

## REPORT OF THE SUPERVISORY BOARD

The Supervisory Board has held its meetings, according to its work-schedule, on regular basis. All meetings had a quorum. The meetings were attended by the chairmen of the Supervisory Boards of Danubius Szállodaüzemeltető és Szolgáltató Rt. (Danubius Management Co.) and Hungária Szálloda–Ingatlankezelő Rt. (Hungária Property Co.) as well as the head of the Internal Audit. Furthermore, the said supervisory boards, pending on the subjects, held several joint meetings as well.

Some meetings were also attended by the representative of the auditing company, as an invitee, who provided information about its activities. The chairman of the Supervisory Board participated regularly at Board of Directors meetings of the company. Managers of the company were invited, according to the work schedule, to the Supervisory Board meetings, and they were requested to report on their activities with special focus on the following points:

- business activities in 2002 and accomplishment of the business plan targets,
- measures taken in connection with the unfavourable situation developed after the September 11 events and the war in Iraq,
  - financial situation and outlook,
  - new acquisitions of the company,
  - marketing and sales activities,
  - review of the reconstruction, renovation and investment projects in order to ensure competitiveness of the company,
  - internal audit activities,
  - adherence to the laws and regulations.

The Supervisory Board concluded that

- the financial obligations were met in accordance with the plan,
- investments and refurbishments were executed – with a view to the competition on the market and the economic situation – in due time.

The Supervisory Board has not detected any measures or events with respect to the operation of the company in the year 2002 that are contrary to the law or the Articles of Association.

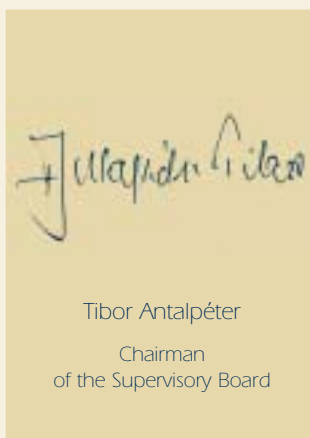
The goals of the business plan for 2002 were reasonably accomplished, taking into account the proportional consolidation of the results of the companies obtained through the new acquisitions.

In view of the impact of all the market factors, the Supervisory Board proposes that the financial balance of the company be approved.

The Supervisory Board has discussed the company's annual report and in view of the auditor's report and oral presentation, proposes that they be approved by the AGM with total assets of HUF 45,838,244,000 and balance sheet profit of HUF 1,665,235,000. Having read the auditor's report, the Supervisory Board proposes that the consolidated balance sheet of Danubius Rt. be approved with total assets of HUF 72,352,009,000 and balance sheet profit of HUF 2,309,638,000.

The Supervisory Board supports the Board of Director's proposal that regarding the extraordinary situation no dividends be paid this year.

