



**DANUBIUS HOTELS
GROUP**

Documents of the Annual General Meeting of Danubius Hotels Rt. to be held on 21st April 2005

Danubius Hotels Rt. consolidated and not consolidated B/S and P&L
according to the Hungarian Accounting Standards
fulfilling the legal obligation of the Company



**DANUBIUS HOTELS
GROUP**

Date:

Thursday, 21st April 2005 at 10.00 a.m.

In case the Meeting has no quorum, it is held on Thursday, 21st April 2005 at 10.30 a.m.

Place:

Thermal Hotel Margitsziget

(1138 Budapest, Margitsziget)

Magnólia Room

(the function room with access from the spa entrance)

Agenda:

1. To submit and review the 2004 Balance Sheet
 - To receive the Board's report about the 2004 business activities
 - To receive the report of the Auditor on the 2004 B/S
 - To receive the report of the Supervisory Board on the 2004 operating activities and B/S
2. To pass decision on the 2004 profit allocation
3. To inform the Meeting about the 2005 business targets
4. To elect members to the Board of Directors
5. To elect members to the Supervisory Board
6. To modify the Articles

Item 6.11.: in order to be able to exercise voting right, the date of registering the shareowner into the book of shares shall be modified to the period between the 10th and 5th trading days preceding the AGM in line with the changes of the Regulations of the Budapest Stock Exchange Rt. for Listing, Continued Trading and Disclosure.

Item 8.1.: modifying the list of members of the Supervisory Board became necessary owing to the personal changes that took place.

7. To appoint the Auditor and approve his/her 2005 remuneration
8. To establish the remuneration of the members of the Board of Directors and the Supervisory Board



**DANUBIUS HOTELS
GROUP**

REPORT OF THE BOARD OF DIRECTORS

Worldwide situation

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

Danubius Group in 2004 – the overall picture

Whilst the Group achieved a consolidated profit before tax of HUF 1418.6 million, as compared to HUF 1061.3 million in 2003, this improvement masked another year of tough trading conditions particularly in the second half.

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

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

Increasing demand in Hungary parallel to keen price competition

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

National statistics show that the number of guest nights in 2004 surpassed that of the previous year by an average 9.1%. This resulted in 46.6% occupancy at national level, reaching the 2000-2001 level. The increase of demand is not equal to the earlier growth of capacity and this is a disadvantage to rates. The average rate of hotel rooms at the end of 2004 was higher (+2.8%) than one year before, still it was lagging behind the 2000 level by 25%.

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

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



DANUBIUS HOTELS GROUP

Interest purchase in Gundel Restaurant

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

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

Merger of Hungarian subsidiaries

Hungária Property Company – fully owned subsidiary of Danubius Hotels Rt. – merged with Danubius Hotel Management Rt. - also 100% owned subsidiary of Danubius Hotels Rt. This was registered by the Court of Registration on 23rd September 2004. The extraordinary profit in the not consolidated P&L statement of Danubius Hotels Rt. is a technical item resulting from the HUF 5 831 million difference of the purchase value taken out of the B/S and the new own capital value of the merging company.

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

Consolidated Balance Sheet

Consolidated asset value of Danubius Hotels Rt. was HUF 74.9 billion on 31 December 2004, HUF 2.6 billion higher compared to the previous year.

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

- fixed assets went up by HUF 762 million,
- value of inventory was up by HUF 351 million,
- total cash and bank deposits increased by HUF 243 million
- the value of accounts receivable and payable also went up due to the newly acquired company.

The value of property, plant and equipment was up by HUF 3 billion as a result of the effect of the new acquisition and the works detailed in the reconstruction chapter. The vast majority of the HUF 1.4 billion growth in uncompleted investments is accounted to the investments carried out but not activated by the Slovakian company.

The value of inventory went up owing to the already mentioned Gundel acquisition, and decreased significantly at the Slovakian subsidiary, changing by HUF +284 million as a total. The composition of our stocks has modified by the involvement of Lángasztrónia Kft. since the company has to register unfinished stock and finished goods owing to the wine production and trading not included in our statements until now.

