

ANNUAL REPORT

2005

MALÉV ZRT.

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1. SUMMARY BY THE CHIEF EXECUTIVE OFFICER

Dear Partners

Malév closed 2005 with improved results, a stable liquidity and equity position, all of which represent a sound basis for the forecast that the airline will be profitable in 2006. Despite intense competition on the airline market during 2005, the airline carried 9.3% more scheduled passengers, it launched nine new flights, and was able to consolidate its market presence in several countries.

The company recorded a pre-tax loss of HUF 1.3 billion in 2005, a reduction of HUF 3.6 billion on the HUF 4.9 billion loss registered in 2004.

During 2005, a total of 3,055,000 passengers travelled on Malév scheduled and charter flights. The proportion of scheduled traffic – representing a more stable revenue source and higher yield – increased, with 26,697 flights and a 9.3% increase in the number of passengers carried against 2004, and all this in the face of increasing competition on the market. The East European and Mediterranean regions saw higher-than-average growth (14-15%), allowing Malév not only to maintain but actually to increase its market share. In the course of Q3 the airline managed to turn around weak earnings compared to 2004, setting scheduled passenger services on an upward path of growth. Passenger numbers in the third quarter exceeded those of the previous year by 15%, and in the last quarter by 20%.

Malév's declining share in total turnover at Ferihegy International Airport was halted in the second half of 2005, and towards the end of the year it began to increase once again. This trend continues in 2006. (The company's market share measured across its own network improved from 40.1% in the first quarter to 44.9% by December of 2005.) The load factor grew by 2.1% to 66.6% over the year as a whole, while average capacity during the peak summer season topped 80%; the relevant growth figure in the third quarter was 4.5%, and in the fourth quarter 7.2%.

Even though traffic levels climbed, the company still managed to cut operating costs (excluding fuel costs) by 0.6% due to strict cost management and efficiency measures implemented at the airline. However, the kerosene bill, which currently accounts for over 20% of total operating costs, was HUF 6.7 billion higher than in the previous year, due, naturally, to increasing world prices, therefore the end-of-year operating loss was greater than had originally been planned.

At the end of 2005, Malév outsourced its ground handling and daily maintenance activities to independent companies. The appearance in Malév's books of the true value of these solidly profitable companies permitted a readjustment of the equity capital, which for the first time in years exceeds to a considerable degree the company's registered capital and now gives a true picture of the actual value of the Malév group.

The company's auditor audited the annual and consolidated annual reports, and for the first time in four years it did not deem it necessary to issue a limiting clause regarding the principle of the continuation of the company.

Dr. János Gönci
Chief Executive Officer

2. HIGHLIGHTS

Description	Unit	2004 actua	2005 actua	2005/ 2004
<i>Turnover and capacity</i>				
Revenue *	'000	2 848	2 968	104.2%
Revenue passenger *	million RPK	4 270	4 406	103.2%
Available seat kilometres*	million	6 392	6 495	101.6%
Load factor *	%	66.8	67.8	101.5%
<i>Financial data</i>				
Net sales **	million	110 388	110 879	100.4%
Total revenue	million	123 898	137 605	111.1%
Personnel expenses	million	21 801	23 891	109.6%
Total expenses ***	million	128 804	138 877	107.8%
Pre-tax profit	million	-4 906	-1 272	25.9%
Post-tax profit	million	-4 906	-1 272	25.9%
Pre-tax profit as % of total revenues	%	-4.0	-0.9	23.3%
Liquid assets (cash, cheques bank)	million	6019.7	6365,8	105.7%
Liquid assets as % of total	%	4.9	4.6	95.2%
<i>Human resources and ratio</i>				
	pe	3116	2971	95.3%
	pe	3361	1981	58.9%
<i>Per employee</i>				
revenue passenger kilometres	million /pe	1.4	1.5	108.2%
sales revenue	million /pe	35.4	37.3	105.3%
pre-tax profit	million /pe	-1.6	-0.4	27.2%
Total revenues per HUF 1 of personnel expenses	HUF	5.7	5.8	101.3%

* Scheduled and charter combined

** Together with the value of unused

*** Together with the value of activated

3. MALÉV MILESTONES 2005

Malév receives invitation to join oneworld

The official invitation for Malév to join the **oneworld** airline alliance was presented at a ceremony attended by Minister of Finance János Veres and Minister of Economy and Transport János Kúka in November 2005. The invitation was made possible after Malév successfully passed a quality control and safety audit conducted by **oneworld** in the course of last year. The leading aviation grouping also satisfied itself that the Hungarian national air carrier is in full compliance with all **oneworld** criteria in the areas of passenger service and concessions. Alliance membership guarantees passengers a wider range of services and increased benefits than any single airline could provide on its own. This translates into an extended network, the opportunity to accrue and redeem loyalty points/air miles on a synchronized route network, and admission to more airport lounges.

Malév's new B737 NG fleet complete

The final Malév Next-Generation Boeing 737-800, tail number HA-LOU, touched down at Ferihegy on 30 April 2005. The aircraft represents one element of the operative leasing agreement concluded between Malév and International Lease Finance Corporation in 2001. No fewer than 18 B737 NG planes have joined the Malév fleet as part of the fleet upgrade programme initiated in 2003. The new aircraft give Malév one of the most youthful and modern fleets of any airline in the world, providing passengers with increased comfort and the company with a greater degree of operational efficiency. The latest Next-Generations are more spacious and ergonomic, while their technical parameters meet the very latest criteria. The new fleet increases efficiency while at the same time allowing the company to reduce its operating and maintenance costs.

New routes, plenty of surprises

Göteborg, Oslo, Cork, Bourgas, Constanta and Malaga all joined the Malév scheduled network in 2005, since when they have ranked among the airline's most popular destinations. However, last year also saw the introduction of several more novel features! For the first time ever, the Hungarian airline started point-to-point flights between Helsinki–Athens and Dublin–Athens, as well as Stuttgart–Lake Balaton. At the end of the year Malév reopened its Bangkok service, which has proved to be one of the most popular destinations offered by the airline.

e-ticketing

Malév welcomed its first passenger travelling with an e-ticket for a Budapest departure on 15 June. The national carrier launched e-ticketing on 1 June 2005. The new system – offering considerable benefits to both travellers and Malév – allows passengers to choose to fly without a printed ticket. The new service provided by the Hungarian airline complies with relevant IATA guidelines, although it was introduced even ahead of the publication of the IATA document. IATA has set a deadline of the end of 2007 for the introduction of 100% e-ticketing.

4. SENIOR OFFICERS OF THE COMPANY

The senior officers of Malév Zrt. are as follows:

Body	Name	Mandate started
Board of Directors	Péter Hónig, chair	11 February 2005
	Dr. 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
	Dr. Péter Sinkovits	30 September 2005
	László Pál	11 February 2005
	József Thuma	17 December 2004
	Dr. Gábor Sólyom	17 December 2004
Supervisory Board	Erzsébet Szombati-Szalóki, chair	30 May 2003
	Péter Endrődy	30 May 2003
	Gábor Csobánczy	30 September 2005
	Dr. László Szlávnits	30 May 2003
	Dr. József Goldfárth	30 May 2003
	Dr. András Gálszécsy	30 May 2003
	Attila Csorba	30 May 2003
	Mrs. Adolf Kozek	30 May 2003
György Háy	30 May 2003	

Malév Zrt. auditor: Pricewaterhouse Coopers Kft.

Representative of the auditor: Éva Barsi

5. OPERATING ENVIRONMENT

Contrary to expectations, the Euro and dollar cross rate weakened slightly. Throughout 2005, the forint strengthened against both the Euro and the dollar in comparison with the previous year. Due to the divergent structure of revenues and costs, the company's results were influenced by fluctuations in the cross rates of these two key foreign currencies.

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

In 2005, the industry recorded its greatest growth in the Middle East: turnover of AEA (Association of European Airlines) members measured in revenue passenger kilometres (RPK) grew by 7% – this was achieved by the airlines with an available seat kilometres (ASK) figure lower than the growth in demand, at 1.3%, which in turn resulted in an improvement of 3.9% in the average load factor.

