DANUBIUS HOTELS GROUP

ANNUAL REPORT 2007

DANUBIUS HOTELS GROUP

Contents

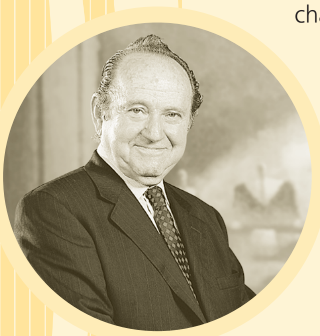
DANUBIUS HOTELS GROUP

Dear Shareholders,

Following the positive developments of 2006, 2007 proved to be a year of consolidation in a challenging environment. Strong local currencies had a detrimental effect on our revenues which are mostly priced in Euro, the political polarisation in Hungary continued to place doubts in the minds of potential visitors and competition intensified with continuing investment in new hotels outstripping demand in Budapest and many of our spa locations. Then, in the last quarter, the severity of the US sub prime crisis started to become clearer.

Despite all these factors, it is a really creditable achievement that our operating profits were up 7% over 2006 at nearly HUF 3 billion. The fact that these profits were achieved on revenues no higher than 2006 demonstrates the close attention we paid to cost control during the year. Our profit before tax was similar to last year's level reflecting higher interest costs on the funding of our significant developments in 2006.

Looking at the individual countries in which we operate, 2007 was a difficult year in Hungary. We made progress in improving our market share in the business segment, but leisure and health spa demand fell back and the number of foreign guests, especially British and American visitors, decreased. The fall in the number of German visitors also continued, not just in Hungary but across all our markets, primarily due to the slow German economy and the impact on spa guests of changes in the pension and insurance system. In order to address this, we restructured our foreign representations, particularly in Germany, and also implemented a much more flexible, demand orientated pricing system, taking full advantage of the growth in internet business. It is also encouraging to report a positive trend in the Hungarian domestic market, where guest numbers continue to increase.



In the Czech Republic, our Marienbad hotels significantly improved profitability over the previous year. This performance was under-pinned by real success in penetrating new markets, especially Russia, which accounted for 20% of guest numbers, and off-set the decline in German spa guests. The new leisure pool in the Hvezda and the unique Nové Lázné / Centrální Lázné spa complex of 206 rooms, now joined by a scenic corridor, have been particularly well received.

In Slovakia, the market continued to be difficult and whilst revenues increased on the back of our significant investment programme including the re-opening of the five star Hotel Thermia Palace, costs increased faster. Much work remains to be done to continue the repositioning of Piestany on the market so as to improve average rates and achieve an acceptable level of profitability.

Our Romanian subsidiary in Sovata continued to go from strength to strength and now that Romania has joined the European Union, we expect this positive trend to continue. In 2007, Sovata doubled its contribution to group profits, which is extremely encouraging particularly as we bought of the main minority shareholder in this business last June.

In London, Danubius Hotel Regents Park performed ahead of budget and continues to play an important role in promoting the Danubius name internationally. Despite some delays, new programmes have now been agreed for the UK spa hotel developments in Bath and Buxton and the main construction contract on Bath is expected to commence in the third quarter. Danubius will be the operator of these properties.

Significant progress was made during 2007 in implementing our brand strategy and standardising the appearance and operation of our hotels and health spas. The special importance of improving quality in everything we do remains a key goal and will continue to lie at the heart of our new strategy for the next three years.

Our reconstruction programme in 2007 was directed to adjusting our facilities to the demands of modern guests and market trends. Our health spa services have been further developed by the addition of new wellness and relaxation facilities in all countries – a good example would be the popular outdoor leisure pool in Hévíz. In Budapest our investments were particularly focused on the business market. A major development in process is the planned up-grading of Hotel Stadion to a four star level on the back of extensive new conference facilities. A conference complex seating 500 people was also developed in Sovata in 2007.

One major project in 2008 and 2009 will be the introduction of the new business technology project. In Hungary, all software systems affecting hotel operations will be replaced step-by-step and the process will then be rolled out to our foreign subsidiaries. This will be a major investment of about EUR 6 million, but, in today's highly competitive business environment, we are convinced that state of the art systems will simplify our processes, improve standardisation and the impact of our branding programme, and provide a real edge to our marketing. These new systems, together with a new website which will be launched in 2008, will be fundamental to our future success.

I would like to take this opportunity to inform you about the investment of CP Holdings in Danubius Group. Following the public purchase offer made in August 2006, CP has continued to increase its shareholding. At the end of 2007 CP Group owned, directly and indirectly, 75.1% of shares representing voting rights.

Looking to the future, I must say that I am concerned by certain international developments as well as by the situation in Hungary. I have already mentioned the problems of the US sub prime mortgage market which have now spiralled into the worst financial crisis for many, many years. In addition most of our main costs are subject to pressures we cannot control. Energy saving is one of our main priorities, but, led by an all time high oil price, energy costs continue to race ahead. Commodity costs, especially food, are increasing fast in the face of higher demand from the developing world. In terms of wages, there is constant pressure as employees in all countries in which we operate seek higher living standards. The position is particularly concerning in Hungary where inflation is still a problem despite the weakness of the economy and the political divide continues to create an uncomfortable and uncertain situation whether viewed from within Hungary or through the eyes of international travellers.

At the present time, no-one can predict the full impact of these issues on our business. We continue to work on the Gellért development project and, in conjunction with the Budapest Spa Company, work will soon start on renovating part of the façade. Many other important developments are also under preparation and we have a clear plan to make further progress in many aspects of our operations in 2008. But we must also acknowledge the difficult economic environment and be sure that we can cope with any adverse repercussions on our business. We believe strongly in the long term future of Danubius and for this reason wish to continue to reinvest funds in the development of our assets and our business.

Finally, I would like to thank all who have a stake in the future success of Danubius Hotels Group. Our shareholders, our business partners, the whole of our team at Danubius and not least of course our guests. There remains a lot of hard work needed to improve our results, but I can assure you that our management is totally committed to this end.

April, 2008

Sir Bernard Schreier, Chairman of the Board

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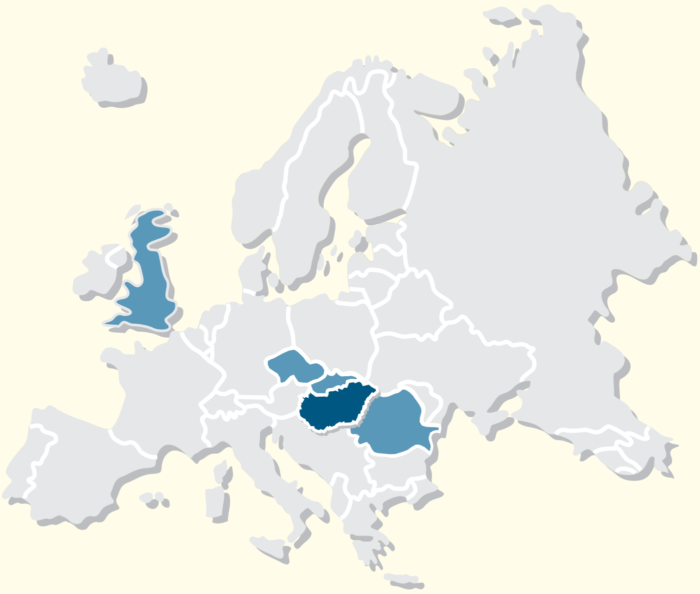


Hungary

United Kingdom

Czech Republic

Slovakia

Romania

5 countries

more than 8600

hotel rooms

Central Europe's largest health spa hotel chain

DANUBIUS
HEALTH SPA RESORTS

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

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

Danubius Health Spa Resort Sovata upgraded to a four star hotel

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

2007

Quality in focus
in our health spa resorts

DANUBIUS
HOTELS

improvement
of conference
quality

new coffee breaks

dedicated banquet
specialists

2007

Quality in focus
in our city hotels

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

Classic Collection

DANUBIUS HOTELS GROUP

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

2007

Quality in focus

in our hotels with tradition, style & elegance

The Board of Directors

Sir Bernard Schreier

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

Alexei Schreier

Director of CP Holdings Limited

Iris Gibbor

Director of CP Holdings Limited

John Smith

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

Robert Levy

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

Sándor Betegh

Chief Executive Officer of
Danubius from 1990
till 2006

Dr. Imre Deák

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

János Tóbiás

Vice President, Finance
of Danubius
as of 1991

Ing. Lev Novobilsky

General Manager of
Léčebné Lázně a.s.

József László

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

Dr. István Fluck

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

The Supervisory Board

Tibor Antalpéter

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

Dr. Gábor Boér

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

Mrs. Erzsébet Surányi

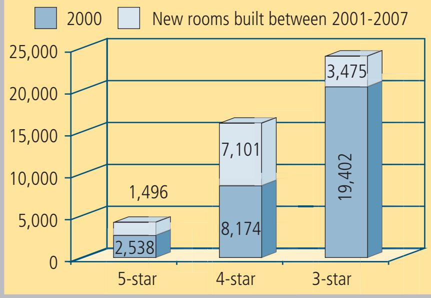
Worked in the Ministry of Finance
from 1967 to 2000; currently Senior Counsellor
in Administration and Tax Advisor;
member of the Supervisory Board till May 2008

Dr. András Gálszécsy

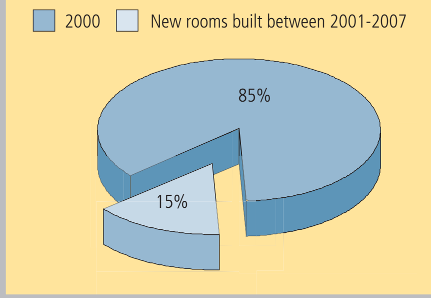
Retired minister

The long-term trend of Hungarian tourism shows that hotel capacity especially in four and five star category is expanding from year to year parallel to which the number of guest nights is also increasing. Hotel capacity went up compared to the year 2000 by 17%, meanwhile, demand was up by 21%. This tendency was experienced in the five and three star category, at the same time, the 87% increase of four star hotel rooms was coupled with only 78% increase in the number of guest nights.

Increase of the number of hotel rooms in the period 2000-2007



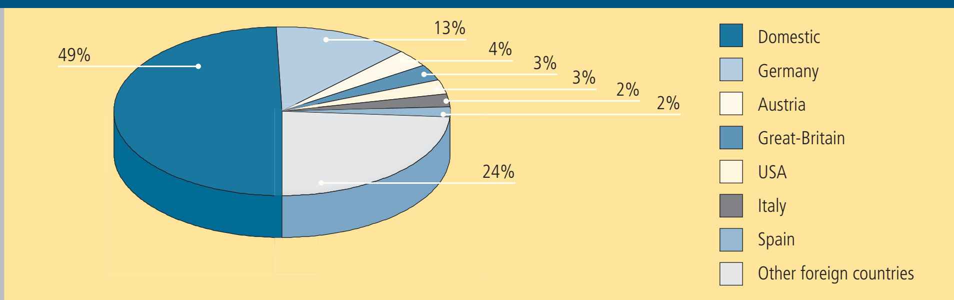
Increase of the number of hotel rooms in the period 2000-2007



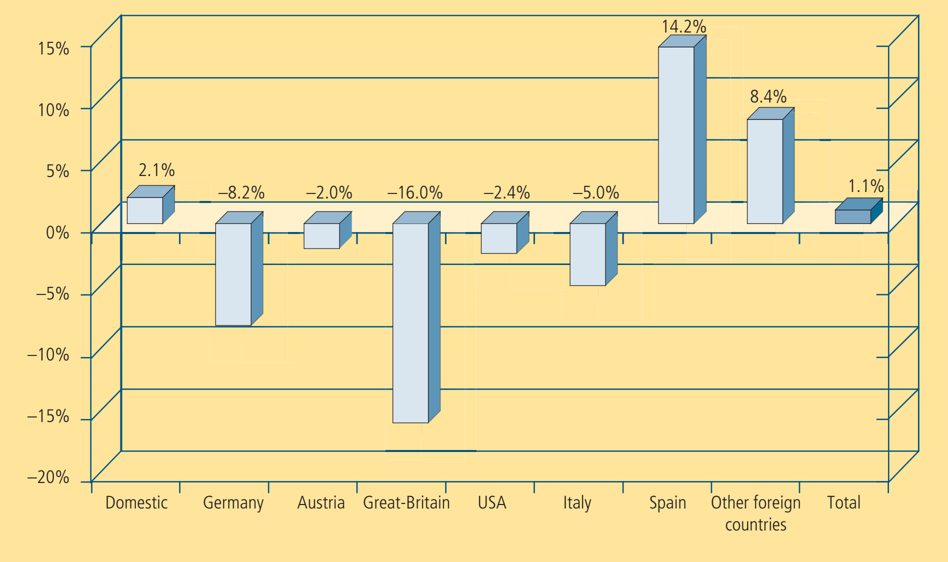
Two thousand and three hundred hotel rooms were completed in 2007, of which 500 was opened in spa- and wellness hotels. As to demand the trend of the recent years continued: demand from abroad stagnated in 2007, while domestic turnover was up by 4.5%. This resulted in 2% total increase of guest nights.

