

Annual Report 2011 | Going for growth



# SELECTED CONSOLIDATED FINANCIAL INFORMATION AND KEY FIGURES

## Selected consolidated financial information and key figures at a glance

in € million (unless otherwise specified)	2011	2010	Change 2011-2010
<b>Revenues and earnings</b>			
Revenues	2,932.1	2,707.4	8.3%
attributable to the commercial engine business <sup>1)</sup>	1,401.1	1,177.6	19.0%
attributable to the military engine business <sup>1)</sup>	445.5	485.9	-8.3%
attributable to the commercial maintenance business <sup>1)</sup>	1,116.6	1,074.0	4.0%
Gross profit	546.3	522.9	4.5%
Earnings before interest and tax (EBIT)	285.6	267.4	6.8%
Earnings after tax	158.2	142.2	11.3%
<b>Earnings (adjusted)</b>			
Earnings before interest and tax (EBIT adjusted)	328.0	310.7	5.6%
EBIT margin (adjusted) in %	11.2	11.5	
<b>Balance sheet</b>			
Total assets	3,738.6	3,426.1	9.1%
Equity	906.1	819.3	10.6%
Equity ratio in %	24.2	23.9	
Net financial debt	12.2	56.2	-78.3%
<b>Cash flow</b>			
Cash flow from operating activities	287.9	251.3	14.6%
Cash flow from investing activities	-126.7	-173.2	26.8%
Free cash flow	129.0	144.8	-10.9%
Cash flow from financing activities	-76.5	-90.6	15.6%
<b>Number of employees at year-end</b>			
Commercial and military engine business (OEM)	5,092	4,965	2.6%
Commercial maintenance business (MRO)	3,110	2,942	5.7%
Total number of employees	8,202	7,907	3.7%
<b>Share data</b>			
Earnings per share in €			
Undiluted earnings per share	3.24	2.91	11.3%
Diluted earnings per share	3.15	2.83	11.3%
Dividend per share in € <sup>2)</sup>	1.20	1.10	9.1%
Dividend yield in %	2.4	2.2	
Total dividend <sup>2)</sup>	60.8	53.6	13.4%
Outstanding common stock at Dec. 31 (million shares)	48.8	48.8	

<sup>1)</sup> Before consolidation.

<sup>2)</sup> 2011: Proposal to the Annual General Meeting based on an expected volume of 50.6 million dividend-entitled shares.  
2010: Resolution by the Annual General Meeting.

Going for growth

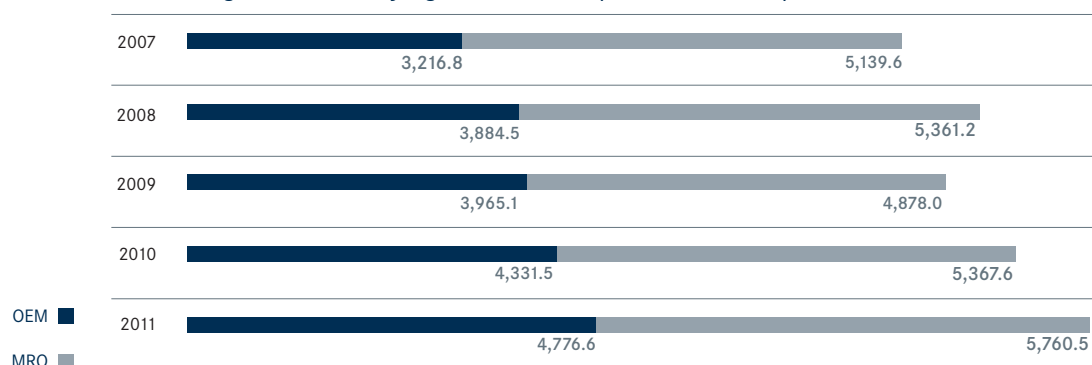


**+ 100 %  
by 2020**

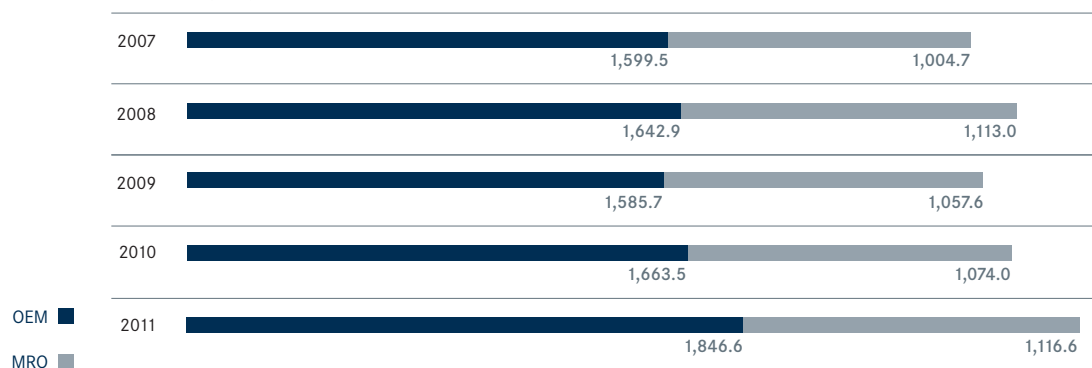
By 2020, MTU Aero Engines intends to more than double its annual revenues to € 6 billion. The outlook is promising, given that two-thirds of that revenue is already under contract. The company's express goal is to achieve profitable growth – and to out-pace the market.

## KEY INDICATORS REVIEWED OVER 5 YEARS

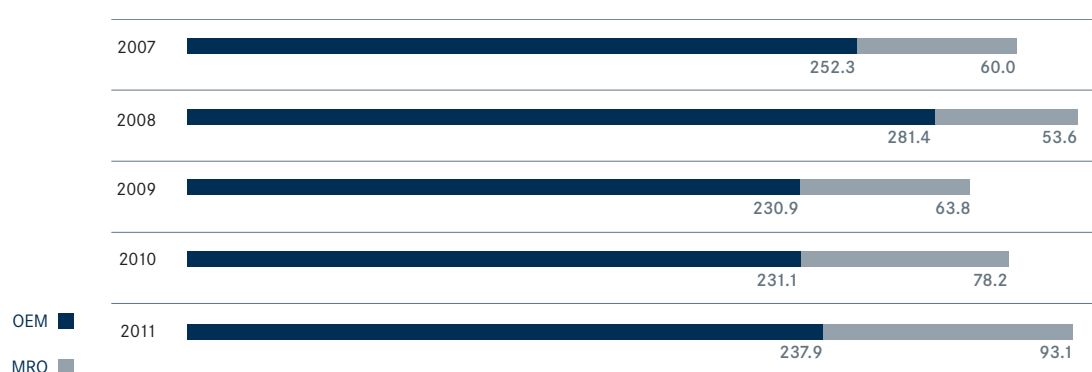
Order backlog and order value by segments in € million (before consolidation)



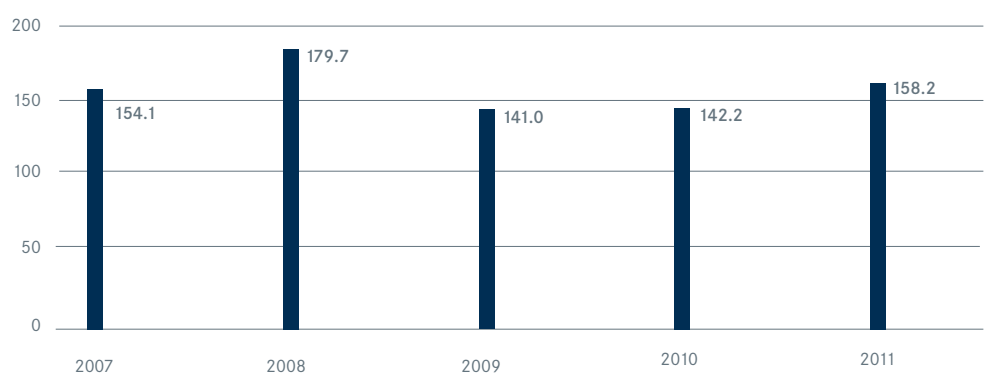
Revenues by segments in € million (before consolidation)



EBIT adjusted by segment in € million (before consolidation)



Earnings after tax (EAT) in € million



The OEM segment (Original Equipment Manufacturing) covers new commercial engines, including spare parts, and the whole of the military business. The MRO segment (Maintenance, Repair and Overhaul) comprises all commercial maintenance activities.

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The number of aircraft is growing:

**+40%**  
**by 2020**

Some 19,800 commercial aircraft are currently in service around the globe – and that number is forecast to rise. By 2020, the international commercial fleet is expected to increase by 40 percent to around 27,700 aircraft.



**2011: 19,800 aircraft**

**2020: 27,700 aircraft**

MTU is growing too.

### **Growing air traffic**

The airlines have placed their orders, and the greatest demand is for medium-haul aircraft such as the A320 family and the Boeing 737. Newcomers to this class include the CSeries, the MS-21 and the C919. But there is also demand from airlines for widebody jets like the A380, and the Boeing 747 and 787. Regional jets such as the MRJ and the Embraer E-Jets represent another burgeoning market.

Not only are MTU's products well represented in current aircraft fleets, the company has also been quick to secure stakes in the engine programs of tomorrow. A prime example of the latter is the geared turbofan, a completely new engine technology that is being used to equip the Airbus A320neo, Bombardier CSeries, Mitsubishi Regional Jet and Irkut MS-21. What is more, the GENx engine for the new Boeing models 747-8 and 787 Dreamliner also relies on MTU technology.

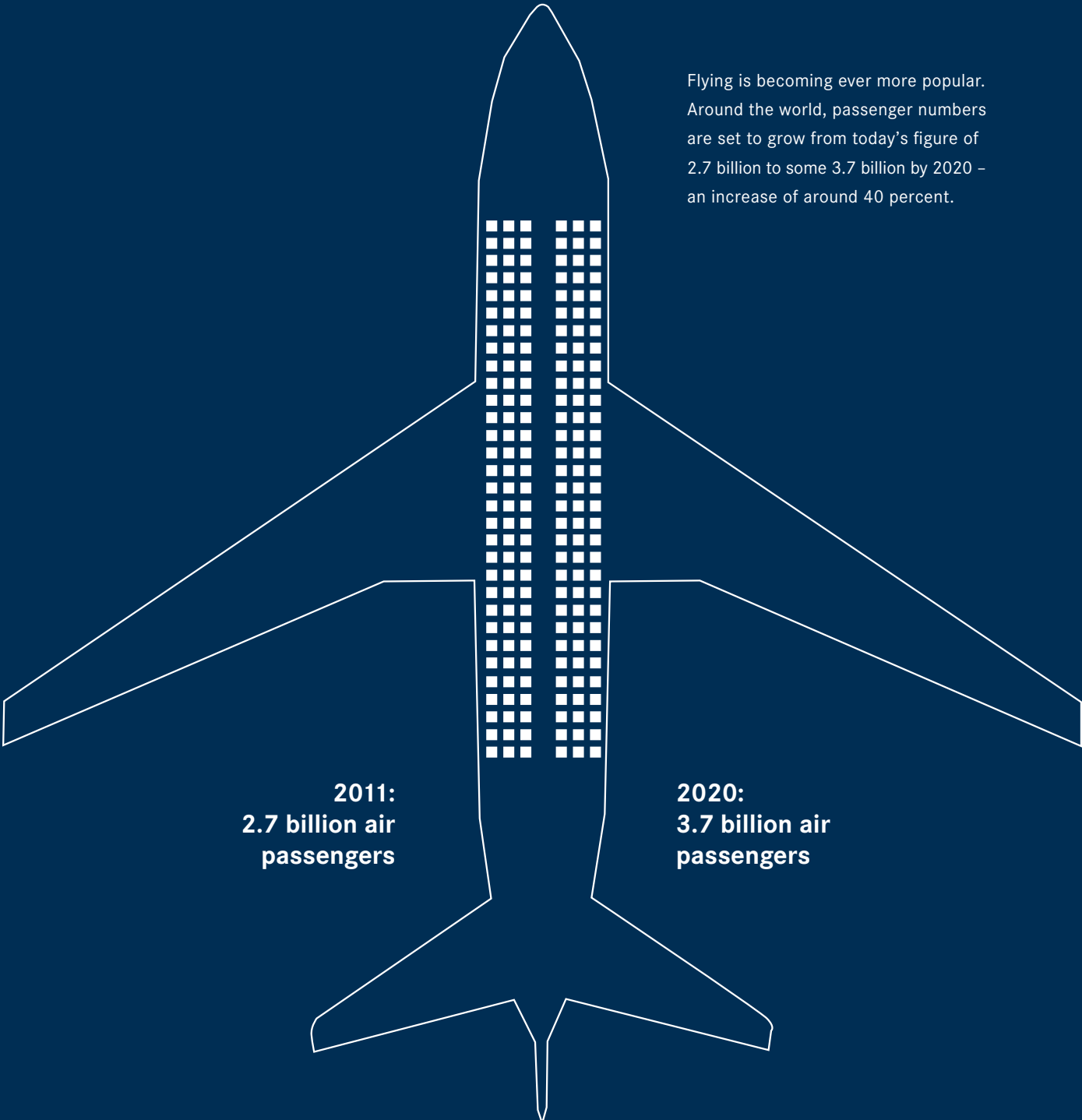




**MTU is a fast mover,  
taking an early stake  
in promising engine  
programs for the  
aircraft of the future.**

Passenger numbers are growing:

**+40%**  
**by 2020**



Flying is becoming ever more popular. Around the world, passenger numbers are set to grow from today's figure of 2.7 billion to some 3.7 billion by 2020 – an increase of around 40 percent.

**2011:  
2.7 billion air  
passengers**

**2020:  
3.7 billion air  
passengers**

MTU is growing too.

### **Rising passenger numbers**

As early as 2020, 3.7 billion people will be flying each year, up by one billion on the current figure. Asia is expected to post the strongest growth, followed by the Middle East and Latin America. But passenger numbers are likely to rise in Europe and North America as well, albeit more moderately.

MTU successfully put down roots in the booming Asia region ten years ago when it established MTU Maintenance Zhuhai. Already number one in China, the shop will soon become the market leader across the whole of Asia as well. Although MTU is working flat out to expand this location, the company is not pinning its hopes in the “Middle Kingdom” on MRO business alone, but is playing a key role in developing the Chinese engine industry. MTU has also established a firm foothold in the Middle East, taking a stake in a Saudi Arabian company specializing in the maintenance of military engines.



**MTU is already  
well positioned  
in high-growth  
markets.**

The MRO market is growing:

**+100%**  
**by 2020**

**2020:**  
**39.6 billion U.S. dollars**



**2011:**  
**19.6 billion U.S. dollars**

More air traffic means greater demand for maintenance services. The commercial MRO market is forecast to double in size by 2020 to 39.6 billion U.S. dollars.

MTU is growing too.

### **Greater demand for maintenance**

As the world's premier independent provider of commercial MRO services, MTU Maintenance has the right portfolio of programs and services to profit from future growth. The biggest growth rates are expected to come from the aptly named GE90Growth engine, the standout among recent additions to MTU's MRO portfolio. It is the most powerful engine in the world, and powers the Boeing 777.

Other heavyweights include the V2500 and CFM56. These two engine types, which belong to the medium thrust range, will account for 75% of the total commercial MRO market over the next ten years. They have been regular visitors to the MTU shops for decades; indeed, MTU is the market leader in V2500 maintenance. As for the low thrust range, MTU will hold 50 percent of the MRO market for regional jets over the next ten years thanks to its licenses for the CF34 engine.





**As the world's largest independent provider of commercial MRO services, MTU benefits from rising demand.**

Fuel efficiency is growing:

**+20%**  
**by 2020**



**2011: 1,300 air miles  
per 10,000 liters of fuel**



**2020: 1,560 air miles  
per 10,000 liters of fuel**

Surprisingly, more air traffic means less pollution. This is thanks to new technologies that are substantially reducing the environmental impact of aircraft and their engines. The geared turbofan alone raises fuel efficiency by 20 percent.

MTU is growing too.

### **Cutting-edge technology**

MTU is not only a prime mover in today's aviation industry; it is also shaping the future of aviation with its innovative technologies, as exemplified by the geared turbofan. As this all-new engine from Pratt & Whitney continues to be refined and developed, it promises to deliver a 20-percent reduction in both fuel consumption and CO<sub>2</sub> emissions by 2020. What is more, its perceived noise emissions are already half those of current engines. Without MTU, the geared turbofan would not have been possible. The company contributes key technologies to the project, such as its unique high-speed low-pressure turbine and its cutting-edge high-pressure compressor technology.

Thanks to the geared turbofan, Pratt & Whitney and MTU will fully reach the goals set by ACARE, the Advisory Council for Aeronautics Research in Europe. But that is just a start: MTU is already thinking ahead and intends to improve its fuel efficiency by a further 10 percentage points to 30 percent through optimization of the geared turbofan.

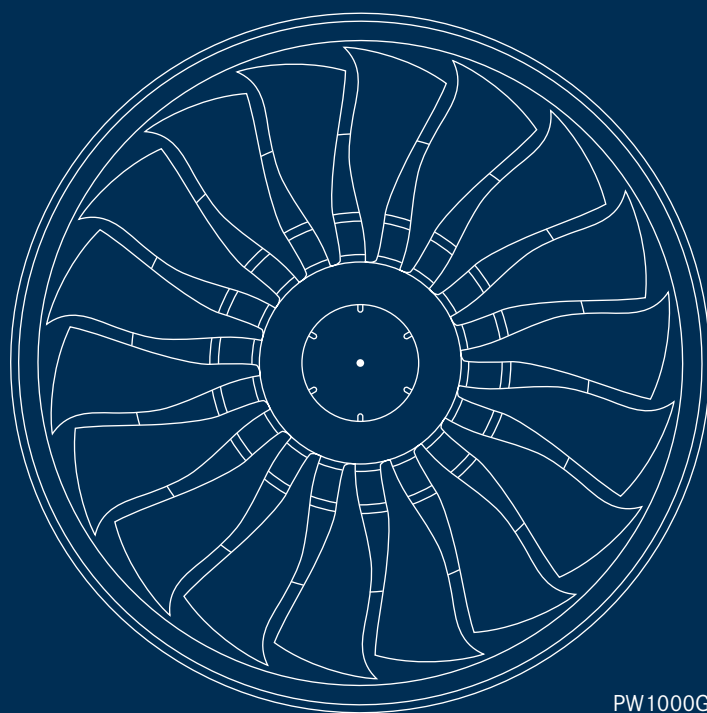


**MTU's focus is on  
eco-efficient flying.**

Going for growth

# 15% more economical

Using approx. 15 percent less fuel and with approx. 15 percent lower CO<sub>2</sub> emissions compared with conventional engines, the geared turbofan represents a giant leap forward in propulsion technology. An A320neo aircraft with PW1000G engines will produce around 3,300 metric tons less CO<sub>2</sub> a year than a conventionally powered A320; that is equivalent to the amount emitted by 1,100 compact cars.



PW1000G

## TO OUR SHAREHOLDERS

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## LETTER TO THE SHAREHOLDERS

By 2020, we intend  
to more than double  
MTU's annual revenues  
to 6 billion Euros.

Egon Behle, Chief Executive Officer



Dear shareholders,

MTU has big plans: by 2020 we intend to double our annual revenues to € 6 billion and achieve an EBIT margin of at least 12%. I am confident that we will reach this ambitious target, since the main projects that will contribute to this growth are already secured through contracts and covered by our product portfolio. “Going for growth” is our motto, and our strategic objective is to outpace the market, by growing not only as an enterprise but also in terms of profitability.

The parameters for growth are favorable, given that demand in our markets is set to rise in the long term. The key growth drivers are globalization and the increasing affluence of emerging markets. Both passenger volume and the number of aircraft are forecast to grow by 40% between now and 2020, and the MRO market is predicted even to double.

MTU has secured itself a strong position that will allow it to derive above-average gains from these developments. In the financial year 2011, we established a sound basis for sustainable growth. One of our cornerstones is the geared turbofan (GTF), which is firmly on track to become one of the most important engines in the commercial aviation sector. This cutting-edge, eco-efficient propulsion technology is being deployed, for instance, in the Airbus A320neo, which was the preferred aircraft of buyers in 2011, with orders for almost 1,500 units being placed by year end. What is more, of those aircraft where the buyers have already decided on an engine variant, over half will be equipped with the GTF. That already gives us an idea of this engine’s future potential.