The advance of the low-cost airlines in the industry continued unabated. Eight destinations in the Eastern and Mediterranean region are accessible by low-cost carrier, while all but six cities in the Western region can be flown to on budget airlines. Wizz Air and EasyJet, the two airlines with the greatest turnover among the low-cost carriers, each registered 4% growth in capacity against 2004, while Slovak SkyEurope reduced its capacity by nearly 4% in 2005. Low-cost carriers' available seat kilometres on the Malév route network nearly doubled; growth was of the order of 84% across the entire year measured against 2004. This represented an increase of 2% in our total passenger traffic. However, all this did not affect traffic of Malév and other traditional airlines negatively: together there was a 7% increase in 2005 against the previous year. By the end of 2005, 16 “no frills” airlines were flying out of Ferihegy.

Last year, passenger traffic passing through Ferihegy grew by 25% to exceed 8 million passengers.

In 2005, the Hungarian economy developed at a stable pace, with average GDP growth of 4.1%. Inflation fell to 3.6%. The forint exchange rate strengthened 1% against both the Euro and the dollar.

Key Hungarian economic indicators in 2004 and 2005

Description	2004 actual	2005 actual
Annual inflation	6.8	3.6
Rate of growth of the Hungarian GDP	4.0	4.1
Industrial production	7.4	7.3
Increase in gross average income	6.0	8.8
FOB-ROTT kerosene price (USD/ton)	385.0	549.3
Average USD/HUF exchange rate	202.73	199.59
Average HUF/EUR exchange rate	251.82	248.06

6. STAFF

Malév employees - 2005

No. of FT/PT employees	31 Dec staff (FTE)	31 Dec staff (FTE)	2005/2004
Malév Rt. full-time employees	288	170	59%
Malév Rt. part-time employees	83.5	42	50%
Fewer than average 60 hours/month	0.3	0	-
ABC Kft. full- and part-time employees	122.	10	8%
MUSZ Kft. full- and part-time employees	284	239	84%
Malév Rt., ABC, MUSZ total	3372.	1998	59%
Those on Malév Rt. payroll	306.5	201.7	66%

The 2005 end-of-year actual headcount was 41% down on the same period in 2004. The following are the primary reasons for this cutback: the outsourcing and sale of the Fuel Department in December 2005 (69 persons), along with outsourcing in ground handling (850 persons) and technical activities (327 persons), and the introduction of a cap on recruitment. The company also implemented group redundancies.

The 92% reduction in the workforce of ABC Kft. derives from the fact that employees of ABC Kft. are transferred to Malév after one year in employment, in conformity with the valid collective agreement, and there was no recruitment during the year. The headcount at MUSZ Kft. fell 12% against the base year.

7. FLEET

During 2005, the company maintained four aircraft types for its core activities: two Boeing 767-200 aircraft, 18 Boeing 737-600/700/800 aircraft, five Fokker 70 aircraft and four CRJ200 aircraft.

The fleet development programme reached fulfilment with the entry into service of two Boeing 737 NG aircraft during 2005. Parallel with this, the company withdrew its last Boeing 737 Classic from the fleet and returned it to the lessor.

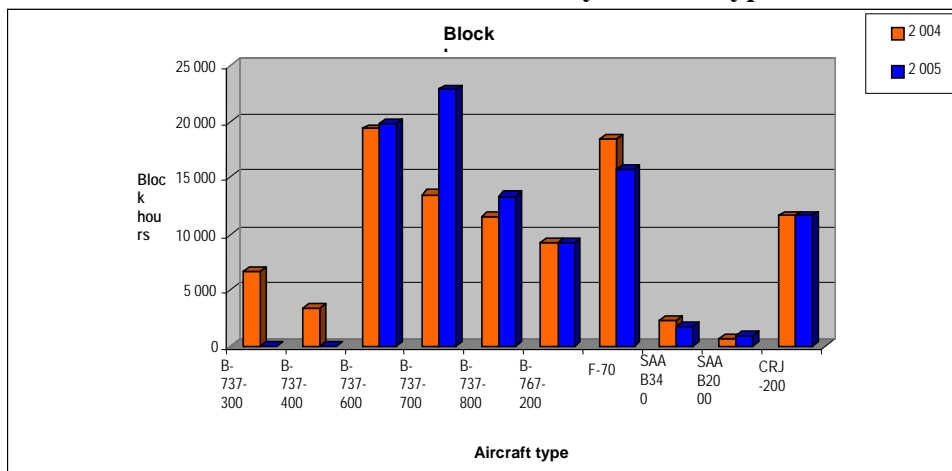
The number of aircraft in service increased from 28 at the beginning of the year to 29 at the end (one withdrawn, two entered into service).

The following table details the Malév fleet and average daily usage during 2005 in comparison with the base year.

Type	Average No. of aircraft*		Daily usage (hours/aircraft)	
	2004	2005	2004	2005
	actual	actual	actual	actual
B733	2.31		7.85	
B734	1.38		6.84	
B736	5.17	5.79	10.23	9.37
B73G	3.73	6.57	9.92	9.55
B738	3.17	4.41	10.03	8.29
B762	1.75	1.71	14.49	14.80
F70	5.31	4.75	9.51	9.04
CRJ-200	3.82	3.68	8.36	8.69
TOTAL MALÉV FLEET	26.63	26.91	9.65	9.43
SAAB-2000	0.67	1.00	2.56	2.47
SAAB-340	1.67	1.25	3.87	3.78
TOTAL	28.96	29.16	9.15	8.86

* No. of aircraft actually available for service, not including hangar maintenance downtime.

Breakdown of block hours by aircraft type



8. PUNCTUALITY

The AEA (Association of European Airlines) summary report for 2005 ranked Malév fourth in terms of punctuality on short- and medium-haul services.

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

The number of Malév and code-share flights rose 3.5% against 2004. The zero minute punctuality of all Malév flights was 50.6% in 2005. 80.17% of flights fell within the 15-minute category.

The number of delayed flights in the zero minute category increased to a greater degree than the growth in the total number of departing flights, by 18.7%. The total delay time increased by 11.3%, although the delay time per delayed flight fell by 6.2% (the average delay on delayed flights was 22.1 minutes in 2004, and 20.7 minutes in 2005).

52.6% of delayed flights were as a result of causes not attributable to the company, representing 42% of total delayed minutes.

The decline in punctuality was less marked in the 15 minute delay category: in 2005, 15 minute punctuality was 80.17%, 1.7% down on 2004.

9. QUALITY CONTROL

Certificates

Malév holds all airline industry certificates demanded in the EU, USA and Canada to conduct its activities.

- Operating Licence
- Air Operator Certificate (AOC) – JAR-OPS 1
- Continuing Airworthiness Management Organization Approval Certificate in compliance with Part-M Section A Subpart G of Commission Regulation (EC) 2042/2003 from 28 September 2005
- Maintenance Organization Approval Certificate in compliance with Part-145 of Commission Regulation (EC) 2042/2003
- Ground Handling Operational Certificate
- U.S. Department of Transportation Federal Aviation Administration Operation Specification Certificate
- Canadian Foreign Air Operator Certificate.

Quality Management System

The ISO 9001:2000-based quality management system certified by DNV continuously measures nearly 80 quality parameters within the framework of Service Monitoring and Operations Monitoring to provide an objective picture of passenger satisfaction and the company's operational efficiency.

Quality control audits of processes, organizational units and contracted maintenance organizations, based on the annual Audit Plan, are regularly staged in compliance with the industry-recommended IATA Operational Safety Audit (IOSA).

During 2005, Malév also passed audits by several aviation authorities (PLH, EASA-JAA, US Transportation Security Administration) and partner airlines (including Finnair/**oneworld**, Northwest Airlines and Japan Airlines).

10. FLIGHT SECURITY

In order to win, and maintain, the trust of air travellers, the Flight Security section has drafted, developed and applies effective security procedures designed to rule out all potential risk factors threatening travel security, before the plane even leaves the ground.

Malév complies with all security obligations prescribed by international and domestic legislation.

The Flight Security section conducts annually scheduled audits of airports Malév and its partner airlines fly to. In the course of these audits it applies the IATA eight-point airport security system and the checklist of the IATA International Operational Safety Audit (IOSA) programme. Accordingly, over the course of 2005 the company also conducted regular security analyses of airports rejoining the route network, including Bangkok, Sharm el Sheik, Dubai and Phuket, in addition to examinations during audits of the security situation of, for example, Paris, London and Larnaca airports in line with specific security requirements. The company carried out a flight security audit of code-share partner Montenegro Airlines, too.