The length of stay decreases from year to year. This is partly owing to the increase in the proportion of domestic guests traditionally staying for a shorter period of time mainly for long weekends. The other factor is that the ratio of guests arriving from the German language territory, who spend a longer time even several weeks in Hungary, primarily with health spa tourism purposes, represents a declining ratio among the foreign demand. The shorter stays by foreigners with focus on city sight seeing start to make up a greater ratio, although the appearance of this guest circle is largely influenced by the frequency of budget airlines. This factor did not have a positive impact on Hungarian tourism in the recent years especially British demand fell back significantly by 16%. At the same time the number of guests arriving from Spain and Ireland saw an increase, and demand for Hungarian accommodation places from the surrounding countries also went up (e.g. from Slovakia and Slovenia by 27%, from the Czech Republic by 18%).

Distribution of guest nights in commercial accommodations in 2007



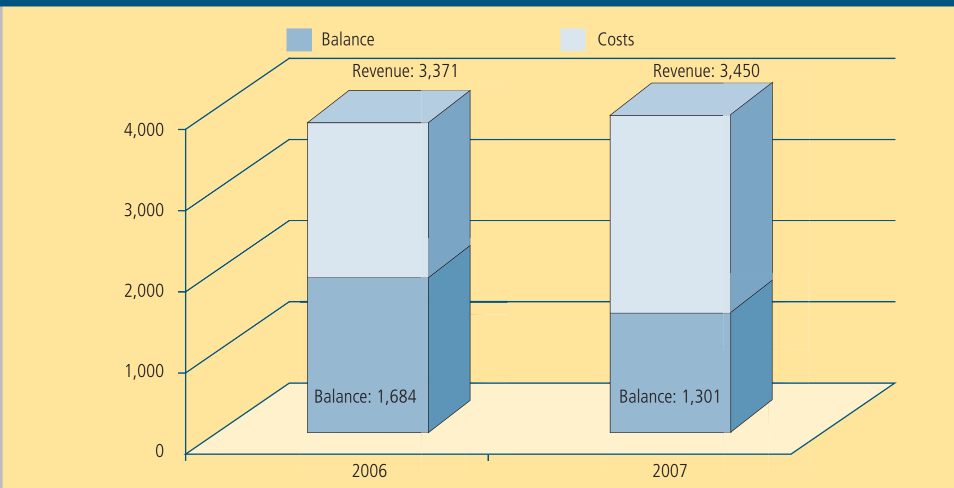
Change of guest nights in hotels (2007/2006)



The hotel gross revenues were up by 5.1% alongside 1.1% increase of guest nights, which means that hotel average rates were up. The consumer price index calculated by the Central Statistical Office related to accommodation services was 5.7%, and for F&B services 8.3% in 2007 against the 8% annual inflation.

The performance of the tourism industry achieved a lower balance compared to the prior year. It closed alongside EUR 3,450 million revenues with a total of EUR 1,301 million balance.

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



DANUBIUS HOTELS GROUP

The statistics show that the number of hotel rooms in the **Czech Republic** is almost the double of the Hungarian ones. The number of spa hotels is also almost twice as much, however, their average size is substantially smaller compared to the Hungarian spa hotels. The average national room occupancy in 2006 was 42.8%, opposed to the 43% one year earlier.
The number of guests in the hotels was up by 5.5%, but in the higher categories the increase of demand was of a greater extent: 12% and 9% more guests stayed in the four- and five star category hotels. The average length of stay shortened compared to the previous year. Domestic guests spending a shorter period of time in the hotels in average compared to the foreign ones is also characteristic in the Czech Republic.
More than 60% of hotel guests are foreign. The number of foreign guests also went up by 5.5%. No change was recorded in the circle of sending countries: most of the foreign guests were from Germany, Great Britain and Italy (their proportion: 23%, 9% and 7%). The hotels saw 5.5% more domestic guests checking in than a year earlier. Comparing to hotels in case of spa hotels the ratio of domestic guests is higher (51%). From among foreigners mostly Germans and Russians visit the spa hotels in the Czech Republic (59%, 18%).

According to data by the Slovakian statistical office revenues from the tourism sector went up by 11% in 2007. The capacity of accommodation has increased by 17% at national level, which is significant compared to the extension of the previous years. The number of guests visiting the commercial accommodation places was up by 5.4%. Both domestic (+6.1%) and foreign (+4.5%) demand showed an increase. In Slovakia the majority (55%) of guests is domestic, unlike in Hungary and the Czech Republic. Those arriving from the neighbouring countries represent the greatest proportion among the foreign guests here (29% from the Czech Republic, 14% from Poland), and these figures showed an increase in the past years. The German demand (10% proportion of guests), occupying third place, is lagging behind in Slovakia (–7%) too.

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

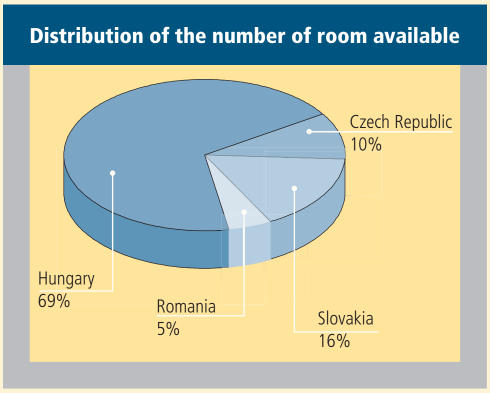
The report is based on the consolidated financial statements for the period ended 31 December 2007 as prepared by the management in accordance with International Financial Reporting Standards (IFRS).

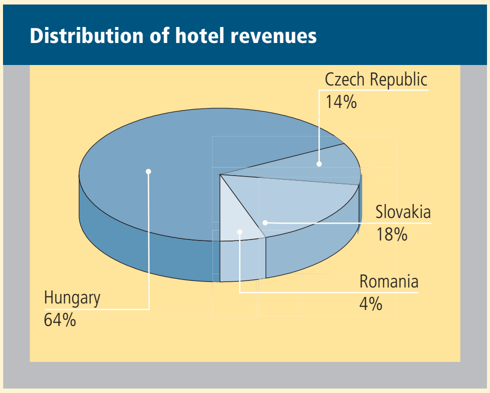
HIGHLIGHTS

Danubius Hotels Group (IFRS)	HUF million			EUR million		
	FY 2007	FY 2006 restated	Change%	FY 2007	FY 2006 restated	Change%
Net sales revenues	**47,342**	47,315	0	**188.6**	179.2	5
EBITDA	**7,609**	7,292	4	**30.3**	27.6	10
Operating profit / (loss)	**2,907**	2,705	7	**11.6**	10.2	13
Financial results	**(1,076)**	(870)	24	**(4.3)**	(3.3)	30
Profit before tax	**1,766**	1,787	(1)	**7.0**	6.8	4
Profit after tax	**1,404**	1,468	(4)	**5.6**	5.6	1
Operating cash flow	**3,871**	7,888	(51)	**15.4**	29.9	(48)
CAPEX	**3,665**	8,619	(57)	**14.6**	32.6	(55)
HUF/EUR	**251**	264	(5)			

- By the end of 2007 full year sales **revenue** figure remained at the same level of last year in HUF terms, while in EUR terms revenue increased by 5% year on year. Group level **occupancy** remained at last year's level of 62.7%.
- Average HUF/EUR **foreign exchange rate:** Year on year basis the strong forint had approximately HUF 865 million negative effect on revenue in 2007 compared to 2006.
- **Operating profit** at Group level increased by HUF 202 million, up by 7% compared to 2006 mainly due to our serious cost reductions measures.
  - Operating profit of **Hungarian** segment for 2007 amounted to HUF 1,871 million, down by 11% compared to 2006.
  - **Czech** hotels contributed an operating profit of HUF 771 million, against the operating profit of HUF 460 million achieved in 2006.
  - **Slovakian** segment's operating loss for 2007 was HUF 149 million, compared to the loss of HUF 36 million in 2006.
  - Operating gain of **Romanian** segment was HUF 414 million in 2007, a significant improvement compared to the profit of HUF 182 million in 2006.
- The **financial** results in 2007 was a loss of HUF 1,076 million, compared to the loss of HUF 870 million in 2006.
- **Net cash provided by operating activities** in 2007 was HUF 3,871 million, a 51% decrease compared to HUF 7,888 million in 2006.
- **Capital expenditure** and investments during 2007 amounted to HUF 3,665 million, down by 57% compared to 2006.
- Group level average **headcount** in 2007 was 5,483 compared to 5,513.

Figures and ratios in hotel business – 2007





	Hungarian hotels	Czech hotels	Slovakian hotels	Romanian hotels
Number of rooms	5,613	833	1,340	400
Occupancy	65.1%	73.0%	77.1%	59.5%
Average rate (HUF)	12,454	15,340	7,872	7,461
Number of staff	2,815	646	1,384	253
Average number of staff / rooms	0.50	0.78	1.03	0.63
Profit of rooms department (HUF million)	11,931	2,888	2,529	550
Profit of F&B (HUF million)	2,499	235	464	277
Profit of spa department (HUF million)	789	742	1,768	130
Profit of other minor departments (HUF million)	(25)	105	(629)	82
Departmental profit	**15,194**	**3,970**	**4,133**	**1,039**
Profit margin	*54.1%*	*65.9%*	*51.1%*	*67.7%*

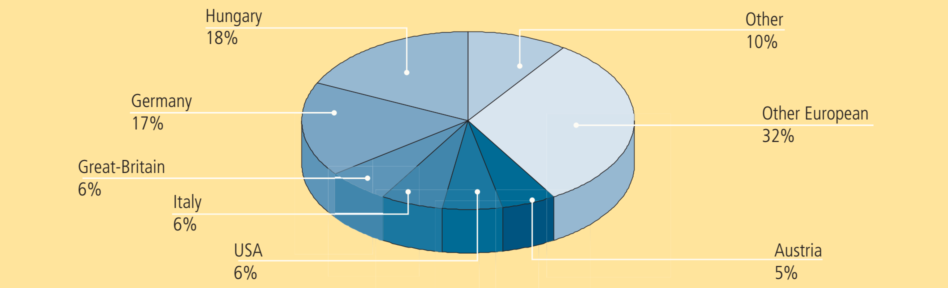
FINANCIAL OVERVIEW

Hungarian Segment

HUNGARY	HUF million			EUR million		
	FY 2007	FY 2006	Change%	FY 2007	FY 2006	Change%
Net sales revenues	**31,519**	32,545	(3)	**125.57**	123.28	2
Operating profit	**1,871**	2,099	(11)	**7.45**	7.95	(6)
Financial results	**(822)**	(1,013)	(19)	**(3.27)**	(3.84)	(15)
Profit before tax	**984**	1,038	(5)	**3.92**	3.93	(0)
Profit after tax	**539**	904	(40)	**2.15**	3.42	(37)
CAPEX	**1,307**	2,718	(52)	**5.20**	10.30	(49)

Total sales revenue and other operating income of 2007 is lagging behind by 3% mainly due to the strong forint against EUR during the whole 2007.
Full year hotel occupancy remained at the same level of 65.1%. Average room rate achieved (ARR) decreased to HUF 12,454, lower by HUF 987 than comparative figure. The average length of stay was 2.8 days in 2007, 0.1 day less than in 2006. The number of guest nights during 2007 fell back to 2,009,606, by 1.6% lower than in 2006. Out of the total, domestic guest nights represents 18%, a considerable increase compared to 2006 level of 16%. In 2007, less guests arrived from Germany (–5%), Austria (–3%) and Great-Britain (–25%) which was partly compensated by more guest arrivals from the former Soviet Union countries.

Distribution of guest nights in our Hungarian hotels



Room revenue of Hungarian hotels decreased by 7%, due to the combined result of occupancy remaining flat and the decrease of average room rate. Room departmental profit was down by 9% compared to 2006.
Food and beverage revenue of hotels and restaurants for 2007 was HUF 9,390 million, 1% more than comparative figure, being the combined result of increased number of covers and the increase of average check. In 2007 F&B departmental profit of our hotels improved by HUF 191 million mainly as the result of decreased payroll. Gundel's total revenue and income in 2007 fell back by more than 5% and hence, in spite of increased raw material expenses and services used, operating profit was HUF 75 million compared to a profit of HUF 90 million achieved in 2006.
In 2007, spa revenue decreased by 7%. It was a combined effect of the by 11% less number of treatments sold and the increase of average rate of a treatment to 5,082 (+5%). The most significant cost element at the spa department is the payroll, which remained flat. As a result of the above, spa departmental profit was 13% less than in 2006.
Revenue from security services went down by HUF 251 million in 2007, as a result of losing certain businesses.
Reflecting our cost efficiency measures raw material expenses amounted to HUF 13,804, which – in spite of the flat occupancy – shows a decrease of 2%. In 2007 energy cost grew by 7% to HUF 2,247 million, while the amount spent on maintenance work at the hotels decreased by 7% to HUF 922 million. Personnel expenses for 2007 were HUF 12,055 million, down by 2%.
Mainly due to the increase of 3 months EURIBOR the interest expenses grew to HUF 1,091 million from HUF 913 million in 2007. A HUF 243 million foreign exchange gain was recognised in the P&L, compared to the loss of HUF 125 million in 2006.
Capital expenditures during 2007 were HUF 1,307 million.
We continued the room reconstructions started earlier and focused on investments aiming at the improvement of the efficiency of energy use. The security and fire protection developments – both

mandatory and increasing the security of guests – continued to be a major task. Considerable working activities were targeted at the preparation of the development of the coming period.