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



DANUBIUS HOTELS GROUP

The decrease of the cash and cash equivalents by HUF 958 million can be explained by the financing of the Gundel purchase price partly from own cash sources, the significant loan repayments in 2004 and the new loan borrowing.

Among liabilities and shareholder's equity the value of long-term liabilities went up by HUF 952 million. This derives primarily from the loan taken out by the Slovakian subsidiary for fulfilling its investment obligation. The value of short-term loans (the repayment installment of the long-term loans due in 2005) moderated by more than HUF 1 billion due to the changes in the repayment instalments owing to the refinancing of loans.

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

Consolidated Profit and Loss Statement

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

Revenues

Operational revenue of the Danubius Group at consolidated level was HUF 38 885 million in 2004, surpassing that of last year's by 2.2%. The group revenue increased by HUF 440 million owing to the consolidation of the 4th quarter performance of Gundel.

The HUF 837 million revenue increase was credited to the improvement achieved by the Hungarian companies – HUF 1894 million without Gundel – and the Romanian subsidiary, because of the whole year operation of Hotel Sovata. The revenue of the Czech and Slovak hotels calculated in HUF fell back by 7.5 and 19.5% as opposed to 2003.

Hungarian hotels contributed to the revenues by 68.5%, the Czech subsidiary by 13.5% the Slovakian by 16%, and the Romanian daughter company by 2%.

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

Departmental profit

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



**DANUBIUS HOTELS
GROUP**

HUF million

| | 2003 | 2004 without Gundel | Of which: | | | |
|---------------------------------|---------------|---------------------------|--------------------------------|--------------|--------------|------------|
| | | | Hungarian without Gundel | Czech | Slovak | Romanian |
| Profit from room sales | 13 909 | 14 687 | 10 547 | 2 413 | 1 488 | 239 |
| Profit from F&B | 2 962 | 3 290 | 2 524 | 303 | 333 | 130 |
| Profit from spa | 4 033 | 2 882 | 962 | 700 | 1 170 | 50 |
| Other minor departmental profit | -678 | -328 | 107 | 80 | -553 | 38 |
| Departmental profit | 20 226 | 20 531 | 14 140 | 3 496 | 2 438 | 457 |

The departmental revenue is made up of 48.9% from room sales, 31.8% from F&B, 13.3% from therapy and fitness activities.

The revenue from room sales increased in every region and F&B decreased only in the Czech Republic. However, the revenues from therapy unfortunately fell back by 16.2% at group level: it stagnated in the Hungarian hotels but in the Czech and Slovak subsidiaries, representing a high rate in volume, it decreased, especially in Slovakia where set back was the highest (above 30%). This was brought forth by the dramatic restrictions of the social insurance contribution and the set back of the number of traditional German spa guests.

The costs – with the exception of the F&B – went up exceeding the revenue increase in all major departmental areas, moreover, therapy costs also increased. This resulted in departmental profits going up by HUF 305 million (without Gundel).

Costs and expenditures

In 2004 the increase of our costs exceeded that of the revenues. Among material type expenditures material costs – with the exception of the costs of Gundel – went up by the rate of inflation, though the raise of energy prices alone increased our material costs by HUF 216 million. The decrease of the value of used services reflects the cost decrease in our Czech and Slovakian subsidiaries while the costs of refinancing and the increase in insurance fees shows in the value of other services.

Personnel type expenditure went up by HUF 171 million of Lángasztronomia. Without figures of the new company, the increase is 6.5%, which is in line with the yearly wage increase.

Depreciation rate is HUF 221 million higher than the previous year's owing, in addition to involving the new company, to the increased asset value of activating significant investments.

Operating profit

The yearly HUF 1 198.7 million operating profit at consolidated level is 55.7% of last year's owing to the cost increase exceeding revenues and the deteriorating performance in the 4th quarter.

Profit before and after tax

The financial and extraordinary profit went up as opposed to last year's. Among financial items both interests received and paid went up and owing to the strengthening of the HUF in



DANUBIUS HOTELS GROUP

2004 (6.2% against the Euro and 13.3% against the USD compared to the end of 2003) we accounted an exchange rate gain on the foreign exchange loans (HUF 1.1 billion in the Hungarian companies). The extraordinary profit indicates primarily items of the final accounts of HungarHotels Tours Kft.