The company implemented annually scheduled airport inspections aimed at compliance with valid flight security provisions, on the basis of which the company put forward to the relevant sections the necessary reports to eliminate shortcomings.

Malév is in daily contact with the law enforcement authorities and the foreign ministry. After analysing such security-related information, the company specifies those destinations requiring additional rigorous security procedures beyond the standard measures. Heightened security measures remain in force for all flights to the United States of America, Canada and Israel. Complete flight protection screening is applied prior to the departure of all Malév flights to New York, Toronto and Tel Aviv. Considering that a precondition of the high standard execution of flight security measures is the development of a fundamental understanding of security issues and the acquisition of the necessary security skills, as well as their regular refreshment, throughout 2005 the company staged flight security training courses and examinations for all ground handling personnel, pilots, flight attendants and station chiefs.

In the course of conducting flight security duties Malév maintains continuous contact and regularly exchanges 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.

It is in the fundamental business interest of Malév to create a secure flight environment, and as such the company will continue to devote every resource and means at its disposal towards the prevention of unlawful acts in order to provide passengers with a reassuring, safe service.

11. FLIGHT SAFETY

As in past years, so too in 2005 the company's flight safety strategy and activities were fundamentally determined by the goals fixed in the flight safety policy of the airline. This policy bans any activities which could pose a threat to the safety of the flight, and supports all initiatives which promote the highest standards of flight safety and incident-free air travel. Malév maintains a high level of flight safety through the efficient and systematic implementation of the Air Accident Prevention and Flight Safety programme. Primary elements of this programme: objectivity, prevention, reprisal-free procedure. The programme was enhanced with several new elements in 2005. In order to increase the efficiency of preventive action, the so-called "type host" system was introduced into flight incident investigations. The results of this innovation are already apparent in the evaluation and analysis of such incidents. These results are transmitted via the appropriate communications channels in quarterly flight safety reports to those sections where the necessary preventive measures can be developed. The company increased from the earlier 50-60% to 85% (compared to the total number of flights) the number of flights investigated within the frame of the Flight Data Monitoring (FDM) system which has several years of successful operation behind it, formerly the Flight Operation's Quality Assurance (FOQA) system. On the basis of the results of investigations, the quality of flight implementation is above the international average. In 2005, Malév introduced EU-developed European Coordination Centre of Aviation Incident Reporting System (ECCAIRS) software to guarantee effective processing and management of flight safety data. Every flight safety assessment audit carried out in 2005 (JAL, oneworld, IOSA) concluded by awarding top marks to Malév, thereby confirming and enhancing the international status and reputation of Malév Hungarian Airlines as regards its safe and secure air transport operations.

12. BUSINESS OPERATIONS

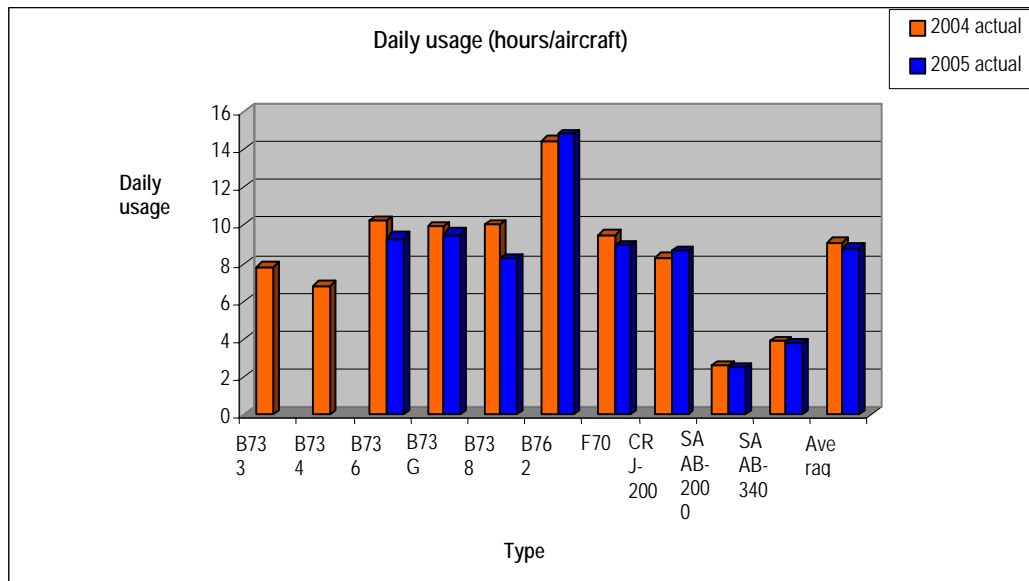
Scheduled carrier activities

The number of passengers carried by Malév in 2005 was approximately 2.8 million, 7% more than in the previous year. The Mediterranean and Eastern regions achieved particularly outstanding results, with growth considerably above the average (15% and 14%, respectively). The number of Malév flights across its entire network approached 26,700 (+3%); available seat kilometres exceeded 5.8 million (+8%). The proportionally larger increase in ASK is partly the result of greater average capacity of the airline's fleet in 2005, and partly that new destinations are on average more distant.

Revenue passenger kilometres grew by 12%, i.e. more than the available seat capacity, so that overall the load factor across the entire Malév route network was 66.6% in 2005, 2.1% higher than the base year. Since the proportion of passenger-related costs to other factors is minimal, the growth in the load factor is one of the obvious cost rationalization methods for maintaining the competitiveness of traditional airlines similar to Malév.

Malév inaugurated 10 new destinations in the course of 2005. In March 2005 Göteborg became accessible with Malév, in April Cork, in June Constanta, and then Bourgas, Malaga and Oslo (although just during the summer timetable period). Malév launched its first flights on the Dublin–Athens, Helsinki–Athens and Sármellék–Stuttgart routes, thereby picking up some of the spare nighttime capacity. The extremely popular Bangkok route was restarted in December. The Tripoli, Düsseldorf and Stansted routes failed to live up to expectations, however, and flights to these destinations were suspended.

Available seat capacity on markets served by Malév increased dramatically, induced by the presence of low-cost airlines, to which the established market players (including Malév) also reacted by increasing capacity and upping frequencies. Budget airlines cut themselves a 27% slice out of the Budapest passenger market in 2005. It was evident that the market still had considerable reserves, primarily in the low yield segments. The market expanded by 23%, representing 1.2 million passengers, and to a certain degree this offset the rise in the low-cost carriers so that Malév's annual average share of passenger traffic across the entire network fell from 49% to just 42.3%. However, after a decline in the early part of the year, from the second half of 2005 the airline's share steadily increased: from 40.4% in December 2004 and 40.1% in the first quarter of 2005 to 44.9% by December 2005 (this represents growth of the order of 4.5% on December 2004).



Strong competition was most apparent in the high yield Western Europe region, where the low-cost carriers' share of capacity was 36%, and its passenger share was 33%, while Malév lost 8.4% of its 2004 market share. The number of passengers carried in this region was around 1.5 million, a 1% increase on the previous year. The rate of growth was lower than average network growth, however, so the airline's share of the traffic on West European routes dropped back from 57% in 2004 to 54% in 2005. Growth of 3% in revenue passengers was based on a 3.8% increase in available seats. The region generated an average load factor of 63.3%, slightly more than the previous year.

Traffic for the Eastern Europe region climbed 14%. 26% of scheduled passenger traffic originated in this region. The increase in the number of passenger was accompanied by 8% more flights and seat capacity up 15% on the base year. The load factor improved 3.8%, and market share was 72.3%, that is, 2.9% higher than 2004. Low-cost airlines had a far weaker presence in this region compared to Western Europe, and their market share was a mere 2%. Market growth in the region (12%) assessed against the entire Malév network was primarily the result of the EU's expansion into Eastern Europe during 2004 and the opening eastwards of multinational corporations. In terms of passenger numbers, Malév registered the greatest growth on its Warsaw (45%) and Krakow (37%) routes.

A hike in passenger numbers of 15% in the Mediterranean region was achieved alongside an increase of 4% in available capacity, thus giving rise to a load factor 8% up on the previous year (2004). In fact, the load factor increased on virtually every destination in the region. Athens was particularly noteworthy, with the total provision jumping 45% in comparison to 2004, and within this Wizz Air boosted its available seat capacity by 145% and SkyEurope debuted on the market. Even given this situation Malév managed to achieve a 23% increase in the number of passengers carried. Malév's market share here was 70.5%.