Following major reconstructions can be highlighted:

DH Astoria: the last phase of the hotel refurbishment was completed in 2007 with the renewal of the Múzeum boulevard entrance and the lobby as well as the reconstruction of the decorative lights.

Radisson SAS Béke Hotel: renovation of the cooling systems in the rooms continued by changing the old cooling towers to modern ones. A display kitchen was installed in the Olive's restaurant.

Best Western Hotel Hungaria: new office rooms were built for the Budapest service centre. Fire protection developments started to be carried out in the hotel; fire rated doors make the escape routes in the staircases more secure and overpressure systems were installed. Certain equipments in the cooling engine room were renewed as well.

DH Flamenco: as a phase of the cooling system reconstruction, the cooling compressors have been replaced.

DH Gellért: the execution plans made as a step of the preparations for the entire reconstruction of the hotel started to be prepared, a sample room was completed reflecting the overall concept of refurbishing the rooms.

DHSR Helia: full refurbishment of 45 guest rooms on the first floor as the last phase of room refurbishments started in recent years.

DHSR Margitsziget: a significant reconstruction took place on the ground floor as a part of developing the Emporium brand rendering wellness, fitness and beauty services. The earlier place of the Emporium will be turned into guest rooms, plans for which are being prepared currently.

DHSR Bük: similarly to the above mentioned the Emporium brand is being developed in this unit too.

DHSR Hévíz: a new open-air leisure pool was built.

Hotel Palatinus: 12 guest rooms have been refurbished on the 3rd floor adjusting to the reconstruction concept of the Palatinus-Nádor planned to be carried out in the near future.

Being the result of the above the profit before tax of Hungarian operations for 2007 decreased by 5% to a profit of HUF 984 million compared to a profit of HUF 1,038 million.

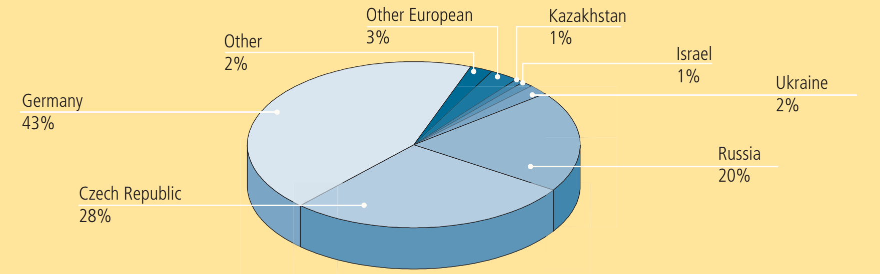
Czech Segment

CZECH REPUBLIC	HUF million		
	FY 2007	FY 2006	Change%
Net sales revenues	**6,085**	6,226	(2)
Operating profit	**771**	460	67
Financial results	**(68)**	(2)	3,316
Profit before tax	**703**	458	53
Profit after tax	**535**	339	58
CAPEX	**1,095**	1,647	(34)
HUF/CZK average	**9.05**	9.32	(3)
CZK/EUR average	**27.77**	28.34	(2)

Total sales revenue and other operating income in HUF term decreased by 2% to HUF 6,089 million in 2007, partly due to the strengthening of Hungarian forint against the Czech crown during the year.

Occupancy of Marianbad hotels in 2007 slightly fell back to 73% from 76%. The average room rate achieved (ARR) dropped to HUF 15,340 from HUF 15,863, in CZK term ARR decreased to 1,695 from 1,702. The average length of stay decreased significantly: was 8.6 days in 2007 while it was 9.7 days in 2006. The number of guest nights grew to 351,214 from 356,720 mainly to the fact that less guests arrived from Germany.

Distribution of guest nights in our Czech hotels



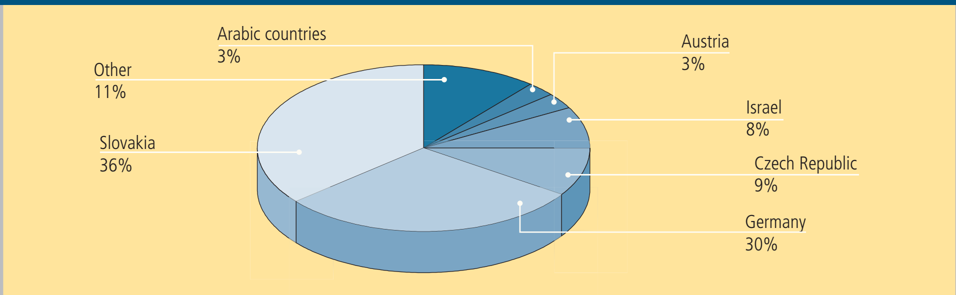
Based on the above, 2007 full year room revenue was HUF 3,294 million, down by 3% compared to 2006.
Mainly due to the fall back of services used (–22%), material expenses and services used in 2007 decreased by 14%. Within this, energy costs increased by 3%. Total personnel expenses – reflecting our cost efficiency measures – was HUF 1,710 million, down by 2% compared to 2006.
Due to increase of 3 months EURIBOR the interest expenses for 2007 grew to HUF 147 million from HUF 126 million in 2006. In 2007 a total of HUF 69 million FX gain was recognised in the P&L while in 2006, the total FX gain was HUF 112 million.
Capital expenditure in 2007 amounted to HUF 1,095 million, the majority of which relates to the construction of a swimming pool in DHSR Hvezda, and the building of the corridor between DHSR Nové Lázné, Casino and Centrální Lázné.
Being the result of the above the profit before tax of Czech operations for 2007 improved to HUF 703 million from HUF 458 million.

Slovakian Segment

SLOVAKIA	HUF million		
	FY 2007	FY 2006	Change%
Net sales revenues	**8,143**	7,257	12
Operating profit	**(149)**	(36)	313
Financial results	**(141)**	177	n.a.
Profit before tax	**(290)**	141	n.a.
Profit after tax	**(258)**	105	n.a.
CAPEX	**839**	4,035	(79)
HUF/SKK average	**7.44**	7.10	5
SKK/EUR average	**33.78**	37.24	(9)

Total sales revenue and other operating income in 2007 grew by 12% to HUF 8,143, partly due to the 5% weakening of forint against Slovakian crown compared to 2006 and due to the positive effect of opening 111 new five star rooms in Thermia Palace in December 2006, that was moderated by the closure of 98 two star rooms starting from November 2006 for reconstruction works.
In 2007 the occupancy of our 1,340 Piestany rooms increased from 76.8% to 77.1%. This coupled with the significant increase of average room rate achieved (ARR) to HUF 7,872 from HUF 6,575. It means a 14% improve calculated in Slovakian crowns (to SKK 1,058 from SKK 926). The average length of stay was 9.8 days, an immaterial change compared to 2006 figure of 9.9 days. The number of guest nights in 2007 was 574,242, which is 2% above the comparative figure.
The proportion of domestic guest nights is 36%, the number of which did not change in the course of 2007. However, the number of German guest nights (representing 30%) decreased by 6%. Increase was recorded in the demand of Polish, Russian and Israeli guests.

Distribution of guest nights in our Slovakian hotels



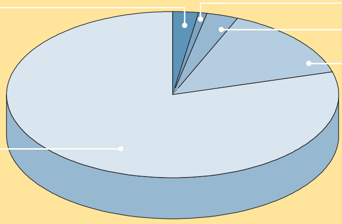
Due to the increase of both occupancy and ARR, room revenue increased by 21% from the 2006 level.
Total material expenses and services used decreased by 13% as a result of the volume-increase of the business and the inflation. Among these, energy increased by 7%, to HUF 669 million. Personnel expenses increased also by 13%.
Due to the increase of 3 months EURIBOR and the additional loan facility drawn down to finance capital expenditures relating to Thermia Palace, the interest expenses for 2007 amounted to HUF 273 million, compared to HUF 116 million in 2006. During 2007 SKK strengthened against EUR in which all of SLKP's long-term borrowings are denominated, resulting financial gain of HUF 131 million, while in 2006 a HUF 291 million foreign exchange gain was recognised in the P&L due to considerable SKK strengthening against EUR during the comparative period.
Capital expenditure during 2007 was HUF 839 million, mainly for modernisation purposes and subsequent work on Thermia Palace, 79% lower compared to the HUF 4,035 million in 2006. The comparative period includes significant amount of spending on Thermia Palace and Irma mud pool.
In 2007, a project expected to last for several years was launched about the modernisation of the energy supplying systems (change of two heat centres and planning of further works).
Being the result of the above the profit before tax of Slovakian operations for 2007 was a loss of HUF 290 million, compared to a profit of HUF 141 million in 2006.

Romanian Segment

ROMANIA	HUF million		
	FY 2007	FY 2006	Change%
Net sales revenues	**1,595**	1,287	24
Operating profit	**414**	182	127
Financial results	**(45)**	(32)	39
Profit before tax	**369**	150	146
Profit after tax	**587**	120	389
CAPEX	**424**	219	94
HUF/RON average	**75.46**	74.95	1
RON/EUR average	**3.33**	3.53	(6)

Occupancy increased considerably from 54.5% to 59.5%. Average room rate achieved (ARR) in RON increased by 11%, to 98.88 RON. In HUF terms, it means an increase of 12%.
Due to the improvement of occupancy and average rate, total sales revenue and other operating income increased significantly, by 24%, to HUF 1,287 million compared to last year. The profitability of room department improved by 20%. The number of guests during 2007 increased to 40,882 from 36,140 primarily due to domestic and Hungarian guests. The length of stay increased from 4.1 days to 4.2 days.

Distribution of guest nights in our Romanian hotels



Total material expenses and services used and personnel expenses in 2007 increased by 22% and 13% respectively, amounting to HUF 798 million, as more guests were served at a higher standard. Within this, energy cost increased only by 1.3% to HUF 152 million.
In spite of the increase of 3 months EURIBOR interest expense in 2007 was HUF 37 million compared to HUF 44 million in 2006, due to the decrease of interest margins applied by the lenders.
Mainly as the result of weakening of RON in 2007 against EUR in which all of the long-term borrowings are denominated, a HUF 22 million unrealised foreign exchange loss was recognised in the P&L, compared to a profit of HUF 8 million in 2006.
Capital expenditure was carried out to the amount of HUF 424 million in 2007, being 94% higher than one year earlier. The majority of the 2007 capex relates to the development of the conference room in DHSR Sovata.
Being the result of the above the profit before tax of Romanian operations for 2007 improved significantly to a profit of HUF 369 million compared to a profit of HUF 150 million in 2006.

Prior period adjustments

The Company has determined that it did not apply IFRS correctly in respect of two items in prior years. Corresponding 2006 financial amounts has been restated for consistency with the amounts presented in these 2007 financial statements.

In the Company's 2006 and 2005 consolidated financial statements, the 33.33% shareholding held by LL Partners in Gundel Kft. was reported as a minority interest. However, under IAS 32 – Financial Instruments: Presentation, which was effective from 1 January 2005, the Company should have accounted for its contingent obligation to purchase the minority interest as a financial liability (at present value at the date of the agreement), consolidated the 33.33% minority interest from the date of the agreement, and recorded interest charges in each accounting period. Applying IAS 32 retrospectively has resulted in the restatement of corresponding consolidated balance sheet information at 31 December 2006 and consolidated statement of income information for the year ended 31 December 2006 as follows:

Balance sheet	
Increase in goodwill	531
Decrease in minority interest	503
Decrease in retained earnings	149
Increase in non-current liabilities	1,136
Statement of income	
Increase in interest expense	82
Increase in foreign currency gain	129

In previous years, the Group did not apply IAS 19 – Employee benefits in respect of retirement and jubilee benefit programmes operated by the Company and its principal Hungarian subsidiary, Danubius Szállodaüzemeltető és Szolgáltató Zrt. Applying IAS 19 retrospectively has resulted in the restatement of corresponding consolidated balance sheet information at 31 December 2006 and consolidated statement of income information for the year ended 31 December 2006 as follows:

Balance sheet	
Increase in provisions	575
Increase in deferred tax assets	82
Decrease in retained earnings	483
Statement of income	
Decrease in wages and salaries	138
Increase in other expenses	142
Increase in interest expense	35
Decrease in deferred tax expense	6

Consolidated Statement of Income

HUF million	2007	2006 restated	Change%
Total operating revenue and other income	**47,342**	47,315	0
Total operating expenses	**44,435**	44,610	0
Profit / (loss) from operations	**2,907**	**2,705**	**7**
Financial income / (loss)	**(1,076)**	**(870)**	**24**
Share of profit / (loss) of associates	(65)	(48)	35
Profit before tax	**1,766**	**1,787**	**(1)**
Current tax expense	501	262	91
Deferred tax expense / (benefit)	(139)	57	n.a.
Profit for the year	**1,404**	**1,468**	**(4)**
Attributable to: Equity holders of the parent	***1,368***	*1,442*	*(5)*
Minority interest	***36***	*26*	*38*