At profit before tax level we closed 2004 with HUF 1 418.6 million profit with the following figures:

| | | |
|--------------------------------------|----------------|---------------|
| Increase of revenue | 1 022 245 | th HUF |
| Increase of costs | - 1 756 416 | th HUF |
| Increase of depreciation | - 220 895 | th HUF |
| Increase of financial profit | 1 181 308 | th HUF |
| Increase of extraordinary profit | 131 093 | th HUF |
| Increase of profit before tax | 357 335 | th HUF |

Profit after tax went up to HUF 1.12 billion on the account of the HUF 64.9 million increase of tax paying obligations.

Profit of major consolidated companies

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

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

The problem for country spa hotels is the increasing market capacity and the decreasing number of German guests, the major clientele of former years (a fall back of 15% in Hévíz and 23% in Bük). The lagging behind of the number of German guests is, however, compensated in volume by the growing domestic demand, though unfortunately revenues went down due to the different spending customs and shorter period of stay of the Hungarian guests. The occupancy of our country spa hotels was 67.5% in 2004 but the average spending of 21 580 HUF (including F&B and therapy) is merely 2.3% higher than in the Budapest city hotels. We strive to put a stop to the decrease of demand in the spa hotels with our reconstruction and marketing policy, including air conditioning of hotel rooms, the refurbishment of health departments and the widening of the services offered. Owing to the 9% average increase of costs, the gross operating profit went up by HUF 270 million compared to the previous year.

In the **Czech Republic** the occupancy of our hotels (75.3%) was 1.2% down compared to the prior year. The average rate calculated in Czech crowns was 8.9% more than that of 2003 and average spending went up by 4.9%. The number of German and Czech guest nights representing more than 80% decreased by 5% and 19% causing the fall back of spa revenues by 4.8%. The reduction in Czech guest nights is connected to the fall in insurance business. Owing to the cost increase surpassing the revenue, the gross operating profit was HUF 246 million down in 2004 as opposed to the previous year.

The occupancy of our hotels in **Slovakia** was 72.2% in 2004, 1.7%point lower than the previous year as the number of guest nights fell back by 10.5%. The decrease of domestic



DANUBIUS HOTELS GROUP

guest nights (-12%) was the result of the tightening of the social insurance contribution and unfortunately the set back in the number of German guests can be felt here too (also -12%). Although the average rates calculated in Czech crown went up by 6.2%, owing to the lagging behind of the two major guest circles of spa services, average spending went down by 14.2% compared to the previous year. Gross operating profit went down by HUF 389 million in 2004 alongside the decrease of revenues. However, this reduction was largely offset by lower overhead costs, including redundancy costs incurred as part of a wider reorganisation and repositioning of the Piestany operation which will be continued in 2005.

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

Reconstruction and development

In 2004 we performed reconstructions with the purpose of raising the all round technical level of our hotels and improving the general guest convenience with special regard to expanding our services in the wellness and fitness area, offering a promising market segment. During the period under review we have implemented such developments in our **domestic** hotels to the tune of HUF 2049 million.

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

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

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

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

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

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



**DANUBIUS HOTELS
GROUP**

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

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

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

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

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

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

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

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

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

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

Ownership structure and Stock Exchange trading

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

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

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

Danubius Hotels Rt. fulfilled its legal obligation and converted its 8 285 437 pieces of printed ordinary shares, each with a nominal value of HUF 1000, registered on the BSE into dematerialised ones on 4th October 2004.

The organisation of the company changed during the 3rd quarter as the Court of Registration registered the merger of Hungária Property Rt. into Danubius Hotel Management Rt.

As a consequence of the sad death of Dr. Ákos Horvátth in July 2004, the number of the Supervisory Board members decreased to three.