In 2005, the total number of passengers carried by Malév on long-haul flights was nearly 148,000, 13% up on the previous year's figure. A major factor in this improvement was that the Beijing route operated all year round. The revenue passenger kilometres and available seat kilometres indicators on overseas flights both showed the same increase, 13%, leaving the load factor unchanged at 72%.

No. of flights

Description	Scheduled			Charter			Total		
	2004 actual	2005 actual	05/04	2004 actual	2005 actual	05/04	2004 actual	2005 actual	05/04
No. of flights	25 801	26 697	104.1%	1 326	945	71.3%	27 127	27 642	101.9%
Block	88 576	89 504	101.0%	8 433	5 737	68.0%	97 009	95 241	98.2%
Passen '000	2 482	2 712	109.3%	366	256	70.1%	2 848	2 968	104.2%
RPK	3 486	3 887	111.5%	784	519	66.1%	4 270	4 406	103.2%
ASK	5 406	5 836	108.1%	985	659	66.9%	6 392	6 495	101.6%
LF %	64.5	66.6	2.1%	79.56	78.70	-0.9%	66.81	67.83	1.0%

Charter activities

2004 marked the end of Malév's classical charter role in which the airline was virtually the only player on the market. The following events were particularly outstanding in 2005:

- the increasing expansion of low-cost airlines, in the process reshaping travel habits (growth in the popularity of self-organized weekend city sightseeing trips),
- foreign charter airlines gained a foothold in the market e.g. to the Greek islands, Spain, Tunisia. Bratislava-based Travel Service represented a particular challenge to Malév as regards fares (for instance, Neckermann employed Travel Service), SkyEurope (partner: TUI), Wizz Air and destination airlines such as Tunis Air, Egypt Air and the Turkish MNG (partner: Quaestor) all entered the market, and
- kerosene prices rocketed to levels far beyond those originally forecast.

The fare war sparked by increased supply meant that it was impossible to achieve rental fees calculated on a cost basis, so dedicated charter aircraft could not be operated at full capacity. All these factors are reflected in the charter operational indicators; compared to the base year of 2004, passenger numbers dropped by 30% and number of flights by 29%.

Based on the lessons of 2005, scheduled and charter operational capacities in 2006 are going to be managed and optimized within a common system. The consolidation of scheduled and charter operations is also strengthened by rationalization measures implemented from August 2005, as a result of which the Charter Department was merged into Sales Hungary.

Charter operations in 2005 continued to be founded on Hungarian outgoing chains, mass tourism, organized trips arranged through travel agencies, and summer/winter seasonality. Changes were implemented in the sales structure: Hungarian outgoing chain turnover represented a smaller share of turnover than the 75% of 2004. Charter activities were also hit by a series of external negative events: natural catastrophes, terror attacks, delay to the start of the summer season. The remaining part of the HUF 6.57 billion revenue in 2005 was accounted for by foreign incoming as well as Hungarian and foreign ad hoc flights. Total revenue on 2005 charter operations was 27.5% down on the previous year. Given the higher costs, the margin on sales (less direct costs) was hit even harder, falling from 11% in 2004 to just 2%.

The most sought-after summer destinations included Corfu and Antalya. During 2005, the Greek islands proved the most popular region; the company carried a total of 24,000 passengers to and from the islands. Malév flew nearly 20,000 passengers to North Africa and Egypt. Terrorist

attacks staged during the high season hit sales hard on the Egypt routes; in the wake of these attacks, partner travel offices cancelled several flights citing *vis major*. No new destinations came on stream in 2005; however, a Debrecen stop was added to the Hurghada and Corfu routes. This gave Malév a competitive edge, as did the 10-day rotation period, since competitors were not willing to accept either of these conditions.

Thailand, the Maldives, Cuba and North Africa proved most popular during the winter season. The devastation wrought by the tsunami stamped its mark on the start to 2005: Maldives and Phuket chains had to be cancelled.

Cargo and mail services, cargo handling activities

In 2005, market conditions changed considerably, overall for the worse, impacting negatively mainly on imports (cancellation of foreign charters due to the ending – 1 January 2005 – of the aircraft noise derogation). This translated into a volume reduction of around 18% for Malév and for foreign airlines.

In **scheduled traffic**, following EU accession the expansion of road haulage continued in intra-Europe traffic, therefore the significance of the company's two most important markets, New York and Toronto, tended to increase. Compensating for declining air cargo within Europe weighed heavily upon the company's rotation policy forcing cargo and mail service aspects into the background. The reason: a passenger-centric approach and rotation driven by considerations of flight economy and commercial interests.

Mail exceeded the base year both as regards non-pecuniary indicators (+5%) and in revenue terms (+2%).

The fall in average revenue measured in Hungarian forints was caused by the slight strengthening of the forint against the SDR (Special Drawing Right "basket" currency used in mail traffic) and the Euro, as well as an increase in the proportion of SAL (surface mail) and transit despatches. The Amsterdam, Frankfurt, London, Bucharest, Brussels, New York, Moscow, Athens, Paris and Zurich routes played a key role in mail deliveries, accounting for 65% of total turnover.

With the removal of IL aircraft following Hungary's accession to the EU, **Malév cargo handling** revenues in effect ceased on this market segment – in comparison to 2004 charter services. However, the addition of new services to those offered by Ferihegy cargo handling counterbalanced this downturn. Accordingly, the company successfully introduced an express service and "same-day" service, which made up for the abovementioned decline in revenue.

Overall, this area achieved its strategic objectives, in the course of which the main focus of attention was given to maximizing the margin. In 2005, the margin of this sector was in line with the plan.

Non-core activities**ANCILLARY ACTIVITIES**

	NON-FINANCIAL			REVENUE (M huf)		
	2004	2005	2005/200	2004	2005	2005/200
	SERVICED AIRCRAFT					
GROUND	15	17	117%	4	5	121%
	TONS ('000)					
FUEL SALES	47.3	43.2	91%	4	5	120%
TOTA				8	10	120

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.

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 serviced aircraft over the year (17,634) was 17% more than the year before. In forint terms, revenues increased by 21%; aircraft servicing approached HUF 4.8 billion while total handling revenues together with lounges exceeded HUF 5 billion.

Partners joining in the course of 2005 increased turnover considerably. Traffic of cargo charters and a few airlines fell back, causing in a downturn in revenues, but at the same time the traffic of several other airlines jumped, resulting in growth in revenues of more than HUF 800 million. The number of delegations taking advantage of the government and VIP lounges slipped somewhat on the year before, while slightly more passengers (+2%) used the services of the lounges (Duna, Sky, Millennium). Total lounge revenue climbed by 12% to HUF 219 million.

The margin on ground handling activities (HUF 2,183 million) increased from the previous year's HUF 466 million more than four times as a consequence of dramatic swings in both revenues and costs.

Into-plane fuelling sales

On 1 September 2005, fuelling was outsourced to RÜK Kft, therefore Malév sales in this area wound up from the ninth month.

Thus the base year and the year in question are not comparable. However, looking at the first eight months of both years, the quantity of fuel sold exceeded the base year by 45%. The main reasons for this growth in quantity between January and August: Malév won several into-plane fuelling tenders, the company won new clients, and it maintained established partners.

Comparing the first eight months of 2005 against the full base year, there was a reduction of 9% in the quantity sold, and an increase of 20% in revenues and 22% in the cost-revenue ratio. This is unequivocally a result of the drastic increase in fuel prices.

The margin on all activities was HUF 357 million, HUF 27 million down on 2004.