Consolidated Balance Sheet

Assets HUF million	31 December		Change%
	2007	2006 restated	
Total current assets	8,661	7,608	14
Total non-current assets	77,672	78,101	(1)
Total assets	**86,333**	**85,709**	**1**
Liabilities and Shareholders' Equity HUF million	**31 December**		**Change%**
	2007	**2006 restated**	
Total current liabilities	12,553	11,775	7
Total non-current liabilities	22,681	23,246	(2)
Total liabilities	*35,234*	*35,021*	*1*
Attributable to equity holders of the parent	49,433	48,360	2
Minority interests	1,666	2,328	(28)
Total shareholders' equity	*51,099*	*50,688*	*1*
Total liabilities and shareholders' equity	**86,333**	**85,709**	**1**

Total consolidated asset value amounted to HUF 86.3 billion as of 31 December 2007, only a 1% increase compared to the year-end of 2006. Current assets includes assets held for sale that comprises the net carrying value, less cost to sell, of certain hotel and hospitality properties and an investment, previously recognised as non-current assets, what the Group expects to sell within the next twelve months. Current assets increased by 14% mainly as a result of the 28% increase

of cash and cash equivalents to be spent on major ongoing and future development projects and the increase of other receivables and prepayments by 29% mainly due to the HUF 340 million receivables from our first time equity consolidated associate established to undertake an investment project in Budapest.
Due to the reduced capital expenditure of all hotels the amount of property, plant and equipment did not increased considerably as the total value of capitalised investment (HUF 3,665 million) could not exceed the amount of amortisation accounted for in 2007 (HUF 4,702 million). The investments in associated companies amounted to HUF 1,650 million. It shows the historic cost adjusted by share of earnings of the investment in CP Regents Park Two Ltd. and Egészségsziget Kft. (our newly established associate to utilise the recently acquired land near Danubius Hotel Gellért).
Total liabilities at the year-end of 2007 was HUF 35.2 billion, remained at the same level of last year-end. The Group had EUR 82.7 million and GBP 5.1 million long-term loan as of 31 December 2007. The GBP loan, borrowed from related parties and shown in a separate line, was spent on the financing of the share purchase of Regents Park Hotel in London.
The value of shareholders' equity attributable to equity holder of the parent grew by HUF 1.1 billion compared to 31 December 2006 due to net after tax profit of year 2007 retained the business; the significant, HUF 591 million increase of translation reserve, due to the weakening forint against the national currency of subsidiaries; and retained earnings increased by HUF 466 million due to the accounting treatment applied for acquisition of minority shareholdings of our Sovata investment. The parent company mitigates its interest exposure by means of hedging instruments the effect of which is included in fair valuation reserve in accordance with IAS 39.

Cash flow

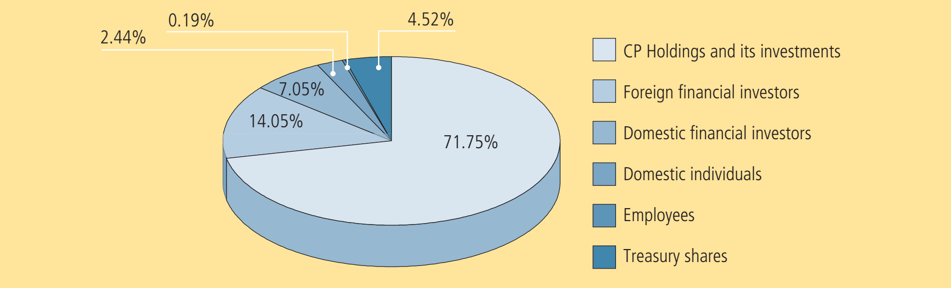
HUF million	2007	2006 restated	Change %
Net cash provided by operating activities	3,871	7,888	(51)
Net cash used in investing activities	(4,385)	(8,227)	(47)
Net cash provided / (used) by financing activities	420	28	1400
Net increase / (decrease) in cash held	**(94)**	**(311)**	**(70)**
Cash at the beginning of the financial year, net[1]	2,015	2,326	(13)
Cash and cash equivalents at the end of the period, net[1]	**1,921**	**2,015**	**(5)**

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

Net cash provided by operating activities in 2007 was HUF 3,871 million, down by 51% compared to 2006 due to the cash reducing changes of working capital. Capital expenditure in 2007 was HUF 3,665 million, a 57% decline compared to 2006 when significant amount was spent on Thermia Palace (Piestany) and Centrální Lázné (Marienbad).
During 2007 Danubius Group repaid HUF 2,753 million of borrowings while received HUF 3,352 million, which is to compare to the HUF 164 million net increase of borrowing during 2006.

Shareholders' structure

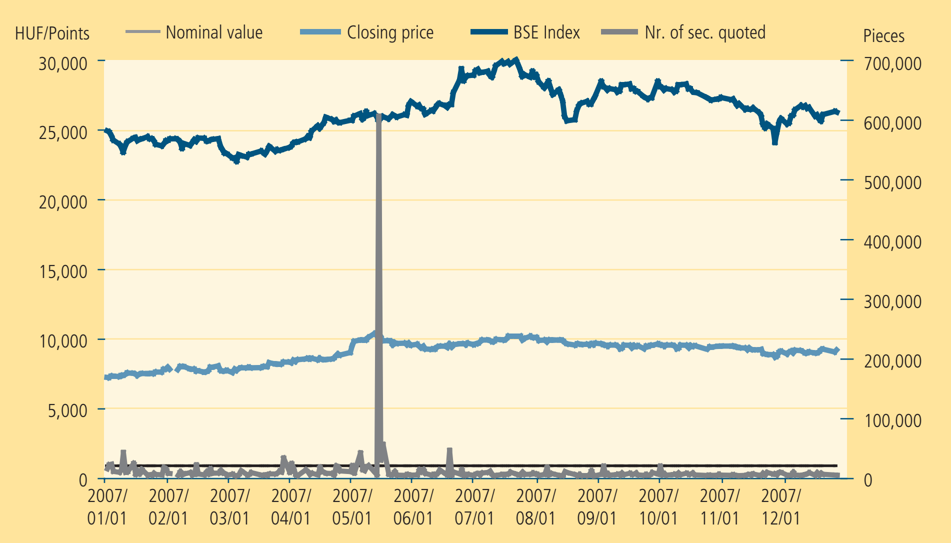
Shareholders' structure on 31st December 2007



Trading on the Budapest Stock Exchange

	2006	2007
Number of trading days	252	245
Number of deals	6,325	8,838
Number of securities traded	1,502,821	1,851,100
Value of securities traded (HUF million)	8,986	17,610
Average price (HUF)	5,980	9,513
Minimum price (HUF)	5,000	6,770
Maximum price (HUF)	6,990	11,000
Closing price (HUF)	6,950	9,200

Trading of Danubius shares on BSE in 2007



Report of the Supervisory Board of Danubius Hotels Nyrt. about the 2007 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 2007 business year, according to the prevailing Act on Business Associations, the Articles of Association, the Rules of Procedure and the approved work schedule of the Supervisory Board. The Supervisory Board submits its report before the AGM based on the report of the Board of Directors, the report of the independent Auditor, as well as the Audit Committee established last year and the regular interim control of the operation of the company.

The Supervisory Board obtained from the Board and the management of the company all the support to pursue its tasks. The chairman of the Supervisory Board was invited to all meetings held by the Board of Directors, thus getting direct information about the discussions on major issues and overall decisions related to the entire company. The President and the Senior Vice President of the company participate regularly at the meetings of the Supervisory Board where together with the representative of the Auditor of the company and the presidential internal auditor and the head of internal control as well as members of the Supervisory Board are informed about actual and forecast figures, events and possible problems.

The Supervisory Board of the company group continues to invite to its meetings the chairman and the members of the Supervisory Board of Danubius Zrt. where the flash report presenting the quarter year operating activities of the company is discussed jointly.

The composition of the Supervisory Board has not changed during the past year, it has pursued its activities based on the approved work schedule with four members. The Supervisory Board held meetings five times in 2007 and the decisions passed on the items discussed were recorded in the minutes of each meeting.

In addition to reviewing the quarter year flash reports required by the Budapest Stock Exchange the board dealt with the following issues:
- the working plan of the internal control,
- the operation of the Budapest Service Centre,
- the documents of the AGM,
- the status of restructurings and developments,
- current human resources issues, succession training,
- professional trainings and development,
- the business operation of Gundel restaurant and winery.

Having read the report of the Board of Directors and the Auditor as well as the information obtained at the meetings the Supervisory Board established that:
- the company 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 agrees with and proposes for approval the report of the Board of Directors on the 2007 business year and supports its concept for the year 2008.

The Supervisory Board discussed the 2007 annual report prepared by Danubius Hotels Nyrt. in line with the Hungarian Accounting Act with HUF 56,732,955 thousand total assets and HUF 865,883 thousand profit after tax, as well as the annual consolidated report prepared by the Danubius group in line with the International Financial Reporting Standard (IFRS) with HUF 86,333 million total assets and HUF 1,404 million profit after tax and proposes it to the AGM for approval.

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

Budapest, 8th April 2008

Tibor Antalpéter
Chairman of the Supervisory Board

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H–1139 Budapest
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To the shareholders of Danubius Hotel and Spa Nyrt.

We have audited the accompanying 2007 consolidated financial statements of Danubius Hotel and Spa Nyrt. (hereinafter referred to as "the Company"), which comprise the consolidated balance sheet as at 31 December 2007, which shows total assets of HUF 86,333 million, and the consolidated income statement which shows profit for the year of HUF 1,404 million, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and the consolidated supplementary notes including a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit and to assess whether the consolidated business report is consistent with the consolidated financial statements. We conducted our audit in accordance with the Hungarian National Standards on Auditing and applicable laws and regulations in Hungary. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

We have audited the consolidated financial statements of Danubius Hotel and Spa Nyrt., its components and elements and their documentary support in accordance with Hungarian National Standards on Auditing and gained sufficient and appropriate evidence that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Danubius Hotel and Spa Nyrt. as of 31 December 2007, and of its consolidated financial performance and of its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU. The consolidated business report is consistent with the disclosures in the consolidated annual financial statements.

Budapest, 8 April 2008

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

David Thompson
Partner

Péter Szabó
Registered Auditor
Identification number: 005301

This is an English translation of the Independent Auditors' Report on the 2007 IFRS Consolidated Annual Report of Danubius Hotel and Spa Nyrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete IFRS Consolidated Annual Report it refers to.

Danubius Hotel and Spa Nyrt. and Subsidiaries

Consolidated Balance Sheet

(All amounts in million HUF)

	Notes	At 31 December	
		2007	2006 restated
Assets			
Cash and cash equivalents	3	3,931	3,087
Trade and other receivables	4	2,905	2,593
Inventory	5	859	844
Assets held for sale	6	257	535
Other current assets		709	549
Total current assets		**8,661**	**7,608**
Property, plant and equipment	7	72,831	72,947
Intangible assets	8	2,492	2,678
Investments in associates	9	1,650	1,715
Other investments, including derivatives		72	92
Deferred tax assets	20	627	669
Total non-current assets		**77,672**	**78,101**
Total assets		**86,333**	**85,709**
Liabilities and Shareholders' Equity			
Trade accounts payable		2,600	3,226
Advance payments from guests		494	518
Income tax payable		396	61
Other payables and accruals	10	3,006	3,690
Interest-bearing loans and borrowings	11	5,678	3,940
Provisions	12	379	340
Total current liabilities		**12,553**	**11,775**
Interest-bearing loans and borrowings	11	18,241	18,607
Loan from related party	25	1,708	1,866
Deferred tax liabilities	20	1,467	1,631
Provisions	12	1,265	1,142
Total non-current liabilities		**22,681**	**23,246**
Total liabilities		**35,234**	**35,021**
Shareholders' Equity			
Share capital	13	8,285	8,285
Capital reserve		7,435	7,435
Treasury shares	14	(1,162)	(1,162)
Translation reserve		4,441	3,850
Hedging reserve		24	8
Retained earnings		30,410	29,944
Attributable to equity holders of the parent		**49,433**	**48,360**
Minority interests	**15**	**1,666**	**2,328**
Total shareholders' equity		**51,099**	**50,688**
Total liabilities and shareholders' equity		**86,333**	**85,709**

The notes set out on pages 32 to 69 are an integral part of the consolidated financial statements.