**DANUBIUS HOTELS
GROUP**

BALANCE SHEET 2004 (not consolidated)

Hungarian Accounting Standards

| ASSETS | | LIABILITIES | | | | HUF 000 |
|----------------------------------|-------------------|--------------------|-------------------|-------------------|-----------------------------------|----------------|
| Title | 2004 | | 2004 | | Title | |
| | 1 January | 31 Dec. | 1 January | 31 Dec. | | |
| Invested assets | 39 241 399 | 53 701 475 | 32 708 642 | 38 488 261 | Own capital | |
| Intangible assets | 245 371 | 255 081 | 8 285 437 | 8 285 437 | Subscribed capital | |
| Cap.value of transformation | | | <i>374 523</i> | <i>374 523</i> | From this: repurchased share | |
| Cap.value of exper., developm. | | | | | Not yet paid subscrib. capital | |
| Intangible assets | 22 | 6 | 7 138 139 | 7 138 139 | Capital reserve | |
| Intellectual products | 184 932 | 149 941 | 17 186 840 | 16 124 044 | Profit reserve | |
| Goodwill | | | 1 161 021 | 1 161 021 | Tied-up reserve | |
| Advance payment for intang.a. | 60 417 | 105 134 | | | Revaluation reserve | |
| Revaluation of intang.assets | | | -1 062 795 | 5 779 620 | Profit per balance sheet | |
| Tangible assets | 7 262 034 | 7 054 709 | 0 | 0 | Provisions | |
| Real estates and rel. intanq.ass | 7 194 607 | 6 991 280 | | | Provision for possible liability. | |
| Techn. equipments, machines | 23 799 | 27 544 | | | Provision for possible losses | |
| Other equipments, accessoire | 25 929 | 19 729 | | | Other provisions | |
| Breeding stock | | | 12 367 368 | 18 642 962 | Liabilities | |
| Capital projects | 17 699 | 16 156 | 0 | 0 | Subordinated liabilities | |
| Advance payments for projects | | | | | Subord. liab.to daughter co | |
| Revaluation of tangible assets | | | | | Subord. liab.to other investm. | |
| Financial investments | 31 733 994 | 46 391 685 | | | Other subordinated liabilities | |
| Shares in daughter co-s | 30 999 510 | 38 902 680 | 9 633 837 | 14 905 539 | Long term liabilities | |
| Loans to daughter co-s | 717 919 | 7 472 451 | 9 000 | | Long term loans | |
| Other investments | 15 218 | 15 218 | | | Convertible bonds | |
| Loans given to other investm. | | | | | Liability from bond issue | |
| Other long term loans | 1 347 | 1 336 | 3 364 189 | 1 418 987 | Project loans | |
| Long term securities | | | 6 260 648 | 13 486 552 | Other long term loans | |
| Revaluation of financ. investm. | | | | | Long t. liab. to daughter co-s | |
| Working assets | 5 946 765 | 3 544 051 | | | Long t. liab. to other investm. | |
| Stocks | 1 685 | 916 | | | Other long term liabilities | |
| Raw materials | | | 2 733 531 | 3 737 423 | Short term liabilities | |
| Intermed. & semi-finished prod | | | 9 000 | 9 000 | Short term credits | |
| Livestocks | | | | | From this: convertible bonds | |
| Finished goods | | | 2 573 823 | 3 252 127 | Short term loans | |
| Goods | 1 685 | 916 | 5 967 | 23 140 | Advance paym. from debtors | |
| Advance payments for stocks | | | 70 547 | 65 076 | Creditors | |
| Receivables | 2 547 196 | 2 297 476 | | | Bills of exchange | |
| Debtors | 9 427 | 64 785 | 6 785 | 28 030 | Short t. liab. to daughter co-s | |
| Amounts owned by daugh.co-s | 2 461 968 | 2 175 730 | | | Short t liab. to other investm. | |
| Amounts owned by other inv. | 12 848 | 12 848 | 67 409 | 360 050 | Other short term liabilities | |
| Bills of exchange | | | 148 537 | 196 934 | Accruals | |
| Other receivables | 62 953 | 44 113 | | | Accrual of revenues | |
| Securities | 1 161 021 | 1 161 021 | 146 919 | 195 390 | Accrual of costs and expend. | |
| Shares in daughter co-s | | | 1 618 | 1 544 | Deferred revenues | |
| Other investments | | | | | | |
| Treasury shares | 1 161 021 | 1 161 021 | | | | |
| Short term securities | | | | | | |
| Total cash and bank | 2 236 863 | 84 638 | | | | |
| Cash at hand | 946 | 1 318 | | | | |
| Bank deposits | 2 235 917 | 83 320 | | | | |
| Accruals | 36 383 | 82 631 | | | | |
| Accruals of revenues | 5 711 | 49 387 | | | | |
| Accruals of costs and expend. | 30 672 | 33 244 | | | | |
| Deferred expenditures | | | | | | |
| TOTAL ASSETS | 45 224 547 | 57 328 157 | 45 224 547 | 57 328 157 | TOTAL LIABILITIES | |