Budapest, 22 April 2003



Tibor Antalpéter  
Chairman  
of the Supervisory Board

## THE SUPERVISORY BOARD



**Tibor Antalpéter**

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



**Dr. Gábor Boér**

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



**Gábor Cséti**

Chairman of the Supervisory Board  
Deceased in September 2002



**Dr. Ákos Horváth**

Associate Professor at the Department of Tourism at the Budapest Business School



**Mrs. Erzsébet Surányi**

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

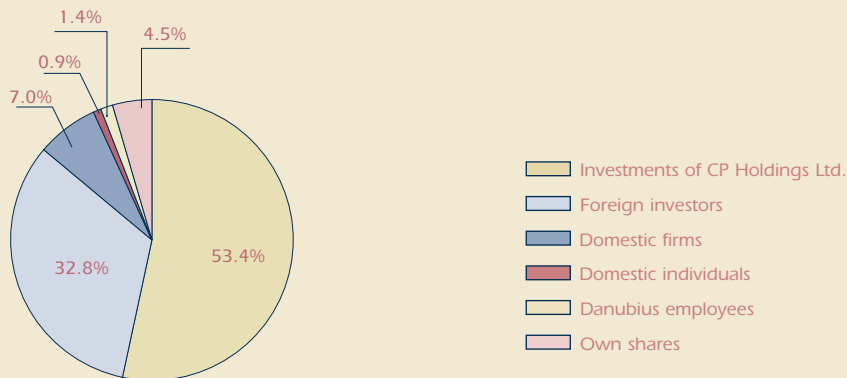


## SHAREHOLDERS' STRUCTURE – DANUBIUS SHARES ON THE BSE IN 2002

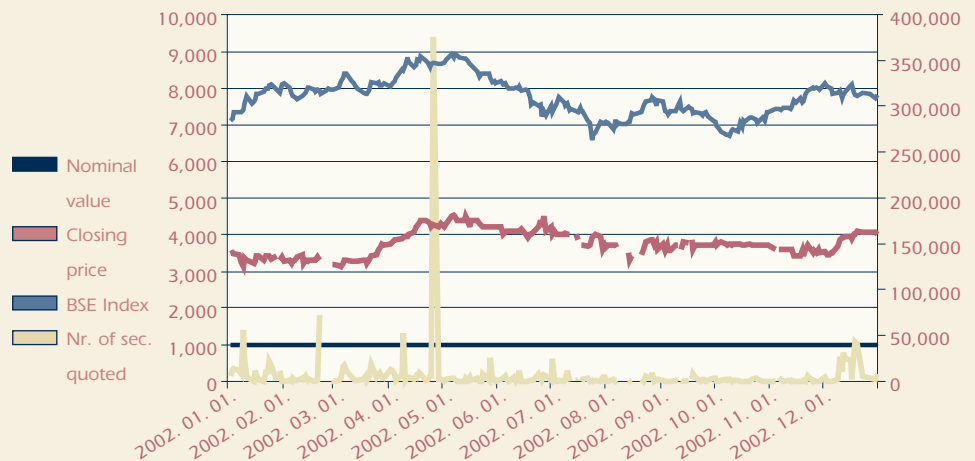
### Trading on the Budapest Stock Exchange

	2001	2002
Number of trading days	244	244
Number of deals	8,734	4,246
Number of securities traded	2,280,552	1,475,634
Value of securities traded (HUF million)	8,360.3	5,658.7
Average price (HUF)	3,666	3,835
Minimum price (HUF)	2,355	3,060
Maximum price (HUF)	4,580	4,545
Closing price (HUF)	3,490	4,000

Shareholders structure on 31 December 2002



Trading of Danubius shares on BSE in 2002



## TOURISM IN HUNGARY

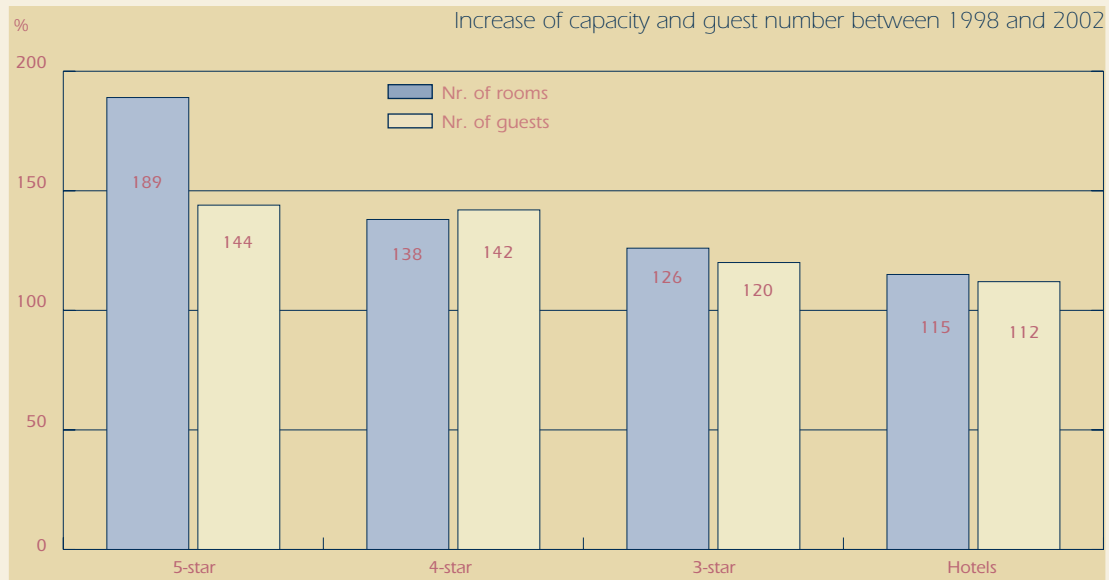
The demand side of the Hungarian hotel market has changed little in 2002 compared to the previous year, however, it shows a greater distribution as supply continues to widen.

The environment became unfavourable for the tourism by the synergy of outside negative factors:

- The lingering on of the shock caused by the terror attacks in September 2001,
- the fear from the outbreak of the war in Iraq,
- coupled with the floods hitting the majority of Europe in the middle of the high season and,
- the strengthening of the HUF with negative effects on incoming foreign guests but positive impact on Hungarian outgoing trips.

The increase in **hotel capacities** surpassed its growth in 2001. Forty-three hotels were opened at national level: one five star hotel (Corinthia Grand Hotel Royal in Budapest), and the number of new four star hotels is 11 three of which opened in the capital (among them the former Palace Hotel, the Novotel Budapest Centre).