13. SUMMARY FINANCIAL DATA

Malév Zrt. 2005 balance sheet

No.	Malév Zrt. balance sheet ASSETS [HUF '000]	Note	31 December 2004	31 December 2005	Index
1	2	3	4	5	6
A.	Fixed assets (I+II+III)		37 948 915	38 307 839	100.95%
I.	I. Intangible assets (1+..+7)	1	2 019 632	1 591 048	78.78%
1	Capitalized value of formation &	2	429 644	322 995	75.18%
2	Capitalized value of research &		0	0	-
3	Rights		4 386	3 212	73.23%
4	Patents and trademarks	3	1 585 508	1 264 584	79.76%
5	Goodwill		0	0	-
6	Advances on intangible assets		0	0	-
7	Adjustments to the value of intangible assets		94	257	273.40%
II.	Tangible assets (1+..+7)	4	32 451 064	24 786 872	76.38%
1	Real estate and related rights	5	2 429 997	1 259 992	51.85%
2	Technical equipment, machinery, vehicles	6	20 361 865	17 865 001	87.74%
3	Other equipment, fittings, vehicles	7	2 279 890	804 219	35.27%
4	Breeding stock		0	0	-
5	Capital expenditure		353 107	452 327	128.10%
6	Advances on capital investments		5 349	5 279	98.69%
7	Adjustments to the value of tangible assets		7 020 856	4 400 054	62.67%
III.	Financial investments (1+..+7)	8	3 478 219	11 929 919	342.99%
1	Long-term participations in subsidiary undertakings	9	3 029 484	4 492 673	148.30%
2	Long-term loans to subsidiary undertakings		0	0	-
3	Other long-term participations	10	198 900	198 900	100.00%
4	Long-term loans to associated undertakings		0	0	-
5	Other long-term loans		56 836	52 746	92.80%
6	Long-term debt securities	11	192 999	192 792	99.89%
7	Adjustments to the value of investment securities		0	6 992 808	-
B.	Current assets (I+II+III+IV)		32 026 389	35 866 734	111.99%
I.	Inventories (1+..+6)	12	2 015 640	2 227 495	110.51%
1	Materials	13	1 981 090	2 156 525	108.86%
2	Work in progress and semi-finished products		0	0	-
3	Other livestock		0	0	-
4	Finished products		0	0	-
5	Goods		34 550	3 819	11.05%
6	Advances on inventories		0	67 151	-
II.	Receivables (1+..+5)	14	23 975 011	27 255 908	113.68%
1	Accounts receivable (trade debtors)		10 892 698	12 731 219	116.88%
2	Receivables from subsidiary undertakings	15	4 110 541	10 185 207	247.78%
3	Receivables from associated undertakings		0	0	-
4	Bills of exchange		0	0	-
5	Other receivables	16	8 971 772	4 339 482	48.37%
III.	Securities (1+..+4)		16 034	17 562	109.53%
1	Participations in subsidiary undertakings		0	0	-
2	Other participations		0	0	-
3	Own shares, stakes		0	0	-
4	Debt securities held for trading purposes		16 034	17 562	109.53%
IV.	Cash and cash equivalents	17	6 019 704	6 365 769	105.75%
1	Cash and cheques	18	143 182	108 616	75.86%
2	Bank deposits	18	5 876 522	6 257 153	106.48%
C.	Prepayments and accrued income (1+2+3)	19	1 135 464	1 318 925	116.16%
1	Accrued income	20	159 657	169 101	105.92%
2	Costs and expenses paid in advance	21	975 807	1 149 824	117.83%
3	Deferred expenses		0	0	-
	Total assets		71 110 768	75 493 498	106.16%

No.	<u>Malév Zrt. balance</u> <u>LIABILITIES AND</u> <u>[ezer Ft]</u>	Note	31 December 2004	31 December 2005	Index
1	2	3	4	5	6
D.	Stockholders' equity	22	3 297 803	6 398 219	194.01%
I.	Registered capital	23	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	24	-20 324 797	-25 124 426	-
V.	Committed reserve	25	429 644	323 082	75.20%
VI.	Valuation reserve	26	7 020 950	11 393 119	162.27%
VII.	Retained earnings		-4 906 191	-1 271 753	-
E.	Provisions (I+2+3)	27	107 521	989 360	920.16%
1	Provisions for anticipated liabilities	28	107 521	369 357	343.52%
2	Provisions for future costs		0	620 003	-
3	Other provisions		0	0	-
F.	Liabilities (I+II+III)		65 329 855	65 631 796	100.46%
I.	Subordinated liabilities (1+2+3)		18 690 680	19 207 480	102.77%
1	Subordinated liabilities to subsidiary undertakings		0	0	-
2	Subordinated liabilities to associated undertakings		0	0	-
3	Subordinated liabilities to other undertakings		18 690 680	19 207 480	102.77%
II.	Long-term liabilities (1+..+8)	29	12 729 210	12 966 461	101.86%
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	30	12 551 390	12 842 258	102.32%
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		177 820	124 203	69.85%
III.	Short-term liabilities (1+..+8)	31	33 909 965	33 457 855	98.67%
1	Short-term loans	32	0	273 665	-
	- of which: convertible bonds		0	0	-
2	Short-term credit	32	1 064 560	532 777	50.05%
3	Advances received		275 985	492 012	178.27%
4	Accounts receivable (trade creditors)	33	15 736 359	17 294 705	109.90%
5	Bills of exchange		0	0	-
6	Short-term liabilities to subsidiary undertakings	34	699 747	1 193 785	170.60%
7	Short-term liabilities to associated undertakings		0	0	-
8	Other short-term liabilities	35	16 133 314	13 670 911	84.74%
G.	Accruals and deferred income (1+2+3)	36	2 375 589	2 474 123	104.15%
1	Income received in advance	37	711 281	399 650	56.19%
2	Accrued expenses	38	1 539 949	2 064 634	134.07%
3	Deferred income		124 359	9 839	7.91%
	Total liabilities and stockholders'		71 110 768	75 493 498	106.16%

Malév Zrt. income statement type "A"

No.	Description	Note	2004	2005	Index
1	2	3	4	5	6
1.	Domestic sales, net		29 681 795	27 299 438	91.97%
2.	Export sales, net		90 596 402	89 261 179	98.53%
I.	Net sales (1.+2.)	39	120 278 197	116 560 617	96.91%
3.	Change in inventories produced		0	0	-
4.	Capitalized value of assets manufactured		611 390	387 088	63.31%
II.	Capitalized value of own performance (3.+4.)		611 390	387 088	63.31%
III.	Other revenues	40	10 027 778	13 261 081	132.24%
	of which: depreciation re-posted		1 825 589	279 746	15.32%
5.	Cost of materials		19 664 702	26 553 268	135.03%
6.	Cost of material-type services used		70 945 929	67 341 660	94.92%
7.	Cost of other services		2 331 385	2 198 424	94.30%
8.	Cost of goods sold		4 564 784	5 939 446	130.11%
9.	Cost of services sold		4 515 094	154 623	3.42%
IV.	Material expenses (5.+...+9.)	41	102 021 894	102 187 421	100.16%
10.	Salaries and wages		10 060 268	10 917 210	108.52%
11.	Other employee costs		7 085 354	8 081 214	114.06%
12.	Social security		4 625 970	5 061 384	109.41%
V.	Personnel expenses (10.+11.+12.)	41	21 771 592	24 059 808	110.51%
VI.	Depreciation	41	5 002 657	4 474 987	89.45%
VII.	Other expenses	42	8 318 632	8 453 333	101.62%
	of which:		5 379 987	410 907	7.64%
A.	Operating profit/(loss) (I.+...±VII.)		-6 197 410	-8 966 763	144.69%
13.	Dividend and profit share received (receivable)		1 273 431	1 487 040	116.77%
	of which: received from subsidiary		1 273 431	1 454 275	114.20%
14.	Capital gains on participations sold		0	0	-
	of which: received from subsidiary		0	0	-
15.	Interest and capital gains on financial investments		3 988	5 630	141.17%
	of which: received from subsidiary		0	0	-
16.	Other interest and similar income received (receivable)		684 866	211 157	30.83%
	of which: received from subsidiary		247 713	84 178	33.98%
17.	Other income from financial transactions		6 049 845	15 794 612	261.07%
VIII.	Financial income (13.+14.+15.+16.+17.)	43	8 012 130	17 498 439	218.40%
18.	Loss on financial investments		0	0	-
	of which: paid to subsidiary undertakings		0	0	-
19.	Interest and similar expense payable		913 560	1 016 618	111.28%
	of which: paid to subsidiary undertakings		0	173	-
20.	Amortization of participations, securities and bank deposits		0	-919 728	-
	of which: paid to subsidiary undertakings		0	-923 192	-
21.	Other expenses on financial transactions		6 401 628	9 952 963	155.48%
IX.	Financial expenses (18.+19.+20.+21.)	43	7 315 188	10 049 853	137.38%
B.	Financial profit/(loss) (VIII.-IX.)	43	696 942	7 448 586	-
C.	Ordinary profit/(loss) (+-A.+-B)		-5 500 468	-1 518 177	27.60%
X.	Extraordinary income	44	818 878	913 661	111.57%
XI.	Extraordinary expenses	44	224 601	667 237	297.08%
D.	Extraordinary profit/(loss) (X.-XI.)	44	594 277	246 424	-
E.	Profit before taxation (+-C.+-D)		-4 906 191	-1 271 753	25.92%
XII.	Tax liability		0	0	-
F.	Profit after taxation (+-E.-XII)		-4 906 191	-1 271 753	25.92%
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.)		-4 906 191	-1 271 753	25.92%

Balance sheet analysis**Assets****1. Intangible assets (Balance sheet A/row I.)**

The following table outlines the gross value and accumulated depreciation of intangible assets for 2004 and 2005.