**DANUBIUS HOTELS
GROUP**

PROFIT AND LOSS STATEMENT 2004 (not consolidated)
Hungarian Accounting Standards

HUF 000

| | | | | Distribution in revenue % | |
|---|-------------------|------------------|---------------|------------------------------|--------------|
| | 2003 | 2004 | index | 2003 | 2004 |
| Net domestic sales revenue | 1 869 826 | 2 809 049 | 150.2% | 100% | 100% |
| Cap.value of own performance | | | | | |
| Other income | 31 254 | 12 100 | 38.7% | 1.7% | 0.4% |
| <i>From this: rewritten loss of value</i> | | | | | |
| Raw material costs | 32 833 | 33 048 | 100.7% | 1.8% | 1.2% |
| Value of services used | 859 467 | 927 940 | 108.0% | 46.0% | 33.0% |
| Value of other services | 26 187 | 39 151 | 149.5% | 1.4% | 1.4% |
| Purchase price of goods sold | | | | | |
| Value of services sold | 129 621 | 680 337 | 524.9% | 6.9% | 24.2% |
| Material-type expenditures | 1 048 108 | 1 680 476 | 160.3% | 56.1% | 59.8% |
| Salaries and wages | 676 304 | 842 071 | 124.5% | 36.2% | 30.0% |
| Other payments for personnel | 129 029 | 144 795 | 112.2% | 6.9% | 5.2% |
| Contribution to salaries and wages | 253 208 | 309 057 | 122.1% | 13.5% | 11.0% |
| Total payroll and related costs | 1 058 541 | 1 295 923 | 122.4% | 56.6% | 46.1% |
| Depreciation | 430 745 | 412 371 | 95.7% | 23.0% | 14.7% |
| Other expenditures | 101 985 | 147 091 | 144.2% | 5.5% | 5.2% |
| <i>From this: loss of value</i> | | | | | |
| Operating profit | -738 299 | -714 712 | | | |
| Dividend and profit sharing receiv. | 5 493 | 8 132 | 148.0% | 0.3% | 0.3% |
| <i>From this: mother - daughter</i> | <i>5 493</i> | <i>8 132</i> | <i>148.0%</i> | <i>0.3%</i> | <i>0.3%</i> |
| Exchange gain on sale of shares | | | | | |
| <i>From this: mother - daughter</i> | | | | | |
| Interest, exch.gain of inv.fin.assets | | | | | |
| <i>From this: mother - daughter</i> | | | | | |
| Other interests received | 194 168 | 411 907 | 212.1% | 10.4% | 14.7% |
| <i>From this: mother - daughter</i> | <i>141 758</i> | <i>288 305</i> | | <i>7.6%</i> | <i>10.3%</i> |
| Other financial income | 275 499 | 1 107 247 | 401.9% | 14.7% | 39.4% |
| Financial income | 475 160 | 1 527 286 | 321.4% | 25.4% | 54.4% |
| Exchange loss of inv.financial asset | | | | | |
| <i>From this: mother - daughter</i> | | | | | |
| Interests payable | 347 191 | 504 382 | 145.3% | 18.6% | 18.0% |
| <i>From this: mother - daughter</i> | | | | | |
| Loss of value of share, sec., deposit | | | | | |
| Other financial expenditures | 418 602 | 316 909 | 75.7% | 22.4% | 11.3% |
| Financial expenditures | 765 793 | 821 291 | 107.2% | 41.0% | 29.2% |
| Financial profit or loss | -290 633 | 705 995 | | | 25.1% |
| Profit from ordinary activities | -1 028 932 | -8 717 | | | |
| Extraordinary income | 74 | 27 476 867 | | | |
| Extraordinary losses | 33 937 | 21 688 530 | | 1.8% | |
| Extraordinary profit or loss | -33 863 | 5 788 337 | | | |
| Profit before tax | -1 062 795 | 5 779 620 | | | |
| Taxes payable | | | | | |
| Profit after tax | -1 062 795 | 5 779 620 | | | |