Danubius Hotel and Spa Nyrt. and Subsidiaries

Consolidated Statement of Income

(All amounts in million HUF)

	Notes	Year ended 31 December	
		2007	2006 restated
Room revenue		22,249	22,885
Food and beverage revenue		14,999	14,571
Spa revenue		5,875	5,890
Other departmental revenue		2,313	2,220
Revenue from wineries		197	163
Revenue from security services		777	1,008
Other income	16	932	578
Total operating revenue and other income		**47,342**	**47,315**
Cost of goods purchased for resale		270	398
Material costs	17	9,835	9,428
Services used	18	9,814	10,354
Material expenses and services used		**19,919**	**20,180**
Wages and salaries		11,816	11,787
Other personnel expenses		1,413	1,347
Taxes and contributions		4,097	4,116
Personnel expenses		**17,326**	**17,250**
Depreciation and amortisation		4,702	4,587
Other expenses	19	2,539	2,657
Changes in inventories of finished goods and work in progress		7	(5)
Work performed by the entity and capitalised		(58)	(59)
Total operating expenses		**44,435**	**44,610**
Profit from operations		**2,907**	**2,705**
Interest income		52	43
Interest expense		(1,548)	(1,200)
Foreign currency gain		420	287
Financial income / (loss)		**(1,076)**	**(870)**
Share of profit / (loss) of associates		**(65)**	**(48)**
Profit before tax		**1,766**	**1,787**
Current tax expense	20	501	262
Deferred tax expense / (benefit)	20	(139)	57
Profit for the year		**1,404**	**1,468**
Attributable to:			
Equity holders of the parent		1,368	1,442
Minority interests	15	36	26
Basic and diluted earnings per share (HUF per share):	**21**	**173**	**182**

The notes set out on pages 32 to 69 are an integral part of the consolidated financial statements.

Danubius Hotel and Spa Nyrt. and Subsidiaries

Consolidated Statement of Changes in Shareholders' Equity

(All amounts in million HUF)

	Attributable to equity holders of the parent							Minority Interests	Total equity
	Share Capital	Capital Reserve	Treasury Shares	Retained Earnings	Translation Reserve	Hedging Reserve	Total		
1 January 2006, as previously reported	**8,285**	**7,435**	**(1,162)**	**29,134**	**2,400**	**–**	**46,092**	**2,811**	**48,903**
Restatement relating to Gundel acquisition (see Note 11)	–	–	–	(149)	–	–	(149)	(503)	(652)
Restatement relating to employee benefits (see Note 12)	–	–	–	(483)	–	–	(483)	–	(483)
1 January 2006, restated	**8,285**	**7,435**	**(1,162)**	**28,502**	**2,400**	**–**	**45,460**	**2,308**	**47,768**
Dividends to minority interests	–	–	–	–	–	–	–	(6)	(6)
Fair valuation of hedging instruments (see Note 27)	–	–	–	–	–	8	8	–	8
Translation of foreign subsidiaries	–	–	–	–	1,450	–	1,450	–	1,450
Subtotal: net income recognized directly in equity	–	–	–	–	*1,450*	*8*	*1,458*	*(6)*	*1,452*
Net profit for the year	–	–	–	1,442	–	–	1,442	26	1,468
Subtotal: total recognized income and expense for the year	–	–	–	*1,442*	*1,450*	*8*	*2,900*	*20*	*2,920*
31 December 2006, restated	**8,285**	**7,435**	**(1,162)**	**29,944**	**3,850**	**8**	**48,360**	**2,328**	**50,688**
Fair valuation of hedging instruments (see Note 27)	–	–	–	–	–	16	16	–	16
Translation of foreign subsidiaries	–	–	–	–	591	–	591	–	591
Subtotal: net income recognized directly in equity	–	–	–	–	*591*	*16*	*607*	–	*607*
Net profit for the year	–	–	–	1,368	–	–	1,368	36	1,404
Subtotal: total recognized income and expense for the year	–	–	–	*1,368*	*591*	*16*	*1,975*	*36*	*2,011*
Share in subsidiary purchased from minority interest (see Note 1)	–	–	–	(902)	–	–	(902)	(698)	(1,600)
31 December 2007	**8,285**	**7,435**	**(1,162)**	**30,410**	**4,441**	**24**	**49,433**	**1,666**	**51,099**

The notes set out on pages 32 to 69 are an integral part of the consolidated financial statements.

Danubius Hotel and Spa Nyrt. and Subsidiaries

Consolidated Statement of Cash Flows

(All amounts in million HUF)

	Notes	Year ended 31 December	
		2007	2006 restated
Profit from operations		**2,907**	**2,705**
Depreciation and amortisation	7,8	4,702	4,587
(Gain)/loss on sale of fixed assets	16	(667)	(268)
Change of provisions	12	162	67
Impairment of receivables	4	42	20
Changes in working capital			
(Increase) / decrease of accounts receivable and other current assets		*(563)*	*510*
(Increase) / decrease of inventory		*(15)*	*40*
Increase / (decrease) of accounts payable and other current liabilities		*(1,002)*	*1,666*
Interest paid		(1,529)	(1,086)
Income tax paid		(166)	(353)
Net cash provided by operating activities		**3,871**	**7,888**
Purchase of property, plant and equipment and intangibles	7,8	(3,665)	(8,619)
Interest received		52	14
Proceeds on sale of property, plant and equipment		829	363
Cash paid to acquire additional shares in subsidiaries	1	(1,600)	-
Other cash inflow / (outflow)		(1)	15
Net cash used in investing activities		**(4,385)**	**(8,227)**
Receipt of long-term bank loans		3,352	2,867
Repayment of long-term bank loans		(2,753)	(2,703)
Payment of finance lease liabilities	11	(179)	(136)
Net cash provided by financing activities		**420**	**28**
Net increase / (decrease) in cash held		(94)	(311)
Cash and cash equivalents at the beginning of the period, net		2,015	2,326
Cash and cash equivalents at the end of the period, net	**3**	**1,921**	**2,015**

The notes set out on pages 32 to 69 are an integral part of the consolidated financial statements.

(All amounts in million HUF)

1 The Company and its subsidiaries

Danubius Hotel and Spa Nyrt. ("Danubius" or "the Company") is a company limited by shares which is domiciled in, and incorporated under the laws of 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 2007, 71.75% of the Company's shares were owned by CP Holdings Limited, a UK private company, and companies controlled by CP Holdings Limited. The ultimate controlling party of the Group is the Schreier family.

The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The Company's principal subsidiary companies are as follows:

Name	Principal Activity	Country of Incorporation	Group interest held at December 31, 2007	Group interest held at December 31, 2006
Danubius Szállodaüzemeltető és Szolgáltató Zrt.	Hotel operator	Hungary	100.00%	100.00%
Gundel Kft.	Restaurant operator	Hungary	66.67%	66.67%
Preventív-Security Zrt.	Security	Hungary	78.60%	78.60%
Léčebné Lázně a.s.	Hotel operator	Czech Republic	95.36%	95.36%
Gama 45 s.r.o	Hotel owner	Czech Republic	100.00%	100.00%
Slovenské Liečebné Kúpele Piestany a.s.	Hotel operator	Slovakia	88.85%	88.85%
SC Salina Invest SA	Holding company	Romania	99.94%	56.43%
SC Balneoclimaterica SA	Hotel operator	Romania	95.80%	53.03%

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

2 Significant accounting policies

Statement of Compliance

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

Basis of preparation

The consolidated financial statements are presented in Hungarian Forint (HUF), which is the functional currency of the Company, and are presented in millions of Forints.

The consolidated financial statements are prepared under the historical cost convention except for derivative financial instruments, which are measured at fair value (see Note 26).

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

The Company has determined that it did not apply IFRSs correctly in respect of two items in prior years. Corresponding 2006 financial amounts has been restated for consistency with the amounts presented in these 2007 financial statements. See Note 11, Interest bearing loans and borrowings, and Note 12, Provisions.

The financial statements were authorised for issue by the Board of Directors on 17 March 2008 and by the Supervisory Board on 8 April 2008.

Use of estimates and assumptions

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 28.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements include the financial statements of the Company and its subsidiaries after elimination of all inter-company transactions and balances, including any unrealised gains and losses.

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total recognised gains and losses and equity movements of associates after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Investments

Investments in which the Group has less than 20% ownership are classified as available for sale financial assets and carried at cost, less provision for impairment, where such investments are unquoted and fair value cannot be reasonably estimated. Otherwise they are measured at fair value using the quoted bid price of the investment.

Financial statements of foreign operations

The functional currencies of the Group's foreign operations differ from that of the Company. Assets and liabilities of foreign operations including goodwill and fair value adjustments arising on acquisitions on or after 1 January 2005 (the effective date of revised IAS 21), are translated to HUF at foreign exchange rates effective at the balance sheet date. Goodwill and any fair value adjustments arising on acquisitions prior to 1 January 2005, the effective date of revised IAS 21, are treated as assets and liabilities of the acquiring entity and therefore are not retranslated. The income and expenses of foreign operations are translated to HUF at the exchange rate that approximates the rate at the date of the transaction. Foreign exchange differences arising on translation of foreign operations are recognised directly in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency of the relevant Group company at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the measurement currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the income statement.

Non-derivative financial instruments

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. Purchases and sales of investments are recognized on settlement date which is the date when the asset is delivered to the counterparty.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognised in the income statement.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at 31 December 2007 and 2006, no financial assets have been designated as at fair value through profit and loss.

Held-to-maturity investments

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in equity in the fair valuation reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement.

Fair value

For investments that are actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Classification and derecognition of financial instruments

Financial assets and financial liabilities carried on the consolidated balance sheet include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term receivables, loans, borrowings and investments. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments (including compound financial instruments) are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income as incurred. Distributions to holders of financial instruments classified as equity are charged directly to equity. In case of compound financial instruments the liability component is valued first, with the equity component being determined as a residual value. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads directly attributable to bringing the asset to a working condition for its intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognised net within "other income" in profit or loss.

Subsequent costs

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

Depreciation

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

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

Leased assets

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

Intangible assets

Goodwill

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

Acquisitions prior to 31 March 2004, the date that IFRS 3 became effective

The Group applied IFRS 3 to business combinations that occurred on or after 31 March 2004. In respect of business combinations that occurred before that date goodwill represents the amount recorded previously by the Group in accordance with IAS 22 (original cost less accumulated amortisation to 31 December 2005) less accumulated impairments (if any).

Acquisitions on or after 31 March 2004, the date that IFRS 3 became effective

For acquisitions on or after 31 March 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Goodwill is stated at cost less any accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Acquisitions of minority interests

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

Other intangible assets

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

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

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

Subsequent expenditure

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

Inventory

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

Cash and cash equivalents

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

Trade and other receivables

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

Impairment

Financial assets

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

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

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

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

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

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date. An impairment loss is recognised if the carrying amount of an asset or its cash-generating units exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro-rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Non-current assets held for sale

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

Provisions

A provision is recognised in the balance sheet when, as a result of a past event, the Group has a legal or constructive obligation that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Trade and other payables

Trade and other payables are initially measured at fair value and then subsequently at amortised cost.

Interest-bearing loans

Interest-bearing loans are recognised initially at fair value of the proceeds received, less attributable transaction costs. In subsequent periods, they are measured at amortised cost using the effective interest method. Any difference between proceeds received (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings on an effective interest basis.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Revenue recognition

Goods sold and services rendered

Room revenue (based on completed guest nights), food and beverage, spa revenue, winery, security and other departmental revenues are each recognised as the service is provided.

Operating lease payments

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

Finance lease payments

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

Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, impairment and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

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

Borrowing costs

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

Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet 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 recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Employee benefits

Defined contribution plan

The Company operates a defined contribution pension plan for Hungarian employees. Pension costs are charged against profit as other personnel expenses in the period in which the contributions are payable. The assets of the fund are held in a separate trustee administered fund and the Group has no legal or constructive obligation with regard to the plan assets outside of its defined contributions.

Retirement and Jubilee benefit programmes

The Group operates long term defined employee benefit programmes. None of these programmes requires contributions to be made to separately administered funds. The Group’s net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The principal actuarial assumptions are the discount rate used to determine the net present value of cash outflows and the average salary increase. The average discount rate used was 7% and the average salary increase was 5% at 31 December 2007 and 31 December 2006. Assumptions regarding future mortality and job leavers are based on published statistics and mortality tables.

The cost of providing benefits is determined separately for each programme using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense immediately. Past service costs, resulting from the introduction of, or changes to the defined benefit scheme are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to pay additional termination benefits to certain retirees.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Segment reporting

Group operations are presented in respect of geographical areas identified by location of assets and business segments that are separately evaluated for management reporting purposes. Management considers that it operates primarily in the hotel and hospitality segment. In Hungary the Group also has a security segment through its Preventív-Security Zrt. subsidiary.

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on geographic segments identified by location of assets. The business segments are determined based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

New accounting pronouncements not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

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

Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes. Revised IFRS 3 is not relevant to the Group's operations as the Group does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Group presents segment information in respect of its business and geographical segments.

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

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

Revised IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The Group has not yet completed its analysis of the impact of the revised Standard.

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

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

(All amounts in million HUF)

IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Group's 2008 financial statements, is not expected to have any effect on the consolidated financial statements.

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

IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any effect on the consolidated financial statements.

