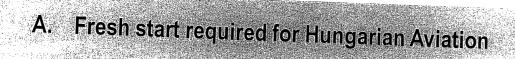


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Aviation in Hungary requires a "fresh start" to overcome the problems faced by Malév

1

- > Malév will not be able to continue operating as the Hungarian flag carrier
- Malév is already technically insolvent
- > The **business model** currently operated generates constantly **negative cash flows** the crisis has aggravated the situation, but Malév was unprofitable before the outbreak of the crisis already

2

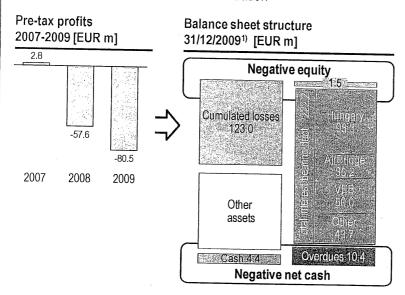
- > A possible way forward for Hungarian aviation is to set up a new airline project "Harbor"
- > Support from the Hungarian government is indispensable in this regard
- > Transition financing for current Malév will have to be provided by the government in order to ensure air service continuity

3

- > New airline will have to avoid the pitfalls which have stricken Malév several times
- > The new airline will not be a classic flag carrier, i.e. no 2-class product and no long-haul flights
- > Head-to-head competition with low cost carriers and other hub airlines feeding their respective hubs will have to be avoided the new airline will not serve London, Zurich or Paris

Malév will not be able to continue operating as the Hungarian flag carrier

Malév Hungarian Airline - Financial situation

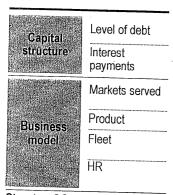


FINANCIAL RESTRUCTURING IMPOSSIBLE _____

- > Due to negative equity, Malév has been technically insolvent for over 1 year now
- Malév is overwhelmed by financing charges for servicing its enormous debt level (EUR 222.2m)
- Current shareholders are unable to agree on terms of debt to equity restructuring
- > Hungarian government is unwilling and unable in the medium term to fund further operating losses due to national and EU state aid restrictions

1) EUR/HUF exchange rate: 270

Setting up a new airline with the support of the Hungarian government is being proposed – Project "Harbor"



Structure&Governance – Ground Handling/Maintenance subsidiaries

State aid concerns

Restructure Malév with help of Hungarian government

- Significant indebtedness remains even after D/E swap
- Interest payments average 6% of 2010-2012 operating cashflow
- Difficult (board decision needed) and expensive to close unprofitable routes
- Legacy carrier classic two-class concept
- Charges to Boeing fleet difficult and expensive to enact
- Significant cost reduction required
- Deep restructuring of both subsidiaries required
- Significant

New airline "Harbor"

- Fresh start with debt adequate to cover ramp-up losses
- Interest payments down to 6% of operating cash flow
- Network to be downsized to profitable routes
- To be swiftly adapted to market demand
- Selective transfer of fleet on renegotiated conditions
- Selective takeover of personnel with new working contracts
- Sell-off to Hungarian government holding and purchasee of services at market conditions
- Existant, but to be adressed

The new airline needs to avoid, as best it can, the pitfalls into which Malév has fallen several times

CONCEPT

- The current Malév hub operation lacks critical mass
- Local demand is low on many of the routes operated
- Lack of local demand is compensated by connecting traffic in low-yield markets
- > 2-class concept does not meet willingness to pay of average pax

MARKET & COMPETITION

- Competition against low cost carriers (LCC) on highest volume routes from a significantly lower cost base
- Competition against hub carriers on their respective hub feed routes, where they transport local passengers at marginal cost

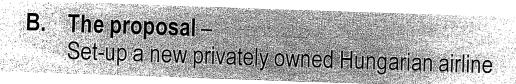
Latest full-year route results¹): London EUR -4.0m, Zurich EUR -1.9m, Paris EUR -1.8m