I am convinced that the geared turbofan will make the biggest contribution toward the achievement of our growth goal. We recognized this engine’s potential at an early stage, and secured our participation in the program in good time. In fact, MTU provides some of the GTF’s key technologies. Last year, we intensified our commitment to the GTF, securing an 18 % share in the PW1100G-JM program for the A320neo and increasing our share in the PW1500G program for the Bombardier CSeries from 15 to 17%. In terms of technology, too, the GTF is thrusting into a new league: by 2020, the second generation of this engine will achieve a 20 percent improvement in fuel efficiency compared with today’s engines.

The GTF featured prominently in contracts signed at the international air shows in 2011. Lufthansa, ILFC and IndiGo placed major orders at the Paris Air Show in June, followed by Alafco and Qatar Airways at the Dubai Airshow in November. All in all, the air shows in 2011 were a resounding success for MTU. At Paris-Le Bourget, for example, we garnered orders totaling € 600 million, double our order intake at the previous edition of the show in 2009. Alongside the GTF, the ever-popular V2500 also generated a substantial number of orders. We hold a significant share in the production program for this engine, which powers the A320 family – it is one of our most important sources of revenue, and will remain so in the foreseeable future. The engine has a high market penetration, and the fleets it propels remain on a growth course. For us, as the biggest provider of MRO services for the V2500, that spells substantial revenue in this segment, too. In 2011, the IAE consortium members extended their collaboration agreement through to 2045, guaranteeing the engine’s continued production and support. What is more, we expect to be able to substantially increase our share in the consortium as a result of the planned restructuring. We also have reason to be satisfied with a newcomer to the engine market – the GENx for the Boeing 787 Dreamliner and the new Boeing 747-8 – with orders to date for this engine making us very optimistic.

## LETTER TO THE SHAREHOLDERS

Alongside our investment in new engine programs, another key plank in our growth strategy is the expansion of our presence worldwide, especially in the booming economies of Asia. For over ten years now, we have been building up a strong presence in the Chinese market with MTU Maintenance Zhuhai, our joint venture with China Southern Airlines. This shop has already advanced to become the market leader for engine maintenance in China, and the leader for V2500 engine maintenance across the whole of Asia. We intend to build on this position to become Asia's biggest provider of MRO services for commercial engines, and we are certainly on the right track: operations are being ramped up according to plan, with the objective being to increase the number of shop visits per year to over 300, thus expanding the facility's capacity by 50%. But our activities in China are not restricted to the MRO sector. We also wish to participate in building up the Chinese aviation industry and benefit from the growth opportunities this represents. In 2011, we deepened our business relationship with national engine maker ACAE, with the goal of working together to build China's future CJ1000 engine for the C919 medium-haul jet. We are also intensifying our relations with existing suppliers and forging new partnerships.

The financial year 2011 was a successful one for MTU. So successful, in fact, that we were not only able to adjust our targets upwards in the course of the year, but also fully achieve those new targets – even in the face of the faltering global economy and the unfavorable euro-U.S. dollar exchange rate. We boosted our revenues in 2011 by 8% to € 2.9 billion, thus generating a growth rate at the upper end of our forecast bandwidth of 7 to 8%. In August, we raised our EBIT forecast to € 325 million – the original forecast had assumed an operating profit comparable to that of 2010. We ultimately achieved an operating profit of € 328 million, 6% higher than in 2010, and an EBIT margin of 11.2%. We also raised our target for net income in August 2011. Whereas, at the beginning of the year, we had anticipated an unchanged net income, the revised forecast predicted a moderate increase. In the end, we achieved a net income of € 184 million.

MTU owes its success as a company to more than just the performance of a few individuals – it is a team effort, and one for which I would like to express my gratitude at this point. My special thanks go to our extremely motivated and highly professional MTU employees for their dedication, as well as to our partners and customers and, last but not least, to you, our shareholders, for the trust you have placed in us. It goes without saying that you, too, should once again share in our success this year, which is why we are proposing a dividend per share of € 1.20, which represents a further 9% increase above the already high dividend levels of recent years.

I would now like to say a few words about each of our business units. In the commercial engine business, we enhanced our revenues by 19% to € 1,401 million over the year as a whole. Adjusted for the effect of the U.S. dollar exchange rate, revenues even rose by as much as 25%. Our main sources of revenue were the V2500 engine for the Airbus A320 family, the PW2000, which is deployed in the Boeing 757 and C-17, the CF6-80, which powers the Boeing 747 and Airbus A310 and A330, and the GP7000 engine for the Airbus A380. As volume production of the GP7000 begins to ramp up further in 2012, this engine will become an increasingly important revenue-earner for the company. As far as the CF6 is concerned, we also expect to see a rise in the number of modules shipped in 2012. The GENx engine for

the Boeing 787 Dreamliner and 747-8 continues to gain in importance, too: Deliveries of turbine center frames for this engine are set to increase significantly in the course of 2012, as volume production is progressively ramped up.

In the military engine business, MTU posted revenues of € 446 million. As expected, the effects of Germany's defense budget cuts are beginning to make themselves felt here. To compensate for these cuts, we have stepped up our engagement in the U.S. military market in recent years with stakes in several successful programs, and are also active in Saudi Arabia. Given the limited prospects in the German and European markets, which are almost certain to decline in the long term, we are turning our support to export offensives – such as the marketing campaigns for the Eurofighter, which is powered by EJ200 jet engines, and international tenders for the A400M military transporter with its four TP400-D6 turboprop engines. All in all, we are well positioned in the military market and expect to maintain our business in 2012 at the same level as in 2011.

Revenues in the commercial maintenance business climbed to € 1,117 million in 2011 compared with € 1,074 million in 2010. After adjustments to eliminate the effect of the U.S. dollar exchange rate, MRO revenues rose by 9%. The main source of these revenues was the V2500 engine. Another important development in the commercial maintenance business in 2011 was our entry into the widebody market through maintenance agreements for the GE90. With three customers and contracts worth U.S.-\$ 550 million, it was an impressive debut.

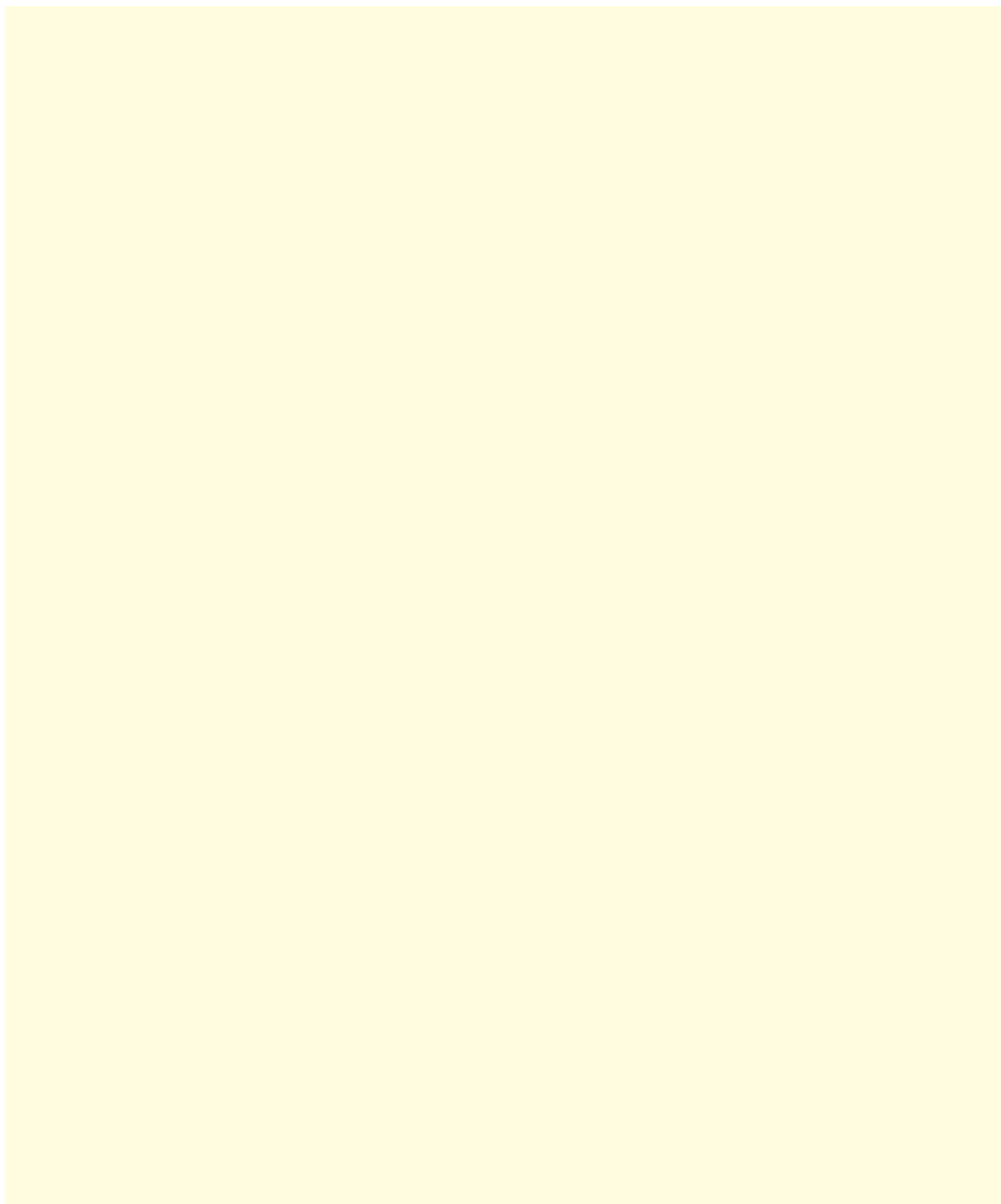
Looking at the big picture, we see a healthy and profitable company with excellent products and services. To ensure that we remain on top of our game and continue to be a technology leader in key areas of engine development and production, we need to invest in research and development, something we have been doing for years. In 2011 alone, MTU spent 9% of its revenues on R&D, and we will continue to invest in the future in 2012, too. The aviation industry is a growth sector, and will gather more and more pace in the years ahead – that is when our long-term business strategy will pay off.

In every decision we make, we focus strongly on achieving sustainable, profitable growth, and MTU has every intention of continuing to create lasting value for our partners, customers and shareholders.

*Sincerely yours*



## LETTER TO THE SHAREHOLDERS



» Letter to the shareholders  
**To our shareholders**

Corporate Governance

Group management report

Consolidated Financial Statements

Additional information

# Dividend up 9 %

MTU can look back on a successful financial year 2011, and it wants its shareholders to benefit from this good performance. The Board of Management and the Supervisory Board intend to propose to the Annual General Meeting a dividend of € 1.20 per share for the financial year 2011. That represents a 9 % increase above the already high dividend levels of recent years.



## THE BOARD OF MANAGEMENT

**Egon Behle, born 1955**

**Chief Executive Officer**

Appointed term: to December 31, 2013

Egon Behle took over the post of Chief Executive Officer at MTU Aero Engines in January, 2008. As well as managing the corporate departments, he is responsible for the commercial and military programs.

An aerospace engineering graduate, he joined MTU after serving as the CEO of ZF Lenksysteme GmbH. Prior to that, he headed several business units at ZF Friedrichshafen AG and was the sole managing director of Fortuna Spezialmaschinen GmbH. During his career he has also worked for Renk AG, Dornier System GmbH and Robert Bosch GmbH.

**Reiner Winkler, born 1961**

**Member of the Board of Management, Chief Financial Officer**

**(Director of Labor Relations)**

Appointed term: to September 30, 2014

Reiner Winkler has been a member of the Board of Management of MTU Aero Engines since May 2005, with responsibility for finance, human resources and IT. He has been in charge of these areas since 2001.

Before joining the company, Winkler, who holds a degree in business administration, was managing director finance and controlling at TEMIC Telefunken microelectronic GmbH, and also held management posts with Daimler-Benz AG and Siemens AG.

**Dr. Rainer Martens, born 1961**

**Member of the Board of Management, Chief Operating Officer**

Appointed term: to April 14, 2014

Dr. Rainer Martens has been a member of the MTU Board of Management since April 2006, and bears responsibility for engineering and production.

Holder of a doctorate in mechanical engineering, he has occupied various key positions in the engine and aircraft production industry – at companies such as Airbus, MTU Aero Engines and CIM-Fabrik Hannover gGmbH – over a period spanning more than 20 years.

**Dr. Stefan Weingartner, born 1961**

**Member of the Board of Management, President Commercial Maintenance**

Appointed term: to October 31, 2015

Since November 2007, Dr. Stefan Weingartner has been the member of the Board of Management responsible for the company's commercial maintenance operations.

Prior to that date, he had headed MTU's military engine programs. Holder of a doctorate in engineering, a degree in physics and an MBA, he was previously managing director of MTU Turbomeca Rolls-Royce GmbH, president and managing director of EADS Japan Co. Ltd., and managing director of DaimlerChrysler Japan Holding.



The Board of Management (from right): Egon Behle, Dr. Stefan Weingartner,  
Dr. Rainer Martens, Reiner Winkler



## THE MTU SHARE

The MTU share held up well against an extremely volatile market environment in 2011. Over the financial year as a whole, its quoted price decreased by just 2%, whereas the MDAX lost 12% over the same period. MTU's shareholders will profit from the company's earnings-oriented dividend policy. In view of the good business performance, the Board of Management and the Supervisory Board intend to propose a dividend of € 1.20 per share at the 2012 Annual General Meeting.

### VOLATILE CAPITAL MARKETS

2011 was a year of volatility on capital markets. The first six months saw for the most part a sideways trend, with European stock markets rising marginally. During the first quarter, European stock markets came under pressure in the wake of both the political unrest in North Africa, which stoked investors' fears of an oil crisis, and the earthquake in Japan. Stock markets recovered rapidly in the second quarter, with the German DAX index reaching its peak for the year in May at 7,527 points. The cooling global economy and the sovereign debt crisis in a number of European countries began to take their toll on capital markets in the third quarter. As a result, the DAX lost just under 2,500 points in August and September. The volatile trend persisted until the end of 2011. The DAX closed the year on 5,898 points, 15% below the previous year-end figure.

The MDAX mid-cap index lost  
12% over the year.

The MDAX German mid-cap index, on which the MTU share is listed, tracked the overall market's sideways trend in the first six months of 2011, consistently maintaining its high level of more than 10,000 points. It reached its peak for the year in July with a figure of 11,187, falling substantially after that. The MDAX's low for the year came in October, when it touched 7,783 points. The volatility continued until the end of 2011, with the MDAX finishing the year at 8,898 points on December 31, 2011, 12% down on the 2010 year-end figure of 10,128 points.

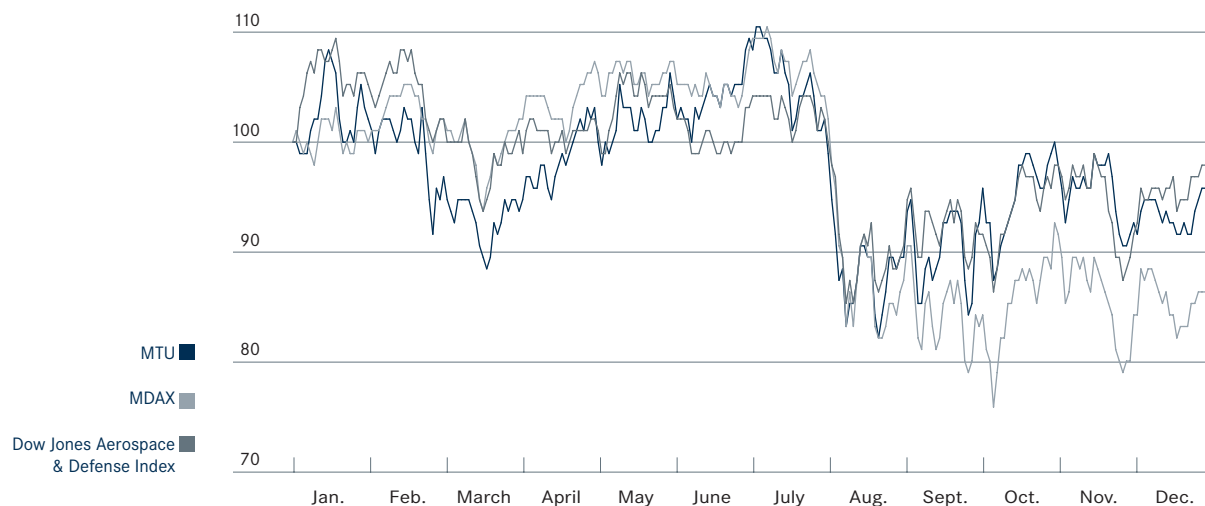
Aviation industry stocks tracked the overall market trend in 2011, experiencing strong fluctuations. However, they did benefit from the positive outlook for the aviation industry as a whole. Last year, Airbus and Boeing posted record order levels, a trend driven mainly by new aircraft models with fuel-efficient engines. The high oil price was a burden on the market. Still, the Dow Jones Aerospace & Defense Index – which includes companies such as Rolls-Royce, EADS and BAE Systems as well as MTU – remained stable (+1%) over the year.

### MTU SHARE PERFORMANCE

The MTU share opened the year on a positive note, and followed the overall fluctuations as 2011 wore on, reaching its highest quoted price for the year (€ 55.63) in July. In the third quarter, the uncertainty triggered in capital markets by the sovereign debt crisis and the weakening economy began impacting the MTU share, which reached its lowest quoted price for the year (€ 42.07) in August.

Despite the highly volatile market environment in 2011, the MTU share was relatively steady, losing just 2% over the year. It thus outperformed the MDAX and fell just short of the level achieved by the Dow Jones Aerospace & Defense Index. On December 30, the last day of trading in 2011, the MTU share price reached € 49.44.

**MTU share performance (indices at Dec. 31, 2010=100)**



**Share data: year-on-year comparison**

		2011	2010
Highest quoted price <sup>1)</sup>	€	55.63	50.71
Lowest quoted price <sup>1)</sup>	€	42.07	35.30
Beginning-of-year share price <sup>1)</sup>	€	50.38	39.31
End-of-year share price <sup>1)</sup>	€	49.44	50.61
Annual performance <sup>2)</sup>	%	-2	33
Market capitalization at year end	€ million	2,571	2,632
Average daily trading volume	€ million	13	13
	in 000 shares	255	294
Earnings per share	€	3.24	2.91
Dividend per share	€	1.20 <sup>3)</sup>	1.10
Dividend payout ratio <sup>4)</sup>	%	60.5	40.8
Dividend yield <sup>5)</sup>	%	2.4	2.2

<sup>1)</sup> Xetra closing price.

<sup>2)</sup> Based on Xetra year-end closing price (Dec. 30).

<sup>3)</sup> Proposal.

<sup>4)</sup> Dividend payout as a percentage of net profit available for distribution.

<sup>5)</sup> Net dividend yield based on Xetra year-end closing price (Dec. 30).

**TOP-TEN MDAX RANKING FOR MTU**

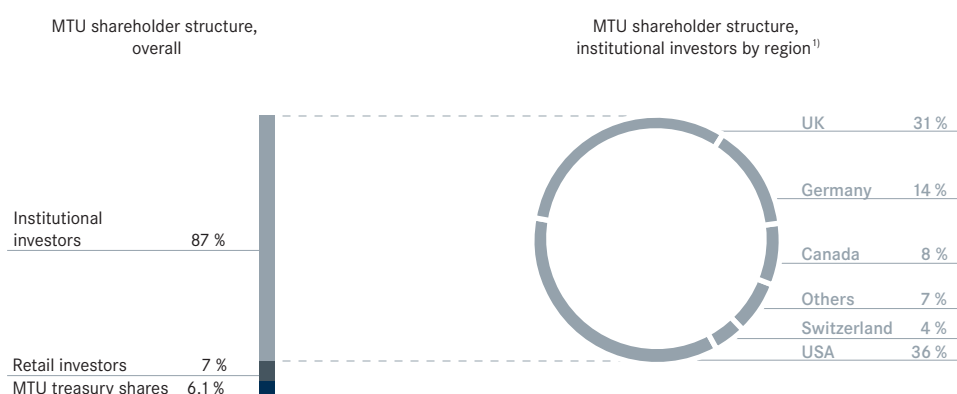
MTU's market capitalization stood at € 2,571 million at the end of 2011. The MTU share improved its position in the German Stock Exchange's MDAX rankings from 8th to 7th position.

The average number of MTU shares traded in Xetra trading and on the German stock exchanges was slightly lower than in the previous year, falling from 300,000 to 255,000. The daily trading volume stood at around € 13 million (2010: € 13 million) and is evidence of the MTU share's continuing high level of liquidity. In terms of trading volume, the MTU share ranked 14th in 2011 (2010: 9th) among the 50 that comprise the MDAX.

