

ANNUAL REPORT

2004

MALÉV HUNGARIAN AIRLINES

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1. CHAIRMAN-CEO SUMMARY

Dear Partners

During 2004 Malév Hungarian Airlines was forced to stand its ground amidst significantly altered market conditions compared to previous years and challenged on all sides by numerous new competitors. The greatest challenges we faced were strengthening competition, the headway low cost carriers made in the market and the dramatic increase in kerosene prices. Hungary's accession to the EU and the implementation of the Open Sky policy, that is the complete liberalization of the air transport market, played a key role in the increasingly competitive marketplace.

Malév's pre-tax result for 2004 – together with appraised assets – amounted to a loss of HUF 4.9 billion, an improvement of HUF 8.6 billion on the previous year's loss of HUF 13.5 billion. The operating result for 2004 was a loss of HUF 5.7 billion, HUF 3.7 billion better than the base year figure. Financial transactions boosted the bottom line by HUF 700 million, and extraordinary items by HUF 127 million.

The number of scheduled passengers was 2.6 million in 2004, and when taken together with charters Malév carried nearly three million passengers over the year as a whole. Revenue generated from scheduled passenger traffic amounted to HUF 95.5 billion in 2004.

Malév inaugurated eight new destinations during the year. These new flights further reinforced the airline's market presence in what are Malév's key regions, Central-Eastern Europe and Southeast Europe. Podgorica, Ljubljana, Dubrovnik and Varna are the sort of destinations with long-term growth potential for Malév. Amongst all the new routes, the Beijing flight operated in partnership with Hainan Airlines stands out as particularly significant.

The carrier continued to implement its fleet upgrade programme. By the end of 2004 the airline had 16 brand new Boeing 737 NG aircraft, while the older Boeing 737 Classics were gradually withdrawn from service. The fleet upgrade programme, in the course of which the company took possession of a total of 18 new Boeings, finally concluded in April 2005.

Once again Malév provided its passengers with safe, secure transport and high quality services throughout 2004. No better proof of this is available than the results of a survey carried out by one of the most influential professional publications in Hungary. According to the public opinion poll conducted by the journal, the Hungarian national airline was the best airline of 2004.

Dr. János Gönci
Chief Executive Officer

2. HIGHLIGHTS

	Unit	2003 actual	2004 actual	2004 actual/ 2003 actual
<i>Turnover and capacity</i>				
Revenue passengers*	'000	2 275	2 482	109%
Revenue passenger kilometres*	million RPK	3 190	3 486	109%
Available seat kilometres*	million ASK	4 939	5 409	110%
Load factor*	%	64.6	64.3	99%
<i>Financial data</i>				
Net sales**	HUF million	113 785	125 699	110%
Total revenue	HUF million	124 607	137 623	110%
Personnel expenses	HUF million	19 708	22 554	114%
Total expenses***	HUF million	138 101	142 529	103%
Pre-tax profit	HUF million	-13 494	-4 906	36%
Post-tax profit	HUF million	-13 494	-4 906	36%
Pre-tax profit as a % of total revenues	%	-10.83	-3.56	33%
Liquid assets (cash, cheques, bank deposits)	HUF million	9 669	6 020	62%
Liquid assets as a % of total revenues	%	7.76	4.37	56%
<i>Human resources and ratio indicators</i>				
Average (Central Statistical Office-based) statistical headcount	persons	3 023	3 116	103%
Per employee				
revenue passenger kilometres	million RPK/person	1	1	106%
sales revenue	HUF million /person	38	40	107%
pre-tax profit	HUF million /person	-4	-2	35%
Total revenues per HUF 1 of personnel expenses	HUF/HUF	6.32	6.10	97%

* Scheduled data

** Together with the value of unused tickets

*** Together with value of activated own performance

3. SENIOR OFFICERS OF THE COMPANY

The senior officers of the company are as follows:

Body	Name	Mandate started
Board of Directors	Péter Hónig	11 February 2005
	Zoltán Bodnár	11 February 2005
	Dr. Gábor Galla	11 February 2005
	Dr. János Gönci	11 February 2005
	György Erik Haris	11 February 2005
	Péter Krauth	11 February 2005
	Magdolna Költő	5 May 2003
	László Pál	11 February 2005
	József Thuma	17 December 2004
	Dr. Gábor Sólyom	17 December 2004
Supervisory Board	Erzsébet Szombati-Szalóki	30 May 2003
	Péter Endrődy	30 May 2003
	Dr. András Balogh	3 September 2004
	Dr. László Szlávnits	29 July 2002
	József Goldfárth	29 July 2002
	Dr. András Gálszécsy	16 March 1992
	Attila Csorba	30 May 2003
	Mrs. Adolf Kozek	11 June 1999
	György Háy	11 June 1999

4. OPERATING ENVIRONMENT

As had been forecast, in 2004 the Euro continued to strengthen vis-à-vis the dollar while the domestic exchange rate policy led to a considerable appreciation of the forint against the dollar. Due to the divergent structure of revenues and costs the company's results were influenced by fluctuations in the cross rates of the two key currencies.

Over the course of the year average fuel prices rose considerably compared to those of the base year.

The industry has still not managed to pull itself completely out of the depression following the events of 11 September 2001. Looking at the year as a whole, the global air industry stagnated (according to International Air Transport Association figures there was slight growth in the industry of some 1.5% in both revenue passenger kilometres and available seat kilometres).

However, more growth was visible in Europe: turnover within Europe of AEA (Association of European Airlines) members grew 6.8% measured in terms of revenue passenger kilometres – airlines achieved this with a lower rate of growth in available seat kilometres (6.1%) than that experienced in demand, thereby improving the average load factor by 0.4%.

The advance of the low cost airlines continued. Low cost carriers' available seat kilometres on the Malév network nearly doubled; growth was of the order of 97% across the entire year measured against 2003. By the end of 2004 nine budget airlines were flying out of Ferihegy, and new competitors can be expected from early 2005.

Integration of the alliance systems continued. With the admittance of KLM, Sky Team became the second largest international airline alliance (based on passenger numbers) after Star Alliance, and first in terms of available destinations. The merger of Air France and Dutch airline KLM saw the creation of the largest European carrier.

Last year scheduled passenger traffic passing through Ferihegy airport grew by 30.5% to exceed 5.6 million passengers.

In 2004 the pace of development of the Hungarian economy picked up, with average GDP growth rising to 4%. However, inflation also climbed, to 6.8%. The Hungarian forint strengthened 1% against the Euro, while taken against the dollar it rose by an annual average of around 9% (as a result of the dramatic strengthening of the Euro-dollar cross rate). Overall, this had a positive impact on Malév's operations due to the company's mainly Euro-based revenue and USD-based cost structure.

5. COMMERCIAL POLICY

A completely new pricing structure was introduced from 15 December 2003, the primary aim of which is to generate additional passengers and extra revenue on Malév flights. The appearance of low cost carriers also triggered the implementation of a new fare system. The impacts of these changes became perceptible in 2004. After detailed examination of the new pricing structure and reacting to the increasingly aggressive market presence of the low cost carriers, Malév implemented further modifications to the system in the second half of the year.

During 2004 Malév made its presence felt through an intensive marketing and distribution policy on the Hungarian market. The company consolidated its market position thanks to effective sales promotion campaigns and a business policy built on reliable partner relations. As a consequence of shifts in the airline industry and in order to improve cost efficiency, several key strategic decisions were taken in the second half of the year. From February 2004 the company reduced the base commission for domestic sales agents from 7% to 1%.

The process of restructuring the regions was concluded on the Western Europe and long-haul markets. Local management was transferred to Country Commercial Managers appointed from local staff, replacing delegated regional managers. These Country Commercial Managers are now supervised by managers based in Budapest. The commission system was reshaped during the year: the IATA base commission was successfully reduced to 0-1% in the majority of sales outlets, resulting in significant cost savings.