3 Cash and cash equivalents

	31 December	
	2007	2006
Cash and cash equivalents	3,931	3,087
Overdraft (see Note 11)	(2,010)	(1,072)
Cash and cash equivalents, net (per cash flow statement)	**1,921**	**2,015**

4 Trade and other receivables

	31 December	
	2007	2006
Trade receivables, net	2,056	2,000
Recoverable taxes and duties	219	167
Advance payments to suppliers	61	96
Receivables from employees	44	40
Other receivables	525	290
	2,905	**2,593**

(All amounts in million HUF)

The ageing of trade receivables at the reporting date was:

	31 December 2007			31 December 2006		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	1,118	–	1,118	1,003	–	1,003
Past due 0–60 days	815	–	815	835	–	835
Past due 61–90 days	111	16	95	162	24	138
Past due 91–120 days	56	28	28	48	24	24
More than 121 days	287	287	–	363	363	–
	2,387	**331**	**2,056**	**2,411**	**411**	**2,000**

Reconciliation of allowance for doubtful receivables:

Opening balance, 1 January 2006	**391**
Impairment loss recognised	20
Closing balance, 31 December 2006	**411**
Impairment loss recognised	42
Write-offs	(122)
Closing balance, 31 December 2007	**331**

5 Inventory

	31 December	
	2007	2006
Food and beverages	255	275
Wine in barrels	311	311
Materials	202	157
Goods for resale	91	101
	859	**844**

6 Assets held for sale

Assets held for sale comprises the net carrying value, less cost to sell, of certain hotel and hospitality properties and an investment for hotel construction with carrying value of 0, all in Hungary. The Group has sold the investment in 2008. No profit or loss was recognised on the sale. Hotel Esztergom has been sold in 2007, therefore as at 31 December 2007 hotel and hospitality properties comprise Park Hotel Hévíz, Hotel Phoenix and Hotel Hullám, all of which have been advertised for sale and which the Group expects to sell within the next twelve months.

(All amounts in million HUF)

7 Property, plant and equipment

	Land	Buildings and improve-ments	Furniture, fittings and equipment	Construc-tions in progress	Total
At 1 January 2006					
Gross book value	9,712	78,116	18,926	2,093	108,847
Accumulated depreciation and impairment		25,733	15,422	5	41,160
Net book value	**9,712**	**52,383**	**3,504**	**2,088**	**67,687**
For year ended 31 December 2006					
– Additions and capitalisations	19	3,420	1,436	3,528	8,403
– Effect of movements in exchange rates	398	1,167	187	(78)	1,674
– Depreciation charge for the year		(2,705)	(1,674)		(4,379)
– Disposals	–	(39)	(17)	–	(56)
– Transfers to assets held for sale	(60)	(275)	–	–	(335)
– Other	(21)	(17)	(3)	(6)	(47)
Closing net book value	**10,048**	**53,934**	**3,433**	**5,532**	**72,947**
At 31 December 2006					
Gross book value	10,048	75,825	20,382	5,532	111,787
Accumulated depreciation and impairment		21,891	16,949	–	38,840
Net book value	**10,048**	**53,934**	**3,433**	**5,532**	**72,947**
For year ended 31 December 2007					
– Additions and capitalisations	–	5,647	1,560	(3,608)	3,599
– Effect of movements in exchange rates	157	589	7	140	893
– Depreciation charge for the year		(2,852)	(1,640)		(4,492)
– Disposals	(67)	(50)	–	–	(117)
– Other	–	–	1	–	1
Closing net book value	**10,138**	**57,268**	**3,361**	**2,064**	**72,831**
At 31 December 2007					
Gross book value	10,138	82,255	21,783	2,064	116,240
Accumulated depreciation and impairment		24,987	18,422		43,409
Net book value	**10,138**	**57,268**	**3,361**	**2,064**	**72,831**

The net book value of property, plant and equipment pledged as loan security was HUF 32,220 million as of 31 December 2007 and HUF 30,879 million as of 31 December 2006.

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 2007 and 31 December 2006 the net carrying amount of the leased equipment was HUF 240 million and HUF 317 million, respectively. This equipment is included in "Furniture, fittings and equipment". The leased equipment secures lease obligations (see Note 11).

(All amounts in million HUF)

8 Intangible assets

	Goodwill	Land usage rights	Software and other intangibles	Total
At 1 January 2006, restated (see Note 11)				
Gross book value	1,626	595	1,631	3,852
Accumulated amortisation and impairment	–	113	1,097	1,210
Net book value	**1,626**	**482**	**534**	**2,642**
Year ended 31 December 2006				
– Additions and capitalisations	–	–	216	216
– Effect of movements in exchange rates	–	–	17	17
– Amortisation charge for the year	–	(19)	(189)	(208)
– Other	–	–	11	11
Closing net book value	**1,626**	**463**	**589**	**2,678**
At 31 December 2006, restated (see Note 11)				
Gross book value	1,626	595	1,512	3,733
Accumulated amortisation and impairment	–	132	923	1,055
Net book value	**1,626**	**463**	**589**	**2,678**
Year ended 31 December 2007				
– Additions and capitalisations	–	–	66	66
– Effect of movements in exchange rates	–	–	3	3
– Amortisation charge for the year	–	(19)	(191)	(210)
– Disposals	–	–	(45)	(45)
Closing net book value	**1,626**	**444**	**422**	**2,492**
At 31 December 2007				
Gross book value	1,626	595	1,520	3,741
Accumulated amortisation and impairment	–	151	1,098	1,249
Net book value	**1,626**	**444**	**422**	**2,492**

At 31 December 2007 intangible assets include HUF 444 million, net of amortisation (2006: HUF 463 million) for land usage rights relating to two hotels on Margaret Island held under licenses given by the Municipality of Budapest.Goodwill relates to the following acquisitions:

	31 December	
	2007	2006
Léčebné Lázně a.s.	565	565
Gundel Kft. (restated, see Note 11)	944	944
Preventív-Security Zrt.	117	117
Total goodwill	**1,626**	**1,626**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable value of the cash-generating units (CGUs) to which the goodwill is allocated. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

– Cash flows were projected based on actual operating results and the 5-year business plan, which includes an annual 3 percent growth rate on average. Cash flows for a further indefinite period were extrapolated using a constant growth rate of 3 percent, which does not exceed the long-term average growth rate for the industry. Management believes that this indefinite forecast period was justified due to the long-term nature of the Group's hospitality business.

– An average weighted average cost of capital (WACC) of 10 percent was applied in determining the net present value of future cash flows. The discount rate was estimated based on the risk free interest rate, market risk premium, industry beta and company's leverage.

9 Investments in associates

As of 31 December 2006 the only investment in an associate company was a 25% shareholding in CP Regents Park Two Limited, a United Kingdom company. As of 31 December 2007 Egészségsziget Kft., a newly established project company with two owners in which Danubius has 50% shareholding, is also presented as an associate, as no joint venture agreement has been concluded between the shareholders.

Egészségsziget Kft. acquired a property close to the Danubius Hotel Gellért in Budapest in December 2007, on which it plans to develop hotel and residential units.

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

The Company's share of post acquisition total recognised loss in the above associates for the year ended 31 December 2007 and 2006 was HUF 65 million and HUF 48 million, respectively. Included in Other revenue for 2007 and 2006 are management support fees from CP Regents Park Two Limited of HUF 136 million and HUF 147 million, respectively. Interest expense includes HUF 133 million and HUF 120 million in 2007 and 2006, respectively, on the loan received from CP Holdings Limited and Services used includes loan arrangement and handling fees of HUF 19 million and HUF 20 million paid to CP Holdings Limited in 2007 and 2006, respectively.

(All amounts in million HUF)

Summary financial information on associates – 100 percent:

	Assets	Liabilities	Equity	Revenues	Net result
CP Regents Park Two Limited					
2007	19,986	13,526	6,460	3,835	(267)
2006	22,032	14,720	7,312	3,877	(192)
Egészségziget Kft.					
2007	2,012	2,001	11	7	4

10 Other payables and accruals

	31 December	
	2007	2006
Wages and salaries	768	749
Social security	429	454
Taxes payable	411	697
Accrued expenses	873	724
Advance payment received	-	350
Other	525	716
	3,006	**3,690**

11 Interest-bearing loans and borrowings

Non-current liabilities	31 December	
	2007	2006
Secured bank loans	17,141	17,465
Obligation due to written put option on Gundel Kft. shares held by minority interests (2006: restated)	1,094	1,136
Finance lease liabilities	6	6
	18,241	**18,607**

Current liabilities	31 December	
	2007	2006
Current portion of secured bank loans	3,668	2,689
Bank overdrafts	2,010	1,072
	5,678	**3,761**
Current portion of finance lease liabilities	–	179
	5,678	**3,940**

(All amounts in million HUF)

Danubius purchased a 66.67% interest in Gundel Kft. (formerly Lángastronomia Kft.) from LL Partners on 7 July 2004. Based on an agreement with LL Partners, dated 7 July 2004, LL Partners has an option to sell to Danubius the remaining 33.33% shareholding in Gundel Kft. between 7 July 2009 and 7 July 2011. The exercise price is USD 5 million plus compound annual interest at a rate of 7%, accumulated from 7 July 2004.

In the Company's 2006 and 2005 consolidated financial statements, the 33.33% shareholding held by LL Partners in Gundel Kft. was reported as a minority interest. However, under IAS 32, which was effective from 1 January 2005, the Company should have accounted for its contingent obligation to purchase the minority interest as a financial liability (at present value at the date of the agreement), consolidated the 33.33% minority interest from the date of the agreement, and recorded interest charges in each accounting period. Applying IAS 32 retrospectively has resulted in the restatement of corresponding consolidated balance sheet information at 31 December 2006 and consolidated statement of income information for the year ended 31 December 2006 as follows:

Balance sheet	
Increase in goodwill	531
Decrease in minority interest	503
Decrease in retained earnings	102
Increase in non-current liabilities	1,136
Statement of income	
Increase in interest expense	82
Increase in foreign currency gain	129

The finance lease liabilities are in respect of air conditioning equipment installed in certain Hungarian hotels, and are payable as follows:

	31 December 2007			31 December 2006		
	Minimum Lease Payments	Interest	Principal	Minimum Lease Payments	Interest	Principal
Within 1 year	–	–	–	191	12	179
1 to 2 years	6	–	6	–	–	–
2 to 5 years	–	–	–	6	–	6
over 5 years	–	–	–	–	–	–
Total debt	6	–	6	197	12	185

As of 31 December 2007 the Group's secured bank loans are denominated in Euro (EUR), total EUR 82.7 million (2006: EUR 80.5 million) and fall due for repayment, as follows:

(All amounts in million HUF)

	31 December	
	2007	2006
Within 1 year	5,678	3,761
1 to 2 years	3,222	3,023
2 to 5 years	13,539	11,760
over 5 years	380	2,682
Total debt	**22,819**	**21,226**
Total current debt	**(5,678)**	**(3,761)**
Total non-current debt	**17,141**	**17,465**

The interest rates for all bank borrowings are floating and determined by 3 months EURIBOR + fixed margin of between 0.6% to 3.5%. The most common margin is 0.95%. At 31 December 2007 the average rate of interest is 5.7% (2006: 4.7%).

The net book value of property, plant and equipment pledged as security for bank loans was HUF 32,220 million as of 31 December 2007 and HUF 30,879 million as of 31 December 2006.

12 Provisions

	Acquisition of Piestany	Employee benefits	Termination agreements	Other	Total
Balance at 31 December 2005, restated	**636**	**633**	**101**	**45**	**1,415**
Provision made during the year	–	179	144	27	350
Provision released	(163)	–	–	–	(163)
Provision used during the year	–	(138)	(105)	–	(243)
Effect of movements in exchange rates	57	5	–	–	62
Unwinding of discounts	–	35	–	–	35
Increase/(decrease) due to acquisition or disposal	–	–	–	26	26
Balance at 31 December 2006, restated	**530**	**714**	**140**	**98**	**1,482**
Provision made during the year	–	197	264	–	461
Provision used during the year	–	(148)	(140)	(69)	(357)
Effect of movements in exchange rates	17	4	–	–	21
Unwinding of discounts	–	37	–	–	37
Balance at 31 December 2007	**547**	**804**	**264**	**29**	**1,644**
Current portion 2006, restated	**–**	**130**	**140**	**70**	**340**
Non-current portion 2006, restated	**530**	**584**	**–**	**28**	**1,142**
Current portion 2007	**–**	**113**	**264**	**2**	**379**
Non-current portion 2007	**547**	**691**	**–**	**27**	**1,265**

(All amounts in million HUF)

Acquisition of Piestany

In 2002 a provision for legal cases of HUF 621 million was initially recognised at the acquisition of Piestany from which HUF 11 million was utilized in 2003 as a result of a lost legal case. At the end of 2006 HUF 163 million of the provision was released as it was no longer considered probable that an outflow of resources embodying economic benefits will be required to settle certain cases. The timing of the resolution of the remaining cases is uncertain.

Employee benefits – restatement

Group companies in Hungary, the Czech Republic and Slovakia operate benefit programmes that provide lump sum benefits to employees after every five years' employment and upon retirement. The amount of the benefits is determined by the base and average monthly salary and the length of service period. None of these programmes have separately administered funds. As of 31 December 2007 the Group has recognised a provision of HUF 804 million to cover its estimated obligation regarding future retirement and jubilee benefits payable to current employees.