## BROADLY DIVERSIFIED SHAREHOLDER BASE

On December 31, 2011, MTU held 6.1% of its stock capital in the form of treasury shares. Consequently, the free float (as defined by the German Stock Exchange) accounted for 93.9% of MTU shareholdings at year end. Institutional investors held about 87% of the shares, while some 7% were held by retail investors. MTU has a broadly diversified shareholder base: 86% of its institutional investors are based outside Germany – mainly in the U.S., the U.K., Canada, Switzerland and other western European countries. At December 31, 2011, the stock market authorities were in possession of notifications from the following investors, each of whom holds more than 3% of the company’s voting rights: Capital Research (10.22%), Ameriprise Financial, Inc. (3.12%), and Gryphon International Investment Corporation (3.02%). Fidelity funds from the U.S. and the U.K. together hold 6% of MTU’s shares.

### Shareholder Structure



<sup>1)</sup> Approximation based on top 50 shareholders (= about 70 % of share capital).  
As of Dec. 31, 2011.

## HIGH PROFILE AMONG ANALYSTS

The majority of financial institutions recommend buying MTU shares.

The high degree of interest in the MTU share shown by analysts underscores its status as an attractive investment proposition. Currently, 25 analysts report on MTU. At year end 2011, 18 financial institutions maintained a 'buy' recommendation for MTU shares, while five rated them 'hold.' Only two analysts recommended selling (2010: 13 'buy', 8 'hold', 1 'sell'). The average upside target is € 57.

### The following financial institutions report regularly on MTU:

Bankhaus Lampe	Equinet AG	Morgan Stanley
Bank of America Merrill Lynch	Exane BNP Paribas	Natixis
Berenberg Bank	Goldman Sachs	Oddo Securities
Cheuvreux	HSBC Trinkaus & Burkhardt	Redburn Research
Citigroup Global Markets	Independent Research GmbH	Société Générale
Commerzbank	J.P. Morgan Cazenove	UBS
Credit Suisse	Kepler Equities	WestLB
Deutsche Bank	Landesbank Baden-Württemberg	
DZ Bank	Metzler Equity Research	

## PROPOSED DIVIDEND PER SHARE OF € 1.20

MTU offers a dividend  
yield of 2.4 %.

At the Annual General Meeting on May 3, 2012, the Board of Management and the Supervisory Board intend to propose a dividend payment of € 1.20 per share for the financial year 2011. The company's positive operating performance enables MTU to maintain the dividend at an attractive level (2010: € 1.10). The dividend is expected to be paid out on May 4, 2012. Based on the share price of € 49.44 prevailing on December 30, 2011, this is equivalent to a dividend yield of 2.4 %. The dividend payout ratio calculated as a percentage of MTU's net profit available for distribution is 60.5 %.

## INVESTOR RELATIONS WORK PAYS OFF

In 2011, MTU maintained its close dialog with investors and analysts, presenting MTU's business model and its potential as a company in around 220 personal meetings.

Both management and the investor relations team took part in numerous road shows and investor conferences across Europe and the U.S. Many discussions took place at the Paris Air Show in Le Bourget, the leading event of its kind in the world, in June 2011. On November 22, MTU staged its annual Investor and Analyst Day in London. It was attended by 50 analysts and investors, who gained an overview of the company's current business situation and growth strategy.

A key platform for a direct dialog with shareholders was the MTU Annual General Meeting, which was held in Munich on May 5, 2011 and was attended by shareholders representing 52 % of the share capital with voting rights (previous year: 51 %).

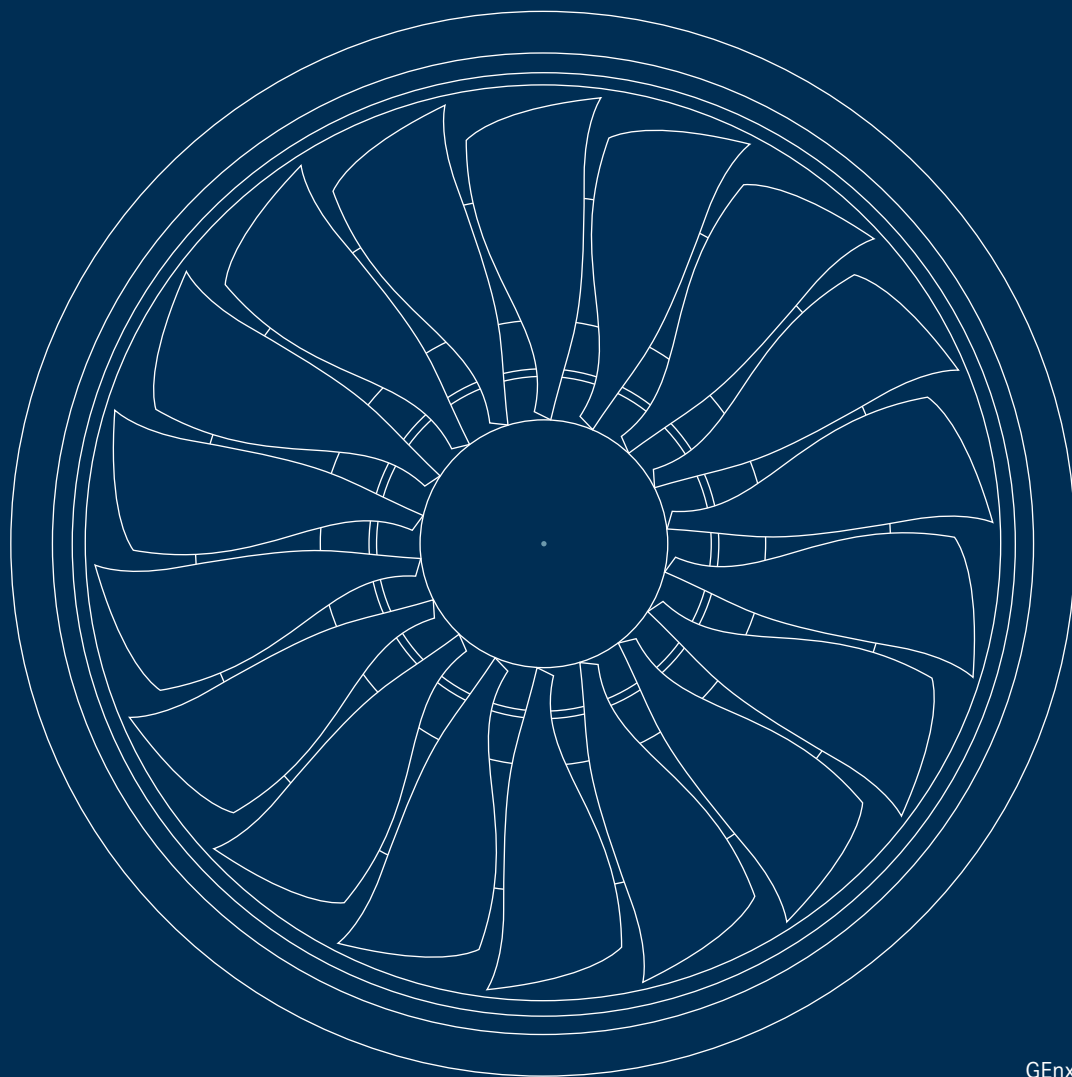
The accolades for MTU's Annual Report 2010 are proof of the positive feedback for the company's investor relations work: the MTU Annual Report ranked sixth in manager magazin's „Best Annual Reports“ category for MDAX companies.

© more information available online  
under Investor Relations

More detailed information can be found under Investor Relations on the MTU website ([www.mtu.de](http://www.mtu.de)). The Investor Relations office in Munich can be contacted on the following number:  
+49 89 1489-5714.

# 50% quieter

The GEnx is set to be one of the most advanced large engines in the world. It will be fitted to the Boeing 787 Dreamliner and the new Boeing 747-8. The trump card of this General Electric engine is its low perceived noise emissions, which are about 50% below those of its predecessor, the CF6. What is more, the GEnx is lighter, more economical and cheaper to maintain.



GEnx

## CORPORATE GOVERNANCE

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# CORPORATE GOVERNANCE REPORT

MTU sets great store by responsible corporate management. Pursuant to Section 3.10 of the German Corporate Governance Code, the Board of Management reports – also on behalf of the Supervisory Board – on corporate governance at MTU Aero Engines Holding AG. This report also qualifies as the Corporate Governance Statement required under Section 289a of the German Commercial Code (HGB).

## RESPONSIBLE CORPORATE MANAGEMENT

The values of good corporate governance are upheld throughout the company.

The term „corporate governance“ stands for the practice of administering and controlling a company in accordance with the principles of responsibility and long-term added value. In all areas of the company, MTU Aero Engines Holding AG strives to practice good corporate governance, which comprises mutual trust and efficient collaboration between the Board of Management and the Supervisory Board, respect for the shareholders' interests, and open and transparent communication with all stakeholders. As a globally operating company, MTU acts in compliance with the relevant national and international standards. In Germany, where the company has its headquarters, these standards are laid down principally in the Stock Corporation Act (AktG), in the Co-Determination Act (MitbG) and in the German Corporate Governance Code (the Code). MTU's Board of Management and Supervisory Board have closely studied the Code, the latest version of which was issued on May 26, 2010.

Pursuant to Section 289a of the German Commercial Code (HGB), the Board of Management of MTU Aero Engines Holding AG hereby makes the following declaration relating to corporate management, which is followed by a report in accordance with Section 3.10 of the Code.

## DECLARATION OF CONFORMITY

Declaration of conformity with the German Corporate Governance Code by the Board of Management and Supervisory Board of MTU Aero Engines Holding AG, pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Board of Management and the Supervisory Board of MTU Aero Engines Holding AG declare that the recommendations of the Government Commission on the German Corporate Governance Code, as published in the amended version of May 26, 2010 by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been and are being complied with. The Board of Management and the Supervisory Board of MTU Aero Engines Holding AG also intend to follow these recommendations in the future, except as set out below:

Form of Supervisory Board compensation (Section 5.4.6, paragraph 2 of the Code)

The members of the Supervisory Board do not receive performance-related compensation. It is our considered view that a fixed compensation arrangement is appropriate and that it should not be linked to the company's performance. In our opinion, performance-based compensation is not suitable to furthering the control function exercised by the Supervisory Board.

Munich, December 2011

For the Board of Management



Egon Behle  
Chairman

For the Supervisory Board



Klaus Eberhardt  
Chairman



## THE PRACTICE OF CORPORATE MANAGEMENT

MTU has always demonstrated a sense of responsibility in everything it does. The company assumes responsibility for the environment and society in the same measure as it does for its products, processes, employees, customers and partners. MTU is committed to sustainable development and has a long tradition of going above and beyond minimum legal requirements. The main areas in which this commitment is applied are environmental protection, human resources policy and community outreach projects in the neighborhood of MTU sites. These commitments are publicly documented on the MTU website at [www.mtu.de](http://www.mtu.de) under The company > Sustainability. Reference is also made to Section 7 of the group management report in this annual report.

🌐 *more information available online  
under The company > Sustainability*

The company has formulated a code of conduct, which constitutes a binding standard to be observed by all employees. This code of conduct can be downloaded from the company's website at [www.mtu.de](http://www.mtu.de) under The company > Sustainability > Code of Conduct.

MTU maintains an open  
and constant dialog with  
all its target groups.

MTU places great emphasis on an open and constant dialog with its many different target groups. The company communicates with these groups via many channels, including the intranet and internet, company brochures, employee and customer magazines, as well as in direct form at events. In this way, MTU aims to generate broad public acceptance.

🌐 *more information available online  
under The company > Quality*

MTU insists on the finest quality for its products and services. Compliance with quality standards is verified by government agencies and through internal and external audits. The quality standards are published on the MTU website at [www.mtu.de](http://www.mtu.de) under The company > Quality.

## TRUST-BASED COOPERATION BETWEEN GOVERNING BODIES

MTU is stock corporation organized under German law. Its governing bodies are the Board of Management, the Supervisory Board and the Annual General Meeting. Corporate management relies on close, trust-based cooperation between all of these bodies as well as on a reliable and constant flow of information between them. The Annual General Meeting, in particular, offers shareholders the opportunity to present questions to MTU executives and to exercise their voting rights.

## WORKING PROCEDURES OF THE BOARD OF MANAGEMENT

The company is managed by the Board of Management, whose members work together as a team. The members of the Board of Management regularly discuss important measures and events within their respective areas of responsibility. Their qualifications and professional experience are complementary. In managing the company, the Board of Management's goal is to create, on its own responsibility and in the company's interest, sustainable added value, taking into account the interests of its stakeholders, i.e. its shareholders, employees and other groups connected with the company.

The Board of Management informs the Supervisory Board in a timely manner and on a regular basis of the company's current situation, in particular on the status of planning, the achievement of targets, and risk management activities. The Board of Management coordinates decisions of a strategic nature with the Supervisory Board, ensures that such decisions are implemented, and discusses the progress of the measures taken. The Supervisory Board receives monthly written reports on the company's earnings, financial situation and net asset position. Any deviations from the planned operational performance are explained in detail to the Supervisory Board. Furthermore, the chair of the Supervisory Board is briefed regularly and directly on the company's current situation, significant business transactions and important pending decisions.

Moreover, the Board of Management receives regular reports on compliance issues, i.e. on measures to comply with both legal and regulatory requirements and internal company guidelines.

To date, status reports on the activities of the Compliance Board have been presented at the plenary meetings of the Supervisory Board in July and December and at the meetings of the Audit Committee in March and October, when the internal auditors also present their report. In future, these reports will be presented during the meetings of the Audit Committee, which will then present the plenary meetings of the Supervisory Board with a summary of its own meetings.

📄 *more information available online under Corporate Governance*

Important Board of Management decisions, in particular concerning the budget, require the approval of the Supervisory Board. The Supervisory Board provides information on these matters in its report on page 56. The Board of Management's rules of procedure along with the list of transactions by MTU Aero Engines Holding AG requiring Supervisory Board approval can be viewed on the company website at [www.mtu.de](http://www.mtu.de) under Investor Relations > Corporate Governance.

## WORKING PROCEDURES OF THE SUPERVISORY BOARD

The Supervisory Board is entrusted with gaging the independence of its own members.

In line with statutory requirements, the Supervisory Board comprises six shareholder representatives and six employee representatives. It appoints the Board of Management, oversees the latter's work and provides advisory support. Decisions of consequence for the company require the approval of the Supervisory Board. All Supervisory Board members are qualified for these tasks and perform their mandated duties correctly. In compliance with the recommendation of the German Corporate Governance Code, no more than two former members of the company's Board of Management hold seats on the Supervisory Board of MTU Aero Engines Holding AG. The members in question are Udo Stark and Prof. Dr.-Ing. Klaus Steffens. The Supervisory Board is entrusted with gaging the independence of its own members. The majority of the members of the Supervisory Board may be regarded as independent, thus ensuring that the Board of Management receives independent advice and monitoring.

📄 *further information on page 61*

The Supervisory Board's rules of procedure make provision for its members to form committees. MTU's Supervisory Board has four committees, details of which can be found on page 61. The Supervisory Board's rules of procedure contain binding provisions for dealing with conflicts of interest. Such conflicts are to be disclosed and, where appropriate, may result in termination of the member's mandate. In addition, the Supervisory Board must explicitly state such conflicts of interest in the nomination proposals it makes to the Annual General Meeting. In 2011, no consulting agreements, contracts for services or similar contractual agreements existed between the members of the Supervisory Board and MTU Aero Engines Holding AG or any of its subsidiaries. Thus no conflicts of interest requiring disclosure arose.

In the financial year 2011, directors' and officers' liability insurance was in effect for the MTU Board of Management and Supervisory Board members. The cover includes a deductible amounting to 10% of the loss incurred, up to a maximum of 1.5 times the board member's annual fixed compensation.

📄 *further information on page 43 ff.*

Compensation for the members of the Board of Management and Supervisory Board is established in accordance with clear, transparent criteria, which are described in the management compensation report on page 43 ff.

## DIVERSITY

As the diversity of MTU's workforce is a decisive factor in the company's success, it is a topic to which MTU attaches great importance. In particular, MTU focuses strongly on ensuring the appropriate representation of people with international backgrounds and of women within the company and its corporate bodies.

Diversity also has an important role to play in the Supervisory Board, which has set itself the following goals as regards its future composition: As a company with global operations, MTU has a keen interest in ensuring that the members of its corporate bodies have an international background, and

at least one member of the Supervisory Board should meet this criterion. The MTU Supervisory Board already includes members who trained in other countries or have spent substantial portions of their careers abroad, and the company intends to ensure that the members of the Supervisory Board continue to contribute their international experience going forward.

The number of women holding seats on the Supervisory Board is to be increased to two or more over the next two periods of office, to provide a minimum of one employee representative and one shareholder representative. At present, the Supervisory Board of MTU has one woman member. Two female representatives is considered to be the appropriate requirement for MTU. The Supervisory Board set this number with reference to the proportion of women working for the company.

MTU intends to progressively increase the percentage of women in management positions.

In addition, MTU intends to raise the proportion of women managers across all levels of the hierarchy to 15% within the next five years. In 2011, measures were introduced to achieve this goal, including, for example, a revamped method for addressing female applicants. In future, MTU intends to focus more strongly on women when filling vacancies, including those for management positions. Coaching and mentoring programs will provide support to female high potentials in planning and developing their careers. Above and beyond this, MTU is putting in place flexible structures to ensure a healthy work-life balance, including quasi full-time working models for managers, and teleworking. In parallel with this, MTU is striving to raise its workforce's awareness of the issue of gender diversity via its corporate communication channels and by means of newly devised seminars targeting managers and employees. On the back of these measures, MTU intends to increase successively the percentage of women in management positions within the company, and ultimately achieve its ambitious goal.

The Supervisory Board considers diversity an important goal for the composition of the Board of Management, too. In terms of its members' education, training and professional experience, the Board of Management is already international, and is set to remain so in future. The Supervisory Board will also pay attention to the goal of adequate representation of women when searching for suitably qualified candidates to fill vacant positions on the Board of Management. Since MTU's articles of association already contain an age-limit provision for Supervisory Board members, no further action on this issue is required of the Supervisory Board. Members of the Supervisory Board must relinquish their seats after the Annual General Meeting that follows their 70th birthday.

The Supervisory Board will take the above-mentioned goals into account when submitting nomination proposals to the Annual General Meeting. The same applies to the Nomination Committee, which is responsible for preparing the vote of the Supervisory Board. Since the main criterion for any nomination proposal is still the company's interest, the Supervisory Board shall propose the candidates that best meet the requirements.

## FINANCIAL REPORTING

MTU's consolidated financial statements and interim reports are drawn up in accordance with the International Financial Reporting Standards (IFRSs) on the responsibility of the Board of Management. The financial statements of group companies are compiled in accordance with the provisions of the German Commercial Code (HGB). An internal system of controls coupled with the application of uniform principles of accounting ensures that the earnings, financial situation, net asset position and cash flows of all group companies are accurately presented. In addition, MTU has a differentiated system in place to identify and monitor business and financial risks.

## RISK MANAGEMENT AND CONTROL SYSTEM

➤ further information  
on page 113 ff.

The Board of Management is responsible for ensuring that an appropriate risk management and control system is in place. This system is described on page 113 ff. The Board of Management reports to the Supervisory Board in a regular and timely manner on existing risks and how they are developing.

The Audit Committee of the Supervisory Board deliberates on risk management. In accordance with Section 107(3) of the Stock Corporation Act (AktG), as amended by the German Accounting Law Modernization Act (BilMoG), the Audit Committee is explicitly responsible for monitoring the effectiveness of the risk management system, the internal systems of control and auditing, the financial reporting process and the audit of the financial statements, and, in particular, for assessing the auditors' independence.

## COMPLIANCE

The corporate culture at MTU sets great store by the values of trust and mutual respect. Nevertheless, the risk can never be entirely ruled out that unauthorized behavior of isolated individuals might lead to contravention of the law. MTU does everything in its power to minimize this risk as far as possible, and is committed to uncovering and pursuing all acts of misconduct, as in the case of corruption.

The observance of legal and ethical rules and principles plays a central role in this respect. These and other aspects of compliance, such as the responsible handling of insider information, are documented in a code of conduct drawn up and introduced jointly by the MTU Board of Management and the Group Works Council. This document embodies MTU's corporate culture and reflects its strict resolve to comply with the stipulations of the relevant public laws and internal regulations. The code of conduct is a company-wide guide to ethical business relations.

Compliance is an important aspect of all management functions.

Compliance is an important aspect of all management functions at MTU. For example, all managers verify that each and every member of their staff has read and understood the code of conduct and is abiding by its rules. Reinforcement is provided by internal training courses.