As regards distribution channels, *traditional sales* are most typical in the East Europe and Mediterranean region. Online sales also appeared, initially in Tel Aviv. The central thrust of the 2004 sales policy was to boost point-to-point sales, mainly because low cost airlines started to attack Western Europe transfer destinations.

Following restructuring of the regions, responsibilities were switched to Country Commercial Managers under the supervision of regional managers based in Hungary. Reduction of IATA base commission rates started in 2004 and continues in 2005.

During 2004 numerous Western and Eastern European salespoints joined Hungary in having online sales facilities. Introduction of online sales was backed up by campaigns, a flexible approach to pricing and capacity management.

Passenger numbers breakdown

	2003		2004	
	No. of passengers '000	Breakdown %	No. of passengers '000	Breakdown %
Eastern Europe	556	23.6%	643	24.6%
Western Europe	1 370	58.0%	1 491	57.0%
Mediterranean	309	13.1%	339	13.0%
Short-haul	2 236	94.7%	2 472	94.5%
Long-haul	126	5.3%	143	5.5%
TOTAL	2 362	100.0%	2 616	100.0%

6. HUMAN RESOURCES

Objective and role of HR policy management

The primary goal of human resources management is to ensure that there is constant availability of the optimal number of suitably trained personnel required for realizing the business plan, and that these resources are utilized in the most efficient way applying motivational techniques. The ultimate objective is to forge a team which, through its work and corporate commitment, increases the value of the company in the eyes of clients, owners and prospective investors.

Recruitment, selection

In the process of selecting professionals, and commensurate with increased job expectations, Malév always endeavours to employ people who have the appropriate professional experience, personality traits, work culture and market know-how to allow them to adjust to the new work and start functioning in the shortest possible time. However, due to the specificities of the industry, this principle frequently cannot be put into practice; here, forward recruitment planning receives particular emphasis.

In line with efforts to reduce expenditure to a minimum, recruitment costs remained at a low level throughout 2004. New staff were selected primarily from existing HR or through advertisements.

Instruction, training

Compared to 2003, both the number and the total cost of general training courses were reduced by approximately 50%. The reason for this was that – bearing in mind the company's financial situation over the year – primarily those training courses received backing which were absolutely necessary for filling positions and ensuring trouble-free operations, as well as those linked to quality control (JAR, audits) and required under legal provision.

During 2004 HUF 576 million was invested in Malév's core activities, operations training, an increase of 35% over 2003. The reason for this was the fleet switchover and additional training required as a result of an increase in staff numbers.

Labour relations

Malév enjoys settled labour relations with a Collective Contract, Labour Protection Agreement and Works Agreement in effect.

7. STAFF

Malév employees – 2004

	2003 Persons	2004 Persons	Index %
Full-time	2 901	2 937	101.2%
Part-time	122	177	145.1%
No. employed for fewer than av. 60 hours/month		2	
TOTAL	3 023	3 116	103.1%

The average statistical headcount for 2004 was 3% greater than in 2003.

Staffing reports sent to the Central Statistical Office show those employees working less than an average 60 hours per month as a new category i.e. they are no longer classified as part-time and are shown under a separate heading.

In 2004, a number of local employees of the foreign representations were categorized as part-time employees. This accounts for a large part of the statistical increase in the part-time staff (27 persons at the end of 2004).

8. FLEET

During 2004 Malév maintained four aircraft types for its core activities: two Boeing 767-200 aircraft, 13 Boeing 737-300/400/500 aircraft, 14 Boeing 737-600/700/800 aircraft, six Fokker 70 aircraft and four CRJ200 aircraft.

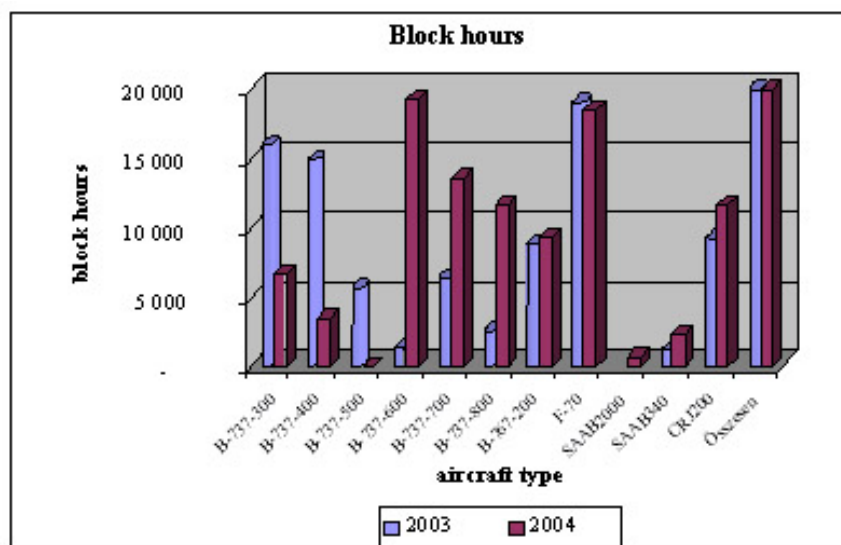
As part of the fleet development programme the company entered 10 Boeing 737 NG aircraft into service during 2004. Parallel with this it withdrew nine Boeing 737 Classics and one Fokker 70 from the fleet and returned them to the lessor.

There was no change in the number of aircraft in service at the beginning of the year and at the end of the year (28 aircraft; 10 withdrawn from service, 10 entered into service).

Key data of aircraft types operated by Malév in 2003-2004

	Fokker-70	B-737-300	B-737-400	B-737-500	B-737-600	B-737-700	B-737-800	B-767-200ER	CRJ-200
Maximum takeoff weight	36.74 t	61 t	68 t	59 t	60 t	65 t	73 t	175.5 t	23 t
Passengers (business and Economy class)	67	123	143	111	102	119	180	197	50
Cruising speed	856 km/h	860-930 km/h	860-930 km/h	860-930 km/h	750-850 km/h	850 km/h	750-850 km/h	880-940 km/h	860-930 km/h
Maximum range	2000 km	3970 km	4077 km	4700 km	4200 km	5100 km	4500 km	12,700 km	2978 km
Engines	Rolls R. Tay Mk 62015	CFM 56	CFM 56	CFM 56	CFM 56-7B20	CFM 56-7B20	CFM 56-7B20	CF6-80C2	CF34-3B1

Breakdown of block hours by aircraft type



9. PUNCTUALITY

Zero minutes punctuality for all Malév flights was 56% in 2004, a fall in performance of 7.3% compared to the previous year.

(When analysing delayed flights – and taking into consideration commercial aspects – the company takes both Malév and code-share scheduled flights as its base. In delay statistics, any deviation over zero minutes of a flight from its scheduled departure time must be regarded as a delay. Furthermore, statistics are also collected on delays of over 15 minutes.)

The number of Malév and code-share flights rose 14% against 2003, and within this the number of delayed flights in the zero minutes category increased to a greater proportion, by 36.9%. The total delayed time showed an increase of 29.2%, with the delay time per delayed flight rising by 13%.

The increase in delays was caused primarily by a 68.3% proportional increase in the number of delays not attributable to the company. The number of delays attributable to the company rose to a lesser extent (11.1%) than the proportional increase in the number of departures.

The decline in punctuality was less marked in the 15 minute delay category: from 85.1% in 2003 to 81.9% in 2004. The number of delayed flights exceeded the base year by 38.3%, and total delay time by 27.3%.