IMPLEMENTATION

- Scheduling targets low-yield customers even in potentially higher-yield Western European markets
- No yield management system for O&D traffic
- Matching of competitor's fares has not been backed up by adequate cost cutting measures
- > International expansion in maintenance not backed by business

A "FRESH START" IS REQUIRED

 December 2008-November 2009: Contribution II, i.e. including direct operating cost, pax variable cost, route variable cost and aircraft cost – adjusted for network revenue



Seize the opportunity of Malév's failure to create a sustainable Hungarian airline

Project "Harbor"

STARTING SITUATION

- Hungary (and particularly Budapest) reasonably sized aviation market
- Market exposed to stiff competition from low cost airlines and large hub carriers, feeding their respective long haul network
- Without Malév, Hungary would be only EU member state without its own "flag carrier"¹⁾

"HARBOR" AIRLINE New airline with "fresh start" approach and no corporate link to Malév Majority private Hungarian ownership, Hungarian government with minority stake Adjusted business model > Airline "rightsized" to market demand Malév Continued Staff -Selective transfer of personnel (lay-off & re-hire) operation for 2-3 months \ \ Selective transfer of fleet (contracts to be re-Fleet Traffic funded by Intended transfer of traffic rights and slots Hungarian privileges government Selective transfer of > Malév Ground Handling assets to new airline Aeroplex and HU government Assets Selective transfer

1) Besides Lithuania

9

"Harbor" needs to be fundamentally different from the current setup in order to secure market success and medium term profitability

Target shareholder and financing structure

- Private Hungarian shareholders to be majority owners
- Initial funding set to cover cash needs until operation generates positive operating cash flow
- > Hungarian government potential minority shareholder

"Fresh start"

- New airline "Harbor" to be launched with no corporate link to Malév
- > Assets and staff to be acquired by "Harbor", not to be transferred
- > "Harbor" to operate with new air operator certificate (AOC)
- > Liabilities and receivables held by Malév not honored/claimed by "Harbor"

INITIAL FUNDING REQUIREMENTS:



Adjusted business model

- Product adjusted to demand 1-class product to replace business class
- > Alternative business models to hub-andspoke developed and assessed
- In case of continued hub and spoke traffic, system support for yield management introduced

"Right-sized" airline

- > Routes served uncompromisingly checked for sustainable contribution potential
- > Direct competition with LCC or hub carriers avoided no more "must have"destinations
- > Airplane mix and fleet size to better match demand

With the support of the Hungarian government, Malév will continue to operate until "Harbor" is ready to go

- > An immediate failure of Malév would create an undesirable situation that would burden the creation of "Harbor" at a later stage
 - A void in the market on profitable routes in and out of Budapest would be covered rapidly by additional capacity being mobilized by Low Cost Carriers like Easyjet, Germanwings and potentially Wizzair as well as other national airlines.
 - A stoppage of Malév operations would create important social commotion and particularly pilots could start losing their type rating licenses, if that period were to last longer than 3 months
 - Airport slots and traffic right designations would be immediately foregone
 - Continued support of the private shareholders to Budapest Airport in case of the hub carrier is questionable
- > For this reason, it is to be expected that Malév will receive appropriate funding from Hungarian state resources to sustain its operations, while planning for the "Harbor" project are being finalized to allow for a transition of relevant immaterial assets
- > At the same time, it is likely that Malév Groundhandling subsidiary (MGH) and Maintenance subisidiary (Aeroplex) are disposed off to a a State holding (MNV) or a private investor

Compliance of transitory state involvement with EU Rescue and Restructuring Aid rules has to be made sure in due course

Exemption regulation: "Aid for firms in difficulty"

Restructuring phase Development of industrial plan for Malév

EU State Aid Authorization Process

implementation of restructuring plan

F

State Aid instrument

Rescue Ard

Characteristics

- Quickly implementable
- Restricted to the amount needed to keep Malév in business
- Restricted to 6 month time frame

