS OF THE BOARD OF DIRECTORS

The mandate of

- Sir Bernard Schreier,
- John Smith,
- Sándor Betegh,
- Dr. Imre Deák,
- Dr. István Fluck and
- János Tóbiás

elected for five years at the 27 April 2001 general meeting terminates this year.

The Board expresses its thanks to the members for the work of the past five years and requests the general meeting to renew the mandate of the said members for the next five years.

MODIFICATION OF THE ARTICLES

The modification of the Articles set forth below is necessary according to the regulations of the Company Act.

Articles in effect

I. Firm name, seat, type of operation of the company

1.1. Firm name of the company:

Firm name of the company in Hungarian:
Danubius Szálloda és Gyógyüdülő Rt.

Firm name of the company in English:
Danubius Hotel and Spa Rt.

Firm name of the company in German:
Danubius Hotel und Kurbad Rt.

Abbreviated name of the company:
Danubius Hotels Rt.

Proposal for the amendment

I. Firm name, seat, type of operation of the company

1.1. Firm name of the company:

Firm name of the company in Hungarian:
Danubius Szálloda és Gyógyüdülő
Nyilvánosan Működő Részvénytársaság
Firm name of the company in English:
Danubius Hotel and Spa Public Limited
Company

Firm name of the company in German:
Danubius Hotel und Kurhotel Offene
Aktiengesellschaft

Abbreviated name of the company:
Danubius Hotels Nyrt.



**DANUBIUS HOTELS
GROUP**

BUSINESS TARGETS 2006

Danubius Hotels Rt. reckons with a stable international market environment in 2006 and that incentive to travel remains strong therefore plans to increase its group level revenues as well as its profits.

The company worked out a new middle-term strategy, the goal of which is to increase awareness of Danubius and strengthen its market position both on the domestic and international markets. In order to achieve this, we reposition our hotels and group hotels of similar profile to two new brands in the future. With this step, we intend to ensure a better identification of the hotels and the standardisation of the services offered.

Traditional spa hotels represent our major strength by offering complete health spa services as integrated part of the hotel, at the same time, quality wellness facilities. With the brand name "Danubius Health Spa Resort" we intend to draw more attention to both the domestic and international spa hotels of the group. Our top quality city hotels will be branded "Danubius Hotels". With this brand we aim primarily at individual business and leisure guests looking for quality services and we especially focus on the organisation of conferences and events. We find it increasingly important to emphasise that the hotels not included in the above brands also belong to the group under the name "Member of the Danubius Hotels Group". In addition to the high quality standard Danubius services, the unique character and special values of certain hotels are also pointed out. This is marked by the "Classic Collection" sub-brand, which will be used for certain hotels of Danubius Health Spa Resort or Danubius Hotels brands located in historical buildings recalling the atmosphere of the last centuries. Alongside establishing the brands, we will modify the organisational structure too: the current focus on geographical structure will be turned to the operation of a service centred organisation.

The introduction of the brand names and the strengthening of the market position are expected to have a positive impact on our business figures in the middle-term but we expect to see improvement from the 2006 price strategy and marketing activities too.

We are planning revenues of our hotels in Hungary to go up by 5%. The competition among 4-5-star hotels still remains to be keen in Budapest but the occupancy of Danubius hotels in the last couple of years was outstanding. For 2006 we already targeted the increase of average rates. In order to achieve this, we concentrate our marketing activities principally on segments realising higher average spending, conference, individual business and leisure guests. In case of spa hotels the years of occupancy decrease came to a stop in 2005 and in 2006 there is a chance of a moderate increase of average rates. It remains to be our special task to replace the lessening German guest turnover. We apply ads on our domestic market directly for the guests, we optimise our system of discounts and intensify our business acquisitions to utilise the potential of the Russian market. We strive to keep the volume of guests in our Balaton hotels: we modified the offer in Hotel Marina for a trial period we offer all inclusive services to our guests staying in the hotel in the main season.

Our sales strategy lays stress upon contacting domestic guests directly, while abroad we continue to strengthen our presence through representations. Internet bookings represent a growing ratio in reservations but there is still great potential in this channel. We endeavour to direct all Internet bookings to the homepage of Danubius to be able to offer the guests a wide variety of possibilities.

We continue to carry out reconstruction works in the future too by monitoring on the maintenance of the buildings and improving quality, mainly completing room and bathroom refurbishments. The



**DANUBIUS HOTELS
GROUP**

overall reconstruction of Hotel Astoria will be completed in 2006 and plans are in the pipeline for preparations for the capital expenditure project on Hotel Gellért.

In the Czech Republic and Slovakia the number of domestic guests financed by the health insurance is likely to decrease further. The lacking turnover can be compensated on the one hand by guests arriving from the EU also financed by the health insurance, on the other hand with the lately increasing number of Russian guests as well as short stay, mostly week-end visitors, the number of whom has recently been going up.

All this makes an average rate increase possible in the Czech Republic, so we are expecting a revenue increase of 4.8% in Czech crowns. We continue to up-grade the hotels in Marienbad by carrying out reconstructions, developing the health-spa departments and complementing these with wellness and swimming pool areas.

In Slovakia the revenue shortage due to closing down of the Thermia Palace owing to an overall reconstruction project and the keen competition does not allow much increase of average rates, therefore revenues (in Slovakian crowns) are planned at the similar level to 2005.

In case of the Romanian hotels, we forecast more than 10% growth in revenues (in Romanian LEI) and as compared to last year's moderate occupancy we are expecting to reach the level of 2004 again while also planning an increase of average rates. We intend to achieve this alongside intense marketing activities by widening the selection of offers and by focusing on increasing the ratio of meeting and conference segments.

The London based Danubius Hotel Regents Park contributes significantly to strengthening awareness of the name Danubius on the international market. In 2006 by refurbishing the common areas we are planning continued increase of quality.

When preparing our forecast we calculated with a yearly average of 245 HUF against EUR rate and supposed that the HUF would strengthen against the CZK and the SKK. We are planning HUF 44.1 billion revenue, meaning 3.1% improvement at group level for the year 2006. In the course of operations, we are continuously monitoring the movement of costs, the new service centre based organisational structure also promotes the increase of efficiency so we are forecasting the growth of operating profit by 8%. Owing to the decrease of depreciation and financial items, this will mean HUF 2.65 billion profit before tax at consolidated level, excluding foreign exchange difference arising from the revaluation of liabilities. The realisation of our forecasts depends greatly on the stability of tourism and the movement of certain currencies primarily the EUR.