(*)	2003	2004	Index
Delays not attributable to Malév			
No. of delayed flights	4 408	7 419	168.31%
Punctuality (%)	83.49%	75.62%	-7.86%
Delays attributable to Malév			
No. of delayed flights	5 377	5 973	111.08%
Punctuality (%)	79.86%	80.38	0.52%
Total delays			
No. of delayed flights	9 785	13 392	136.86%
Punctuality (%)	63.35%	56.00%	-7.34%

*: Delays exceeding zero minutes

10. QUALITY CONTROL

Certificates

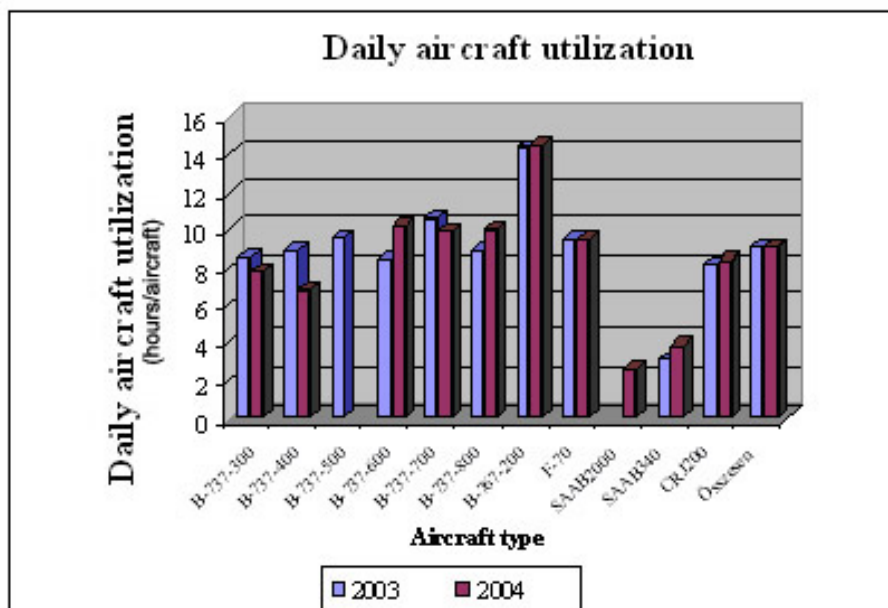
Malév holds all EU airline industry certificates required to conduct its activities: Operation Licence; AOC JAR-OPS 1; Certificate of Maintenance Approval; Part-145 Maintenance; and the Operational Licence authorizing Ground Handling activities. A request for Part-M licensing was submitted to the Civil Aviation Authority of Hungary.

Quality Management System

During 2003 Malév's quality management system was restructured, with due attention to the requirements of ISO 9001:2000. The refined Service Monitoring and Operations Monitoring systems continuously measure nearly 80 quality parameters to provide an objective picture of passenger satisfaction and the company's operational efficiency.

In compliance with industry recommendations, Malév applies IATA Operational Safety Audit checklists in the course of audits conducted by the company.

As a consequence of the above measures Malév's quality management system, operations and business activities comply fully with the general requirements and regulations of the international air industry.



11. FLIGHT SECURITY

The following factors all represent critical challenges to the company: as the company's core activity, flying is a particular high security risk activity, there is increasing competition on the international market, international scrutiny and the regulatory system are extremely demanding, the airline has cooperation arrangements with a large number of external partners, and there are numerous external and internal security aspects to consider.

The security section reports directly to the chief executive officer. Its sphere of activities and responsibilities covers classic property and flight security activities as well as operational, human resources, ITC, fire, work, environmental, data, confidential and management security tasks along with issues related to business security. Thus an internal security system has been established within Malév which represents a new resource in security issues, in the process changing from being a mere cost centre on the company to an integrated system supporting the company's production activities.

Winning the trust of air travellers, and maintaining this trust, is a primary business principle, in the interest of which the airline drafted, developed and applies effective security procedures designed to rule out all potential risk factors threatening travel safety on the ground, before the plane even leaves the ground.

Malév complies with all security obligations prescribed by international and domestic legislation, but in the event of a specific threat the airline introduces further rigorous measures. The airline has declared that in the event of an unlawful act the primary concern is the protection of human life.

One of the principal elements in the overall criteria is that the airline should be familiar with the security situation of its various destinations and should adjust the levels of security measures accordingly. Particular emphasis is given to the need for Malév to operate scheduled international and charter flights only to those airports where ICAO and EU flight security provisions are observed.

Accordingly, Malév regularly audits the airports it flies to as well as its partner airlines.

In the course of audits the flight security section of Malév applies the eight-point system containing security requirements of IATA airports, and during partner airline audits it employs the checklist of the IATA IOSA Operational Safety Audit programme.

Malév is in daily contact with the law enforcement authorities and the foreign ministry. Destinations declared as being potentially unsafe are defined following analysis of security-related information obtained from the above bodies and other sources. The company then applies additional rigorous security procedures beyond the standard safety measures.

Flight preparation technology was modified – in cooperation with the regional centre of the American Transportation Security Administration – for flights to the USA. At the same time, based on advanced screening technology, the company has also succeeded in taking steps towards the passenger-friendly implementation of rigorous passenger security checks.

Security preparation of flights to Israel was further reinforced in close cooperation with the Airport Security Service and the security sections of Budapest Airport. Prior to departure of all Malév's New York, Toronto and Tel Aviv flights, complete flight protection screening is applied, the documented experiences of which form the basis for the introduction of any necessary improvements. In order to guarantee aircraft sterility, changes were made to the documented sealing techniques used on aircraft.

Numerous provisions of the Airline Flight Security Programme were modified – and approved by the authorities – to bring them into line with changes in the domestic and international legislative environment and flight servicing circumstances.

Hungary's accession to the EU in May 2004 was one factor behind the drive to review valid flight security provisions. New elements conforming to EU security regulations were introduced, including, for example, so-called "B" type pre-departure aircraft security screening, the documented supervision of aircraft while on the ground. At several of Malév's foreign stations – where the local authorities issued regulations thereto – the company had flight service activities controlled too.

In the second half of the year, in compliance with the demands of US authorities, the security monitoring procedures mentioned above were extended to the company's New York route.

Aircraft security measures proposed by international civil aviation organizations were focused on the reinforcement of the cockpit door; this regulation was implemented in autumn of 2003. Malév's enhanced on-board security measures included strengthening cabin doors to meet regulatory requirements and introducing new forms of on-board communication. In addition, and in line with the latest international principles and procedures, the company drafted new airline provisions for the protection of on-board safety.

Prior to every take-off all aircraft undergo technical and security examinations, fuel quality is checked regularly, and registered security seals are used on doors and other possible points of entry to ensure that planes remain sterile during longer stoppages.

In addition to carrying out daily operative tasks – security checks of passengers, baggage, on-board catering and cargo areas, supervision and coordination of the transport with escort of deportees and inadmissible persons – the company also implemented planned airport inspections aimed at compliance with valid flight security provisions, on the basis of which the company put forward to the relevant sections proposals designed to eliminate shortcomings.

Flight security and property protection of baggage handling is significant.

The total baggage identification procedure was constantly monitored, on several occasions baggage handling anomalies were identified, and an investigation and corrective measures were requested from the competent sections. The airline sealed baggage handling procedures and reinforced supervision and control, following which baggage handling indicators improved. In this respect, a report by the Association of European Airlines placed Malév in second-fifth place among the 21 member airlines in 2004.

In the course of conducting flight security duties Malév maintained continuous contact and regularly exchanged information with various domestic and international security organizations and the security arms of other airlines in order to coordinate the latest experiences and new procedures and to integrate them into the company's operations.

Malév devotes considerable energy to the regular training of its employees in the fundamentals of flight security, to annual refresher courses and the training of new security instructors.

Since Malév remains committed to providing the very highest levels of aviation security, it will continue to devote every resource and means at its disposal towards the prevention of unlawful acts, thereby providing maximum protection to its passengers.

12. BUSINESS OPERATIONS

Scheduled carrier activities

The number of passengers carried by Malév in 2004 was approximately 2.6 million, 11% more than in the previous year. The number of Malév flights across its entire network exceeded 25,900

(+11%); the available seat kilometres figure was 5.4 million (+10%).