MTU has set up a Compliance Board, which reports directly to the Board of Management. This board meets once a quarter. Its duties include identifying and evaluating legal and reputational risks. Where necessary, it recommends additional compliance rules to the Board of Management. Above and beyond this, the Compliance Board is charged with dealing appropriately with specific cases of non-compliance. In agreement with the Works Council, the company has set up an internal compliance office that staff, customers and suppliers may contact if they suspect unethical conduct.

The Supervisory Board's Audit Committee oversees the Board of Management's compliance activities. This includes proposing new rules for incorporation in the compliance guidelines and monitoring the measures and training programs implemented by the Compliance Board.

## A FULL INFORMATION SERVICE

© more information available online

In keeping with the principles of good corporate governance, MTU issues a regular flow of comprehensive, timely information on the company's activities and any major developments in its business situation to shareholders, shareholder associations, financial analysts, the media and other interested parties. The goal of this dialog is to ensure that all stakeholders are kept informed in equal measure. The company publishes a full range of information on its website at [www.mtu.de](http://www.mtu.de). It publishes quarterly reports on its business activities, and any new developments likely to have a significant impact on the MTU share price are disclosed in the form of ad hoc releases in accordance with statutory requirements.

Information is also posted on the MTU website whenever members of the Board of Management or Supervisory Board or related persons have purchased or sold MTU shares or share-based derivatives. Section 15a of the German Securities Trading Act (WpHG) stipulates that this group of persons must disclose such transactions if and when their value reaches or exceeds € 5,000 within a single calendar year.

## MANAGEMENT COMPENSATION REPORT

The management compensation report describes the compensation awarded to members of the Board of Management and Supervisory Board, including its composition and the amount of benefits. The system of compensation for the Board of Management was reviewed by the Supervisory Board in 2010 and realigned with statutory requirements. Only 40% of target direct compensation is now non-performance-related, while 60% is performance-related. The rules governing Supervisory Board compensation are laid down in MTU's articles of association. Such compensation is established relative to the size of the company and as a function of the duties and responsibilities of the respective members.

### PRINCIPLES OF THE MANAGEMENT COMPENSATION REPORT

The management compensation report explains the principles applied when establishing the compensation to be awarded to members of the Board of Management and Supervisory Board of MTU Aero Engines Holding AG, and states the amount and composition of that compensation. The management compensation report follows the provisions of Article 314(1), no. 6 of the German Commercial Code (HGB), German Accounting Standard DRS 17 'Reporting on the remuneration of members of governing bodies', and the recommendations of the German Corporate Governance Code. In so doing, the report also takes account of the requirements of the International Financial Reporting Standards (IFRSs) regarding key management personnel compensation (as formulated in IAS 24 „Related Party Transactions“).

The Supervisory Board decides on a system of compensation for the members of the Board of Management and reviews this at regular intervals.

At the proposal of its chair, the Supervisory Board decides on a system of compensation for the members of the Board of Management, including the main components of their contracts, and reviews this system at regular intervals. In 2010, in the context of this review process, the Supervisory Board revised the new compensation structure for the Board of Management in consultation with an external compensation specialist.

The revisions made in 2010 focus on linking Board of Management compensation to a style of corporate management and development that has a sustainable and long-term orientation. This entails an appropriate mix of fixed and variable compensation components. In addition, and to a greater extent than before, the basis for payment of variable compensation was shifted to multi-year assessment periods; large parts of the variable compensation can now be deferred for one or more years, or not paid out at all. The intention of these changes is to align the interests of the members of the Board of Management more closely with those of the company by increasing their participation in the company in the long term.

In 2011, the members of the Board of Management were awarded total compensation of € 6,452,608 (2010: € 8,075,962) for their services during the financial year. This amount includes post-employment benefits. Members of the Board of Management did not receive any compensation for their activities on the boards of MTU group companies, nor were they granted any loan facilities by the company.

The above total compensation amount (including post-employment benefits) consists of the following components, as defined in IAS 24.17:

#### Total compensation

	2011		2010	
	in € <sup>1)</sup>	in %	in € <sup>1)</sup>	in %
<b>Short-term employee benefits</b>				
Non-performance-related components	2,223,152		2,395,390	
Performance-related components excluding long-term incentive <sup>2)</sup>	1,311,342		1,645,685	
Performance-related components with long-term incentive effect <sup>3)5)</sup>	891,050			
<b>Total short-term employee benefits</b>	<b>4,425,544</b>	<b>68.6</b>	<b>4,041,075</b>	<b>50.0</b>
<b>Post-employment benefits</b>				
Service cost / past service cost	791,398		3,080,874	
<b>Total post-employment benefits</b>	<b>791,398</b>	<b>12.3</b>	<b>3,080,874</b>	<b>38.2</b>
<b>Share-based compensation</b>				
Performance-related components (long-term incentive) <sup>4) 6)</sup>	1,235,666		954,013	
<b>Total share-based compensation</b>	<b>1,235,666</b>	<b>19.1</b>	<b>954,013</b>	<b>11.8</b>
<b>Total compensation</b>	<b>6,452,608</b>	<b>100.0</b>	<b>8,075,962</b>	<b>100.0</b>

<sup>1)</sup> Benefits paid to members of the Board of Management for active board service in the stated years.

<sup>2)</sup> Performance-related APB for the financial year 2011, payable in the financial year 2012.

<sup>3)</sup> Deferral 1 from the financial year 2010 is payable in the financial year 2012.

<sup>4)</sup> Fair value at grant date.

<sup>5)</sup> Previous-year adjustment; performance-related components with a long-term incentive effect are included when the target is achieved (Deferral 1 from financial year 2010).

<sup>6)</sup> Previous-year adjustment; performance-related share-based compensation with a long-term incentive effect is included at fair value in the total compensation in the financial year in which it is granted.

## PRINCIPLES OF THE COMPENSATION SYSTEM FOR MEMBERS OF THE BOARD OF MANAGEMENT

Of the total amount of Board of Management compensation 40% is non-performance-related, 60% is performance-related.

At the proposal of its chair, the Supervisory Board determines both the overall level of compensation (so-called target direct compensation) and its composition for the members of the Board of Management. Of the target direct compensation (excluding post-employment benefits), 40% is non-performance-related, while 60% is performance-related. Around half of the performance-related compensation is linked to the development of the share price of MTU Aero Engines Holding AG.

The target direct compensation comprises the following components:

### NON-PERFORMANCE-RELATED COMPONENTS

The non-performance-related components consist of the basic salary and other benefits that are regularly reviewed and paid on a monthly basis. 'Other benefits' comprise taxable reimbursements of expenses and the non-cash benefit deriving from payments in kind such as insurance premiums or the use of a company car for business and private purposes, including any taxes on such benefits paid by the company.

## PERFORMANCE-RELATED COMPONENTS

Performance-related components comprise an Annual Performance Bonus (APB) and a Long Term Incentive/Performance Share Plan (LTI). After the PSP assessment period, the members of the Board of Management may, under the Share Matching Plan (SMP), opt to have their payment from the Performance Share Plan (PSP) converted into shares in the company.

### PERFORMANCE-RELATED COMPONENTS WITHOUT LONG-TERM INCENTIVE EFFECT

Part of the APB is granted as a short-term compensation component. The legal requirement that this compensation component be assessed over several years is met by withholding half of the bonus amount achieved. Of the amount withheld, one half is intended for payment in each of the following two years. The actual amount paid is based on the goal achievement level in these two years. Thus, the value of the portions withheld depends on the company's performance in the following years, the risk/opportunity being that these amounts may not be paid out at all or may increase in value.

The amount of the short-term compensation component depends on the results achieved in respect of two company performance targets and on the board member's individual performance. The company performance targets are based on the key performance indicators at group level 'EBIT adjusted' and 'free cash flow', which are given equal weighting. The results to be achieved to ensure payment of 100% of the APB are set annually in advance by the Supervisory Board, taking the annual planning figures into account. In addition, an entry threshold is set for each performance target at a figure 30% below the planned level; this corresponds to a goal achievement level of 50%. Members of the Board of Management who do not reach this entry threshold are not entitled to a short-term compensation component. Similarly, the maximum goal achievement level of 180% is fixed at a figure 15% above the planned value for each of the two performance targets. Between the entry threshold, the 100% level and the maximum value, the degree of goal achievement is interpolated using a straight-line method. The Supervisory Board takes the individual performance of Board of Management members into account by decreasing or increasing the goal achievement figures for each performance target by up to 20% (so-called discretionary factor), depending on its assessment of the individual performance of that member.

The method used to adapt and disburse compensation components that have been withheld remains unchanged until final payment, even in cases where a member of the Board of Management leaves the company prior to the payment date.

### PERFORMANCE-RELATED COMPONENTS WITH LONG-TERM INCENTIVE EFFECT

Performance-related compensation with **long-term** incentive effect comprises the following components:

#### Annual Performance Bonus (APB)

Half of the APB is disbursed in the calendar year following the financial year in which it was earned. The withheld portion of the annual performance bonus (the remaining 50%) is paid out in two equal portions (Deferral 1 and Deferral 2) in the second and third consecutive financial years.

The deferred components of APB 2010 were agreed for the first time with effect from January 1, 2010 (for Egon Behle with effect from July 1, 2010). The ultimate amount to be paid depends on the goal achievement level attained in respect of the two key performance indicators at group level and on the discretionary factor applied in the financial years 2011 and 2012. The deferred components of APB 2011 were agreed for all members of the Board of Management with effect from January 1, 2011. The ultimate amount to be paid depends on the goal achievement level attained in respect of the two key performance indicators at group level and on the discretionary factor applied in the financial years 2012 and 2013.

Goal achievement levels are measured with respect to the key performance indicators 'EBIT adjusted' and 'free cash flow' at group level.



### Performance Share Plan (PSP)

Additionally, as from the financial year 2010, the long-term compensation awarded to members of the MTU Board of Management will include „annual tranches“ granted within the framework of a Long Term Incentive/Performance Share Plan.

The first tranche was granted on January 1, 2010 or, in the case of Egon Behle, on July 1, 2010. On these respective dates, a provisional number of performance shares was calculated on the basis of the average price of the MTU Aero Engines Holding AG share over the last 30 trading days prior to commencement of the assessment period and allocated by the Supervisory Board to the individual members of the Board of Management in accordance with each member's long-term target compensation. At the end of the assessment period, these performance shares will entitle the recipients to a payment either in cash or in shares, as the Supervisory Board sees fit. The assessment period for the first tranche of performance shares began on January 1, 2010 (for Egon Behle on July 1, 2010) and ends on December 31, 2013 (for Egon Behle on June 30, 2014). The second tranche was granted to all members of the Board of Management with effect from January 1, 2011. The assessment period for this second tranche begins on January 1, 2011 and ends on December 31, 2014.

At the end of the assessment period, performance shares entitle the recipients to a payment either in cash or in shares.

The actual number of virtual shares allocated is determined after expiry of the four-year assessment period for each tranche of granted shares. This number reflects the performance of the MTU share compared with the other shares in the MDAX index, based on total shareholder return (TSR). The TSR is calculated as the total return on the stock including all increases in the share price and all dividends paid during the assessment period. The TSR ranking of the MTU share relative to that of all other MDAX-listed shares at the end of the assessment period is the main factor determining the number of shares allocated.

Depending on this ranking, the level of goal achievement may be between 0% and 150%, with 100% being the value for an average ranking. The amount disbursed equals the actual number of performance shares multiplied by the average MTU Aero Engines Holding AG share price over the last 30 trading days prior to the end of the assessment period. The maximum payment for each tranche of granted shares is limited to 300% of the individual board member's long-term target compensation. The Supervisory Board has the right to impose further limits if any extraordinary events should occur.

### Share Matching Plan (SMP)

The members of the Board of Management are entitled to use the benefits payable under each tranche of the Performance Share Plan (PSP) to purchase MTU Aero Engines Holding AG shares, which must then be held for a further three years after the grant date. At the end of each vesting period, these shares are matched on the basis of a Share Matching Plan (SMP), with each Board of Management member being awarded one additional free share for every 3 MTU shares acquired in this way. The entitlement to additional free shares is deemed to have been fulfilled once the corresponding number of such shares has been transferred to the member of the Board of Management. The total value of the free shares allocated at the end of the vesting period is limited to three times the purchase price of the shares originally acquired through the PSP.



## INDIVIDUAL COMPENSATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT

The members of the Board of Management were awarded the following total compensation – as defined in Section 314(1) no. 6a of the German Commercial Code (HGB) – for their activities on the board in 2011 and 2010:

### Individual compensation of the members of the Board of Management

Members of the Board of Management in €	Egon Behle		Dr. Rainer Martens		Dr. Stefan Weingartner		Reiner Winkler		Total compensation	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
<b>Non-performance-related components</b>										
Basic salary	750,000	925,002	450,000	450,000	450,000	450,000	500,004	500,004	2,150,004	2,325,006
Other benefits <sup>1)</sup>	22,551	21,329	11,859	11,203	22,750	22,078	15,988	15,774	73,148	70,384
<b>Performance-related components</b>										
Without long-term incentive effect (non-deferred) <sup>2)</sup>	457,445	781,483	274,467	277,779	274,467	277,779	304,963	308,644	1,311,342	1,645,685
With long-term incentive effect (deferred) <sup>3)</sup>										
Not share-based <sup>2)4)</sup>	188,250		225,900		225,900		251,000		891,050	
Share-based <sup>4)</sup>	431,051	189,147	258,630	245,848	258,630	245,848	287,355	273,170	1,235,666	954,013
<b>Total compensation</b>	<b>1,849,297</b>	<b>1,916,961</b>	<b>1,220,856</b>	<b>984,830</b>	<b>1,231,747</b>	<b>995,705</b>	<b>1,359,310</b>	<b>1,097,592</b>	<b>5,661,210</b>	<b>4,995,088</b>

<sup>1)</sup> Other benefits include charges to taxable income covering personal use of company vehicles amounting to € 69,918.96 (2010: € 64,109.28) and premiums for accident insurance policies taken out on behalf of members of the Board of Management amounting to € 6,229.88 (2010: € 6,274.44).

<sup>2)</sup> Paid immediately after the end of the financial year.

<sup>3)</sup> The performance-related components with a long-term incentive effect (other than share-based) relate to the deferred portion (25%) of the annual performance bonus 2010 (Deferral 1). The performance-related components with a long-term share-based incentive effect comprise the deferred portions of the PSP and SMP compensation components. The number of performance shares provisionally granted to the members of the Board of Management in the financial year 2011 under the PSP and SMP was calculated by dividing the target amounts granted in each case by the average MTU share price (Xetra) over the last 30 trading days prior to commencement of the plan. The resulting provisional number of performance shares will be used as the starting point for determining the actual performance-related benefit payable at the end of the assessment period.

<sup>4)</sup> Further explanation of the previous-year adjustments is given in the total compensation table.

### PERFORMANCE-RELATED COMPONENTS

The performance-related components were calculated as follows:

#### Annual Performance Bonus (APB):

At the end of the financial year 2011, the actual EBIT adjusted of € 328.0 million (2010: € 310.7 million) and the actual free cash flow of € 129.0 million (2010: € 144.8 million) were much higher than the respective targets set at the beginning of the year, which were € 300.0 million for EBIT adjusted (2010: € 285.0 million) and € 113.0 million for free cash flow (2010: € 125.0 million).

The goal achievement level in 2011 was 149.8% (2010: 149.2%) for EBIT adjusted and 175.5% (2010: 180%) for free cash flow. The aggregate level of goal achievement was thus 162.7% (2010: 164.6%).

As the new compensation arrangements for Egon Behle did not take effect until July 1, 2010, his annual performance bonus for 2010 was calculated pro rata from a baseline representing the company's first half-year results up to that date, resulting in an aggregate level of goal achievement of 100%.

The performance targets were exceeded by a wide margin in 2011.

### Performance Share Plan (PSP)

The number of performance shares provisionally allocated under the PSP to members of the Board of Management in the financial years 2010 and 2011 was calculated by dividing the target amounts granted in each case by the average MTU share price (Xetra) over the last 30 trading days prior to commencement of the plan.

The following table shows the number of performance shares granted to the members of the Board of Management in the first and second years of the PSP. These form the basis for calculating the performance-related benefit payable at the end of the vesting period for the respective tranches of the PSP.

#### Performance Share Plan 2011

number of shares or value in €	Average Xetra share prices <sup>1)</sup>	Granted performance shares			Performance shares not yet exercisable at year-end		Time to end of vesting period for performance shares
		Number at Jan. 1, 2011 shares	Acquired in 2011 shares	Number at Dec. 31, 2011 shares	Number at Dec. 31, 2011 shares	Fair value at Dec. 31, 2011 €	Time at Dec. 31, 2011 months
financial year 2011	€						
<b>Egon Behle</b>							
Performance shares tranche 1b issued July 1, 2010 <sup>2)</sup>	46.64	6,031		6,031	6,031	38.60	30
Performance shares tranche 2 issued Jan. 1, 2011	47.03		11,960	11,960	11,960	39.84	36
<b>Personal total / average</b>	<b>46.90</b>	<b>6,031</b>	<b>11,960</b>	<b>17,991</b>	<b>17,991</b>	<b>39.42</b>	<b>34</b>
<b>Dr. Rainer Martens</b>							
Performance shares tranche 1a issued Jan. 1, 2010	36.63	9,214		9,214	9,214	42.33	24
Performance shares tranche 2 issued Jan. 1, 2011	47.03		7,176	7,176	7,176	39.84	36
<b>Personal total / average</b>	<b>41.18</b>	<b>9,214</b>	<b>7,176</b>	<b>16,390</b>	<b>16,390</b>	<b>41.24</b>	<b>29</b>
<b>Dr. Stefan Weingartner</b>							
Performance shares tranche 1a issued Jan. 1, 2010	36.63	9,214		9,214	9,214	42.33	24
Performance shares tranche 2 issued Jan. 1, 2011	47.03		7,176	7,176	7,176	39.84	36
<b>Personal total / average</b>	<b>41.18</b>	<b>9,214</b>	<b>7,176</b>	<b>16,390</b>	<b>16,390</b>	<b>41.24</b>	<b>29</b>
<b>Reiner Winkler</b>							
Performance shares tranche 1a issued Jan. 1, 2010	36.63	10,238		10,238	10,238	42.33	24
Performance shares tranche 2 issued Jan. 1, 2011	47.03		7,973	7,973	7,973	39.84	36
<b>Personal total / average</b>	<b>41.18</b>	<b>10,238</b>	<b>7,973</b>	<b>18,211</b>	<b>18,211</b>	<b>41.24</b>	<b>29</b>
<b>Total / average</b>	<b>42.68</b>	<b>34,697</b>	<b>34,285</b>	<b>68,982</b>	<b>68,982</b>	<b>40.76</b>	<b>30</b>

Note: In the financial years 2010 and 2011, no performance shares were exercised or forfeited, nor did any lapse.

<sup>1)</sup> Average Xetra share price over the 30 days preceding the grant date.

<sup>2)</sup> Adjustment of Performance Shares.

The fair value per performance share of the second PSP tranche for the financial year 2011, which was calculated by an independent expert in accordance with the recommendations of IFRS 2, amounted to € 31.26 at January 1, 2011, taking into account a fluctuation rate of 4%.

The fair value per performance share of the first PSP tranche for the financial year 2010, which was also calculated by an independent expert, amounted to € 22.96 at January 1, 2010, and € 27.13 at July 1, 2010, taking into account a fluctuation rate of 4%.

**Performance Share Plan 2010**

number of shares or value in €	Average Xetra share prices <sup>1)</sup>	Granted performance shares			Performance shares not yet exercisable at year-end		Time to end of vesting period for performance shares
		Number at Jan. 1, 2010 shares	Acquired in 2010 shares	Number at Dec. 31, 2010 shares	Number at Dec. 31, 2010 shares	Fair value at Dec. 31, 2010 €	Time at Dec. 31, 2010 months
financial year 2011	€						
<b>Egon Behle</b>							
Performance shares tranche 1b issued July 1, 2010 <sup>2)</sup>	46.64		6,031	6,031	6,031	30.67	42
<b>Personal total</b>	<b>46.64</b>		<b>6,031</b>	<b>6,031</b>	<b>6,031</b>	<b>30.67</b>	<b>42</b>
<b>Dr. Rainer Martens</b>							
Performance shares tranche 1a issued Jan. 1, 2010	36.63		9,214	9,214	9,214	32.35	36
<b>Personal total</b>	<b>36.63</b>		<b>9,214</b>	<b>9,214</b>	<b>9,214</b>	<b>32.35</b>	<b>36</b>
<b>Dr. Stefan Weingartner</b>							
Performance shares tranche 1a issued Jan. 1, 2010	36.63		9,214	9,214	9,214	32.35	36
<b>Personal total</b>	<b>36.63</b>		<b>9,214</b>	<b>9,214</b>	<b>9,214</b>	<b>32.35</b>	<b>36</b>
<b>Reiner Winkler</b>							
Performance shares tranche 1a issued Jan. 1, 2010	36.63		10,238	10,238	10,238	32.35	36
<b>Personal total</b>	<b>36.63</b>		<b>10,238</b>	<b>10,238</b>	<b>10,238</b>	<b>32.35</b>	<b>36</b>
<b>Total / average</b>	<b>38.37</b>		<b>34,697</b>	<b>34,697</b>	<b>34,697</b>	<b>32,06</b>	<b>37</b>

Note: In the financial years 2010 and 2011, no performance shares were exercised or forfeited, nor did any lapse.