**DANUBIUS HOTELS
GROUP**

CONSOLIDATED BALANCE SHEET OF DANUBIUS HOTELS RT. 2004

Hungarian Accounting Standards

| ASSETS | LIABILITIES | | | | HUF 000 |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------------------------|
| | 2004 | | 2004 | | |
| Title | 1 January | 31 Dec. | 1 January | 31 Dec. | |
| Invested assets | 63 022 418 | 65 960 050 | 41 055 508 | 42 621 179 | Own capital |
| Intangible assets | 486 151 | 428 572 | 8 285 437 | 8 285 437 | Subscribed capital |
| Cap.value of transformation | | | 374 523 | 374 523 | <i>From this: repurchased share</i> |
| Cap.value of exper., developm. | | | | | Not yet paid subscrib. capital |
| Intangible assets | 21 530 | 5 435 | 7 138 139 | 7 138 139 | Capital reserve |
| Intellectual products | 403 971 | 318 003 | 17 186 840 | 16 124 044 | Profit reserve |
| Goodwill | | | 1 161 021 | 1 161 021 | Tied-up reserve |
| Advance payment for intang.a. | 60 650 | 105 134 | | | Revaluation reserve |
| Revaluation of intang.assets | | | 951 236 | 1 126 657 | Profit per balance sheet |
| Tangible assets | 62 200 190 | 65 224 676 | 4 067 557 | 6 544 239 | Change in subsidiar.own cap. |
| Real estates and rel. intang.ass | 57 117 954 | 58 944 616 | 2 265 278 | 2 241 642 | Profit sharing of externalities |
| Techn. equipments, machines | 3 241 973 | 3 002 950 | 741 769 | 782 147 | Provisions |
| Other equipments, accessories | 805 788 | 760 597 | 741 769 | 782 147 | Provision for possible liab. |
| Breeding stock | | | | | Provision for possible losses |
| Capital projects | 1 019 774 | 2 429 380 | | | Other provisions |
| Advance payments for projects | 14 701 | 87 133 | 30 008 655 | 30 943 739 | Liabilities |
| Revaluation of tangible assets | | | 5 523 500 | 5 523 500 | Subordinated liabilities |
| Financial investments | 336 077 | 306 802 | | | Subord. liab.to daughter co-s |
| Shares in daughter co-s | 220 671 | 217 670 | | | Subord. liab.to other inv. |
| Loans to daughter co-s | | | | | Other subordinated liabilities |
| Other investments | 15 550 | 15 450 | 5 523 500 | 5 523 500 | Capital consol.diff. fr. subsid. |
| Loans given to other investm. | | | 15 839 395 | 16 791 415 | Long term liabilities |
| Other long term loans | 99 856 | 73 682 | 9 000 | | Long term loans |
| Long term securities | | | | | Convertible bonds |
| Revaluation of financ. Investm. | | | | | Liability from bond issue |
| Working assets | 8 591 600 | 8 274 275 | 3 906 444 | 1 900 272 | Project loans |
| Stocks | 566 818 | 851 204 | 11 913 827 | 14 845 300 | Other long term loans |
| Raw materials | 508 641 | 481 054 | | | Long t. liab. to daughter co-s |
| Intermed. & semi-finished prod. | | 203 294 | | | Long t. liab. to other inv. |
| Livestock | | | 10 124 | 45 843 | Other long term liabilities |
| Finished goods | | 63 381 | 8 645 760 | 8 628 824 | Short term liabilities |
| Goods | 57 482 | 100 093 | 9 000 | 9 000 | Short term credits |
| Advance payments for stocks | 695 | 3 382 | | | <i>From this: convertible bonds</i> |
| Receivables | 2 504 831 | 2 922 167 | 5 028 311 | 4 010 948 | Short term loans |
| Debtors | 1 596 396 | 1 852 005 | 216 736 | 305 634 | Advance paym. from debtors |
| Amounts owned by daugh. co-s | 61 924 | 58 742 | 1 556 658 | 2 539 148 | Creditors |
| Amounts owned by other inv. | 12 848 | 12 848 | | | Bills of exchange |
| Bills of exchange | | | 145 | 30 355 | Short t. liab. to daughter co-s |
| Other receivables | 833 663 | 998 572 | | | Short t. liab. to other inv. |
| Securities | 1 255 401 | 1 194 230 | 1 834 910 | 1 733 739 | Other short term liabilities |
| Shares in daughter co-s | | | 491 196 | 518 313 | Accruals |
| Other investments | | | 141 971 | 26 944 | Accrual of revenues |
| Treasury shares | 1 214 223 | 1 161 021 | 342 230 | 487 168 | Accrual of costs and expend. |
| Short term securities | 41 178 | 33 209 | 6 995 | 4 201 | Deferred revenues |
| Total cash and bank | 4 264 550 | 3 306 674 | | | |
| Cash at hand | 141 160 | 125 061 | | | |
| Bank deposits | 4 123 390 | 3 181 613 | | | |
| Accruals | 683 110 | 631 053 | | | |
| Accrual of revenues | 420 839 | 419 264 | | | |
| Accrual of costs and expend. | 262 271 | 211 789 | | | |
| Deferred expenditures | | | | | |
| TOTAL ASSETS | 72 297 128 | 74 865 378 | 72 297 128 | 74 865 378 | TOTAL LIABILITIES |