The number of business passengers carried by the airline in 2004 was 124,000, a decline of 32% on the previous year. The “C” passenger ratio was 5%, a fall of three percentage points on 2003. The load factor across the entire Malév network was 64.3%, almost exactly the same as in 2003.

Malév inaugurated eight new destinations in the course of 2004. Lyon rejoined the network in May, and the company re-launched its own service to Vienna. In Eastern Europe Malév opened up flights to Ljubljana, Dubrovnik, Yekaterinburg, Varna and Podgorica. (However, the Yekaterinburg flight failed to live up to expectations and closed on 15 September.) The Beijing service was started in partnership with Hainan Airlines. At the beginning of the year Malév switched its London airport from Gatwick to Stansted and increased flight frequencies.

At the same time Malév boosted seat capacities on markets served by the company, and this trend is likely to continue in the foreseeable future. This was induced by the presence of low cost carriers, to which the established market players (including Malév) also reacted by increasing capacity and upping frequencies. It was evident that the market still had considerable reserves, primarily in the low yield segments. At the beginning of the year every market player was still able to profit from the upturn, although at the cost of a reduced average revenue.

As a consequence, Malév’s passenger share measured across the entire network dropped from 56.5% to 49%.

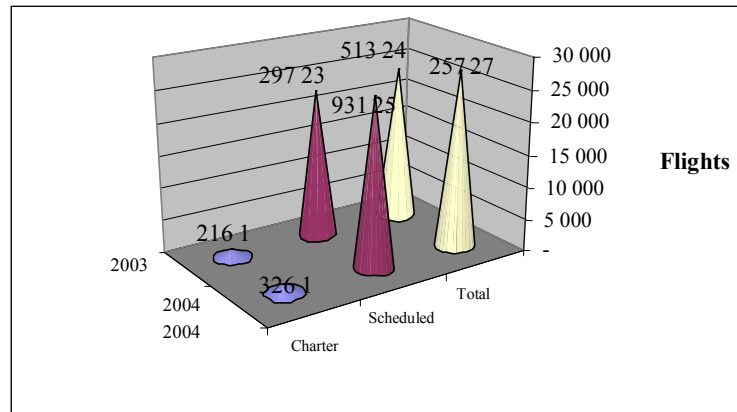
Passenger volume in the Western European region (approximately 1.5 million passengers) climbed 9% on the previous year. However, the level of growth was lower than average network growth so the proportion of Western Europe traffic fell back slightly, from 58% in 2003 to 57% in 2004. The 7% increase in the number of flights as well as growth of 19% in ASK largely contributed to an increase of 7% in the number of revenue passengers. Market share fell considerably due to the arrival of low cost airlines.

The increase in volume in the Eastern European region was of the order of 16%. 38% of scheduled passenger traffic was in this region. The rise in the number of passengers was accompanied by 17% more flights in the region. ASK increased to a lesser extent, by 10%. The 2004 load factor for the region dropped by 1.6% against 2003. Malév recorded the highest proportion of business travellers in this region over its entire network: 6.7% in 2004, 4% down on the base year figure.

Nearly 143,000 passengers flew long-haul in 2004, 14% more than the previous year. The number of transatlantic flights jumped 49%, and available seat kilometres went up by 3%, thereby lifting the load factor by 2.3% to 70.8% in 2004.

Volume in the Mediterranean region increased by 10% in comparison with 2003; the region accounted for 13% of passenger traffic. Parallel with an increase of 14% in the number of flights, ASK fell by 12%. The load factor remained at the level recorded in the previous year.

No. of flights



Charter activities

There were no major changes to the market structure; the year continued to be characterized by mass tourism, organized trips arranged through travel agencies and summer/winter seasonality. 75% of volume came from domestic outgoing, and the remaining 25% from foreign incoming, Hungarian and foreign ad hoc flights.

During the summer tours were organized mainly to the Mediterranean, while exotic, warm destinations were typical in the winter season.

The most popular destinations were Thailand and North Africa, which even in 2003 accounted for one-third of all travellers. The Maldives and Cuba were introduced in 2003, and following increasing interest in Cuba two chains were initiated as against one the previous year.

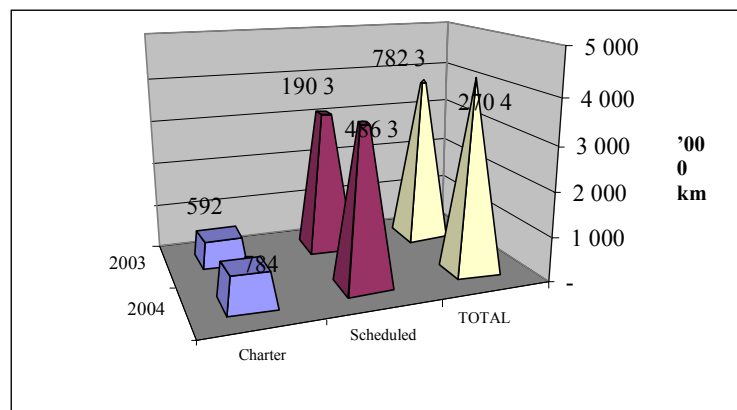
Competition sharpened in the winter season. Malév's advantages in this respect included the fact that its wide-bodied aircraft do not require multiple technical stops, and in 2004 the Hungarian airline was the only carrier with business seating, for which there was demand.

The greatest challenge of 2004 was the drastic increase in the price of kerosene, the extent of which even the experts had not forecast. Similarly to other airlines, Malév too was forced to react to this by raising the so-called YQ charge, a security surcharge introduced after 11 September 2003. Malév Charter partners were particularly sensitive to this move.

In August 2004 Eurotours Kft. filed for bankruptcy. This had a knock-on effect on Malév because the insolvency diminished passengers' willingness to travel and there was a loss of confidence in the industry.

These two events, the increase in fares due to rising kerosene prices and the effects of the bankruptcy were largely to blame for the fact that charter performance was weaker than originally planned.

Passenger kilometres



Cargo and mail services, cargo handling activities

In 2004, as a consequence of EU accession, market conditions changed considerably, overall for the worse, impacting negatively mainly on exports. This translated into a volume reduction of 19% for Malév and foreign airlines (of which Malév's volume was down 10%).

As regards imports, there was a boom for foreign charter flights (496%), the benefits of which Malév enjoyed in cargo handling in 2004. Since the noise norm derogation expired on 1 January 2005, it is likely that Ferihegy will experience a considerable fall in volume.

In **scheduled traffic**, following EU accession road haulage made considerable headway in intra-Europe traffic, therefore the significance of the company's two most important markets, New York and Toronto, tended to increase. The company found it difficult to offset the reduction in intra-Europe air cargo volumes because of the increasing proportion of operations of CRJ-200 and Boeing 737-600 aircraft either unsuited or totally unable to handling cargo and mail.

Mail volume declined against the base year (92%), and revenues were similarly affected (93%). The two reasons for this decline were the unfavourable dollar exchange rate (i.e. the strong forint) and a shrinking market. As was observed in the base year, so too in 2004 the New York, Frankfurt and London routes continued to play defining roles in mail traffic.

Malév exploited to the maximum all **cargo handling** opportunities deriving from growth in foreign charters at Ferihegy, which resulted in revenue growth of some 50% both against the plan and the previous year's level.

In summary, by increasing revenues and cutting costs this sector achieved its strategic objective, which was to focus on providing maximum margins. Once again during 2004 the margin improved both against the base year (5%) and the plan (8%).

Freight and mail carried

	2003 Tons	2004 Tons	Index
On scheduled aircraft	9 839	8 592	87.32%
Mail	3 066	2 819	91.95%
Trucks	351	195	55.68%
TOTAL	13 256	11 607	87.56%

Non-core activities

Ground handling

Ground handling activities of the company are dual in nature: alongside servicing the airline's own aircraft, ground handling also services foreign airlines, thereby generating considerable revenue for the company and maximizing the efficiency of the personnel and equipment serving Malév's passengers and fleet.