Implication =

- Apt for specific situation of Malév
- "Once per company" rule is not a limitation since Malév Kft. under project "Harbor" is to be wound down

Residenting Ald

- Aid need not be in line with typical market conditions (no "Financial Investor Test" required)
- Mid- to long-term turnaround can be sufficient
- Unnecessary for project "Harbor", since new airline to be privately funded and majority-owned

Approach may provide a suitable approach for state aid to be permissible – Legal assessment should be kicked off immediately, even ahead of decision on project "Harbor"

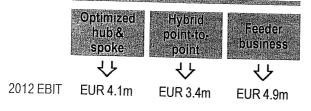


The "Harbor" business model to be designed will require initial funding in the range of EUR 41 m to EUR 59 m

"HARBOR" BUSINESS MODEL

- > Primarily serve viable point-to-point routes
- > Adapt fleet (size) to markets not the other way around
- Significantly reduce cost base by "from scratch" process design

VARIANTS HEERE



1) Assumption: target debt to equity ratio of 2:1 2) Financed at interest rate of 6% p.a.

MEDIUM-TERM FUNDING REQUIREMENTS Cumulated 2010-2012 Operating Cash Flow EUR -7.6 ...-23.8m Investment Cash Flow EUR -20.5m Finance Cash Flow EUR -5.7 ... -7.5m Total funding requirements Equity¹) EUR 13.5 ... 19.6m Debt¹¹)²) EUR 27.1 ... 39.1m

Three alternatives have been developed as potential future business models for a new Hungarian airline

Scenarios for new Hungarian airline

Optimized hub-and-spoke

- > Keep up hub operations in Budapest
- > Niche markets rather than highvolume routes with head-tohead competition
- One-class product
- > 33 scheduled, 17 charter destinations
- > Fleet: 16 B737, 2 Q400
- Staff: 138 pilots/223 cabin crew/450 ground staff
- > Revenues 2012: EUR 285.9m

Funding required:

EUR 58.7m

Hybrid point-to-point/LCC

- Focus on routes viable on a point-to-point basis
- Retain ca. 20% of connecting traffic through opportunistic connections
- Optimize aircraft utilization
- One-class product
- > 32 scheduled, 17 charter dest.
- > Fleet: 10 B737, 2 Q400
- Staff: 96 pilots/156 cabin/350 ground staff
- Revenues 2012: EUR 199.8m

Feeder business

- Operate feeder routes on behalf of western European hub carrier or alliance, complemented by operating strong point-to-point routes
- Two-class product sustained
- 19 point-to-point, 17 charter destinations from BUD, 17 feeder routes bypassing BUD
- > Fleet: 6 B737, 22 Q400
- > Staff: 217 pilots/218 cabin crew/400 ground staff
- > Revenues 2012: EUR 262.3m

EUR 40.6m

EUR 52.0m

For the three alternatives additional funding needs span between EUR 41 and 59m for ensuring continuous liquidity

Funding needs for scenarios for new Hungarian airline [EUR m]

约·哈拉思·塞勒特地拉德 拉克·斯克·斯克·斯	el	2010 Jun-Dec	2011	2012	Σ 2010-12 Funding	Liquidity at EoY 2012
Optimized	Operating CF	- 10.9	- 13.8	0.9		
hub &	Investment CF	- 14.1	- 2.8	- 3.6	58.7	6.7
spoke	Finance CF	- 1.7	- 2.9	- 2.9	9011	0.7
	Funding inflow	58.7				
0.232	Operating CF	- 2.9	- 4.9	0.2		
Hybrid point-to-	Investment CF	- 14.1	- 2.8	- 3.6	40.6	6.6
point	Finance CF	- 1.3	- 2.2	- 2.2	70.0	0.0
	Funding inflow	40.6				
	Operating CF	- 8.6	- 11.0	1.7		
Feeder	Investment CF	- 14.1	- 2.8	- 3.6	52.0	6.7
business	Finance CF	- 1.5	- 2.6	- 2.6	, 02.0	0.7
	Funding inflow	52.0		No.		
	TI AND THE RESIDENCE OF THE PERSON OF THE PE			GRANAGE		