In previous years, the Group did not apply IAS 19 – *Employee benefits* in respect of retirement and jubilee benefit programmes operated by the Company and its principal Hungarian subsidiary, Danubius Szállodaüzemeltető és Szolgáltató Zrt. Applying IAS 19 retrospectively has resulted in the restatement of corresponding consolidated balance sheet information at 31 December 2006 and consolidated statement of income information for the year ended 31 December 2006 as follows:

Balance sheet	
Increase in provisions	614
Increase in deferred tax assets	98
Decrease in retained earnings	516
Statement of income	
Decrease in wages and salaries	138
Increase in other expenses	142
Increase in interest expense	35
Decrease in deferred tax expense	6

Termination agreements

The Group has recognised a provision of HUF 264 million in 2007 for termination agreements which will be paid in 2008.

Other

As of 31 December 2007 and 2006 the other provisions of HUF 29 million and HUF 98 million, respectively related to various legal cases.

13 Share capital

The registered share capital at December 31, 2007 and 2006 consists of 8,285,437 authorised, issued and fully paid ordinary shares, each of par value HUF 1,000. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

14 Reserves

Capital reserve

The capital reserve was established in 1991, when the company was privatized and transformed to a public limited company.

Treasury shares

The reserve for treasury shares comprises the cost of the Company's shares held by the Group. As 31 December 2007 and 2006 the Group held 374,523 of the Company's shares, purchased at a cost of HUF 1,162 million.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Hedging reserve

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

Retained earnings

Dividends are available for distribution from the Company's retained earnings calculated according to Hungarian Accounting Law. The amount available for distribution as dividends at December 31, 2007 is HUF 21,889 million (2006: HUF 20,603 million).

If dividends are paid to non-resident shareholders, a withholding tax of up to 20% must be paid. The rate applicable is dependent on the country of residence of the shareholder, the period in which the dividend is paid and the number of shares held. The withholding tax is also payable by individual shareholders who are resident in Hungary (resident legal entities are exempt).

(All amounts in million HUF)

15 Minority interests

	31 December	
	2007	2006 restated
Preventív-Security Zrt.	44	36
Léčebné Lázně a.s.	484	461
Slovenské Liečebné Kúpele Piestany a.s.	1,093	1,123
SC Salina Invest SA and SC Balneoclimaterica SA (see Note 1)	45	708
	1,666	**2,328**

	31 December	
	2007	2006 restated
Opening balance at 1 January	2,328	2,308
Income attributable to minority shareholders	36	26
Acquisition of minority interest (see Note 1)	(698)	–
Dividends to minority shareholders	–	(6)
Closing balance at 31 December	**1,666**	**2,328**

16 Other income

	2007	2006
Gain on sale of fixed assets	667	268
Release of legal provision (Piestany, see Note 12)	–	163
Other	265	147
	932	**578**

17 Material costs

	2007	2006
Materials used in providing guest services	4,235	3,761
Utility costs (gas, electricity, fuel and water consumption)	3,666	3,495
Other materials used	1,934	2,172
	9,835	**9,428**

(All amounts in million HUF)

18 Services used

	2007	2006
Maintenance services	1,416	1,742
Washing, cleaning services	1,615	1,616
Safety services	824	932
Professional and membership fees	781	855
Hospitality services	760	813
Marketing, PR services	777	662
Rental of buildings, equipment and vehicles	507	579
Travel agency and other commissions	557	529
Bank and insurance charges	454	477
Hire of temporary personnel	463	431
Telecommunications services	321	315
Software, IT support	262	239
Delivery and transport fees	224	218
Training	137	85
Other	716	861
	9,814	**10,354**

19 Other expenses

	2007	2006
Taxes and contributions	1,737	1,931
Provisions made (2006 restated, see Note 12)	461	350
Damages	9	78
Donations, sponsorship	77	78
Impairment of trade receivables	42	20
Other	213	200
	2,539	**2,657**

(All amounts in million HUF)

20 Income tax

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

	2007	2006
Current tax	501	262
Deferred tax (2006 restated, see Note 12)	(139)	57
	362	**319**

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

	2007		2006 restated	
Profit before tax		1,766		1,787
Income tax using the Hungarian corporation tax rate	16%	283	16%	286
Solidarity surplus tax		49		–
Effect of different tax rates in foreign jurisdictions		56		53
Revaluation of Romanian properties in statutory books		(251)		–
Non-deductible expenses		212		219
Tax exempt revenues		(49)		(84)
Tax exempt expenses		(161)		(111)
Tax losses written-off, net		260		28
Effect of tax rate changes (decreases) in foreign jurisdictions		(52)		–
Other		15		(72)
		362		**319**

In 2007 SC Balneoclimaterica SA recognised a deferred tax gain of HUF 251 million due to the revaluation of hotel properties for Romanian tax purposes.

The write-off of tax losses in 2007 comprises HUF 156 million for tax losses which are not now claimable and HUF 161 million for tax losses which expire in 2008 and for which it is not now considered probable that the Group can utilise the benefits. These amounts are partially offset by HUF 57 million for tax losses carried forward which are now expected to be utilised against future taxable profit.

(All amounts in million HUF)

Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December 2007 and 31 December 2006 are attributable to the following:

	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
Property, plant and equipment	270	71	1,533	1,546	(1,263)	(1,475)
Repairs and maintenance provision	–	–	20	185	(20)	(185)
Legal provisions	104	101	–	–	104	101
Provision for doubtful debts	44	52	–	–	44	52
Provision for employee benefits (2006 restated, see Note 12)	125	116	–	–	125	116
Other provisions	19	19	–	–	19	19
Tax loss carry-forwards	136	396	–	–	136	396
Other	15	14	–	–	15	14
	713	**769**	**1,553**	**1,731**	**(840)**	**(962)**
Offset of assets and liabilities within individual legal entities	(86)	(100)	(86)	(100)	–	–
	627	**669**	**1,467**	**1,631**	**(840)**	**(962)**

The net change in deferred tax assets and liabilities differs from the amount of the deferred tax charge or benefit for the period due to the effect of foreign exchange movements. At 31 December 2007 tax loss carry forwards of HUF 66 million can be utilised over indefinite period of time while the remaining HUF 70 million will expire in 2010.

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

Léčebné Lázně a.s. records a provision for repairs and maintenance in its Czech statutory accounts related to the future repair expenses of its premises, which is a deductible expense in Czech tax legislation. This provision is not included in these IFRS financial statements and a deferred tax liability is set up for this timing difference.

At 31 December 2007 deferred tax assets of HUF 161 million (2006: HUF 18 million) have not been recognised in respect of tax loss carry-forwards of HUF 1,006 million (2006: HUF 115 million) because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from. The loss carry-forwards expire in 2008.

21 Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of HUF 1,368 million in 2007 (2006: HUF 1,442 million) and the weighted average number of qualifying ordinary shares outstanding during 2007 and 2006 of 7,910,914.

	31 December	
	2007	2006 restated
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	1,368	1,442
Basic earnings per share (HUF/share)	173	182

The restatement of the previous year's financial statements (see Note 11 and Note 12) had a positive HUF 4 effect on the Company's basic earnings per share figure for 2006. There are no dilutive factors to earnings per share disclosed above.

22 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	31 December	
	2007	2006
Less than one year	60	120
More than one year	–	60
	60	**180**

The Group leases its head office from a related party under an operating lease with an expiry date of 30 June 2008.

During the year ended 31 December 2007 HUF 269 million was recognised as an expense in the income statement in respect of operating leases (2006: HUF 262 million).

23 Commitments and contingent liabilities

As of 31 December 2007 and 31 December 2006 there were no material contractual commitments for the acquisition of property, plant and equipment.

(All amounts in million HUF)

The Group did not have any significant contingent liabilities as at 31 December 2007 and 31 December 2006.

24 Pension Plans

The Group's employees participate in state pension plans to which employers and employees are required by law to pay contributions based on a percentage of each employee's employment earnings. The pension liability resides with the state in Hungary, the Czech Republic, Slovakia and Romania.

The Group has a defined contribution pension plan in addition to the state plan, which is available for all Hungarian employees after six months employment. The Group pays contributions equal to 5% of the salary of employees who are members of the fund. The contribution expense in 2007 was HUF 278 million (2006: HUF 248 million). The assets of the fund are held in separate trustee administered funds and are not included in these financial statements.

The Group also has a Health Fund, which is available for all Hungarian employees after six months employment. The Group pays contributions equal to 1% of the salary plus HUF 4,000 per month for employees who are members of the fund. The total contribution expense was HUF 201 million in 2007 (2006: HUF 198 million). The assets of the fund are held in separate trustee administered funds and are not included in these financial statements.

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

25 Related party transactions

Transactions with related parties are summarised as follows:

Expenses / (revenues)	2007	2006
Management fee to CP Holdings Limited	350	371
Interest to CP Holdings Limited	133	120
Loan arrangement fee to CP Holdings Limited	19	20
Management support fee from CP Regents Park Two Limited	(144)	(147)
Rental fee to Interag Zrt.	159	159
Services provided by Interag Zrt.	3	5
Service provided to Interag Zrt.	(20)	(21)
Service provided by Investor Zrt.	18	15
Service provided to Investor Zrt.	(1)	(4)

Related party receivables and payables are not significant as at 31 December 2007, with the exception of the loan amounting to HUF 1,708 million (GBP 5.1 million less loan arrangement fee of GBP 0.1 million) from CP Holdings Limited (see Note 9). The repayment period of the loan is 10 years starting from 2010, repayment will be due in equal annual instalments, the interest is payable quarterly and the interest rate is floating based on 3 months LIBOR + a fixed margin of 1.2%.

(All amounts in million HUF)

At 31 December 2007 the interest rate on the loan was 7.2% (31 December 2006: 6.5%).

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

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

Transactions with key management personnel

Total remuneration is included in personal expenses:

	2007	2006
Short-term employee benefits	295	345
Post employment benefits	9	6
Termination benefits	–	107
	304	**458**

26 Financial instruments and financial risk management

A) Categories of financial instruments

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

	2007	2006
Financial asset		
Loans and receivables[1]	6,836	5,680
Derivatives	24	8
Financial liability		
measured at amortised cost[2]	31,727	31,847

[1] Includes the total amount of cash and cash equivalents and trade and other receivables in the Balance Sheet.
[2] Includes the total amount of trade accounts payable, advance payments from guests, other payables and accruals, interest bearing loans and borrowings and loan from related party recognised in the Balance Sheet.

Carrying value and fair value for all of the Group's financial assets at 31 December 2007 and 2006 are deemed to be equal. The carrying amount of cash and cash equivalents, trade and other current receivables and payables and other liabilities approximates their relative fair values due to the relatively short-term maturity. Derivative assets and liabilities are carried at fair value. All non-current borrowings have floating interest rates, so their fair values are not significantly different from their amortised cost and consequently carrying value is deemed to approximate fair value.

B) Financial risk management

The Group has documented its financial risk management policy. This policy sets out the Group's overall business strategies and its risk management philosophy. The Group's overall financial risk management programme seeks to minimise potential adverse effects on the Group's financial assets and liabilities. The Board of Directors provides written principles for overall financial risk management and written policies covering specific areas, such as market risk (including foreign exchange risk, interest rate risk), credit risk, liquidity risk, use of derivative financial instruments and investing excess cash. Such written policies are reviewed annually by the Board of Directors and periodic reviews are undertaken to ensure that the Group's policy guidelines are complied with. Risk management is carried out by the Finance Departments under the policies approved by the Board of Directors. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

I) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of giving credit to counterparties with good payment history and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The expense of individual hotels' exposure and the credit ratings of their counterparties are continuously monitored. Credit exposure is controlled by the counterparty limits that are continuously reviewed by credit managers.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of customers and advance payment is encouraged and enforced.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Approximately HUF 6.6 billion, or 14 percent of the Group's revenue, is attributable to sales transactions with the top 30 customers. However, geographically there is no concentration of credit risk.

The carrying amount of trade receivables and other financial assets recorded in the financial statements, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

II) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group has yearly, monthly and weekly cash flow forecasts and continuously monitors liquidity.

(All amounts in million HUF)

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

	31 December 2007	31 December 2006
Overdraft	1,374	2,370
Long-term loan	5,067	3,763

The Company pays its trade suppliers in no later than 3 months after receiving products and services and collects the majority of advance payments from certain clients 2 months before arrival. Interest bearing loans and borrowings are paid by quarterly and yearly instalments (see Note 11 for more information), and all other payables and accruals are due within 6 months.

III) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

i) Currency risk

The Group is exposed to currency risk on sales and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Euro, but also Sterling (GBP).

At the reporting date, the carrying amounts of financial assets and financial liabilities denominated in currencies other than the respective group entities' functional currencies are as follows:

	Financial liabilities		Financial assets		Net asset/(liability)	
	2007	2006	2007	2006	2007	2006
Euros	22,443	21,366	1,142	1,188	(21,301)	(20,178)
Sterling	1,828	2,112	44	41	(1,784)	(2,071)
Swiss Frank	–	–	–	64	–	64
US dollars	–	–	19	28	19	28
Financial instruments denominated in foreign currency	24,271	23,478	1,205	1,321	(23,066)	(22,157)
Total financial instruments	31,727	31,847	6,860	5,688	(24,867)	(26,159)

The Group's sales prices are primarily quoted in Euro and income is received in foreign currency or local currency. This provides a natural hedge against foreign exchange movements for the interest and capital installments of loans and borrowings the majority of which are denominated in EUR.