Ground handling can be divided into three main activities: serving foreign aircraft and passengers, operating passenger lounges and catering/provisions services for flights of foreign airlines. The total number of planes serviced by ground handling increased 20% on the previous year.

During 2004 Malév increased its volumes considerably. Of the new airlines flying to Ferihegy the company succeeded in winning service rights for Air Berlin, Air Finland, Alitalia, ATA, Emirates, Hainan Airlines, Onur Air and TAP, while Air France and Nouvelair Tunisie brought their business back to Malév in 2004. The Israeli airline, SAS, DHL and Tunisair increased their flight frequencies considerably, more than offsetting the drop in revenues caused by a reduction in traffic on the part of KLM and Taron. TPG, City Air Germany and Montenegro Airlines shut their flights down. During the final months of the year there was a major upswing in cargo aircraft servicing, generating considerable additional revenue as a result.

The number of delegations taking advantage of the government and VIP lounges increased 15% on 2003 (within this, 12% revenue delegations), while revenue climbed by 19%. Compared to the previous year 15% fewer passengers used the services of the passenger lounges (Duna, Sky, Millennium), although the proportion of revenue passengers increased significantly so that overall revenue from these lounges was 9% greater than in 2003.

Into-plane fuelling services

The vast majority (99%) of volume was accounted for by sales of kerosene to foreign airlines, which increased by 35% on the previous year. These achievements were positively influenced by the fact that – unlike in the previous year – Malév successfully bid in several fuelling tenders and won new clients while retaining its established customer base. Several of the old established partners ordered greater quantities of fuel than in the previous year. One reason for the increase in ad hoc volume was that under the terms of newly negotiated contracts Malév accepts several different fuel cards (bankcards).

The sale of kerosene, other fuels and lubricants to domestic airlines represents the other area of activities. The natural indicator of 2004 domestic sales closed 12% lower than the previous year. Market stagnation is also evident in the level of the downswing.

Looking at total fuel sales, the quantity sold in 2004 exceeded the base year by 35%.

13. FINANCIAL DATA

Malév Rt. 2004 balance sheet

No.	Malév Rt. balance sheet ASSETS [HUF '000]	31 December 2003	31 December 2004	Index
1	2	3	4	5
A.	Fixed assets (I+II+III)	36 122 594	37 948 915	105.06%
I.	I. Intangible assets (1+..+7)	1 300 935	2 019 632	155.24%
1	Capitalized value of formation & restructuring	372 213	429 644	115.43%
2	Capitalized value of research & development	0	0	-
3	Rights	5 567	4 386	78.79%
4	Patents and trademarks	923 155	1 585 508	171.75%
5	Goodwill	0	0	-
6	Advances on intangible assets	0	0	-
7	Adjustments to the value of intangible assets	0	94	-
II.	Tangible assets (1+..+7)	30 855 684	32 451 064	105.17%
1	Real estate and related rights	3 062 481	2 429 997	79.35%
2	Technical equipment, machinery, vehicles	23 132 788	20 361 865	88.02%
3	Other equipment, fittings, vehicles	2 767 962	2 279 890	82.37%
4	Breeding stock	0	0	-
5	Capital expenditure	410 335	353 107	86.05%
6	Advances on capital investments	18 931	5 349	28.26%
7	Adjustments to the value of tangible assets	1 463 187	7 020 856	479.83%
III.	Financial investments (1+..+7)	3 965 975	3 478 219	87.70%
1	Long-term participations in subsidiary undertakings	3 477 670	3 029 484	87.11%
2	Long-term loans to subsidiary undertakings	0	0	-
3	Other long-term participations	198 900	198 900	100.00%
4	Long-term loans to associated undertakings	0	0	-
5	Other long-term loans	59 141	56 836	96.10%
6	Long-term debt securities	230 264	192 999	83.82%
7	Adjustments to the value of investment securities	0	0	-
B.	Current assets (I+II+III+IV)	31 940 931	32 026 389	100.27%
I.	Inventories (1+..+6)	1 703 979	2 015 640	118.29%
1	Materials	1 666 923	1 981 090	118.85%
2	Work in progress and semi-finished products	0	0	-
3	Other livestock	0	0	-
4	Finished products	0	0	-
5	Goods	34 446	34 550	100.30%
6	Advances on inventories	2 610	0	-
II.	Receivables (1+..+5)	20 545 184	23 975 011	116.69%
1	Accounts receivable (trade debtors)	9 914 682	10 892 698	109.86%
2	Receivables from subsidiary undertakings	3 792 937	4 110 541	108.37%
3	Receivables from associated undertakings	0	0	-
4	Bills of exchange receivable	0	0	-
5	Other receivables	6 837 565	8 971 772	131.21%
III.	Securities (1+..+4)	22 464	16 034	71.38%
1	Participations in subsidiary undertakings	0	0	-
2	Other participations	0	0	-
3	Treasury stock	0	0	-
4	Debt securities held for trading purposes	22 464	16 034	71.38%
IV.	Cash and cash equivalents (1+2)	9 669 304	6 019 704	62.26%
1	Cash and cheques	1 204 925	143 182	11.88%
2	Bank deposits	8 464 379	5 876 522	69.43%
C.	Prepayments and accrued income (1+2+3)	1 662 419	1 135 464	68.30%
1	Accrued income	322 456	159 657	49.51%
2	Costs and expenses paid in advance	1 339 963	975 807	72.82%
3	Deferred expenses	0	0	-
	Total assets	69 725 944	71 110 768	101.99%

No.	Malév Rt. balance sheet		31 December	31 December	Index
	LIABILITIES AND STOCKHOLDERS' EQUITY		2003	2004	
	[HUF '000]				
1	2		3	4	5
D.	Stockholders' equity (I+II+III+IV+V+VI+VII)		2 646 231	3 297 803	124.62%
I.	Registered capital		3 500 000	3 500 000	100.00%
	- of which: par value of stock repurchased		0	0	-
II.	Unpaid equity capital (-)		0	0	-
III.	Capital reserve		17 578 197	17 578 197	100.00%
IV.	Profit reserve		-6 773 260	-20 324 797	-
V.	Committed reserve		372 213	429 644	115.43%
VI.	Valuation reserve		1 463 187	7 020 950	479.84%
VII.	Retained earnings		-13 494 106	-4 906 191	-
E.	Provisions (1+2+3)		460 455	107 521	23.35%
1	Provisions for anticipated liabilities		460 455	107 521	23.35%
2	Provisions for future costs		0	0	-
3	Other provisions		0	0	-
F.	Liabilities (I+II+III)		64 337 011	65 329 855	101.54%
I.	Subordinated liabilities (1+2+3)		19 929 480	18 690 680	93.78%
1	Subordinated liabilities to subsidiary undertakings		0	0	-
2	Subordinated liabilities to associated undertakings		0	0	-
3	Subordinated liabilities to other undertakings		19 929 480	18 690 680	93.78%
II.	Long-term liabilities (1+..+8)		14 192 206	12 729 210	89.69%
1	Long-term loans received		0	0	-
2	Convertible bonds		0	0	-
3	Debts related to bonds issued		0	0	-
4	Capital investment and development loans		14 165 971	12 551 390	88.60%
5	Other long-term credit		0	0	-
6	Long-term liabilities to subsidiary undertakings		0	0	-
7	Long-term liabilities to associated undertakings		0	0	-
8	Other long-term liabilities		26 235	177 820	677.80%
III.	Short-term liabilities (1+..+8)		30 215 325	33 909 965	112.23%
1	Short-term loans		2 478 137	0	0.00%
	- of which: convertible bonds		0	0	-
2	Short-term credit		1 174 234	1 064 560	90.66%
3	Advances received		403 597	275 985	68.38%
4	Accounts receivable (trade creditors)		15 162 219	15 736 359	103.79%
5	Bills of exchange payable		0	0	-
6	Short-term liabilities to subsidiary undertakings		683 900	699 747	102.32%
7	Short-term liabilities to associated undertakings		0	0	-
8	Other short-term liabilities		10 313 238	16 133 314	156.43%
G.	Accruals and deferred income (1+2+3)		2 282 247	2 375 589	104.09%
1	Income received in advance		720 473	711 281	98.72%
2	Accrued expenses		1 468 505	1 539 949	104.87%
3	Deferred income		93 269	124 359	133.33%
	Total liabilities and stockholders' equity		69 725 944	71 110 768	101.99%