New airline "Harbor" will be sufficiently funded upfront based on an equity ratio of 33% – no negative liquidity until 2012 expected

NEW AIRLINE "HARBOR"

Funding	> Payable upfront	One offs	> One offs occur only for rebranding, etc.
	> Positive liquidity until 2012 ensured		> No liability of closing costs by Malév
	> Ratio of 1/3 equity to 2/3 debt		
	> No return on equity for first three years	Fleet	> All A/C to be leased
	> Debt bearing 6% interest		> Renegotiation of lease contracts - Un-
Assets	> No transfer of major Malév assets		favourable existing contracts remain with Malév without one off payments to ILFC
	> Activated investments considered in maintenance cost of "Harbor"	AOC	> "Harbor" AOC based on BAS AOC
Liabilities	> No transfer of liabilities	PAX	> Passengers holding Malév bookings will be
	"Harbor" will take off without any		transported free of charge
	financial burden		Additional cash out due to charges paid upfront but not transferred to "Harbor"

"Harbor's" operation is significantly down sized to a total of 18 AC in the optimized hub scenario – Only profitable routes are remaining

Optimized Hub alternative



Main characteristics

- > One-class product
- > Optimized number of destinations
- > Network based on transfer traffic and point-to-point connections

Fleet

> Boeing 737 Family: 16
> Q400: 2

FTE
> Cockpit: 138
> Cabin: 223
> Other: 450

Network & revenue assumptions

- > Destinations selected based on
 - Current route profitability
 - Competitive intensity
 - Malév's market position
 - Importance for transfer traffic
- Passenger volume stagnates in 2010 during the ramp up and grows later with IATA rates – Seat load factor (SLF) falls in 2010 to 62.8% due to lack of transfer passengers from closed routes
- Closure of less profitable routes and reduction in the number of low-yieldtransfer passengers positively influences the yield¹¹
- > Charter revenue growth with IATA rates starting from historical level
- Downsizing induces reduced aircraft utilization – Planned fleet size accounts for 1-2 reserve aircraft

Cost assumptions

- > Aircraft, crew, maintenance and insurance (ACMI) unit cost adjusted by:
 - Aircraft: 2% reduction of lease rates
 - Crew: Cut of non taxable benefits
 - Maintenance: Average unit cost acc. to industry standard²⁾
- > Direct operating cost (DOC) unit cost adjusted by:
 - Handling: 20% reduction at Budapest airport
 - Passenger variable cost: 15% reduction due to economy only product
 - Reduction of other flight expenses by 5%
- > Overhead: Under proportional adjustment to turnover reduction

1) Ticket revenue + fuel surcharge

2) Source aircraft commerce

Hybrid point to point alternative foresees a low cost operation on point to point routes with focus on high aircraft utilization

Hybrid point to point alternative

Network & revenue assumptions



Main characteristics

- Concentration on point to point traffic with one class low cost product
- > Optimization of A/C utilization

Fleet

> Boeing 737 Family: 10
> Q400: 2

FTE
> Cockpit: 96
> Cabin: 156

350

> Other:

1) Source aircraft commerce

- Destinations selected based on
 - Current route profitability
 - Competitive intensity
- Malév's market position
- Current size of point to point market
- > Passenger volumes grow with IATA rates
- > 20% of former transfer traffic included as passengers optimize their routes
- Current yield decreases further 15% to match Low Cost Carriers and to stimulate demand
- > As transfers are not offered anymore better A/C utilization is possible
- Charter operation significantly expanded profiting from higher average yields, seat load factor additional sales channels

Cost assumptions

- Aircraft, crew, maintenance and insurance (ACMI) unit cost adjusted by:
 - Crew: 10% cut in compensation package and cut of non taxable benefits
 - Maintenance: Average unit cost acc. industry standard¹⁾
- Direct operating cost (DOC) unit cost adjusted by:
 - Handling: 25% reduction unit cost at Budapest airport
 - Crew transport: 15% reduction due to no overnight stays
 - Passenger variable cost: 20% reduction due to low cost product
- > Sales cost: 35% reduction due to focus on internet sales
- Overhead: Under proportional adjustment to turnover reduction