HUF '000					
	Capitalized value of formation and restructuring	Rights	Patents and trademarks	Adjustment	Total
GROSS VALUE					
<i>Opening balance 1 January 2004</i>	2 153 468	10 167	2 173 589	0	4 337 224
Gains	237 625	0	1 217 548	94	1 455 267
Losses	-9 181	-761	-25 343	0	-35 285
Reclassification	0	0	0	0	0
<i>Closing balance 31 December 2004</i>	2 381 912	9 406	3 365 794	94	5 757 206
Gains	96 006	0	468 973	163	565 142
Losses	-88 700	-405	-92 630	0	-181 735
Reclassification	0	0	0	0	0
<i>Closing balance 31 December 2005</i>	2 389 218	9 001	3 742 137	257	6 140 613
ACCUMULATED DEPRECIATION					
<i>Opening balance 1 January 2004</i>	1 781 255	4 600	1 250 434	0	3 036 289
Accounted depreciation	178 375	1 161	555 125	0	734 661
Sales and other losses	-7 362	-741	-25 319	0	-33 422
Reclassification	0	0	46	0	46
<i>Closing balance 31 December 2004</i>	1 952 268	5 020	1 780 286	0	3 737 574
Accounted depreciation	172 776	1 131	753 017	0	926 924
Sales and other losses	-58 821	-362	-55 733	0	-114 916
Depreciation	0	0	0	0	0
Reclassification	0	0	-17	0	-17
<i>Closing balance 31 December 2005</i>	2 066 223	5 789	2 477 553	0	4 549 565
NET WORTH 31 December 2004	429 644	4 386	1 585 508	94	2 019 632
NET WORTH 31 December 2005	322 995	3 212	1 264 584	257	1 591 048

2. Capitalized value of formation and restructuring (Balance sheet A row I./1)

The reason for the change is the capitalization of pilot retraining (in accordance with Malév's accounting policy) in both the base year and the year in question. In 2005, as a combined effect of registered depreciation, the departure of pilots and restructuring between the technical section and Aeroplex Kft., the total sum of pilot and technician training write off exceeded the level of capitalization.

3. Patents and trademarks (Balance sheet A row I./4)

The following key IT programmes were initiated in the course of 2005. ERP project* (HUF 231,460,000); E-business project (HUF 91,953,000); mail settlements system (HUF 36,817,000); filing system (HUF 16,398,000); modification of the revenue settlements programme (HUF 6,073,000); Carisma BCP support system (HUF 10,492,000). At the same time, the level of accounted depreciation exceeded the sum of gains.

* The Malév Board of Directors postponed the ERP project until 2007.

4. Tangible assets (Balance sheet A row II.)

HUF '000

	Real estate and related rights	Technical equipment, machinery, vehicles	Other equipment, fittings, vehicles	Capital expenditure	Advances on capital investments	Adjustments to the value of tangible assets	Total
GROSS VALUE							
<i>Opening balance 1 January 2004</i>	4 047 836	35 546 334	8 118 576	410 335	18 931	1 463 187	49 605 199
Gains	0	11 662	2 250	3 539 809	363 174	5 557 669	9 474 564
Capitalization	71 761	2 593 455	472 020	-3 477 498	0	0	-340 262
Losses	-751 009	-4 645 292	-431 710	-119 539	-376 756	0	-6 324 306
Valuation reserve	0	0	0	0	0	0	0
Sales and other losses	0	0	0	0	0	0	0
Reclassification	0	0	0	0	0	0	0
<i>Closing balance 31 December 2004</i>	3 368 588	33 506 159	8 161 136	353 107	5 349	7 020 856	52 415 195
Gains	0	1 352	12 448	3 797 981	626 801	0	4 438 582
Capitalization	74 362	1 884 027	1 131 518	-3 128 409	0	0	-38 502
Sales	-1 650 045	-4 894 593	-6 030 258	-352 414	0	0	-12 927 310
Losses	0	0	0	-217 938	-626 871	-2 620 802	-3 465 611
Valuation reserve write-off	0	0	0	0	0	0	0
Reclassification	0	0	0	0	0	0	0
<i>Closing balance 31 December 2005</i>	1 792 905	30 496 945	3 274 844	452 327	5 279	4 400 054	40 422 354
ACCUMULATED DEPRECIATION							
<i>Opening balance 1 January 2004</i>	985 354	12 413 546	5 350 614	0	0	0	18 749 514
Accounted depreciation	171 970	3 078 720	911 317	0	0	0	4 162 007
Sales and other losses	-219 072	-3 267 715	-393 718	0	0	0	-3 880 505
Depreciation	339	2 697 468	13 033	0	0	0	2 710 840
Reclassification	0	-1 777 725	0	0	0	0	-1 777 725
<i>Closing balance 31 December 2004</i>	938 591	13 144 294	5 881 246	0	0	0	19 964 131
Accounted depreciation	155 458	2 500 540	771 380	0	0	0	3 427 378
Sales and other losses	-561 319	-2 914 739	-4 184 240	0	0	0	-7 660 298
Depreciation	183	0	2 239	0	0	0	2 422
Valuation reserve write-off	0	-98 151	0	0	0	0	-98 151
Reclassification	0	0	0	0	0	0	0
<i>Closing balance 31 December 2005</i>	532 913	12 631 944	2 470 625	0	0	0	15 635 482
NET WORTH 31 December 2004	2 429 997	20 361 865	2 279 890	353 107	5 349	7 020 856	32 451 064
NET WORTH 31 December 2005	1 259 992	17 865 001	804 219	452 327	5 279	4 400 054	24 786 872

5. Real estate and related rights (Balance sheet A row II./1)

The change in real estate stock during 2005 was a result of the write off of the book value (HUF 1,072,991) of Malév assets established as investments on own and rented plots at Budapest airport, after transferral to the State Property Agency.

6. Technical equipment, machinery, vehicles (Balance sheet A row II./2)

The change in stock represents write off due to the sale of aircraft time-limited parts required for full technical activities (value: HUF 1,647,818,000), and the sale of equipment necessary to conduct operations (value: HUF 133,567,000), following the outsourcing of Malév Technical Directorate activities to Aeroplex Kft.

7. Other equipment, fittings, vehicles (Balance sheet A row II./3)

The equipment necessary for conducting ground handling activities outsourced to MGH Kft. was provided by Malév through the sale at market value of its equipment, thereby resulting in a stock reduction of HUF 1,596,072,000.

8. Financial investments (*Balance sheet A row III.*)**9. Long-term participations in subsidiary undertakings (Balance sheet A row III./1) and Adjustments to the value of investment securities (Balance sheet A row III./7)**

No.	DESCRIPTION	Equity	Registered capital	Profit reserve	Valuation reserve	2005 net profit	Malév stake at par value	Malév stake at book value	Adjustments to financial investment	Stake
		HUF	HUF	HUF	HUF	HUF	HUF	HUF	HUF	%
1	MALCO LLC									
	1209 Orange Str. Wilmington, Delaware 19801. USA	3 464 481	3 464 481	0	0	0	3 464 481	3 464 481	0	100%
2	Aeroplex Közép-Európai Légijármu Muszaki Központ (ACE) Kft.									
	1185 Budapest, Ferihegy Airport	511 597	462 000	-136 751	0	174 382	462 000	923 192	2 260 808	100%
3	Malév Air Tours (MAT) Kft.									
	1088 Budapest, Rákóczi út 1-3.	117 436	62 888	25 295	0	4 141	62 888	88 000	0	100%
4	Pannon Air Cargo Nemzetközi Szállítmányozó és Vámügynök (PAC) Kft.									
	1185 Budapest, Ferihegy Airport	67 112	5 000	62 112	0	0	5 000	5 000	0	100%
5	Galileo Hungary Kft.									
	1036 Budapest, Lajos u. 48-66.	18 158	3 000	0	0	0	3 000	3 000	0	100%
6	Air Budapest Club (ABC) Kft.									
	1185 Budapest, Nagybcskerek utca 30.	15 000	3 000	11 320	0	0	3 000	3 000	0	100%
7	Malév Utasszolgálati (MUSZ) Kft.									
	1185 Budapest, Nagybcskerek utca 30.	8 358	3 000	5 358	0	0	3 000	3 000	0	100%
8	Malév GH Földi kiszolgáló Kft (MGH) Kft.									
	1185 Budapest, Nagybcskerek utca 30.	-288 207	3 000	-193	0	-291 014	3 000	3 000	4 732 000	100%
	TOTAL (1+...+8)	3 913 935	4 006 369	-32 859	0	-112 491	4 006 369	4 492 673	6 992 808	

Since activities of Malév Gh. Kft. started on 27 December 2005, its revenue generating capacity was not synchronized with associated expenses, and as a consequence its balance sheet profit and equity were negative.