Malév Rt. income statement type "A"

" A " INCOME STATEMENT (HUF '000)

(overall costs)

No.	Description	2003	2004	Index
1	2	3	4	5
1.	Domestic sales, net	29 554 707	29 681 795	100.43%
2.	Export sales, net	81 149 297	90 596 402	111.64%
I.	Net sales (1.+2.)	110 704 004	120 278 197	108.65%
3.	Change in inventories produced	0	0	-
4.	Capitalized value of assets manufactured	74 067	611 390	825.46%
II.	Capitalized value of own performance (3.+4.)	74 067	611 390	825.46%
III.	Other revenues	5 694 514	10 027 778	176.10%
	of which: depreciation re-posted	53 460	1 825 589	3414.87%
5.	Cost of materials	15 198 073	19 664 702	129.39%
6.	Cost of material-type services used	70 129 345	70 945 929	101.16%
7.	Cost of other services	2 545 731	2 331 385	91.58%
8.	Cost of goods sold	2 597 740	4 564 784	175.72%
9.	Cost of services sold	3 256 603	4 515 094	138.64%
IV.	Material expenses (5.+...+9.)	93 727 492	102 021 894	108.85%
10.	Salaries and wages	9 143 226	10 060 268	110.03%
11.	Other employee costs	6 025 239	7 085 354	117.59%
12.	Social security and other contributions	3 935 814	4 625 970	117.54%
V.	Personnel expenses (10.+11.+12.)	19 104 279	21 771 592	113.96%
VI.	Depreciation	5 033 244	5 002 657	99.39%
VII.	Other expenses	7 962 431	8 318 632	104.47%
	of which: amortization	4 304 888	5 379 987	124.97%
A.	Operating profit/(loss) (I.±...±VII.)	-9 354 861	-6 197 410	66.25%
13.	Dividend and profit share received (receivable)	94 022	1 273 431	1354.40%
	of which: received from subsidiary undertakings	94 022	1 273 431	1354.40%
14.	Capital gains on participations sold	0	0	-
	of which: received from subsidiary undertakings	0	0	-
15.	Interest and capital gains on financial investments	785 466	3 988	0.51%
	of which: received from subsidiary undertakings	0	0	-
16.	Other interest and similar income received (receivable)	249 723	684 866	274.25%
	of which: received from subsidiary undertakings	192 670	247 713	128.57%
17.	Other income from financial transactions	8 407 655	6 049 845	71.96%
VIII.	Financial income (13.+14.+15.+16.+17.)	9 536 866	8 012 130	84.01%
18.	Loss on financial investments	0	0	-
	of which: paid to subsidiary undertakings	0	0	-
19.	Interest and similar expense payable	1 033 063	913 560	88.43%
	of which: paid to subsidiary undertakings	0	0	-
20.	Amortization of participations, securities and bank deposits	761 964	0	-
21.	Other expenses on financial transactions	11 282 954	6 401 628	56.74%
IX.	Financial expenses (18.+19.+20.+21.)	13 077 981	7 315 188	55.94%
B.	Financial profit/(loss) (VIII.-IX.)	-3 541 115	696 942	-
C.	Ordinary profit/(loss) (+-A.+-B)	-12 895 976	-5 500 468	42.65%
X.	Extraordinary income	203 858	818 878	401.69%
XI.	Extraordinary expenses	801 988	224 601	28.01%
D.	Extraordinary profit/(loss) (X.-XI.)	-598 130	594 277	-
E.	Profit before taxation (+-C.+-D)	-13 494 106	-4 906 191	36.36%
XII.	Tax liability	0	0	-
F.	Profit after taxation (+-E.-XII)	-13 494 106	-4 906 191	36.36%
22.	Profit reserve used for dividends or profit sharing	0	0	-
23.	Dividends and profit share paid (approved)	0	0	-
G.	Net profit/(loss) (+-F+22.-23.)	-13 494 106	-4 906 191	36.36%

Balance sheet analysis

Malév took advantage of assets appraisal offered under the Act on Accounting (as it had done previously), although in addition to appraised properties (Sports Ground and Balatonlelle Resort), under a Malév general assembly decree of 17 December 2004 the company reappraised its entire assets to reflect their true market value, and the results were then entered in the books.

This appraisal gave the company the true market value of its assets. The basis of the appraisal is the joint application of net replacement costs and the principle of yield calculation under continuous operation. The appointed auditor, working in the framework of the mandatory audit, monitored the conformity of establishing and accounting the valuation adjustment.

- Intangible assets (Balance sheet A/row I.)

Significant IT programmes were activated in 2004, the most important being the e-business project, Microsoft licences for the desktop computers, aviation cost accounting processing system and the integrated operations management programme.

- Tangible assets (Balance sheet A/row II.)

The change in assets is the result of the write-off of the value of installed time-limited equipment, value-added investments conducted on leased aircraft and engines returned in 2004 in line with the fleet upgrade programme.

- Inventories (Balance sheet B/row I.)

Change is caused by the procurement of aircraft spare parts necessary for the secure introduction into service of new aircraft types and typically designated by the manufacturer.

- Receivables (Balance sheet B/row II.)

The change in this chapter was caused by the increase in ticket sales receivables.

- Cash and cash equivalents (Balance sheet B/row IV.)

The proportional change between Cash and cheques and Bank deposits in the Cash and cash equivalents heading is of a technical nature caused by the introduction of the online IT accounting system, as a result of which cash in bank accounts formerly accounted in Cash and cheques is reclassified under Bank deposits.

- Valuation reserve (Balance sheet D/row VI.)

The difference between the book value and the market value of Malév's tangible assets appears in 2004.

- Short-term liabilities (Balance sheet F/row III.)

The increase was caused by growth in liabilities related to ticket and carrier settlement invoices.

Revenues

Revenue from carrier operations

Revenue from scheduled carrier operations

Malév's revenue from scheduled operations increased 3.9% in comparison with the figure for 2003. This improvement was primarily due to growth of 6% at foreign salespoints and an identical increase (6%) in interline revenue. Revenue on tickets sold in Hungary fell by 4%. An increase in revenue considerable above the average was registered on the Amsterdam, Bucharest, Cairo, Dublin, Stockholm and Zagreb routes, while Berlin, Bologna, Frankfurt, London, Milan, Moscow, Munich, Tirana, Tel Aviv and Zurich all recorded significant downturns.

Seat rental revenue paid to Malév fell 9% compared against the identical period in the previous year. This decline was largely due to:

- a drop of more than 20% on the Malév Alitalia-contracted Rome and Milan routes,
- stagnating revenue on the Budapest-Paris route jointly operated with Air France,
- at the same time the company launched a flight to Lyon in 2004, which resulted in additional revenue.

Revenue generated from Malév passengers travelling on code-share flights of partner airlines increased by 20% compared to 2003, largely due to the inauguration of services to Beijing and Ljubljana, while the Tarom contract also generated growth on the Bucharest-Budapest route.

Revenue from charter operations

Two new destinations – the island of Sardinia and Bulgaria – were introduced for the summer 2004 season. Jordan proved the most popular destination in the summer of 2004, and Cuba stood out in the winter season; in fact the number of charter chains to the island doubled in comparison with the base year.