"Harbor" provides feed and defeed to Eastern Europe into hubs of dedicated partner airlines in the Feeder business alternative

Feeder business alternative



Main characteristics

- Combination of feeding traffic of partner airline and selected P2P
- Two class product matching partner airline service standards

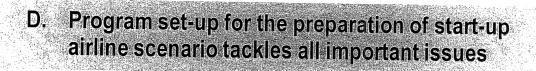
Fleet				
> Boeing 737 Family:	6			
> Q400:	22			
FTE				
> Cockpit:	217			
> Cabin:	218			
> Other:	400			

Network & revenue assumptions

- Feeder routes selected based on
 - Current transfer streams via BUD
 - Market attractivity
- Feeder service the routes twice daily on Q400 - Assumed minimum seat load factor of 65% on the feeder
- Most promising point to point destinations optimize the utilization of the feeder fleet
- Charter operations remained on the current level and grow with IATA rates
- Calculation example based on feeding Air France Hub in Paris-CDG – actual feasibility of the model depends of partner airline availability

Cost assumptions

- > Aircraft, crew, maintenance and insurance (ACMI) unit cost adjusted by:
 - Aircraft: 7% reduction of lease rate due to large Q400 fleet
 - Crew: Cut of non taxable benefits
 - Maintenance: 10% of average unit cost acc. industry standard1) due to specialized own maintenance
 - Insurance: Reduction due to lower aircraft values (Q400 fleet)
- > Direct operating cost (DOC) unit cost adjusted by:
 - Crew transport: 25% increase due to more overnight stays
 - Passenger variable cost: 25% increase to match partner's product
- > Sales cost: 60% reduction due to synergies with partner airline
- Overhead: Under proportional adjustment to turnover reduction



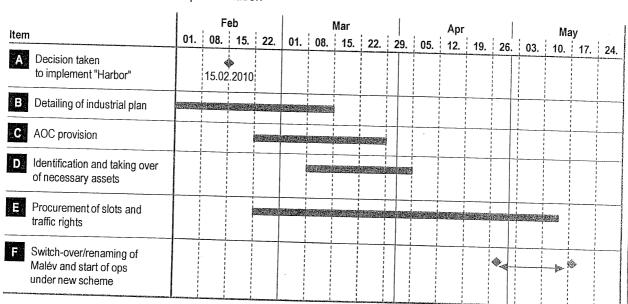
Implementing project "Harbor" will require the firm commitment of both private investors and the Hungarian government

Key steps - Project "Harbor" implementation

- > Diligent preparation and execution is required for "Harbor" implementation to succeed airline turnaround and startup expertise of advantage
- > Support from private investors is essential in order to raise funding necessary for launching "Harbor"
- > Support from the Hungarian government is essential in order to:
 - Secure bridge funding for "Harbor" preparation phase
 - Timely startup of operations under BAS air operator certificate (AOC)
 - Timely designation for transnational traffic rights (non-EU countries) under bilateral traffic agreements
- > All preparation (commercial, financial, labor, political) should be kicked off immediately
- > EU restrictions on government funding not an issue for "Harbor" due to private majority ownership

"Harbor" could be ready for take-off about 3 months after decision is taken to go ahead

Tentative timeline – "Harbor" implementation



Decision to implement concept "Harbor" should be taken as soon as possible – Hungarian government is in the driver's seat

Importance of timeliness of decision to go ahead with project "Harbor"