<sup>1)</sup> Average Xetra share price over the 30 days preceding the grant date.

<sup>2)</sup> Adjustment of Performance Shares.

The methods used to calculate these figures are documented in the fairness opinions established at the respective grant dates. The fair values at December 31, 2011, as shown in the table are based on the assumption of an unchanged fluctuation rate of 4%, as in the previous year.

The total carrying amount of the cash-settled share-based payment liabilities under the PSP developed as follows:

**Development of total carrying amount**

in €	At	
	Dec. 31, 2011	Dec. 31, 2010
Performance Share Plan – tranche 1 (financial year 2010)	693,946	254,958
Performance Share Plan – tranche 2 (financial year 2011)	341,454	
<b>Total carrying amount</b>	<b>1,035,400</b>	<b>254,958</b>

A combined Monte Carlo simulation and Black-Scholes pricing model is used to determine the fair value of the Share Matching Plan.

### Share Matching Plan (SMP)

The number of future matching shares depends on the cash amount paid out under the PSP. In order to determine the fair value, a combined Monte Carlo simulation and Black-Scholes pricing model was used. The expected cash settlement was determined on the basis of the exact same assumptions used to measure the value of the PSP. The cash settlement serves as a basis for measuring the value of the Share Matching Plan (SMP) in accordance with the Black-Scholes pricing model. The fair value of the forward options at the grant date was calculated on the basis on the following assumptions:

#### Share Matching Plan

Model parameters	Option tranche		
	Tranche 2 financial year 2011	Tranche 1b financial year 2010	Tranche 1a financial year 2010
Option period	88 months	88 months	88 months
Vesting period	52 months	52 months	52 months
Valuation date	Jan. 1, 2011	July 1, 2010	Jan. 1, 2010
Average share price at acquisition date	47.03	46.52	36.63
Dividend yield	1.84%	2.07%	2.44%
Fluctuation	4.00%	4.00%	4.00%
Expected volatility	51.40%	52.82%	52.08%
Risk-free interest rate	1.76%	1.37%	2.30%

The expected volatility was determined on the basis of the weekly closing stock prices over the 3-year period preceding the respective measurement date.

The following share-based SMP compensation agreements were in place during the current reporting period and earlier reporting periods:

#### Share Matching Plan (SMP)

number of shares or value in €	Fair value at grant date	Granted performance shares			Performance shares not yet exercisable at year-end	Time to end of vesting period for performance shares
		Number at Jan. 1, 2011 shares	Acquired in 2011 shares	Number at Dec. 31, 2011 shares	Time at Dec. 31, 2011 shares	Time at Dec. 31, 2011 months
	€					
<b>Egon Behle</b>						
Performance shares tranche 1b issued July 1, 2010 <sup>1)</sup>	4.233	6,031		6,031	6,031	34
Performance shares tranche 2 issued Jan. 1, 2011	4.779		11,960	11,960	11,960	40
<b>Personal total / average</b>	<b>4.596</b>	<b>6,031</b>	<b>11,960</b>	<b>17,991</b>	<b>17,991</b>	<b>38</b>
<b>Dr. Rainer Martens</b>						
Performance shares tranche 1a issued Jan. 1, 2010	3.722	9,214		9,214	9,214	28
Performance shares tranche 2 issued Jan. 1, 2011	4.779		7,176	7,176	7,176	40
<b>Personal total / average</b>	<b>4.185</b>	<b>9,214</b>	<b>7,176</b>	<b>16,390</b>	<b>16,390</b>	<b>33</b>
<b>Dr. Stefan Weingartner</b>						
Performance shares tranche 1a issued Jan. 1, 2010	3.722	9,214		9,214	9,214	28
Performance shares tranche 2 issued Jan. 1, 2011	4.779		7,176	7,176	7,176	40
<b>Personal total / average</b>	<b>4.185</b>	<b>9,214</b>	<b>7,176</b>	<b>16,390</b>	<b>16,390</b>	<b>33</b>
<b>Reiner Winkler</b>						
Performance shares tranche 1a issued Jan. 1, 2010	3.722	10,238		10,238	10,238	28
Performance shares tranche 2 issued Jan. 1, 2011	4.779		7,973	7,973	7,973	40
<b>Personal total / average</b>	<b>4.185</b>	<b>10,238</b>	<b>7,973</b>	<b>18,211</b>	<b>18,211</b>	<b>33</b>
<b>Total / average</b>	<b>4.292</b>	<b>34,697</b>	<b>34,285</b>	<b>68,982</b>	<b>68,982</b>	<b>34</b>

Note: In the financial years 2010 and 2011, no performance shares were exercised or forfeited, nor did any lapse.

<sup>1)</sup> Adjustment of Performance Shares.

#### TOTAL EXPENSE INCURRED FOR SHARE-BASED COMPENSATION

The total expense incurred for share-based compensation in the financial years 2011 and 2010 respectively can be broken down as follows for the individual members of the Board of Management:

##### Total expense incurred for share-based compensation

Members of the Board of Management in €	Financial year 2011			Financial year 2010		
	Cash settlement	Equity instruments	Total	Cash settlement	Equity instruments	Total
Egon Behle	183,278	39,791	223,069	23,122	43,209	66,331
Dr. Rainer Martens	191,945	36,538	228,483	74,519	48,178	122,697
Dr. Stefan Weingartner	191,945	36,538	228,483	74,519	48,178	122,697
Reiner Winkler	213,274	38,297	251,571	82,798	49,058	131,856
<b>Total expense</b>	<b>780,442</b>	<b>151,164</b>	<b>931,606</b>	<b>254,958</b>	<b>188,623</b>	<b>443,581</b>

## RULES FOR TERMINATING THE CONTRACTS OF MEMBERS OF THE BOARD OF MANAGEMENT

The rules for terminating the contracts of members of the Board of Management cover not only the benefits promised to members of the Board of Management in the event that their contracts **expire in a normal manner**, but also those payable if their contracts are **terminated prematurely**.

### RULES FOR NORMAL TERMINATION OF CONTRACT

#### COMPANY PENSION PLAN

The members of the Board of Management are insured under a defined benefit plan in which the benefits promised are based on the contributions made. The benefits payable to members of the Board of Management under this plan correspond to those of their peers in comparable companies.

#### RETIREMENT AND SURVIVORS' PENSIONS

The previous system was replaced on January 1, 2010. Since that date Egon Behle, Dr. Rainer Martens, Dr. Stefan Weingartner and Reiner Winkler have been earning company pension entitlements in accordance with the new plan: 'MTU Pension Capital – Pension Regulations for Members of the Board of Management of MTU Aero Engines Holding AG.' The goal of the plan is to provide a pension amounting to 60% of each member's basic salary after 15 years of service (on the Board of Management). At the time of the changeover, the vested benefits that each member of the Board of Management had earned up until December 31, 2009, were transferred to the new plan in the form of initial units. This entitlement represents the benefit payable at age 60 under the old plan, adapted to reflect the ratio between the actual number of years of service with the company and the number of years from start of service with the company until age 60. The initial units transferred to the new plan correspond to the current cash value of the pension converted into a lump sum.

Once this amount has been determined, a pension account is opened for each member of the Board of Management to which further capital units are credited annually, for the first time on December 31, 2010. The amount of the annual capital units is calculated on the basis of an individually defined contribution and an age-dependent factor, with the latter taking into account an interest rate of around 6% p.a. until age 60. The contribution period is capped at 15 years of service on the Board of Management, ending at the latest when the insured person reaches age 60. As of the age of 61, the pension account earns interest at an annual rate of 4% until such time as the pension is drawn (= bonus amount). The accrued annual capital units plus the units initially transferred to the account plus any bonus amounts credited to the account together make up the pension capital available to finance retirement benefits. If a member of the Board of Management dies before reaching age 60, 50% of the benefits that he/she could still have earned until that age are added to the accrued balance on the pension account – taking into account the permissible contribution period.

The pension capital may be drawn either in a single lump sum, in installments or as a lifelong pension increased at an annual rate of 1%. In any insured event, the pension account is topped up where necessary to the level of benefits the insured party would have reached under the previous plan (guaranteed capital). Pension benefits do not become payable until such time as an insured event occurs (i.e. on reaching pensionable age, or in the event of disability or death), even if the insured party leaves the Board of Management. The pension entitlement is unforfeitable after the initial contribution has been paid.

Dr. Rainer Martens, Dr. Stefan Weingartner and Reiner Winkler had already been promised under the previous pension plan that their years of service with former group companies would count towards their pensions.

The contribution period is capped at 15 years of service on the Board of Management, or at age 60, whichever comes sooner.

Details of the above-mentioned obligations and benefits are shown in the following table:

#### Existing benefit entitlements

Members of the Board of Management in €	Initial transfer amount <sup>1)</sup>	Guaranteed capital <sup>2)</sup>	Basic salary <sup>3)</sup>	Annual annuity <sup>4)</sup>	End of contribution period	Retirement benefit (60 %)
Egon Behle	1,097,500	4,196,500	750,000	400,000	1.9.2015	275,000
Dr. Rainer Martens	1,366,176	2,317,650	450,000	220,000	1.4.2021	270,000
Dr. Stefan Weingartner	1,188,427	1,931,375	450,000	200,000	1.7.2021	270,000
Reiner Winkler	1,625,140	2,510,788	500,000	280,000	1.9.2016	300,000

<sup>1)</sup> Credit for past service up to December 31, 2009 (date of changeover to new system).

<sup>2)</sup> Capital payment equal to the adjusted value of the benefit entitlement at Dec. 31, 2009, when the new pension arrangements came into force (Jan. 1, 2010).

<sup>3)</sup> 40 % of the target direct compensation for the year (performance-related).

<sup>4)</sup> The annual contribution is credited to the pension account of the board member in question along with 6 % interest p.a.

Annual contributions to the MTU pension account differ for each member.

The differences in the annual contributions to the MTU pension accounts result from the remaining periods of service on the Board of Management until the end of the respective contribution period, from the respective age-dependent factors and from the different salary amounts eligible for pension contributions.

#### DISABILITY PENSIONS

Under the new pension rules of January 1, 2010, if a member of the Board of Management is disabled before reaching the age of 60, 50% of the benefits that he/she could still have earned before reaching the maximum age limit are added to the balance on the pension account at the time of disablement. This arrangement is based on the contributions payable when the person leaves the Board of Management, and also applies in cases where that person dies before reaching the age of 60.

The following table shows the service cost for the financial years 2011 and 2010, the corresponding pension provisions, and the amount of the defined benefit obligation (DBO) for the members of the Board of Management as of December 31, 2011, and December 31, 2010, respectively:

#### Changes to service costs, provisions and DBO

Members of the Board of Management	Financial Year	Service cost		Balance of pension account	
		Current service cost	Past service cost	Amount of recognized pension provisions <sup>1)</sup> at Dec. 31	Amount of DBO <sup>2)</sup> at Dec. 31
in €					
<b>Egon Behle</b>	<b>2011</b>	<b>432,800</b>		<b>1,995,987</b>	<b>1,945,210</b>
	2010	450,432	-168,764	1,441,665	1,441,862
<b>Dr. Rainer Martens</b>	<b>2011</b>	<b>134,117</b>		<b>2,710,661</b>	<b>2,641,702</b>
	2010	120,771	737,704	2,459,937	2,460,274
<b>Dr. Stefan Weingartner</b>	<b>2011</b>	<b>111,404</b>		<b>2,284,002</b>	<b>2,225,897</b>
	2010	100,254	852,105	2,073,806	2,074,089
<b>Reiner Winkler</b>	<b>2011</b>	<b>113,077</b>		<b>2,671,996</b>	<b>2,604,020</b>
	2010	101,221	887,151	2,448,110	2,448,444

<sup>1)</sup> The difference between this amount and the DBO is due to unrecognized actuarial gains/losses.

<sup>2)</sup> Defined Benefit Obligation (DBO).

**PROVISIONS ESTABLISHED TO COVER CURRENT AND FUTURE PENSION OBLIGATIONS TO FORMER MEMBERS OF THE BOARD OF MANAGEMENT**

The pension obligations to former members of the Board of Management have changed as follows:

**Provisions established to cover current and future pension obligations**

	<b>At Dec. 31, 2011</b>	At Dec. 31, 2010
Former board members		
<b>Total in €</b>	<b>4,592,627</b>	4,492,575

**RULES FOR PREMATURE TERMINATION OF CONTRACT**

**Severance payments on premature termination of contract for members of the Board of Management**

Depending on the terms of their individual contracts, the members of the Board of Management are entitled to receive severance payments if MTU prematurely terminates their appointment. In the case of ordinary termination, a severance package is payable that corresponds to the board member's basic salary, 50% of the APB and 50% of the Long Term Incentive/Performance Share Plan for the time from the end of the notice period until the date on which the contract would normally have expired. The amount of the severance package may not exceed two full years of payments of these compensation components. If the employment contract is terminated for good cause, no severance package is payable.

**Severance payments on premature termination of contract for members of the Board of Management in the event of a change of control or substantial changes in the ownership of MTU Aero Engines Holding AG**

Members of the Board of Management are entitled to a severance payment if their contract is terminated prematurely in the event of a change of control.

If another company acquires a controlling interest in MTU as defined by the German Securities Acquisition and Takeover Act (WpÜG) or if the ownership structure of MTU changes substantially as a result of a merger or comparable transaction or amalgamation, the members of the Board of Management are entitled to receive a severance payment on condition that the Supervisory Board relieves them of their duties within one year of such a change of control or if their employment contracts are not renewed as a result of the change of control. In these cases, the amount payable corresponds to the Board member's basic salary for the period between leaving the Board of Management and the date on which their contract would otherwise have expired.

In addition, the Supervisory Board is entitled to commute the agreed APB for the year in which the change of control occurs, together with any deferred components of the APB from the two previous years, and to pay out a capital sum equivalent to at least 100% of the target amount.

Further, the LTI plan is automatically terminated in the event of a change of control. By way of compensation for termination of the LTI plan, the member of the Board of Management in question receives a pro rata payment that is calculated as if the LTI plan had been continued. The only difference is that the goal achievement level as expressed in the TSR is determined on the date of change of control, and that the final number of virtual shares is multiplied by the average MTU share price (Xetra) over the last 30 trading days prior to the change of control.

The sum total of all severance payments made in connection with a change of control may not exceed three years' total compensation in each case.



## SUPERVISORY BOARD COMPENSATION

The rules governing Supervisory Board compensation are laid down in the articles of association of MTU Aero Engines Holding AG. Such compensation is established relative to the size of the company and as a function of the duties and responsibilities of the respective members.

Pursuant to Section 12 of the articles of association of MTU Aero Engines Holding AG, members of the Supervisory Board receive a fixed annual payment of € 30,000, payable at the end of the financial year; this sum is tripled in the case of the chair of the Supervisory Board, and multiplied by one-and-a-half in the case of the deputy chair. The chairs of the committees (Audit Committee and Personnel Committee) each receive an additional € 10,000 in fixed compensation, while the ordinary committee members each receive an additional € 5,000. Further, members of the Supervisory Board receive an attendance fee of € 3,000 for each meeting of the Supervisory Board and its committees, subject to an upper limit of € 3,000 per day. Expenses incurred in connection with the exercise of their office are reimbursed, as is the value-added tax payable on the fees.

The members of the Supervisory Board do not receive any share-based compensation.

The following compensation was awarded to the individual members of the Supervisory Board of MTU Aero Engines Holding AG for the financial years 2011 and 2010 respectively:

### Supervisory Board compensation

Total Supervisory Board compensation in 2011 was unchanged compared with 2010.

Members of the Supervisory Board (figures in €)	Compensation 2011 <sup>1)</sup>	Compensation 2010 <sup>1)</sup>
Klaus Eberhardt (Supervisory Board and Personnel Committee chairman) <sup>3)</sup>	129,000.00	129,000.00
Josef Hillreiner (Supervisory Board deputy chairman) <sup>2) 3)</sup>	82,000.00	85,000.00
Dr. Joachim Rauhut (Audit Committee chairman)	64,000.00	67,000.00
Babette Fröhlich <sup>3)</sup>	59,000.00	53,000.00
Dr.-Ing. Jürgen M. Geißinger <sup>2)</sup>	50,000.00	50,000.00
Michael Leppke <sup>2)</sup>	50,000.00	53,000.00
Prof. Dr.-Ing. Klaus Steffens	45,000.00	45,000.00
Udo Stark	45,000.00	42,000.00
Thomas Dautl	45,000.00	45,000.00
Rudolf Domberger	45,000.00	45,000.00
Michael Behé	45,000.00	45,000.00
Dr. Wilhelm Bender	45,000.00	45,000.00
<b>Total</b>	<b>704,000.00</b>	<b>704,000.00</b>

<sup>1)</sup> Figures do not include VAT.

<sup>2)</sup> Member of the Personnel Committee.

<sup>3)</sup> Member of the Audit Committee.

## REPORT OF THE SUPERVISORY BOARD



Klaus Eberhardt  
Chairman of  
the Supervisory Board

### ACTIVITIES OF THE SUPERVISORY BOARD

In accordance with Section 171(2) of the German Stock Corporation Act (AktG), the Supervisory Board provides information on its activities in the financial year 2011 and on the results of its review of the annual financial statements and consolidated financial statements. In 2011, the Supervisory Board carried out with due care the control and consultation duties with which it is entrusted by law and under the terms of the company's articles of association and its own rules of procedure.

The Supervisory Board regularly advised the Board of Management on the running of the company, continually supported and monitored all executive business activities, and assured itself that the Board of Management's dealings were proper and lawful. The Supervisory Board was informed and consulted in a direct and timely manner on all decisions of consequence for the company. The members of the Supervisory Board were briefed by the Board of Management in a regular, timely and comprehensive manner on the situation of the company, and received monthly written reports on the company's earnings, financial situation, and net asset position as well as on important business transactions. The Supervisory Board was also informed in detail of any new plans.

The Supervisory Board met with the Board of Management to discuss strategy issues and all major projects. After careful deliberation and examination, the Supervisory Board endorsed the strategic orientation of the company. All transactions requiring the approval of the Supervisory Board in accordance with law, the company's articles of association or the Board of Management's rules of procedure were reviewed and discussed with the Board of Management prior to approval.

In 2011, too, the Supervisory Board devoted special attention to MTU's system of internal controls, above all the company's risk management system, its auditing practices, and the conformity of its corporate governance system with the relevant legal provisions. The Supervisory Board examined these aspects with reference to the documents submitted to it and in dialog with the Board of Management.

The Supervisory Board has delegated the reporting of compliance matters to the Audit Committee. In future, the internal auditors will present their findings to the Audit Committee and regularly report to it on the latest developments in the field of compliance.

## MEETINGS OF THE SUPERVISORY BOARD

During the financial year 2011, the Supervisory Board convened five ordinary meetings. The average attendance rate at Supervisory Board meetings was over 98%, and no member had an individual attendance rate below 50%. Between official meetings, the chairman of the Supervisory Board was regularly briefed on the company's current situation, significant business transactions and important pending decisions.

At its meetings, the Supervisory Board discussed the business performance of MTU and all its affiliated companies. Both the situation on the commercial and military engine markets, and MTU's market position compared with its competitors were analyzed in depth. The company's earnings, including its risk situation and risk management activities, were also discussed in detail.

Another topic of significance was MTU's investment in geared turbofan programs. MTU secured an 18% share in the PW1100G-JM program for the Airbus A320neo. The company's share in the PW1500G engine program for the CSeries was increased from 15% to 17%. The Supervisory Board also discussed the planned change to the shareholder structure of the International Aero Engines (IAE) consortium, with MTU intending to raise its stake. The IAE consortium is responsible for marketing the successful V2500 engine for the Airbus A320 family.