This increase is only partly followed by the **guest turnover data**. The number of guests shows a continuous increase from 1996, in 2002 it exceeded the 4 million, but unfortunately it was not in any proportion to the increase of the number of rooms:



The number of nights spent by **foreign guests** in commercial accommodation places went down by 6.7%, however, the drop in the number of hotel guest nights was smaller (2.7%). A significant decrease (above 20%) was recorded in budget hotels while

## TOURISM IN HUNGARY

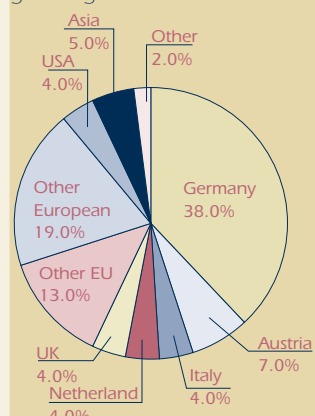
four – five star hotels show an increase. The number of foreign guest nights was lower in the capital by 4.4% and lagging behind at Lake Balaton was 8.4% compared to 2001.

Less guest nights were spent in Hungary by guests from the majority of sending countries (i.e. Germany, Italy, Spain, and USA) as opposed to the prior year at the same time the number of nights spent by guests from Great Britain and France and the neighbouring countries went up.

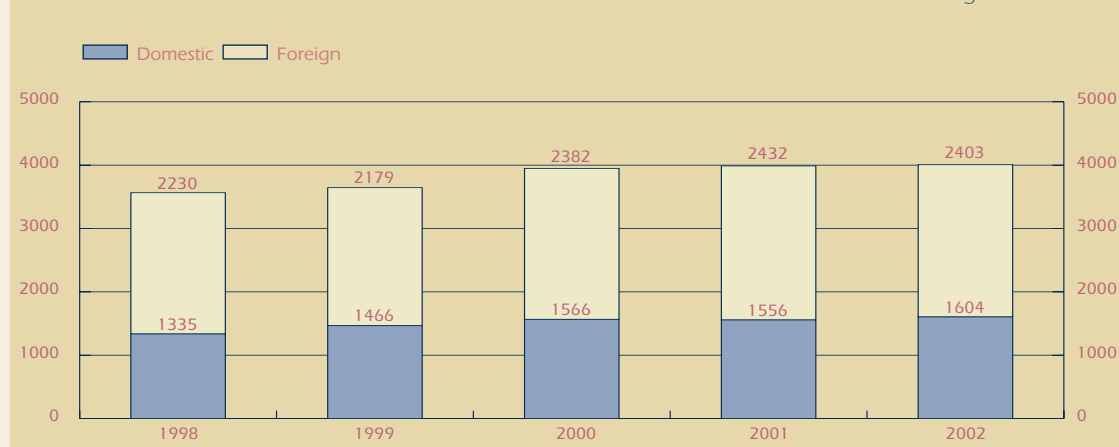
The key goal in the improvement of Hungarian tourism is to increase the **domestic demand**. The number of domestic guests has been continuously increasing since 1992, with the exception of a moderate set back in 1995. The number of domestic guests in the hotels went up by 3.1% in 2002 compared to the previous year, exceeding the 1.6 million, still the number of guest nights went up by a mere 2.2% due to the shortening of the spent time. The number of domestic guest nights stagnated in Budapest, but were 2.6% up at Lake Balaton.

**Occupancy of hotel rooms** dropped in all categories compared to 2001. The occupancy of four-five star hotels went back to 57.3% and 60.4% while average occupancy showed a set back from 46.6% to 45.4%.

Distribution of foreign guestnights



Number of guests in hotels



The competition fight becomes clear when looking at the rates as national accommodation revenues stagnated alongside increasing hotel capacities. In Budapest a fall back was experienced in all categories and the accommodation revenues of hotels went down by an average of 4%.

The Hungarian tourism produced EUR 3448 million revenue in 2002.

Source: KSH, MNB

## STRUCTURE OF DANUBIUS HOTELS GROUP



The participations of the Danubius Hotels Group listed above are all members of the consolidation sphere. There are some other interests too – for example our travel agencies – which were not consolidated due to the low ownership rate of Danubius or the small size of the company.

The operation of the Hungarian hotels belongs to the Danubius Management Co. while the management of properties and lands of most of our hotels to the Hungaria Property Management Co. The operation of hotels is merged into regional directorates: three of them are in Budapest and two are in the countryside and the two hotels in Pécs still operate as an individual unit.

The operation of our foreign subsidiaries is largely independent. The former managers are supported each by a Hungarian colleague and we are represented in the Boards of Directors and in the Supervisory Boards through some appointed Hungarian managers.