- > In order to stop cash hemorrhage, a speedy decision on the implementation of scenario "Harbor" is of utmost importance
- > Preparations for scenario "Harbor" include negotiations with third party inside and outside of Hungary (airports, civil aviation authorities) and therefore cannot be kept secret
- > In order to avoid spillage of problems of current Malév business to the new startup airline, private investors should not be held liable for bridge financing of current Malév
- Current Malév has to be kept in operation until new, succeeding airline is ready for take-off otherwise, traffic discontinuity will open up room for competition and lead to subcritical load factors for new airline

The industrial plan covers all aspects of the new carrier – new organization will use useful assets of current Malév

Detailing of industrial plan

- > The industrial plan takes into account revenue and cost situation of the new airline
- > Important parts of the organization to be taken on board to start off
- > Certain staff unnecessary for new organisation to be left with Malév legal shell for dismissal
- > Budapest Airport to remain centerpost of operations both the "Optimized hub" as well as the "Hybrid point-to-point" alternatives see exclusively flights to/from Budapest. The "Feeder business" scenario complements flights to/from Budapest with flights from selected third country locations to respective alliance partner(s) hubs
- > Ticket revenue for tickets already sold (credit card and cash payments) remains with the old Malév to be liquidated

The new airline will use a different Air Operator Certificate (AOC) from Malév's current one

AOC provision

- > Using a different AOC from Malév's current one is paramount in order to guarantee corporate discontinuity
- > Obtaining a new AOC is a cumbersome and lengthy process subject to European Aviation Safety Oversight legislation and reglementation. Requirements include:
 - Availability of qualified personnel for ground and flight operations
 - Postholders for certain central airline functions (flight operations, safety, flight crew ...)
 - Availability of airworthy aircraft
 - Sufficient liquidity to sustain startup losses and still fund secure flight operations
- > The swifter and therefore preferred alternative is to buy another AOC-holding Hungarian airline. This does not relieve "Harbor" from complying with the abovementioned requirements, but eases administrative processes and requirements for proof up-front
- > Budapest Aircraft Service (BAS) has been identified as potential AOC holder to take over

The assets useful "Harbor" have already been identified – Taking-on will offer opportunity to set new working rules and hours

Identification and taking over of necessary assets

- Those parts of the operation necessary for "Harbor" to start up will be designated early on in the process in order to assure timely ramp-up of the organization
- Assets to be given special consideration include:
- > Flying personnel lay-off from Malév, subsequent re-hiring of the staff needed for "Harbor" operations. New contracts shall include a greater degree of operational flexibility and increased number of block hours per
- > Ground personnel identify key functions and postholders to be offered contracts with "Harbor". Salary
- > As Malév will file for insolvency, aircraft shall be returned to lessors. "Harbor" will then approach lessors to lease the aircraft needed for its new business model
- > Malév will be left with high debt level and surplus assets to be dismissed. It will file for insolvency and

1) Optimized Hub&Spoke: Cockpit 760/Cabin 780, Hybrid p2p: Cockpit&Cabin 850, Feeder business: Cockpit 790/Cabin 810

Traffic rights and airport slots will be secured for new operations in a timely fashion – Key to airline operations

Securing traffic rights and aircraft slots

- > Traffic rights are an issue for important Malév markets outside of the EU (e.g. Russia, Israel)
- Malév is now the designated Hungarian carrier to operate in these markets. A Hungarian carrier operating under another AOC (as "Harbor" will be) will have to be designated by the Hungarian government. Designation may have to be approved by respective country's CAA
- Sufficient time has to be allowed for intergovernment negotiations to take place before redesignation can take place and "Harbor" can operate bilateral traffic
- > Transfer of landing slots at slot-restricted airports will have to be negotiated with each individual airport authority – process may take some time due to limitation in resource on "Harbor" side. Diligent preparation is necessary in order not to lose slots

Smooth switch-over will be diligently planned – new name will use Malév brand image, but make clear this is a new airline

Switch-over of operations / re-branding

- >
- Switch-over of operations only possible if all preparatory steps have been completed
 - The eventual name and brand of "Harbor" will make use of Malévs positive brand image in Hungary, but ascertain a distinction between legal entities in order to deter creditor claims against "Harbor"