However, the enforced price hikes due to the high cost of kerosene hit charters badly, and following Eurotours' declaration of bankruptcy there was a loss of confidence in the industry which in turn diminished travellers' willingness to travel thereby resulting in a fall in revenue.

Cargo revenue

Malév Cargo's marketable capacity was negatively affected when cargo interests were downplayed due to the fleet structure (CRJ-200 and Boeing 767-600 types unsuited for cargo activities) and the introduction of type changes on scheduled flights. For this reason the strategy adopted by the section focused not only on improving the level of service but also on maximizing the margin.

Due to the unfavourable exchange rate on forint revenues, and the capacity restrictions mentioned above (type problems, swaps and cancellations), scheduled revenue fell against last year's level (84.16%) as did mail revenue (93.25%). However, this was offset by a significant increase (compared to the base year) in other cargo-related activities, first and foremost deriving from increased foreign charter turnover.

Non-core activities

Ground handling revenue

The following factors influenced revenue: in 2004 Malév serviced 15,062 flights, while in 2003 this figure was 12,598, representing a 20% increase. Total ground handling revenue calculated in forints similarly increased by 20%. New partners were contracted during the year, and certain airlines increased their flight frequencies significantly, counterbalancing the drop in revenue caused by flight closures.

During the final months of the year there was a major upswing in cargo aircraft servicing, generating considerable additional revenue as a result.

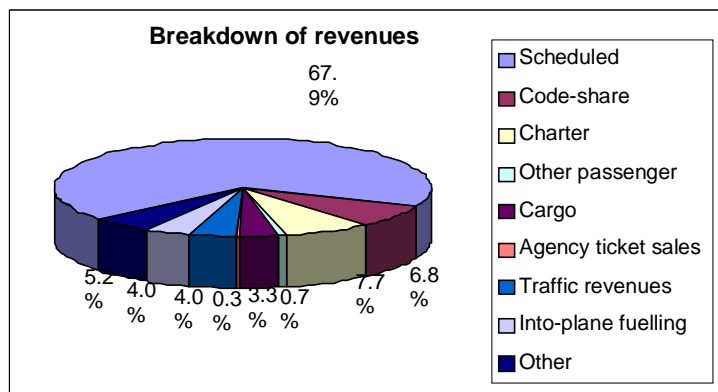
Fuel sales revenue

The 60% increase in fuel sales compared to the base year breaks down as follows: 58% accounted to changes in volume and 42% to fluctuations in prices/exchange rates.

The quantity of fuel sold in 2004 exceeded the quantity sold in 2003 by more than 12,000 tons. The main reason for this increase was that Malév successfully bid in several fuelling tenders and won new clients while retaining its established customer base. Several of the already established partners ordered greater quantities of fuel than in the previous year. One reason for the increase in ad hoc volume was that under the terms of newly negotiated contracts Malév accepts several different fuel cards.

Revenues also rose, on the one hand because of the increased quantities, and on the other hand because of the dramatic increase in kerosene prices. In 2004 the average Jet A-1 fuel price quotation was nearly USD 115/ton higher than in 2003.

Breakdown of revenues (%)



Costs

Fuel costs rose considerably against the base year, partly as a result of increased flight performance and partly due to the far higher price of fuel.

Aircraft maintenance material costs exceeded the previous year's figure by 16.96%. The reason for this increase was that from March 2004 Aeroplex Kft. logistics operation was taken over by Malév's technical directorate. As a result, materials used in hangar maintenance of Malév aircraft are not categorized among repairs and maintenance costs carried out by Aeroplex Kft., but directly as material costs.

There was an 11.22% increase in the other materials cost category against the previous year. The most significant increase here was in catering equipment, where higher-priced assets resulting from an increase in supplier prices were only successfully exchanged for identical quality but cheaper units by the end of the second half of the year. This resulted in an additional cost over the previous year of close on HUF 100 million in catering assets. At the same time, greater savings were made in core services and additional catering costs such as washing up and preparation fees.

The 18.5% price hike in energy and water charges paid to Budapest Airport resulted in a considerable increase in the costs column.

Within this chapter, the single most important item was aircraft repair and maintenance costs, which ran to HUF 4,197,992,000 in 2004. In fact this represents a 16% drop compared to the base year, partly attributable to favourable HUF/USD exchange rate fluctuations on the maintenance reserves, and partly to the fact that Aeroplex Kft. carried out less hangar maintenance (since as a consequence of restructuring the cost of hangar maintenance materials appears in Malév's books under material costs).

Malév leases its Boeing and Fokker aircraft. Changes in aircraft leasing costs (compared to 2003) are attributable to the following factors:

- the leasing fees of the nine Boeing 737 aircraft and one Fokker 70 withdrawn from service resulted in a reduction in aircraft leasing costs,
- there was a further reduction when leasing fees on three Fokker 70 aircraft were successfully renegotiated,
- the strengthening of the forint resulted in further considerable savings,
- while the leasing fees of the 10 new Boeing 737 NG aircraft introduced into service in the course of the year resulted in an increase, the terms were more favourable than the those of the returned Boeing Classics.

Seat rental costs rose 10.2% in comparison with the identical period in 2003. The increase was attributable to the following.

- When renegotiating the code-share contracts with Alitalia Malév signed seat rental contracts for the Milan and Rome destinations.
- From August 2004 Malév concluded a hard block seat rental contract with Hainan Airlines for Beijing, and a soft block contract for the Shanghai and Canton destinations.

The combined effect of a 16% increase in traffic and a reduction in AIP tariffs resulted in landing costs rising by 10% in comparison with 2003.

The company managed to negotiate reduced service charges at several foreign destinations, although this was not sufficient to compensate for cost increases associated with the growth in flight and passenger numbers.

Eurocontrol charges fell by an average 8% in 2004. However, the fact that Malév opened several new routes during the year meant that overall route costs actually increased.

Carrier-related system fees place a particularly heavy burden on the company each year. The single largest item is the charge paid for use of passenger reservation systems. Parallel with an increase in passenger traffic this latter service fee was reduced by 6% due to the positive influence Malév's cost efficiency supervision had on distributors' booking methods as well as the strengthening forint.

A drop in cargo volume resulted in lower cargo service fees.

Along with a 10% increase in the number of passenger served there was a reduction of 7%, close on HUF 300 million, in passenger hospitality costs (including in-flight newspapers).

This drop in costs can be traced back to the market situation and the reduction in service stemming from rationalization of Malév's on-board services.

62% of consultancy fees for 2004 are associated with fees paid to specialists engaged on BPR projects (E-business, Fuel dispatcher service, Portal development, Intranet navigator, Damages and Complaints, Integrated Operations Management, Agent database, Client database, BCP project, Data storage etc.).

Total insurance costs fell. Malév's insurance company reduced its premiums by around 15% in the course of 2004. When assessing the insurance premium Willis Insurance took into consideration the number of claims submitted by Malév, the annual number of passengers carried by the airline, turnover and geographical coverage. The level of proficiency of the airline's pilots was also an important factor weighing in the company's favour.

The wage and salary costs of permanent staff and persons not on the payroll increased 10% in comparison with 2003, mainly as a result of the average 7% pay hike. Due to regulatory modifications, the increase in the average pay packet of local employees of foreign representations caused a further increase in wage costs. The added number of staff also had an impact on rising wage costs.

During 2004 there was a significant increase in allowance costs of flight crews due to increased flight performance, a rise in pilot and cabin crew allowances as a result of wage bargaining, and the switch to monthly accounting for cabin crew.

The majority of the increase (matched against the previous year) of more than 17% in social security and other contributions was down to increased wage costs and redundancy payments, as well as the fact that in 2004 modifications to the law meant that it was mandatory to account 20% of the vocational training contribution calculated from wage costs in this chapter.