**DANUBIUS HOTELS
GROUP**

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

Hungarian Accounting Standards

HUF 000

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

PROFIT ALLOCATION

The management of Danubius Hotels Rt. will pass a resolution about the allocation of the 2004 profit at its meeting to be held prior to the day of the general meeting on 20 April 2005, and will inform the shareholders accordingly at the general meeting.

ELECTION OF THE MEMBERS OF THE BOARD OF DIRECTORS

The mandate of Mrs Iris Gibbor and Mr József László elected for five years at the 27 April 2000 general meeting terminates this year. The Board expresses its thanks to Mrs Iris Gibbor and Mr József László for the work of the past five years and requests the general meeting to renew the mandate of the said members for the next five years.

ELECTION OF THE MEMBERS OF THE SUPERVISORY BOARD

The mandate of Mr Tibor Antalpéter elected for five years at the 27 April 2000 general meeting terminates this year. The Board expresses its thanks to Mr Tibor Antalpéter for the work of the past five years and that he took over the chairman's tasks following the death of Mr Gábor Cséti in October 2002 and ensured continuous operation of the Supervisory Board. The Board requests the general meeting to renew the mandate of the said member.

The Supervisory Board operates presently with the legally stipulated minimum of three members, therefore, the Board recommends to the General Meeting to elect Dr. András Gálszécsy on the Supervisory Board for five years.

Dr. András Gálszécsy was born in Szekszárd in 1933, obtained a legal doctor's degree at the University of State and Legal Sciences in Pécs. He speaks German and English, he is married and has one child.

During his long path in life, he worked at the National Central Planning Board, the Central Statistical Office, he was Head of Major Department at the State Population Records Office. He filled the position of Deputy Director of the Central Corporation of Banking Companies for two years, then he was the Deputy Financial Director of the Semmelweis University of Medicine for nearly ten years.

From 1990, during his political career, he worked as the Minister without Portfolio controlling the civil secret services, then as an Advisor to the Prime Minister. From 1995 to 2004. he was the Managing Director, and Advisor to the Governor of the Hungarian National Bank.

He is the Vice-President of the Hungarian Atlantic Council and Member of the Supervisory Board of Malév Rt.