Management periodically reviews the merits of entering into foreign currency hedging contracts or other derivative products. Based on the approval of Board of Directors the Group may use forward exchange contracts to hedge its currency risk in respect of sales revenues, with a maturity of less than one year from the reporting date. The effect of such hedges is not material in 2007 and 2006.

(All amounts in million HUF)

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

Foreign currency sensitivity

A 10 percent strengthening of the Euro against each of the following currencies at 31 December would have increased (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates and margins, remain constant.

	Profit and Loss
31 December 2007	
Hungarian forint (HUF)	(1,274)
Czech Crown (CZK)	(255)
Slovakian Crown (SKK)	(412)
Romanian Lei (RON)	(41)
31 December 2006	
Hungarian forint (HUF)	(1,335)
Czech Crown (CZK)	(169)
Slovakian Crown (SKK)	(376)
Romanian Lei (RON)	(48)

A 10 percent weakening of the Euro against the above currencies at 31 December would have had the equal but opposite effect, on the basis that all other variables remain constant.

ii) Interest rate risk

The interest rates for all bank borrowings are floating and determined by 3 months EURIBOR + margin between 0.95% to 3.5% depending on the relevant country. The most common margin is 0.95%, at 31 December 2007 the average rate of interest is 5.7% (2006: 4.7%).

Since June 2006 the Company has used an interest rate swap to manage the relative level of its exposure to cash flow interest rate risk associated with floating interest-bearing borrowings. The amount and interest payment period of this hedging instrument accords with that of the underlying debt and therefore IAS 39 hedge accounting treatment applies.

As of 31 December 2007 the Company had an interest rate swap (Collar) agreement in effect, with a notional amount of EUR 46.2 million (31 December 2006: EUR 55.5 million), that has a 3 months EURIBOR floor of 3.35% and cap of 4.75%. Having this instrument means that the Company does not have to pay more than 4.75% interest + margin for the hedged amount, but cannot pay less that 3.35% interest + margin. The collar is amortising in line with the underlying loan facilities (maturing in 2012) and is gross settled. The fair value of this Collar agreement was an asset of HUF 24 million as of 31 December 2007 and HUF 8 million as of 31 December 2006.

(All amounts in million HUF)

Interest rate sensitivity

3 months EURIBOR was 4.684% as of 31 December 2007 and 3.725% as of 31 December 2006. A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit and loss by the amounts shown below. The change in the fair value of the Collar agreement affects the Company's equity, the impact of which is considered immaterial. This analysis assumes that all other variables, in particular foreign currency rates and interest margins, remain constant.

	Profit and Loss
31 December 2007	
100 basis points increase	(117)
100 basis points decrease	225
31 December 2006	
100 basis points increase	(220)
100 basis points decrease	132

C) Capital management

The Group's policy is to maintain a capital base which is sufficient to maintain investor and creditor confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

(All amounts in million HUF)

27 Segment reporting

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

(All amounts in million HUF)

27 Segment reporting (continued)

2006 restated	Hungarian operations			Czech operations	Slovakian operations	Romanian operations	Inter-segment transfers	TOTAL
	Hotel & Hospitality segment	Security segment	Total					
Revenue								
Sales to external customers	31,514	1,031	32,545	6,226	7,257	1,287	–	47,315
Inter segment sales	372	303	675	–	–	–	(675)	–
Total operating expenses	**29,854**	**1,267**	**31,121**	**5,766**	**7,293**	**1,105**	**(675)**	**44,610**
of which Depreciation and amortisation	*2,276*	*20*	*2,296*	*875*	*1,199*	*217*	–	*4,587*
Profit from operations	**2,032**	**67**	**2,099**	**460**	**(36)**	**182**	**–**	**2,705**
Financial results	(852)	(3)	(855)	(2)	177	(32)	(158)	(870)
Profit / (loss) of associates	(48)	–	(48)	–	–	–	–	(48)
Profit before tax	**1,132**	**64**	**1,196**	**458**	**141**	**150**	**(158)**	**1,787**
Assets and liabilities								
Property, plant and equipment	38,048	54	38,102	13,232	19,297	2,316	–	72,947
Investment in associates	1,715	–	1,715	–	–	–	–	1,715
Cash and cash equivalents	1,295	22	1,317	1,139	235	396	–	3,087
Trade receivables	1,329	174	1,503	201	306	26	(36)	2,000
Inventories	580	4	584	70	172	18	–	844
Intangibles	1,773	119	1,892	633	153	–	–	2,678
Assets held for sale	535	–	535	–	–	–	–	535
Other non-allocated assets	–	–	–	–	–	–	–	1,903
Total assets	**45,275**	**373**	**45,648**	**15,275**	**20,163**	**2,756**	**(36)**	**85,709**
Trade accounts payable	1,540	121	1,661	379	1,116	106	(36)	3,226
Advance payments from guests	337	–	337	76	105	–	–	518
Interest bearing loans and borrowings	17,717	35	17,752	3,833	4,328	516	(2,016)	24,413
Provisions	760	26	786	–	629	67	–	1,482
Other non-allocated liabilities	–	–	–	–	–	–	–	5,382
Total liabilities	**20,354**	**182**	**20,536**	**4,288**	**6,178**	**689**	**(2,052)**	**35,021**
Capital expenditure	**2,692**	**26**	**2,718**	**1,647**	**4,035**	**219**	**–**	**8,619**

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

28 Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Deferred tax assets

The Group recognizes deferred tax assets in its balance sheet relating to tax loss carry-forwards. The recognition of such deferred tax assets is subject to the future utilization of tax loss carry-forwards. The utilization of certain amounts of such tax loss carry-forwards might be subject to statutory limitations and is dependent on the amount of future taxable income. If the future taxable income is significantly less than the amount estimated the deferred tax asset may need to be written down.

Impairment of property, plant and equipment and intangible assets

The carrying amounts of the Group's property, plant and equipment and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.
Such value is measured based on discounted projected cash flows. The most significant variables in determining cash flows are discount rates, terminal values and the period for which cash flow projections are made, as well as the assumptions and estimates used to determine the cash inflows and outflows.
For property, plant and equipment the recoverable amount is determined to be the fair value rather than the value in use. The estimated fair value of the Group's assets or group of assets significantly exceeds its net carrying amount.
The Group considers that the accounting estimate related to asset impairment is significant due to the need to make assumptions when estimating the recoverable amount and the material impact that recognising impairment could have on the results of the Group. See Notes 7 and 8 for more information.

Depreciation

Property, plant and equipment and intangible assets are recorded at cost and are depreciated or amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives of assets is based on historical experience with similar assets. The appropriateness of the estimated useful lives is reviewed annually. Due to the significance of property, plant and equipment in the asset base of the Group, the impact of any changes in these assumptions could be material to the results of operations.

Provisions

The Group establishes provisions where management considers that it is probable that an outflow of economic benefits will be required to settle obligations arising from past events. The estimated amounts of provisions are reviewed on an ongoing basis. Changes in estimates are recognised in the income statement and such changes could be material to the net results reported in a particular year. See Note 12 for more information.

Business Targets 2008

Whilst general industry and market trends do not suggest significant changes at the time of preparing the 2008 budget, the uncertainties in international financial markets raise major questions about the prospects for the world economy in 2008 and the possible knock on effects and risks for our industry including Danubius Hotels Nyrt. The performance of the company is also at all times largely influenced by the strengthening and weakening of the Forint and other national currencies against the Euro. The management calculated with 250 HUF/EUR preparing the 2008 budget. Owing to the increasing energy prices, this cost element is becoming a growing item from year to year. The price of energy in general is forecasted to go up by 9-12% in 2008.

In our Hungarian hotels the number of key guest circles is not expected to change significantly. Less and less guests have been arriving from the German market, but we trust that as a result of the improvement of our German market representation, we will be able to reach both wellness and business guests and that we will be able to arrest this trend and increase German guestnights. The majority of our British guests arrive to Budapest and their number is largely dependent on the air traffic connections between the two countries. This market is expected to expand in 2008. Hungary's joining the Shengen zone will have an overall positive effect on foreign demand. In addition, the growth of the number of domestic guests is forecasted although this increase will slow down a bit. All these are expected to improve occupancy.
A brand new operational software is going to be introduced in the course of 2008-2009, which will ensure increased efficiency in the fields of operation, sales, guest relations as well as business and financial areas. Simultaneously, the company will focus on pushing the turnover generated by electronic sale channels. In the city hotels our goal is to achieve a healthy proportion of leisure and business guests, while in the spa hotels of the Danubius Health Spa Resort brand we aim to see improving results through new products – e.g. the all-inclusive services in Danubius Health Spa Resort Aqua in Hévíz –, as well as with new concepts e.g. the family friendly hotel program. The direct increasing of our rates is not accepted by every market segment, however, changing the guest composition offers a possibility to raise average rates.
Therefore the budget shows increasing revenues for 2008, which alongside the strict control of variable costs will result in positive change of departmental profit, but unfortunately owing to the increasing of overhead costs – primarily energy – the budget forecasts a fall back of operating profits.

Looking at the Czech subsidiary, the budget indicates somewhat lower occupancy but still above 70% and due to the positive impact of investments carried out in the recent years we plan an increase of average rates. The number of guests arriving to the hotels in Marienbad from Germany is getting less and less too. This also means that the ratio of guests arriving through travel agencies or tour operators is reducing. Compensation of this shortage – principally by guests booking electronically – has in itself a beneficial impact on the achieved results. The domestic market, the surrounding countries and the successor states of USSR mean a great potential for the Czech hotels in the future.
Besides maintaining the level of indirect costs, general costs – especially those of energy and maintenance – will increase significantly, therefore the expected 2008 performance at gross operating profit level will lag behind last year's.

The forecast of the hotels in Piestany, Slovakia is largely influenced by the impact of the developments aimed at capacity extension and improvement of quality. The number of domestic guests financed by insurance companies is expected to go down, at the same time the self paying domestic guests arriving with the intention of a shorter leisure stay are likely to grow. The Czech, Polish and Russian turnover will increase considerably as well. Alongside the improvement of occupancy, average rates are also planned to go up by more than 10%. As a result of more efficient operation, the budget figures show improving gross operating profits.

In wake of the positive impact of joining the European Union, the general development of the economy as well as the improvement of the efficiency of operations our Romanian hotels achieved an outstanding result in 2007. The positive trend is expected to carry on in 2008, however, the dynamics of the past years will not be able to subsist. The range of services on offer in Danubius Health Spa Resort Sovata have widened in the recent years. The newly built conference centre will allow the increasing of the business segment in 2008. Besides the Hungarian and Romanian guests, a high proportion is represented by guests travelling from Moldavia, who have to acquire a visa ever since Romania joined the EU, and this has adversely affected demand. All in all both occupancy and average rates are expected to go up. The increase of energy costs will be dramatic in our hotels in Sovata as well and wage costs will be burdened too (as minimal wages will be set), however, gross operating profit is expected to be up.

Considering the above the budget forecasts 4% increase of group level revenues. In 2007 the other revenue line showed a significant one-off effect coming from property sales (e.g. the sales of Hotel Esztergom and Kastélykert). Filtering out the changes in other revenues, Danubius Hotels Nyrt. budgeted a 5% increase of revenues. The growing number of guests and the inflation led to material type costs going up. Owing to strict headcount and wage management we planned 5% increase of personal type expenditures at consolidated level. Operating expenditures are planned to go up by 4%. Operating profit of the Danubius Group is budgeted to be HUF 2.7 billion in 2008, 6% lagging behind the 2007 figures. Calculating the operating profit without the effect of the change of the other revenues (including the one-off fixed assets sales in 2007), it would show a 15% increase on the 2007 level.

A major item among planned investments is the new operating software to be introduced not only in Hungary but also in all foreign daughter companies. In Hungary the company plans to renew the facade (joint with the spa) of Danubius Hotel Gellért this year and the entire reconstruction of the hotel is also in the pipeline, which given favourable conditions may be launched later in 2008. Investments necessary for the all-inclusive operation of Danubius Health Spa Resort Aqua are being carried out, the restaurant and conference section of Budapest Hilton is being refurbished and a brand new Hilton fitness centre created. Upgrading the Budapest located Hotel Stadion is also included among our plans. The hotel will offer new extended services and enter the four-star market under a new name as of the beginning of 2009. In the Czech subsidiary investments aimed at cutting energy costs will play a vital role in 2008. In Piestany, in addition to the start of the new software project, plans include the reconstruction of the conference rooms in Balnea Grand and Balnea Palace, which would allow reaching new market segments and a new fitness centre in the main spa area. In Sovata the reconstruction and upgrading into four-star of Hotel Bradet is planned.

The above-mentioned plans require market conditions and the business environment not to change significantly, particularly as a result of the uncertainties in international economic prospects. Also, certain elements – e.g. increasing energy costs – make the sustaining of profitability more difficult. Alongside the planned changes in operating profit, the increase of interest costs is expected – owing to increased loan stocks – while considering the 250 HUF/EUR exchange rate forecast – the rate difference is to remain at the prior year's level. Danubius Group budgeted its profit before tax to be HUF 1.2 billion.

April, 2008

Danubius Hotels Group

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