Other revenues and expenses

In 2004 Malév's result was boosted to the tune of HUF 1.7 billion by other revenues and expenses, as follows:

Other revenues stood at HUF 10 billion in 2004, HUF 4.3 billion up on 2003. This result was due partly to the revenue generated by the sale of the Hyatt office, and partly because of re-posted depreciations accounted in previous years deriving from the 2004 assets valuation.

A significant proportion of other revenues (both in 2003 and 2004) derives from the value of expired air tickets which passengers decided not to use.

The sum of other expenses in 2004 was HUF 8.3 billion, HUF 357 million more than the previous year. The main reason for the increase was the appearance in Other expenses of depreciation calculated on time-limited equipment and spare parts due to the withdrawal of aircraft, and an increased write off from the stock of capitalized values on returned Boeing 737 Classics.

Financial transactions

The balance of financial income and expenses gave a HUF 697 million boost to the company's balance in 2004.

Revenues from financial transactions totalled HUF 8 billion, the most significant item of which was capital gains on receivables and liabilities. In 2003 this figure was HUF 7.4 billion, and in 2004 HUF 5.6 billion.

Expenses on financial transactions totalled HUF 7.3 billion in 2004, HUF 5.8 billion less than the corresponding 2003 figure.

The financially settled loss on the financial investments of foreign currency holdings at the turn of the accounting year was reduced from HUF 10.2 billion to HUF 5.5 billion.

14. OWNERSHIP STRUCTURE

No.	Description	31 December 2003		31 December 2004	
		Registered capital (HUF)	Stake (%)	Registered capital (HUF)	Stake (%)
1.	ÁPV Rt.	3 497 571 290	99.9306	3 498 278 870	99.9509
2.	Other companies	593 300	0.0170	21 000	0.0006
	<i>Local governments:</i>				
3.	- Balatonlelle	684 470	0.0196	684 470	0.0196
4.	- Budapest 5 th district	273 300	0.0078	273 300	0.0078
5.	- Budapest 18 th district	379 390	0.0108	379 390	0.0108
	Other:				
6.	Unions	5 850	0.0002	1 340	0.0000
7.	Private individuals	483 870	0.0138	360 380	0.0103
8.	Unknown	8 530	0.0002	1 250	0.0000
9.	Total (1+...+8)	3 500 000 000	100.0000	3 500 000 000	100.0000

Number and nominal value of shares issued by the company

The Malév issue is solely in registered shares. The company does not have bearer shares. Shares can be described by type (ordinary shares, preference shares), and within this by share series.

The Articles of Incorporation set down two share series. The following table shows the number and nominal value of shares as at 31 December 2003.

Share series	Nominal value (HUF/share)	Number of shares	Total nominal value of shares (HUF)
Series "A"	10	349 900 000	3 499 000 000
Series "B"	1 000 000	1	1 000 000
Total	-	349 900 001	3 500 000 000

Share types:

Series "A" shares: ordinary shares. Holders: ÁPV Rt., a few local governments, companies, organizations and various private individuals. Nominal value: HUF 10/share.

Series "B" share: share giving preferential voting rights. Owned by ÁPV Rt. The share endows the holder with preferential voting rights as well as rights fundamentally due to all shareholders. Nominal value: HUF 1,000,000

15. CASH FLOW

Malév's cash flow statement for 2004 is as follows:

Description	2003 change (HUF '000)	2004 change (HUF '000)
I. Cash flow from ordinary activities	-423 608	5 933 338
1. Profit before taxation	-13 494 106	-4 906 191
2. Depreciation posted	5 033 244	5 002 657
3. Amortization and reverse posting	4 251 428	3 554 398
4. Difference between provisions made and used	271 510	-352 934
5. Profit/(loss) on the sale of fixed assets	-310 306	-195 602
6. Change in accounts payable	1 257 985	574 140
7. Change in other short-term liabilities	158 294	5 708 311
8. Change in accruals and deferred income	244 082	93 342
9. Change in accounts receivable	-656 055	-1 132 242
10. Change in current assets (excl. accounts receivable and cash)	685 368	-2 934 802
11. Change in prepayments and accrued income	2 134 948	526 955
12. Tax paid (on profits)		-4 694
13. Dividend and profit share paid		
14. Depreciation correction on cash		
15. Correction on dividend paid		
II. Cash flow from investment activities	-10 401 355	-4 298 026
15. Purchase of fixed assets	-10 938 742	-5 149 748
16. Sale of fixed assets	506 971	757 744
17. Dividend received	30 416	93 978
III. Cash flow from financial transactions	18 150 744	-5 284 912
18. Proceeds from the issue of stock and capital raising	7 000 000	
19. Proceeds from the issue of bonds and other debt securities		
20. Credit drawdown and loans taken out	32 607 186	901 553
21. Cancellation, termination and withdrawal of long-term loans and deposits		
22. Cash assets received		4 762
23. Retirement of stock and capital reduction		
24. Repayment of bonds and other debt securities.		
25. Repayment of credit and loans	-21 456 442	-6 191 159
26. Long-term loans and bank deposits		
27. Cash assets disposed		-68
28. Change in liabilities to founders and other LT liabilities		
IV. Increase/(decrease) in cash (I. +II. +III.)	7 325 781	-3 649 600

16. INVESTMENTS

Subsidiaries and affiliated undertakings

No.	DESCRIPTION	Equity	Registered capital	Profit reserve	Valuation reserve	2004 net profit	Malév stake at par value	Malév stake at book value	Stake
		HUF '000	HUF '000	HUF '000	HUF '000	HUF '000	HUF '000	HUF '000	%
1	MALCO LLC 1209 Orange Str. Wilmington, Delaware 19801. USA	3 224 694	2 924 484	0	0	0	2 924 484	2 924 484	100%
2	Aeroplex Közép-Európai Légijármű Műszaki Központ (ACE) Kft. 1185 Budapest, Ferihegyi Repülőtér	337 215	462 000	-250 358	0	4 633	462 000	0	100%
3	Malév Air Tours (MAT) Kft. 1051 Budapest, Október 6 utca 19.	113 294	62 888	22 110	0	3 184	62 888	88 000	100%
4	Pannon Air Cargo Nemzetközi Szállítmányozó és Vámügynök (PAC) Kft. 1185 Budapest, Ferihegyi Repülőtér	67 112	5 000	60 770	0	0	5 000	5 000	100%
5	Galileo Hungary Kft. 1036 Budapest, Lajos u. 48-66.	157 372	3 000	140 852	0	0	3 000	3 000	100%
6	Air Budapest Club (ABC) Kft. 1185 Budapest, Nagybecskerek utca 30.	15 000	3 000	9 098	0	0	3 000	3 000	100%
7	Malév Utasszolgálati (MUSZ) Kft. 1185 Budapest, Nagybecskerek utca 30.	8 358	3 000	5 358	0	0	3 000	3 000	100%
8	Malév Express (MAX) Kft. 1185 Budapest, Nagybecskerek utca 30.	2 807	3 000	-31 426	0	-2 583	3 000	3 000	100%
	TOTAL (1+...+8)	3 925 852	3 466 372	-43 596	0	5 234	3 466 372	3 029 484	

MAT Kft. capital reserve on 31 December 2003: HUF 25,112,000.

Malév accounted HUF 761,964,000 depreciation on shares in ACE Kft.

Other associated undertakings

Description	Registered capital		Malév stake		Malév
			at par value	at book value	stake
	EUR '000	HUF '000	HUF '000	HUF '000	%
Lufthansa Technik Budapest Kft. (LHTB) 1185 Budapest, Ferihegyi repülőtér	5 000	1 271 100	190 660	190 660	15%
Hungaroring Sport Rt. 2146 Mogyoród, Pf. 10.		1 286 000	40 700	8 140	3%
EX – SELL Oktatási és Kutatást Segítő Közhasznú Társaság 1054 Budapest, Alkotmány u. 9-11.		5 800	100	100	2%
Total:	5 000	2 562 900	231 460	198 900	