MODIFICATION OF THE ARTICLES

The modification of the Articles set forth below are proposed in case of item 6.11 owing to the changes in the Regulations of the Budapest Stock Exchange on Listing, Continued Trading and Disclosure, while item 8.1 is amended due to personnel changes in the Supervisory Board.

| | <i>Articles in effect</i> | <i>Proposal for the amendment</i> |
|-------------|--|--|
| 6.11 | <p>The shareholder may exercise his general meeting rights personally or through a properly authorised representative or a proxy. The authorisation is to be submitted to the company in the form of a public or private document with full probative force. Members of the board of directors or the president of the company, members of the supervisory board or the auditor may not be authorised to be representatives. The shareholder may only exercise his voting rights if he has been entered into the share register at least 5 (five) days prior to the day of the general meeting and if the shareholder presents the owner's certificate issued - for the practise of the participation rights at the general meeting – valid until the day of the general meeting or the repeated day of the general meeting to the board of the company till the day prior to the general meeting but no later than the general meeting.</p> | <p>The shareholder may exercise his general meeting rights personally or through a properly authorised representative or a proxy. The authorisation is to be submitted to the company in the form of a public or private document with full probative force. Members of the board of directors or the president of the company, members of the supervisory board or the auditor may not be authorised to be representatives. The shareholder may only exercise its voting right if he has been entered into the share register in the period between the tenth (10.) and fifth (5.) trading days prior to the day of the general meeting and if the shareholder presents the owner's certificate issued – for the practise of the participation rights at the general meeting – valid until the day of the general meeting or the repeated day of the general meeting to the board of the company till the day prior to the general meeting but no later than the general meeting.</p> |
| 8.1 | <p>The supervisory board of the company consist of 3-15 persons elected for a period of five (5) years by the General Meeting. Should the number of staff employed in full hours at the company exceed the yearly average of two-hundred, one-third of the members of the supervisory board is elected by the employees.</p> <p>Members of the supervisory board:</p> <p>Antalpéter Tibor 1025 Budapest, Kavics u.11. Horvátth Ákos 2012 Budakalász, Dobó út 7. Surányi Imréné 2310 Szigetszentmiklós, Horgász u.2. Dr. Boér Gábor 1121 Budapest, Árnyas út 11/a.</p> | <p>The supervisory board of the company consist of 3-15 persons elected for a period of five (5) years by the General Meeting. Should the number of staff employed in full hours at the company exceed the yearly average of two-hundred, one-third of the members of the supervisory board is elected by the employees.</p> <p>Members of the supervisory board:</p> <p>Antalpéter Tibor 1025 Budapest, Kavics u.11. Surányi Imréné 2310 Szigetszentmiklós, Horgász u.2. Dr. Boér Gábor 1025 Budapest, Cseppkő u. 36. Dr. Gálszécsy András 1031 Budapest, Rozália u. 35.</p> |



**DANUBIUS HOTELS
GROUP**

BUSINESS TARGETS 2005

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

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

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

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

Our plans envisage the increase of efficiency of our departmental units in our major subsidiaries in 2005, as there is a possibility to cut costs in several fields, and so these will increase to a smaller extent compared to revenues. The tourism industry is very labour intense, therefore wage type costs represent a major proportion in the



**DANUBIUS HOTELS
GROUP**

group. We will have to face pressure on these costs in the coming years from the labour markets that have become more and more flexible as a result of EU accession, for which reason we will have to pay special attention to strict head count management and efficient application of outsourcing flexibly adjusting to wages, at the same time we are aware that keeping professionals is becoming a difficult task.

When planning the reconstruction activities our main aspect was the maintenance of our hotels as well as increasing their technical level, which is a must in the present increasing competition. In Hungary we focused primarily on room and bathroom refurbishments and the renewal of health departments; we are planning to carry out reconstructions to the tune of HUF 2 billion in 2005. In order to keep up the high quality of the world famous Gundel restaurant we consider it important to modernise the kitchen. We continue to increase the level of quality in our Czech and Slovak subsidiaries while in Sovata we started the reconstruction and upgrading of Hotel Bradet to a four star level.

We are confident that international tourism – in line with projections of the experts – will indeed slowly get back to its growth path and no negative changes will take place in the market that would endanger the realisation of our targets. The management and colleagues of Danubius Hotels Rt. shall continue to do everything in their power to have the hotels operate efficiently to the satisfaction of our guests and shareholders.