10. Other associated undertakings

Description	Registered capital		Malév stake		Malév stake
	EUR '000	HUF '000	at par value	at book value	%
			HUF '000	HUF '000	
Lufthansa Technik Budapest Kft. (LHTB) 1185 Budapest, Ferihegy Airport	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	

11. Long-term debt securities/Other participations (Balance sheet A row III./6; Balance sheet B row III./2)

These entries detail INC Certificates securities to the value of USD 558,422, and SITA investment bonds.

12. Inventories (Balance sheet B row I.)

13. Materials (Balance sheet B row I./1)

Procurement of parts needed to guarantee the safe operation of Boeing 737NG aircraft as well as for aircraft repairs most commonly ordered by the manufacturer resulted in a considerable outlay. At the same time, following the winding up of fuel sales activities within Malév, the kerosene inventory was reduced by HUF 428,547,000.

14. Receivables (Balance sheet B row II.)

15. Receivables from subsidiary undertakings (Balance sheet B row II./2)

Receivables from Malév affiliated companies were as follows:

HUF '000				
No.	Description	31 December 2004	31 December 2005	%
2	Aeroplex Kft.	1 099 302	4 231 242	384.90%
6	Malév Express Kft./Malév GH Kft.	181 560	3 482 904	1918.32%
5	MALCO LLC.	2 466 401	2 086 335	84.59%
3	Galileo Kft.	47 319	189 590	400.66%
1	ABC Kft.	78 474	121 522	154.86%
7	MUSZ Kft.	6 490	49 285	759.40%
8	Pannon Air Cargo Kft.	29 775	22 124	74.30%
4	Malév Air Tours Kft.	201 220	2 205	1.10%
10	TOTAL (1+...+10)	4 110 541	10 185 207	247.78%

The increase at Aeroplex Kft. and Malév GH Kft. was a result of the purchase price of equipment required to conduct activities as a consequence of outsourcing.

16. Other receivables (Balance sheet B row II./5)

Details of other receivables:

HUF '000

No.	Description	31 December 2004	31 December 2005	%
1	Receivables on ticket sales	6 766 317	1 375 573	20.33%
2	Deposits	1 517 080	1 829 538	120.60
5	Receivables from employees	150 142	204 477	136.19
3	VAT	304 417	188 004	61.76%
7	Frequent flyer receivables against foreign airlines	77 157	88 558	114.78
6	Credit memo-related receivables (Bombardier, ILFC)	50 800	54 140	106.57
4	Receivables from suppliers	10 920	5 782	52.95%
8	Other	94 939	593 410	625.04
9	Total (1+...+8)	8 971 772	4 339 482	48.37%

In 2005, the "Other" chapter included a financial loan of HUF 481,364,000 made to RÜK Kft., primarily to finance VAT.

17. Cash and cash equivalents (Balance sheet B row IV.)**18. Cash, cheques, bank deposits (Balance sheet B row IV./1.2)**

Variations in the cash and cash equivalents stock are displayed in the Cash Flow table, Chapter IV.

19. Prepayments and accrued income (Balance sheet C)**20. Accrued income (Balance sheet C row 1.)**

Details of accrued income:

HUF '000

No.	Description	31 December 2004	31 December 2005	%
1	Foreign tax refunds	92 765	116	125.48
2	On-charges to affiliated companies	42 791	28 037	65.52
3	Ticket	8 293	10 145	122.33
4	Other	7 974	9 851	123.54
5	Bank interest	4 039	4 671	115.66
6	MALCO LLC standby interest	3 795	0	0.00
7	Total (1+...+6)	159 657	169 101	105.92

21. Costs and expenses paid in advance (Balance sheet C row 2.)

Details of costs and expenses paid in advance:

HUF '000

No.	Description	31 December 2004	31 December 2005	%
1	Aircraft leasing fees	470 610	689 423	146.50%
2	Sum of pre-paid insurance premiums	235 895	327 697	138.92%
3	Pre-paid flat and office rental, insurance at representations	50 245	52 968	105.42%
4	Other (pre-paid bank guarantee, education and training fees, annual licence fees etc.)	33 582	35 760	106.49%
5	Publications, manuals, membership fees	5 888	22 323	379.11%
6	Costs associated with the frequent flyer programme	22 993	21 653	94.17%
7	MALCO LLC. rental fee	156 594	-	0.00%
8	Total (1.+...+7.)	975 807	1 149 824	117.83%

The scheduling and amount of the leasing fee paid on Boeing-767 aircraft by Malév to MALCO was synchronized with the loan repayments. After payment of the last credit instalment in May 2005, the leasing contract was modified and payment of the leasing fee is now monthly on the first day of the month.

Liabilities and stockholders' equity**22. Stockholders' equity (Balance sheet D)**

Changes in equity:

HUF '000

No.	Description	Equity 31.12.2004	Equity 31.12.2005	Changes in the structure of stockholders' equity
1.	Registered capital	3 500 000	3 500 000	0
	of which: par value of stock repurchased	0	0	0
2.	Unpaid equity capital	0	0	0
3.	Capital reserve	17 578 197	17 578 197	0
4.	Profit reserve	-20 324 797	-25 124 426	-4 799 629
5.	Committed reserve	429 644	323 082	-106 562
6.	Valuation reserve	7 020 950	11 393 119	4 372 169
7.	Retained earnings	-4 906 191	-1 271 753	3 634 438
8= 1+...+7	Structural change in equity	3 297 803	6 398 219	3 100 416

27. Provisions (Balance sheet E)**28. Provisions for anticipated liabilities (Balance sheet E row 1.)**

Details of Malév provisions:

HUF '000

No.	Description	31 December 2004	31 December 2005
1.	Early retirement and compensation for redundancies	26 747	152 802
2.	Ongoing court actions	0	84 901
3.	Commitments related to settlement of bonuses	80 774	95 689
4.	Fuel hedges as from 31 December 2005	0	35 965
5.	Total (1+...+4)	107 521	369 357

29. Provisions for future costs (Balance sheet E row 2.)

Provision of HUF 620,003,000 for statutory environmental protection investments on equipment located at the fuel depot, as undertaken by Malév in the contract drawn up with RÜK Kft.

30. Long-term liabilities (Balance sheet F row II.)**31. Capital investment and development loans (Balance sheet F rowII./4)**

The capital investment and development loans stock rose from HUF 12,551,390,000 on 31 December 2004 to HUF 12,842,258,000 on 31 December 2005. Malév also registers the EUR 38,693,000 (HUF 9.779 billion) loan from the EIB in this chapter as well as the USD 14,343,000 (HUF 3.063 billion) credit with KBC-Exim Bank. (Information on repayment

commitments is given in Chapter III. 3.5. on Commitments exceeding five years.)

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

33. Short-term liabilities (Balance sheet F row III./1); Short-term credit (Balance sheet F row III./2)

Malév had HUF 273,665,000 drawn credit on the balance sheet date.

Malév registered a one-year repayment instalment of HUF 532,777,000 (USD 2,495,000) on the KBC-Eximbank long-term credit in the short-term credits chapter.