Further items on the Supervisory Board's agenda included the company's financial support for promotion of the V2500 engine, the latest developments in the TP400-D6 engine program for the A400M military transporter, and the expansion of business activities in the burgeoning Chinese market. The Progress 11 program to enhance efficiency and the Challenge 2010 cost-reduction program were other topics of discussion. Other issues closely examined by the Supervisory Board were the operational business plans and the budget for 2012, the annual performance bonuses for the Board of Management for 2010, and the German Corporate Governance Code.

## CORPORATE GOVERNANCE

The Supervisory Board is convinced that the success of the company is based on good corporate governance. For this reason, the Supervisory Board closely studied the application and implementation of the German Corporate Governance Code in 2011, taking it as a yardstick to measure the efficiency of its own activities. It discussed the composition of both the Board of Management and the Supervisory Board with reference to the topic of diversity, especially the fair representation of women in these bodies. The objective is to raise the number of women holding seats on the Supervisory Board to two or more within the next two periods of office and, as in the past, to ensure the „international“ background of its members. In addition, the Supervisory Board has explicitly stated that, in the nomination proposals it makes to the Annual General Meeting, it will also take into account the principles concerning the avoidance of conflicts of interest. The Supervisory Board is interested in enhancing diversity within the Board of Management, too. When searching for suitable qualified candidates to fill vacant positions there, it will pay particular attention to the goal of fair representation of women.

The Supervisory Board has a sufficient number of independent members. During 2011, the members of the Supervisory Board took part in training measures on their own responsibility and received appropriate support from MTU in their endeavors. Cooperation between the Supervisory Board and the Board of Management, and among the members of the Supervisory Board, was judged to be of a very high quality. No conflicts of interest arose between MTU and any member of its Board of Management or Supervisory Board. The Supervisory Board assured itself that the company had complied with the recommendations laid down in the German Corporate Governance Code, as stated in its declaration of conformity.

In its joint declaration with the Board of Management dated December 7, 2011, pursuant to the requirements of Section 161 of the German Stock Corporation Act (AktG), the Supervisory Board states that MTU Aero Engines Holding AG fully complies with the recommendations of the German Corporate Governance Code, with one exception only. The company's declaration is reproduced on page 38 of this annual report together with a more detailed description of the company's corporate governance system; the declaration has also been posted on the company's website.

## COMMITTEE MEETINGS

By convention, the Supervisory Board has three committees equally representing the employees and the shareholders of the company: the Audit Committee, the Personnel Committee and the Mediation Committee – the latter formed to comply with Section 27(3) of the German Co-Determination Act (MitbG). Each of the committees reports regularly to the full Supervisory Board on its work.

A Nomination Committee, which meets on an ad hoc basis, was set up in 2007 pursuant to the recommendations of the German Corporate Governance Code. The services of this committee were not invoked in the financial year 2011. The task of the Nomination Committee is to find suitable candidates for election to the Supervisory Board, who are then recommended to the Annual General Meeting by the Supervisory Board. The members of this committee are Klaus Eberhardt and Dr. Jürgen M. Geißinger.

The Personnel Committee consists of Klaus Eberhardt, Dr. Jürgen M. Geißinger and the two employee representatives Josef Hillreiner and Michael Leppke. The Personnel Committee met twice in 2011 to discuss matters including the results of the Supervisory Board's efficiency audit and the annual performance bonuses for the Board of Management for 2010. The Mediation Committee, whose members are identical with those of the Personnel Committee, did not have to convene in 2011.

The members of the Audit Committee are Prof. Dr. Joachim Rauhut, Klaus Eberhardt, Babette Fröhlich and Josef Hillreiner. The Audit Committee convened five times in the course of last year and also passed one resolution through the submission of written votes. The committee was primarily occupied with reviewing the annual financial statements, consolidated financial statements and group management report of MTU Aero Engines Holding AG as well as the company's financial situation and quarterly reports.

The Audit Committee specified the key areas for audit in the 2011 financial statements, reviewed and decided on the proposed fees to be paid for the services of the accounting firm Deloitte & Touche, and awarded the contract. In addition, the committee obtained the auditor's statement of independence pursuant to Section 7.2.1 of the German Corporate Governance Code and also monitored the auditor's independence.

To aid the committee members in their tasks, they and all other members of the Supervisory Board were supplied with copies of the reports prepared by Deloitte & Touche concerning the auditing of the annual financial statements and consolidated financial statements as well as the management report and the group management report. These documents were thoroughly reviewed in the presence of the auditor. As a result, the committee recommended that the Supervisory Board should adopt the financial statements, approve the management reports and consent to the Board of Management's profit distribution proposal.

In accordance with the legal requirements, the Audit Committee monitored the financial reporting process and assessed the efficiency of the company's risk management system, internal control system and internal auditing. In addition to examining the company's compliance with the relevant

rules and legal provisions, and the findings of its corporate audits, the Audit Committee also took a close interest in the effects of the German Accounting Law Modernization Act (BilMoG) on its own activities and those of the Supervisory Board as a whole, the findings of its own efficiency audit, and risk management and auditing benchmarks.

## **ADOPTION OF THE ANNUAL FINANCIAL STATEMENTS, THE APPROVED CONSOLIDATED FINANCIAL STATEMENTS, AND THE MANAGEMENT REPORT**

MTU Aero Engines Holding AG's annual financial statements, consolidated financial statements, management report and group management report for the financial year 2011 were audited and fully certified by the accounting firm Deloitte & Touche, Munich, whose appointment had been confirmed by the Annual General Meeting. The audit reports and documents to be reviewed were submitted in a timely manner to all members of the Supervisory Board. The Supervisory Board thoroughly reviewed the annual financial statements, consolidated financial statements, management report and group management report of MTU Aero Engines Holding AG for 2011 and the Board of Management's profit distribution proposal on the basis of the preliminary audit by the accounting firm Deloitte & Touche, on which the chair of the Audit Committee had presented a full report to the Supervisory Board.

The auditor attended the meetings of the Audit Committee of MTU Aero Engines Holding AG on January 23 and March 1, 2012, and the balance sheet meeting of the Supervisory Board on March 12, 2012, and presented the main findings of the audit. The Supervisory Board reviewed the annual financial statements, consolidated financial statements, management report, group management report and the Board of Management's profit distribution proposal, and raised no objections. The company's annual financial statements and consolidated financial statements for the financial year 2011 as submitted by the Board of Management were approved at the Supervisory Board meeting on March 12, 2012. The annual financial statements are thereby adopted. The Supervisory Board agreed to the Board of Management's profit distribution proposal after giving due consideration to the interests of the company and its shareholders. At its meeting, the Supervisory Board took note that MTU Aero Engines Holding AG had not entered into any change-of-control agreements. The only instance in which a change of control might have indirect consequences for MTU Aero Engines Holding AG is in the case of contracts containing change-of-control clauses entered into by group companies. More information on this can be found in the group management report on page 130.

## **NO BOARDROOM CHANGES**

There were no personnel changes in the Supervisory Board in the financial year 2011.

The Supervisory Board wishes to thank the Board of Management as well as all MTU employees for their successful work and the great commitment shown in 2011. It also thanks the works council for its close cooperation and all MTU's shareholders for the trust they place in the company.

Munich, March 12, 2012



Klaus Eberhardt  
Chairman of the Supervisory Board

## THE SUPERVISORY BOARD

### MEMBERS OF THE SUPERVISORY BOARD AND THEIR ADDITIONAL SUPERVISORY BOARD MANDATES AND/OR MANDATES ON COMPARABLE SUPERVISORY ENTITIES OF FOREIGN OR DOMESTIC COMMERCIAL COMPANIES

#### **Klaus Eberhardt**

*Chairman of the Supervisory Board  
CEO of Rheinmetall AG, Düsseldorf*

RMMV Rheinmetall MAN Military Vehicles GmbH  
Dietrich Wälzholz Familienstiftung  
Eckart Wälzholz-Junius Familienstiftung  
Hirschmann Automotive GmbH  
Kolbenschmidt Pierburg AG  
MTU Aero Engines GmbH

#### **Josef Hillreiner**

*Deputy Chairman of the Supervisory Board  
Chairman of the Group Works Council of  
MTU Aero Engines GmbH, Munich  
Chairman of the Works Council of  
MTU Aero Engines GmbH, Munich*

MTU Aero Engines GmbH

#### **Michael Behé**

*Chairman of the Works Council of  
MTU Maintenance Hannover GmbH, Hannover  
Member of the Group Works Council of  
MTU Aero Engines GmbH, Munich*

MTU Maintenance Hannover GmbH

#### **Prof. Dr. Wilhelm Bender**

*CEO of Fraport AG 1993–2009, Frankfurt/Main*

Bombardier Transportation GmbH  
Bombardier Transportation Global Holding SE  
Deutscher Ring Krankenversicherungsverein aG  
Eintracht Frankfurt Fußball AG  
Lufthansa Cargo AG  
MTU Aero Engines GmbH

#### **Thomas Dautl**

*Director Manufacturing Engineering,  
MTU Aero Engines GmbH, Munich*

MTU Aero Engines GmbH

#### **Rudolf Domberger**

*Full-time member of the Works Council of  
MTU Aero Engines GmbH, Munich*

#### **Babette Fröhlich**

*Coordination of NECs tasks and planning,  
IG Metall, Frankfurt/Main*

Volkswagen AG

#### **Dr.-Ing. Jürgen M. Geißinger**

*CEO of Schaeffler AG,  
Herzogenaurach*

Continental AG

MTU Aero Engines GmbH

#### **Michael Leppik**

*Second Authorized Representative,  
IG Metall, Munich*

MTU Aero Engines GmbH

Nokia Siemens Management GmbH

#### **Dr. Joachim Rauhut**

*CFO of Wacker Chemie AG, Munich*

B. Braun Melsungen AG

J. Heinrich Kramer Holding GmbH

MTU Aero Engines GmbH

Pensionskasse Wacker Chemie VVaG

Siltronic AG

#### **Udo Stark**

*Former CEO of MTU Aero Engines Holding AG,  
Munich*

Bilfinger Berger AG

MTU Aero Engines GmbH

#### **Prof. Dr.-Ing. Klaus Steffens**

*Former President and CEO of  
MTU Aero Engines GmbH, Munich*

CompuGroup Medical AG

MTU Aero Engines GmbH

Poppe & Potthoff GmbH

Tyczka Energie GmbH & Co. KGaA

## SUPERVISORY BOARD COMMITTEES

### **Personnel Committee**

Klaus Eberhardt, Chairman  
Dr.-Ing. Jürgen M. Geißinger  
Josef Hillreiner  
Michael Leppek

### **Audit Committee**

Dr. Joachim Rauhut, Chairman  
Klaus Eberhardt  
Babette Fröhlich  
Josef Hillreiner

### **Mediation Committee**

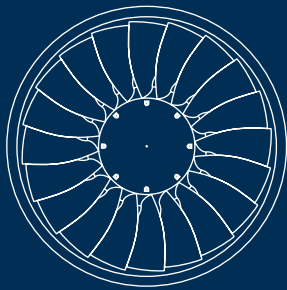
Klaus Eberhardt, Chairman  
Dr.-Ing. Jürgen M. Geißinger  
Josef Hillreiner  
Michael Leppek

### **Nomination Committee**

Klaus Eberhardt  
Dr.-Ing. Jürgen M. Geißinger

# 100% more pressure

Much greater efficiency coupled with lower fuel consumption – the EJ200 engine fitted to the Eurofighter beats its predecessor, the J79, by miles. The secret lies in its much higher pressure ratio of 26:1, which is practically double the former engine's ratio of 13.5:1. The EJ200 is a high-tech gem that helps to give Europe's fighter jet, the Eurofighter Typhoon, its breathtaking agility and maneuverability.



EJ200



## GROUP MANAGEMENT REPORT

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# 1. THE ENTERPRISE MTU

MTU Aero Engines is Germany's leading engine manufacturer and the world's largest independent provider of commercial MRO services. Headquartered in Munich, the company had over 8,200 employees worldwide at the end of 2011, 300 more than in 2010. MTU relies on a sustainable growth strategy and intensive research and development activities to strengthen its market position. The company measures its performance on the basis of revenues, operating profit, return on investment, and free cash flow.

## 1.1. BUSINESS ACTIVITIES AND MARKETS

MTU Aero Engines Holding AG, Munich, together with its consolidated group of companies is Germany's leading engine manufacturer and one of the biggest international players in the industry. In the text below, the designations 'MTU', 'the group', 'the enterprise' or 'the company' are also used when referring to MTU Aero Engines.

MTU supports manufacturers and operators of commercial and military aircraft engines and aero-derivative industrial gas turbines throughout the entire lifecycle of these products, offering services ranging from development and manufacturing to distribution and maintenance.

MTU is a key partner in all important technology programs.

The company is a technological leader in low-pressure turbines, high-pressure compressors, repair techniques and manufacturing processes. MTU is a key partner in all national and international technology programs of note, and cooperates with the top names in the industry – General Electric, Pratt & Whitney and Rolls-Royce.

MTU is the world's largest independent provider of MRO services for commercial aero engines. In the military sector, it has been the leading company in the national market and lead industrial partner to the German armed forces for many decades.

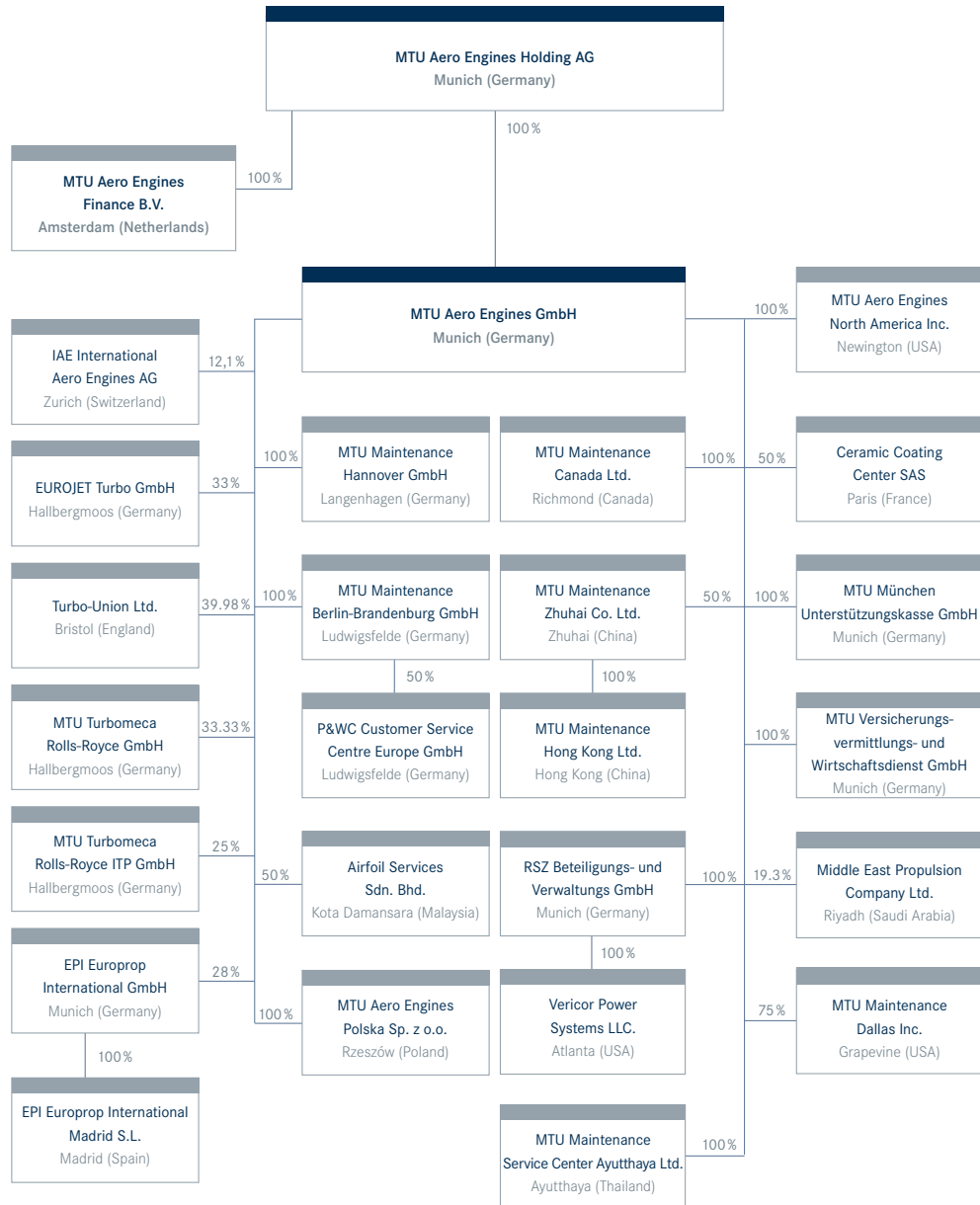
MTU operates in two segments: OEM business (Original Equipment Manufacturing) and MRO business (Maintenance, Repair and Overhaul). The OEM segment covers new commercial engines, including spare parts, and the whole of the military sector. The MRO segment comprises all commercial maintenance activities.

## 1.2. GROUP STRUCTURE, LOCATIONS AND ORGANIZATION

MTU Aero Engines Holding AG, Munich, is the parent company of the MTU group. Its functions are largely those of a holding company, with the main focus being on corporate strategy, risk management and corporate finance. The holding company is also responsible for corporate communications and investor relations, keeping contact with the business environment, capital markets and shareholders.

Through its affiliates, associated companies, joint ventures and equity investments, MTU has a strong presence in all key markets and regions worldwide. More information on equity investments is provided in Note 2. to the consolidated financial statements (Group reporting entity).

**Group structure**



**ORGANISATION**

No changes were made to MTU's legal organizational structure in the financial year 2011. From an organizational point of view, MTU Aero Engines Holding AG, Munich, is still divided into four decision-making units, corresponding to the portfolios of the Board of Management members (see biographies on page 30).

➤ further information  
on page 30

### 1.3. CORPORATE STRATEGY AND CONTROL

#### STRATEGY

MTU's aims are unwaveringly geared toward strengthening the company's strategic position and continuing to expand its lead through targeted, profitable growth. Its key objective is to improve competitiveness and work toward the company's projected growth targets by acquiring stakes in the engine programs that offer the best opportunities for future business success, in both the OEM and the MRO segments.

#### Five strategic pillars



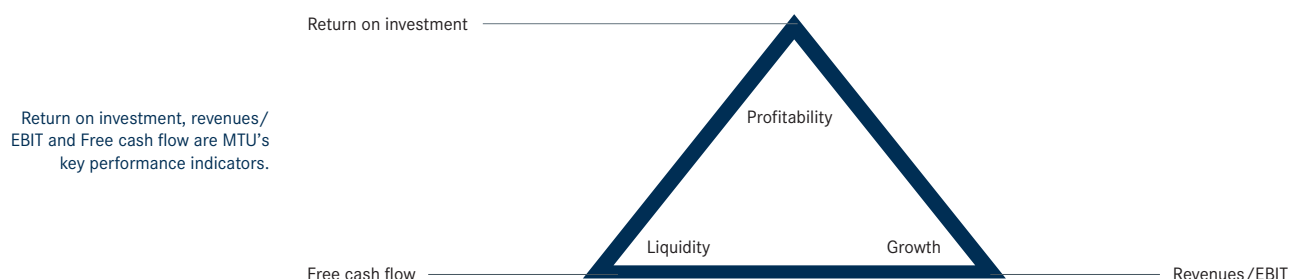
MTU has paved the way to further sustainable growth.

MTU has aligned the activities of all its business areas with its growth targets. The company already holds a large share of the service and MRO markets, and has paved the way to further sustainable growth with its forward-looking program portfolio, well-established and durable customer relationships, motivated workforce, and global structures to reinforce its position in the major growth markets.

#### INTRA-GROUP CONTROL SYSTEM

Three value-driven performance indicators – return on investment, free cash flow, and revenues/EBIT – delimit the range within which MTU operates in terms of growth, profitability and liquidity. The main instruments employed to ensure compliance with the integrated control system are:

- regular Board of Management meetings held at two-weekly intervals
- monthly reports
- central committees dealing with program management and coordination, investments, and human resources, and group-wide committees on quality issues, health and safety, and environmental protection
- risk and opportunity management

**Group-internal control system****GROWTH EXPRESSED AS REVENUES AND EBIT**

Increasing revenues is the key to achieving substantial growth.

➤ further information  
on page 86 ff.

Operating profit or EBIT (adjusted) is the second most important performance indicator. Please refer to Section 3.1. (Operating results) under the subheading 'Reconciliation of adjusted performance indicators' for a definition of EBIT (adjusted). Another indicator monitored by the company is the EBIT margin, which expresses the relationship between EBIT and total revenues.

**Performance indicators: revenues and EBIT (adjusted)**

in € million	2011	2010	2009	2008	2007
Revenues	2,932.1	2,707.4	2,610.8	2,724.3	2,575.9
EBIT (adjusted)	328.0	310.7	292.5	331.5	311.6
EBIT margin adjusted (in %)	11.2	11.5	11.2	12.2	12.1

**PROFITABILITY EXPRESSED AS RETURN ON INVESTMENT**

MTU's aim is to outperform the return on investment expected by shareholders on the basis of general capital-market trends. The expected return is measured as a function of the cost of capital, which is averaged to account for both debt capital and equity capital, i.e. the weighted average cost of capital (WACC). MTU closely monitors changes in the business environment that might have an impact on the cost of capital, adapting its calculations when necessary. Every investment is required to generate a return (interest) at least equivalent to the WACC.

At MTU, the cost of equity is derived from the return on a risk-free alternative investment plus a market risk premium that takes into account MTU's specific risk in relation to the overall market (peer group analysis). When calculated in this way, the cost of equity corresponds to the cost after taxes. Since MTU calculates its cost of capital on a pre-tax basis, a tax adjustment is applied at the group tax rate.

The cost of debt capital is determined on the basis of the weighted cost of borrowing, including the interest element of pension provisions.

Based on these factors, the weighted average cost of capital in the financial year 2011 amounted to 11.1% (2010: 11.0%) for the group as a whole. The weighted average cost of capital calculated separately for the individual operating segments (OEM: 11.2%, MRO: 10.7%) reflects their specific risk structures. The calculation of the cost of capital is described in Note 39. to the consolidated financial statements (Measurement of the recoverable amount of operating segments to which goodwill has been attributed).

➤ further information  
on page 231 ff.

The group uses the expected return in two ways: firstly as a central value-oriented performance indicator representing an absolute measure of the added value contributed by the operating segments and the individual engine programs, and secondly as a key target to ensure that all operating activities contribute toward increasing the value of the company. The aim is to generate added value.

MTU uses two indicators to monitor its performance with respect to this target: return on capital employed (ROCE) and adjusted earnings before interest and tax (EBIT adjusted). The use of ROCE and the relative value contribution – the difference between ROCE and cost of capital – is based on the underlying assumption that the value of the company will increase as long as a sustainably positive value contribution is being achieved. ROCE represents the global return on investment before tax. It is a relative measure of how efficiently the group is employing its capital resources to generate revenues, and is obtained by comparing the EBIT (adjusted) with the average value of its operating assets, adjusted to eliminate the effect of purchase price allocation (PPA).

#### ROCE and value contribution<sup>1)</sup>

in € million	2011	2010	2009	2008	2007
EBIT adjusted	328.0	310.7	292.5	331.5	311.6
Capital employed	1,023.9	964.2	959.8	880.4	802.6
ROCE (in %)	32.0	32.2	30.5	37.7	38.8
WACC (in %)	11.1	11.0	11.2	13.5	13.8
Relative value contribution before tax (in %)	20.9	21.2	19.3	24.2	25.0
<b>Value contribution before tax</b>	<b>214.0</b>	<b>204.4</b>	<b>185.2</b>	<b>213.1</b>	<b>200.7</b>

MTU achieved a contribution to enterprise value of € 214.0 million in 2011.

<sup>1)</sup> All items have been adjusted to exclude intangible assets and property, plant and equipment arising from purchase price allocation, together with the associated depreciation charges/amortization. The consequences of purchase price allocation are explained in Section 3. of this group management report (Financial situation).

MTU's return on capital employed (ROCE) in 2011 amounted to 32.0% (2010: 32.2%). This is attributable to the higher EBIT (adjusted), which increased by € 17.3 million, combined with an even higher increase in fixed assets (an element of capital employed). The generated ROCE consequently exceeded the weighted average cost of capital (WACC) of 11.1% (2010: 11.0%) by 20.9 percentage points.

As a result, MTU achieved a contribution to enterprise value of € 214.0 million (2010: € 204.4 million) or 20.9% (2010: 21.2%).

#### LIQUIDITY EXPRESSED AS FREE CASH FLOW

The purpose of optimizing free cash flow is to help the group maintain its financial assets going forward. Free cash flow comprises elements relating to operating activities (operating profit, changes in current working capital, and capital expenditure) and unrelated elements (financing expense, share of profit/loss of joint ventures, and taxes).

**Free cash flow**

in € million	2011	2010	2009	2008	2007
Cash flow from operating activities	287.9	251.3	252.7	405.8	236.2
Cash flow from investing activities	-126.7	-173.2	-132.5	-282.2	-104.5
Cash flow from investing activities in financial assets	-32.2	66.7			
<b>Free cash flow</b>	<b>129.0</b>	<b>144.8</b>	<b>120.2</b>	<b>123.6</b>	<b>131.7</b>

Working capital is a decisive factor. It is the balance that remains after trade payables, construction contract payables and other liabilities have been deducted from the value of inventories, trade receivables, construction contract receivables and other assets. In order to ensure that these principles are firmly anchored in the group's organizational structure, senior management has delegated the immediate responsibility for operating profit, working capital optimization and capital expenditure to the managers of the operating segments.

Free cash flow does not include investments in financial assets that are not measured at fair value through profit or loss, because these are held as a liquidity reserve and can be sold at any time.

As an incentive to operating segment managers to focus their attention on achieving sustainable improvements in the results of operating activities, senior management has decided that the performance related portion of managers' pay shall be linked to the development of operating profit and free cash flow.

**1.4. RESEARCH AND DEVELOPMENT****ECONOMIC ENVIRONMENT AND GOALS**

MTU has established technological leadership in its core competencies.

Growing mobility demands, limited raw materials and pressing environmental challenges call for innovative solutions – also when it comes to aircraft engines. MTU has established technological leadership in its core competencies of low-pressure turbines, high-pressure compressors, and high-tech manufacturing processes and repair techniques. This provides a solid basis for making further improvements to existing engines and designing and implementing new engine concepts.

MTU's medium-term goals with respect to the development of new commercial engines fully reflect the European aviation industry's voluntary commitment that forms the basis of the ACARE 2020 targets (Advisory Council for Aeronautical Research in Europe). These targets challenge the aviation industry to halve noise emissions, reduce NO<sub>x</sub> by 80% and reduce CO<sub>2</sub> emissions by 50%. Engines will be required to play a key role in achieving these reductions. MTU's Clean Air Engine (Claire) technology program not only meets the goals of ACARE 2020, but also addresses long-term future requirements for engines such as cutting CO<sub>2</sub> emissions by up to 30 percent by the year 2035.

The future performance requirements of engines for military applications are largely dictated by the need for propulsion systems for unmanned aerial vehicles (UAV). Such aircraft, required to operate at long range with fuel-efficient engines capable of generating high thrust while flying close to the ground, demand innovative approaches. Here, MTU has positioned itself as a key player in national and European studies, including the European Technology Acquisition Programme (ETAP).

## TECHNOLOGIES FOR ENGINES OF THE FUTURE

### COMMERCIAL ENGINE PROGRAMS

In cooperation with Pratt & Whitney, MTU is working on a new generation of engines known as the geared turbofan (GTF) PurePower® PW1000G. Unlike conventional turbofans, in which the fan and low-pressure turbine run at the same speed on a single shaft, the geared turbofan places a reduction gear between the two components to decouple them. This enables the large fan to operate at a lower speed and the low-pressure turbine at a higher speed, thus improving the efficiency of the fan and the low-pressure turbine, lowering fuel consumption and CO<sub>2</sub> emissions by 15% each, and halving perceived noise levels. What is more, the lower number of parts and stages makes the engine lighter. MTU's contribution to the geared turbofan comprises the high-speed low-pressure turbine and parts of the high-pressure compressor.

Airbus is offering the GTF as an option for the A320neo (which seats 150 to 200 passengers), while at Bombardier it is the sole powerplant option for its CSeries 100- to 145-seater regional jet. GTF launch customer Mitsubishi is using the engine to equip its MRJ regional jet, which seats between 70 and 90 passengers. Russian aircraft maker Irkut also intends to equip its 150-seater MS-21 with the PW1000G engine.

In 2011, MTU increased its share in the PW1000G program.

MTU holds a 15% share in the PW1217G program for the MRJ. In 2011, it secured an 18% share in the PW1000G program for the A320neo. In the latter program, MTU is also making the engine's brush seals, manufacturing components for the high-pressure compressor, and is responsible for part of the final assembly and testing work. In the financial year 2011, MTU raised its share in the PW1524G program for the Bombardier CSeries from 15 to 17%.

In June 2011, the geared turbofan reached a key milestone on the way to series production, with the PW1524G completing its first successful flight on Pratt & Whitney's flying testbed, a Boeing 747.

An important program for future widebody aircraft is that of the GEnx engine, which will power the Boeing 787 Dreamliner and the new Boeing 747-8, and where MTU is responsible for the development, production and assembly of the turbine center frame. In March 2011, the first 747-8 Intercontinental took off on its maiden flight, equipped with GEnx engines.

### MILITARY ENGINE PROGRAMS

Development activities in the military segment continued to focus on the TP400-D6 for the Airbus A400M military transporter. This three-shaft engine is the most powerful turboprop engine in the Western world. MTU is contributing the entire intermediate-pressure section, comprising compressor, turbine and spool. It is also developing the engine and propeller control system in cooperation with its French partner Snecma. Following the completion of comprehensive performance, endurance and safety tests, a key milestone on the path toward deployment of this engine by national air forces was reached in May 2011, when the European Aviation Safety Agency (EASA) officially approved its use on commercial aircraft.

MTU's involvement in General Electric's GE38 helicopter engine program takes the company into uncharted waters, marking the first time that it has taken on full development responsibility within an U.S. military engine program. The GE38's first application will be in the Sikorsky Aircraft Corporation's CH-53K heavy-lift transport helicopter. MTU is responsible for the power turbine and has obtained licenses for the maintenance, final assembly and testing of the GE38 engines destined to power the European Future Transport Helicopter (FTH). Thus far, the development program has been proceeding according to plan, with the first module being delivered in May 2011 for flight testing.



An updated version of the MTR390 engine – the MTR390 Enhanced – was developed with the aim of extending the Tiger attack helicopter’s mission capabilities, particularly under hot and high conditions. Within the MTR390 program, MTU is responsible for the development and manufacture of the combustor and high-pressure turbine.

#### TECHNOLOGIES FOR MANUFACTURING AND MAINTENANCE

The last few years have seen MTU carve out a leading position in the manufacture of blisk rotors for compressors. Development of the precision electrochemical milling process (PECM) has enabled the company to manufacture blisk rotors from nickel materials more economically – overcoming the enormous challenges involved in machining these materials – and to deploy them in the rear compressor stages.

MTU is building a new center of excellence for blisk manufacturing.

As the production of geared turbofans is ramped up in 2012, there will be much stronger demand for blisk rotors. In order to shore up its position as the market leader in the production of high-tech blisks, MTU is building a new center of excellence for blisk manufacturing in Munich.

#### SAFEGUARDING TECHNOLOGICAL ASSETS

At December 31, 2011, MTU’s portfolio of intellectual property comprised over 2,800 patents and other industrial property rights. The diagram below shows how these rights are distributed over MTU’s various fields of technology.

#### Distribution of MTU’s intellectual property portfolio over its various fields of technology



#### STRATEGIC AND COOPERATIVE VENTURES

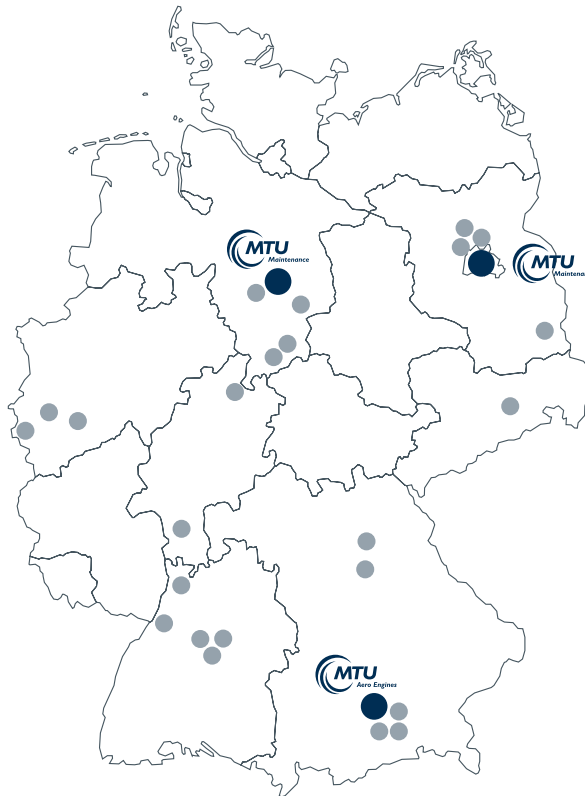
##### COOPERATION IN SCIENCE AND RESEARCH

MTU actively supports networking with universities and research institutions that specialize in fields of technology related to its own areas of interest, and its activities in this area are diverse. For instance, specimen engines are made available to universities and colleges, and MTU experts hold lectures or act as mentors for students working on experimental projects or writing theses and dissertations for diplomas and doctorates; students are also given active support whilst carrying out their assignments and preparing their final thesis presentations. MTU also honors outstanding achievements by awarding the annual Heilmann prize to a young scientist who merits recognition for achievements in engine technology.

The recently created endowed chair at the University of Stuttgart will enable in-depth research to be conducted into topical issues of relevance to future aircraft engines in the domain of structural mechanics and materials science, through a wide variety of interdisciplinary research projects.

**Cooperation with universities and research institutions**

MTU cooperates with leading universities and research institutions.



- RWTH Aachen

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- BAM Berlin

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- DLR Berlin

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- TU Berlin

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- TU Braunschweig

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- BTU Cottbus

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- TU Darmstadt

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- TU Dresden

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- Uni Erlangen

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- FHG Fürth

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- DLR Göttingen

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- Uni Hannover

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- KFA Jülich

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- TH Karlsruhe

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- Uni GH Kassel

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- DLR Cologne

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- Bauhaus Luftfahrt Munich

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- TU Munich

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- UniBW Munich

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- DLR Stuttgart

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- MPA Stuttgart

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- Uni Stuttgart

**BAUHAUS LUFTFAHRT**

In a joint initiative with the Bavarian government, EADS and Liebherr-Aerospace, MTU created ‘Bauhaus Luftfahrt’ – a one-of-a-kind institution in Europe. Based in Munich, this non-profit organization is a globally oriented, visionary think tank that pursues unconventional, cross-company and interdisciplinary research. It brings industry and the research community together under one roof, focusing primarily on exploring the socioeconomic, political and ecological aspects of aviation, developing visionary aircraft design concepts, unearthing promising technologies for the future, and devising knowledge management strategies.

**AIREG (AVIATION INITIATIVE FOR RENEWABLE ENERGY IN GERMANY)**

Dwindling oil reserves and tighter restrictions on CO<sub>2</sub> emissions not only call for greater fuel efficiency, but also for a long-term shift toward the use of renewable energy sources in aviation. Together with 20 aviation companies, bioenergy producers, universities and research institutes, MTU founded the Aviation Initiative for Renewable Energy in Germany (aireg e.V.) in July 2011. This association, the goal of which is to drive forward the introduction of renewable energy sources, unites expertise along the entire value chain, coordinates the activities of all those involved, and spearheads new measures.

## CAPITAL EXPENDITURE ON RESEARCH AND DEVELOPMENT

## Research and development expenditure

in € million	Change 2011 - 2010		2011	2010	2009	2008	2007
	in € million	in %					
Commercial engine business	21.3	16.9	147.4	126.1	100.1	90.1	82.0
Commercial maintenance business	-2.7	-24.3	8.4	11.1	13.6	7.3	6.8
Military engine business	4.6	4.5	106.1	101.5	116.5	84.2	87.6
<b>Research and development expenditure prior to capitalization</b>	<b>23.2</b>	<b>9.7</b>	<b>261.9</b>	<b>238.7</b>	<b>230.2</b>	<b>181.6</b>	<b>176.4</b>
R&D as a percentage of revenues			8.9	8.8	8.8	6.7	6.8

Research and development expenditure in 2011 totaled € 261.9 million, an increase of € 23.2 million compared with 2010. At 8.9%, R&D as a percentage of revenues was marginally higher than in 2010.

**Externally funded** development expenditure primarily relates to the military engine business. It is accounted for as construction contracts in accordance with IAS 11 and recognized as construction contract receivables (or construction contract payables) due to the fact that the work is conducted under contract to national and international consortia on a customer-specific basis.

## Company-funded research and development expenditure

in € million	Change 2011 - 2010		2011	2010	2009	2008	2007
	in € million	in %					
Commercial engine business	21.3	16.9	147.4	126.1	100.1	90.1	82.0
Commercial maintenance business	-2.7	-24.3	8.4	11.1	13.6	7.3	6.8
Military engine business	-0.9	-8.3	10.0	10.9	9.3	3.7	
<b>Company-funded R&amp;D expenditure</b>	<b>17.7</b>	<b>12.0</b>	<b>165.8</b>	<b>148.1</b>	<b>123.0</b>	<b>101.1</b>	<b>88.8</b>
Expenditure meeting recognition criteria for intangible assets							
Commercial and military engine business	-16.8		-30.8	-14.0	-12.6	-2.8	
Commercial maintenance business	1.7	33.3	-3.4	-5.1	-4.8	-3.4	-4.3
<b>Research and development costs recognized as expense</b>	<b>2.6</b>	<b>2.0</b>	<b>131.6</b>	<b>129.0</b>	<b>105.6</b>	<b>94.9</b>	<b>84.5</b>
Capitalized development costs (in %)			20.6	12.9	14.1	6.1	4.8

**Company-funded** expenditure originates from the group's own resources. Such expenditure is examined to determine whether it meets the criteria for capitalization as a self-created intangible asset. In addition to meeting the general requirements for recognition and initial measurement as an intangible asset, the asset's technical and commercial feasibility must be established and it must be possible to reliably measure the attributable costs. Development expenditure that meets the criteria for capitalization is amortized over the expected production output expressed as a number of units. Company-funded expenditure is disclosed in Note 8. to the consolidated financial statements (Research and development expenses).

R&D expenditure meeting the recognition criteria for intangible assets in the commercial and military engine business (OEM) amounting to € 30.8 million (2010: € 14.0 million) relates to company-funded development costs for the engine programs GENx, GE38 and PW1100G (for the Airbus A320neo). MTU's involvement in General Electric's GENx engine program is one of the key aspects of the company's strategy to secure a profitable future. MTU has assumed responsibility for designing and manufacturing the turbine center frame. The engine – which has been developed to power the Boeing 787 Dreamliner and the Boeing 747-8 – provides MTU with access to the latest models in the long-haul sector of the aircraft market. The commercial maintenance business (MRO) has developed special repair techniques for more cost-efficient engine maintenance, for which development costs totaling € 3.4 million (2010: € 5.1 million) were capitalized.

## 1.5. CORPORATE RESPONSIBILITY

MTU's social commitment permeates into the community around its sites.

### SOCIAL RESPONSIBILITY

For MTU, involvement in society does not end at the factory gate; it goes further, permeating into the environment beyond its work sites as well. The company supports local and regional associations, organizations and institutions as a promoter, sponsor and network participant.

One of the most important areas of MTU's social commitment is that of promoting young people's interest in science and technology, paving the way for a possible later career with the company. In 2011, MTU again sponsored the „Weg vom Fleck“ exhibition organized by the Kinder- und Jugendmuseum (Children's and Youth Museum) in Munich. The exhibition provides an opportunity for young scientists to get to know – in a hands-on manner – the physical laws related to the topic of mobility. For many years now, MTU has participated in the “Lange Nacht der Münchner Museen” (The Long Night of the Munich Museums), enabling visitors to experience the development of aviation engine technology through guided tours of the company's own museum.

A further example of MTU's active social commitment is its partnerships with schools in the neighborhood of its sites throughout Germany. As part of these corporate outreach activities, pupils are given topics for home assignments and offered work experience. Here, too, the goal is to help young people to decide on a career and to awaken their interest in technology at an early age.

Promoting research and teaching is a key component of MTU's commitment to society. The partnerships MTU maintains with numerous German universities are advantageous to both sides: the universities receive economic and practical support for their research activities, while MTU safeguards its access to the latest research results and remains attractive to potential newcomers.