34. Accounts receivable (trade creditors) (Balance sheet F row III./4)

The change is the combined result of the growth in traffic, forint exchange rate fluctuation impacting on foreign currency commitments, the extension of payment deadlines as a consequence of renegotiating supplier contracts, and the stock of non-invoiced foreign services.

35. Short-term liabilities to subsidiary undertakings (Balance sheet F row III./6)

Details of the short-term liabilities to Malév affiliated companies:

HUF '000

No.	Description	31 December 2004	31 December 2005	%
1.	ABC Kft.	29 780	28 361	95.23%
2.	Aeroplex Kft.	10 092	452 848	4487.20%
3.	Galileo Kft.	64	97	151.97%
4.	Malév Air Tours Kft.	74 243	5 228	7.04%
5.	MALCO LLC.	296 446	509 659	171.92%
6.	Malév Express Kft./Malév Gh Kft.	221 313	71 488	32.30%
7.	MUSZ Kft.	43 310	115 721	267.19%
8.	Pannon Air Cargo Kft.	24 499	10 383	42.38%
10	TOTAL (1+...+8)	699 747	1 193 785	170.60%

In the course of 2005, cash-pooling was introduced between Malév and Aeroplex Kft., as a result of which the loan of HUF 72,578,000 from Aeroplex Kft. is shown here.

36. Other short-term liabilities (Balance sheet F row III./8)

HUF '000

No.	Description	31 December 2004	31 December 2005	%
1.	Ticket and carrier settlement invoices	12 721 032	8 353 352	65.67%
2.	Frequent flyer points commitments	1 147 385	1 457 905	127.06%
3.	VAT commitment	117 731	1 342 014	1139.90%
5.	Salaries and wages	1 069 446	788 675	73.75%
6.	Tax etc. commitments	281 097	545 981	194.23%
7.	Health insurance and social security	73 415	538 746	733.84%
8.	Other items	276 610	307 956	111.33%
9.	Duties payable on sales	78 119	188 336	241.09%
4.	Reclassification of accounts receivable	320 999	97 126	30.26%
10.	Credit memo-related commitment	47 480	50 820	107.03%
11.	Total (1.+...+10.)	16 133 314	13 670 911	84.74%

37. Accruals and deferred income (Balance sheet G)**38. Income received in advance (Balance sheet G row 1.)**

This entry shows the unused or non-depreciated part of equipment and parts procured on the credit memo provided by the aircraft manufacturers, aircraft and engine repair corporations.

No.	Description	HUF '000
1.	Credit memo 31.12.2004	526 304
2.	Received for procurement of tangible assets	0
3.	Received for procurement of materials	0
4.	Used for procurement of tangible assets	189 054
5.	Use for procurement of materials	61 904
6.	Credit memo 31.12.2004 (1.+...+5.)	275 346

39. Accrued expenses (Balance sheet G row 2.)

The following larger items appear in this chapter:

HUF '000

No.	Description	31 December	31 December	%
1.	Discounts and commissions given on domestic and foreign travel	843 656	843	99.93
2.	Deferrals to next year (maintenance of airline offices etc.)	387 736	890	229.54
3.	Premiums, commissions and allowances 2005	246 613	254	103.03

14. OWNERSHIP STRUCTURE

No.	Description	31 December 2004		31 December 2005	
		Registered capital (HUF)	Stake (%)	Registered capital (HUF)	Stake (%)
1.	ÁPV Rt.	3 498 278 870	99.9509	3 498 278 870	99.9508
2.	Other companies	21 000	0.0006	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.	Trade unions	1 340	0.0000	1 300	0.0000
7.	Private individuals	360 380	0.0103	359 590	0.0103
8.	Unknown	1 250	0.0000	2 080	0.0001
9.	Total (1+...+8)	3 500 000 000	100	3 500 000 000	100

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 2004 and 2005.

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 is as follows:

	Description	2004 change HUF '000	2005 change HUF '000
I.	Cash flow from ordinary activities	5 933 338	-9 874 458
1.	<i>Profit before taxation</i>	-4 906 191	-1 271 753
2.	<i>Depreciation posted</i>	5 002 657	4 474 987
3.	<i>Amortization and reverse posting</i>	3 554 398	131 161
4.	<i>Difference between provisions made and used</i>	-352 934	881 839
5.	<i>Profit/(loss) on the sale of fixed assets</i>	-195 602	-9 394 811
6.	<i>Change in accounts payable</i>	574 140	1 558 346
7.	<i>Change in other short-term liabilities</i>	5 708 311	-1 853 864
8.	<i>Change in accruals and deferred income</i>	93 342	98 534
9.	<i>Change in accounts receivable</i>	-1 132 242	-1 472 700
10.	<i>Change in current assets (excl. accounts receivable and cash)</i>	-2 934 802	-2 840 115
11.	<i>Change in prepayments and accrued income</i>	526 955	-183 461
12.	<i>Tax paid (on profits)</i>	-4 694	-2 621
13.	<i>Dividend and profit share paid</i>		
14.	<i>Depreciation correction on cash</i>		
15.	<i>Correction on dividend paid</i>		
II.	Cash flow from investment activities	-4 298 026	9 620 442
15.	<i>Purchase of fixed assets</i>	-5 149 748	-6 283 876
16.	<i>Sale of fixed assets</i>	757 744	14 606 910
17.	<i>Dividend received</i>	93 978	1 297 408
III.	Cash flow from financial transactions	-5 284 912	600 081
18.	<i>Proceeds from the issue of stock and capital raising</i>		
19.	<i>Proceeds from the issue of bonds and other debt securities</i>		
20.	<i>Credit drawdown and loans taken out</i>	901 553	3 153 040
21.	<i>Cancellation, termination and withdrawal of long-term loans and deposits</i>		
22.	<i>Cash assets received</i>	4 762	2 772
23.	<i>Retirement of stock and capital reduction</i>		
24.	<i>Repayment of bonds and other debt securities.</i>		
25.	<i>Repayment of credit and loans</i>	-6 191 159	-2 555 580
26.	<i>Long-term loans and bank deposits</i>		
27.	<i>Cash assets disposed</i>	-68	-151
28.	<i>Change in liabilities to founders and other LT liabilities</i>		
IV.	Increase/(decrease) in cash (I. +II. +III.)	-3 649 600	346 065

16. MALÉV INVESTMENTS

Subsidiaries and affiliated undertakings

No.	DESCRIPTION	Equity	Registered capital	Profit reserve	Valuati reserve	2005 net profit	Malév stake at par	Malév stake at book value	Valuation adjustment of invested funds-	Stake
		HUF '000	HUF '000	HUF '000	HUF '000	HUF '000	HUF '000	HUF '000	HUF '000	%
1	MALCO LLC 1209 Orange Str. Wilmington, Delaware 19801. USA	3 464 481	3 464 481	0	0	0	3 464 481	3 464 481	0	100%
2	Aeroplex Közép-Európai Légi jármű Muszaki Központ (ACE) Kft. 1185 Budapest, Ferihegy Airport	511 597	462 000	-136 751	0	174 382	462 000	923 192	2 260 808	100%
3	Malév Air Tours (MAT) Kft. 1088 Budapest, Rákóczi út 1-3.	117 436	62 888	25 295	0	4 141	62 888	88 000	0	100%
4	Pannon Air Cargo Nemzetközi Szállítmányozó és Vámügynök (PAC) Kft. 1185 Budapest, Ferihegy Airport	67 112	5 000	62 112	0	0	5 000	5 000	0	100%
5	Galileo Hungary Kft. 1036 Budapest, Lajos u. 48-66.	18 158	3 000	0	0	0	3 000	3 000	0	100%
6	Air Budapest Club (ABC) Kft. 1185 Budapest, Nagybetskerek utca 30.	15 000	3 000	11 320	0	0	3 000	3 000	0	100%
7	Malév Utasszolgálati (MUSZ) Kft. 1185 Budapest, Nagybetskerek utca 30.	8 358	3 000	5 358	0	0	3 000	3 000	0	100%
8	Malév GH Földi kiszolgáló Kft (MGH) Kft. 1185 Budapest, Nagybetskerek utca 30.	-288 207	3 000	-193	0	-291 014	3 000	3 000	4 732 000	100%
	TOTAL (1+...+8)	3 913 935	4 006 369	-32 859	0	-112 491	4 006 369	4 492 673	6 992 808	

MAT Kft. capital reserve on 31 December 2005: HUF 25,112,000

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, Ferihegy Airport	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	