🔍 further information  
on page 42

For MTU, corporate responsibility involves not only complying with all applicable laws and regulations, but also supporting initiatives that go a step further. That is why the company became a signatory to the Standards of the Aerospace and Defence Industries Association of Europe (ASD), which are designed to combat corruption and bribery and to promote fair competition among equal parties. At national level, this initiative is supported by the German Aerospace Industries Association (BDLI). The measures taken by MTU to put these standards into practice in its day-to-day operations are discussed under the topic of Compliance on page 42.

The company's social responsibility is also evident in its membership in the "Charter of Diversity." This initiative under the patronage of the Federal government, which is supported by more than 800 German companies, has set itself the task of encouraging diversity in society. In May 2011, MTU joined the UN Global Compact, an international initiative whose goal is to encourage companies to accept sustainable and socially responsible policies. Under the Compact, companies, NGOs, governmental agencies and scientific institutions have joined forces on the basis of voluntary commitments. The UN Global Compact comprises over 8,000 members across 135 countries. The salient points of the Global Compact initiative are anchored in the MTU Principles under the heading "Environment and society."

## EMPLOYEES

### Total MTU workforce by place of employment

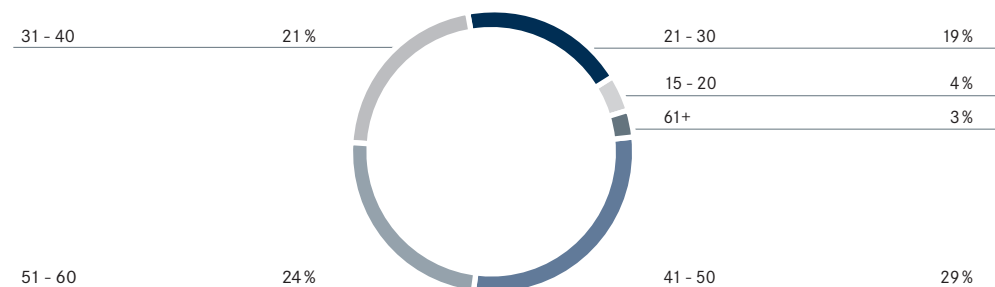
The number of MTU employees increased in 2011 by nearly 4% to 8,202.

	Change 2011 - 2010		Dec. 31, 2011	Dec. 31, 2010
	Headcount	in %		
Locations in Germany	140	2.0	7,047	6,907
International locations	155	15.5	1,155	1,000
<b>Total workforce</b>	<b>295</b>	<b>3.7</b>	<b>8,202</b>	<b>7,907</b>

The employee turnover rate at MTU's German locations was 3.2% in the financial year 2011 (2010: 3.1%).

The following diagram shows the age structure of the workforce at the group entities in Germany:

### Age structure in % (German locations only)



#### VOCATIONAL TRAINING 2011

With an apprenticeship quota of about 4.5%, the company invests strongly in future talent. At year-end 2011, MTU employed a total of 336 apprentices at its German sites, 16% of whom were young women.

Vocational training at MTU is not restricted to the topics of purely professional interest set down in the overall training plan. Rather, importance is also attached to the methods and social skills that serve to develop the apprentices' personalities in line with the MTU corporate culture.

As part of the company's health management program, MTU apprentices dealt intensively in 2011 with the benefits to be gained a healthy lifestyle based on balanced nutrition and exercise, the use of skin protection, and refraining from smoking. This awareness campaign is helping to guide the apprentices toward more healthy behavior.

#### STAFF TRAINING AND DEVELOPMENT

2011 saw the start of a rotation program designed to encourage the early development and further training of engineers, as well as to promote mutual understanding of each other's tasks and goals.

Demographic trends make it necessary to safeguard expertise. In 2011, MTU devoted particular attention to the process of knowledge transfer in order to optimize its succession and personnel planning.

An IT-based KPI reporting system is being introduced to steer the measures taken to ensure that the company has the necessary number of qualified workers, that succession planning is placed on a firm footing and that MTU's specialist and management know-how is enhanced. In this way, it will be possible to assess the effectiveness and efficiency of these measures on an ongoing basis.

At MTU, staff training and development also means taking part in suitable courses to gain additional skills and qualifications. The following table shows the average number of training days completed as well as the total and per-head training costs.

#### Staff training (German locations only)

	2011
Average number of training days per employee	3
Total training costs (in € million)	3.9
Per-head training costs (in €)	552

#### COMPENSATION AND EMPLOYEE PROFIT-SHARING

Now, several years after the introduction of the single-status pay agreement (ERA) at all the company's sites in Germany, coordination between the locations is well established, ensuring a seamless and more transparent compensation system.

In 2011, the human resources department revised the compensation system for senior management. Under the new system, senior managers' compensation is more strongly linked than before to sustainable, longer-term corporate management and development. The compensation continues to comprise fixed, variable, short-term and long-term components. Certain of the variable components are based on

MTU is taking steps to optimize its succession and personnel planning.

an assessment period of several years, and payment of parts of the variable compensation is deferred. The intention of this is to align the interests of senior management and the company more closely as well as to encourage the former's interest in participating in the company in the long term.

The workforce showed keen interest in the MAP employee stock option program in 2011. After a two-year vesting period, MTU provides an attractive incentive by matching the amount invested. In 2011, 17.5% of employees purchased shares under the MAP, almost twice as many as in 2010. The total proceeds from the exercise of these stock options in 2011 amounted to around € 7.5 million.

#### WORK-LIFE BALANCE

MTU enhances the work-life balance of its employees with a range of offers and services. This includes a wide variety of working-time models that allow flexible working within a time corridor from 5:15 a.m. to 8:00 p.m. What is more, parental leave and child/elderly care sabbaticals are available to enable staff to spend more time with their families when this need is uppermost in their lives. In addition, external family services offer employees a comprehensive package of services including debt counseling, help in finding child minders, vacation programs for children, and advice when next of kin require long-term nursing care. MTU also provides funding for the daycare center of "TurBienchen," a non-profit association run by a parents' initiative.

#### HEALTH MANAGEMENT

The MTU health service offers employees services that cover aspects such as health and safety at work, general health, emergencies and first aid, and environmental medicine. It also supports them in issues such as social counseling, the promotion of occupational health, and prevention. Together with the heads of HR at the company's German sites, the MTU health service set up a holistic health management system in 2011, creating a network of experts and implementing highly successful projects across different locations. The latter included action days on the topic of mental health. And the "smoke-free company" project constituted an ideal lead-in to tackling the subject of smoking in the workplace. MTU managers were made more aware of, and given specific training in, the topic of "health and leadership." Future-oriented workplaces were defined and pilot-tested in certain areas.

MTU's health promotion program won an accolade in 2011.

MTU's program of health promotion received an accolade in 2011, with the Bavarian State Ministry of Labor and Social Welfare, Family Affairs and Women including MTU as a finalist in its Top Health Management Award 2011 in the category "promotion of health."

#### NO-BLAME CULTURE

MTU has recognized the no-blame culture as a topic of strategic importance, and the company itself already has a lively and professional no-blame culture in place. In a variety of standardized, division-specific projects, guidelines are being developed on appropriate responses to errors, and a binding framework created for dealing with them. In the years ahead, the intention is to systematically promote the no-blame culture across the company. In addition, the topic will be anchored in basic corporate processes – such as training and personnel development – which are coordinated centrally.

In 2011, MTU came 12th in the ranking of Germany's top employers.

#### **AWARDS FOR MTU'S ATTRACTIVENESS AS AN EMPLOYER**

In its ranking of Germany's top employers, the CRF Institute, a social research entity, assesses companies across the country in terms of what they offer their employees in the categories of culture, training and development, career perspectives, primary benefits, fringe benefits, and work-life balance. In recent years, MTU has continually been able to improve its ranking, taking 12th spot in 2011.

This result underscores MTU's aspiration to set the benchmark for other companies. Of equal importance for Germany's leading engine manufacturer is that potential applicants perceive it as an attractive employer. In 2011, MTU was ranked 23rd most popular employer among engineers in the well-known Universum Young Professionals Study of Wirtschaftswoche magazine. For the study, 5,500 specialists with eight to ten years of professional experience were asked which employer they would most like to work for. Among the women surveyed, MTU improved its ranking from 89th in 2010 to 44th. MTU intends to continue along this path in the year ahead as well.

Regular checks and audits by the Hertie-Stiftung, a non-profit foundation, help MTU to ascertain the viability of a healthy work-life balance for its staff and allow the company to fine-tune the services it offers employees in this context. These audits are a source of constant feedback and stimulus for the company. The 2011 audit focused on stepping up options for mobile working, leave-of-absence models, enhancing the acceptance and implementation of family-support offerings, and the role and responsibility of managers.

#### **DIVERSITY – A GOLDEN OPPORTUNITY FOR THE COMPANY**

Diversity is a key factor in ensuring a company's future success. By signing the "Charter of Diversity" in 2010, MTU made a commitment to diversity in the workplace. The values of respect, fairness and mutual regard are enshrined in the MTU Principles.

The company is extremely active in promoting its female employees. A particular concern of MTU is to grant women embarking on their careers easier access to technical professions. Specific activities include the company's participation in the nationwide Girls' Day events and its organization of a science camp for women researchers. For over ten years now, the company has had a foundation dedicated to promoting motivated, highly talented women students. MTU also takes part in the "cross-mentoring" program in Munich, the goal of which is to pair up young women showing management potential with experienced mentors from middle and senior management from other companies. What is more, MTU has signed the "Munich Memorandum for Women in Management", thus highlighting its intention to raise the share of women in the company's management echelon through the systematic promotion of female employees.

Further information on human resources activities at MTU can be found in the separate Human Resources Report 2011/2012.



## ENVIRONMENT

Today, the aviation industry operates within an environment characterized by conflicting factors: the increasing mobility of society, ever scarcer resources, and worsening climate change. In order to handle the future volume of air traffic without causing long-term damage to the environment, the switch to an ecologically and economically sustainable aviation system is imperative. Environmental protection and resource conservation are becoming key issues not just in Germany but also around the world. For MTU, protecting the environment is not simply an obligation, but part and parcel of the responsibility it shoulders on behalf of its employees, customers, partners and neighbors.

### INCREASING EFFICIENCY

With its new products, MTU is making a substantial contribution toward sustainable aviation.

With its new products, MTU is making a substantial contribution toward sustainable aviation. Its focus is on increasing the efficiency of aircraft engines by making better use of existing resources, reducing pollutant emissions, and paving the way for alternative fuels.

A clear yardstick for assessing the efficiency of different-sized engines is their fuel consumption in relation to the thrust they generate (specific consumption). Today, engines with MTU components are already notable for their low fuel consumption.

This success is attributable to higher bypass ratios, higher overall pressure ratios, and enhanced component efficiency. A key factor in this development has been MTU's low-pressure turbine and high-pressure compressor technologies, both of which feature higher pressure ratios, greater performance, lower weight, and improved efficiency. And MTU is constantly honing and refining its components, with the goal of setting new benchmarks in terms of efficiency, weight and component load. MTU is aiming to achieve efficiency levels of well over 90% for its high-pressure compressors and over 93% for its low-pressure turbines.

The GP7000 engine deployed in the Airbus A380 represents the epitome of this development to date. MTU develops and manufactures components for the GP7000, key among them the engine's low-pressure turbine, where efficiency levels of over 93% have been achieved for the first time.

Only new engine programs will enable the company to reach further milestones, which is why MTU has launched the Claire (Clean Air Engine) technology program. The three revolutionary technologies deployed in this program will enable the systematic reduction of CO<sub>2</sub>, NO<sub>x</sub> and noise emissions.

The first stage of Claire – an engine featuring a geared turbofan – will be marketed as early as 2013. The gear unit between the fan and the low-pressure turbine enables the fan to rotate slowly while the turbine runs fast, thus allowing each component to operate in its optimum mode. The result is fuel consumption that is 15% lower than today's turbofan engines as well as substantially reduced noise emissions.

A counter-rotating shrouded propfan will form the focal point of the second stage of Claire. MTU has already developed and tested a fan of this type.

The third stage of the program will involve the introduction of new core engine concepts, for example with exhaust-air heat exchangers. In this third stage of Claire, fuel consumption could be as much as 30% lower than that of engines today.

Claire is an ambitious technology program for MTU – one that meets the goals set by the Advisory Council of Aeronautical Research in Europe (ACARE). The ACARE goals target a 50% reduction in both CO<sub>2</sub> emissions and fuel consumption by 2020 (baseline: 2000), with the engine alone having to contribute 20%. Key components of Claire have already demonstrated their suitability in tests.

#### **EMISSIONS-NEUTRAL FLYING WITH ALTERNATIVE FUELS**

New engines cannot on their own make aviation sustainable. All those involved in aviation – including aircraft and engine manufacturers, air-traffic managers and airlines – are called upon to cooperate in order to achieve this goal. This is why MTU is participating in the “eco-efficient flying” beacon program set up by the German Aerospace Industries Association (BDL), the goal of which is to make emissions-neutral flying a reality by the year 2050. The key technologies required, including alternative fuel sources, are being defined in a coordinated road map, and responsibilities allocated for different parts of the program. The program makes aviation in line with the demands of society possible, even in times of increasingly strict climate legislation and dwindling oil reserves. The “eco-efficient flying” project will also create the necessary prerequisites for reaching the goals of the International Air Transport Association (IATA), which promise annual efficiency gains of 1.5% in the period up to 2020, no additional CO<sub>2</sub> emissions from any growth in air traffic after that date, and a halving of the total CO<sub>2</sub> emissions caused by aviation as from 2050.

MTU is participating in the “eco-efficient flying” beacon program.

In the long run, it will be necessary to replace petroleum-based kerosene with alternative fuels that are emissions-neutral and produced using renewable resources. That is why MTU – along with 20 other aviation companies, bioenergy producers, universities and research institutes – launched the Aviation Initiative for Renewable Energy in Germany (aireg e.V.) in July 2011 to coordinate the introduction of alternative fuels. Above and beyond this, MTU is participating in research projects that focus on alternative fuels, such as FAIR (Future Aircraft Research). In the latter program, German airline Lufthansa is for the first time using a 50:50 mix of biofuel and conventional kerosene to power the engine of a jet in regular service between Frankfurt and Hamburg. The test flights, which have been in progress since July 2011, are delivering important findings on the long-term deployment of such fuels. MTU is analyzing the in-flight performance of the engine in detail with the aid of its Engine Trend Monitoring System. The biofuel, which is produced by Neste Oil in Finland mainly using jatropha oil, has been notable for delivering trouble-free engine operation and lower fuel consumption thanks to its higher energy value.

MTU’s commitment to alternative energy sources also includes its membership in the Algal Biomass Organization (ABO), a non-profit organization whose purpose is to drive forward research into, and production of, fuels based on algae. Tests have shown that their use makes technical sense, too. Algae-based fuels not only have a higher energy content than conventional kerosene, they are also sulfur-free, which can help extend the lifecycle of aero engines.

#### **ELIMINATING ENVIRONMENTALLY HARMFUL PRODUCTION PROCESSES AND MATERIALS**

Doing away with environmentally harmful materials, and production and repair processes can make a significant contribution toward reducing the environmental impact of future products. It includes, for example, a ban on the use of mercury and cadmium in materials used for components, joints and coatings.

Whether in the development and production phases or during engine maintenance, MTU applies stringent environmental criteria in all its processes and systems. These criteria meet statutory requirements as an absolute minimum and form the basis for internal standards that are binding for all group locations. Compliance with these standards is regularly checked and certified by internal and external audits in accordance with DIN EN ISO 14001 – and also in accordance with the European Parliament and Council's EMAS (Eco-Management and Audit Scheme) Regulation at the German locations in Munich and Hannover. The company's environmental management system has been successfully audited in accordance with ISO 14001 and Regulation (EC) No. 761/2001, while its industrial safety management system has also passed an audit in line with OHSAS 18001. The Board of Management regularly assesses the progress made in meeting environmental targets.

#### CONSERVATION OF RESOURCES: MATERIALS

The conservation of resources by reducing the consumption of raw materials and recycling materials in the original loop is standard practice at MTU. New methods and processes enable around 70% of all engine blades to be reused two, three or even four times, thus limiting the use of new materials. This is an area in which MTU is making great efforts to combat climate change and protect the environment.

#### CONSERVATION OF RESOURCES: ENERGY AND CO<sub>2</sub>

MTU's commitment is not limited to optimizing its products; it also places the highest demands on its production and maintenance processes in terms of efficiency. Energy management at its various locations is a tool, and in Munich this is set down in the Clean Air – Industrial Site (CLAIR-IS) program. The program is firmly focused on operational safety, the environment and cost efficiency.

MTU aims to reduce annual CO<sub>2</sub> emissions at its Munich site by over 30 percent between now and 2020.

The goal of CLAIR-IS is to achieve an over 30-percent reduction in annual CO<sub>2</sub> emissions at the Munich site by 2020 (taking 1990 as a baseline), despite a substantial increase in production. The measures to achieve this include, for example, making greater use of well water as a coolant in production processes, upgrading the heating network and deploying building control systems, introducing a centralized machine shutdown function, and utilizing fuels from renewable sources in the company's cogeneration plant.

Using groundwater as a coolant saves around 3,000 metric tons of CO<sub>2</sub> annually, while expansion of the building control systems cut CO<sub>2</sub> emissions by some 71,000 metric tons in the period 2001 to 2010. Such measures additionally serve to save energy. All in all, the company intends to cut its pro-rata electricity consumption by 25% between 2010 and 2020.

The cogeneration plant at the Munich site, which produces both electricity and heating, also contributes toward lowering CO<sub>2</sub> emissions. The plant runs on vegetable oil, thus reducing the amount of fossil fuels needed to produce heat.

## 2. ECONOMIC ENVIRONMENT

Global economic growth weakened substantially in 2011. The highest increases were once again registered in the Asia-Pacific region, while growth rates in North America and Western Europe did not exceed the 2-percent mark. Together, these three regions represent the aviation industry’s key markets. In 2011, the volume of international air traffic rose by 5.9 % in the passenger sector but decreased by 0.7 % in the freight sector.

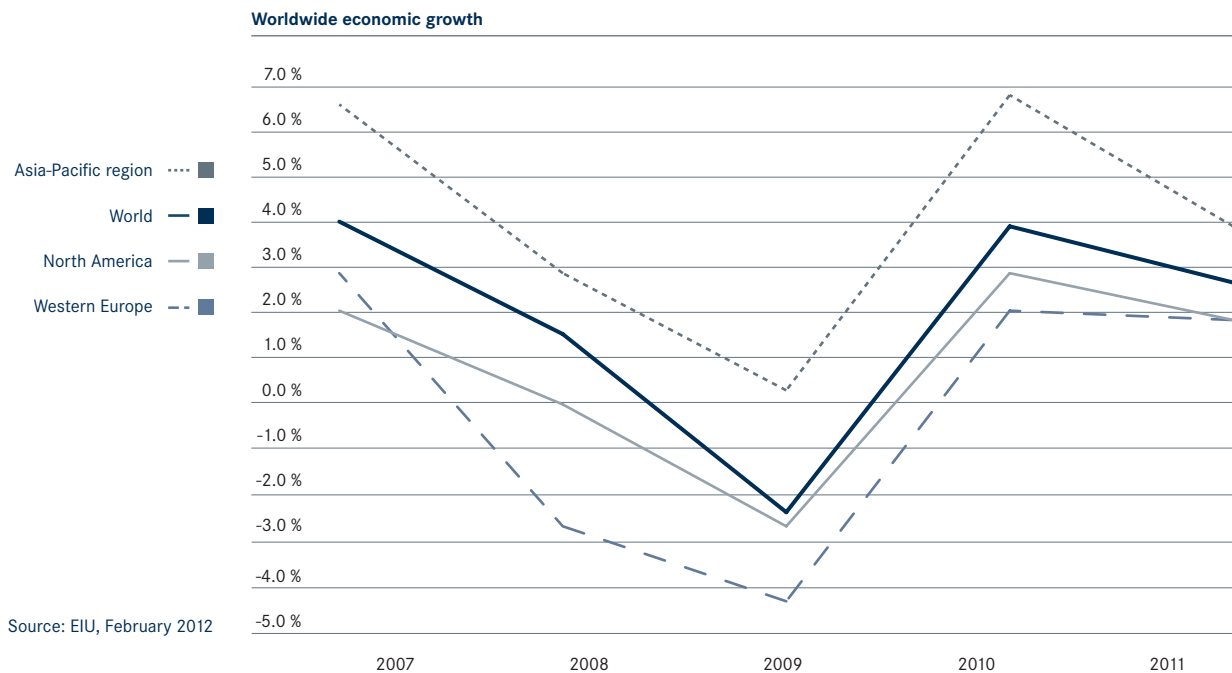
### 2.1. GENERAL ECONOMIC CLIMATE

In 2011, the global economy was strongly affected by the natural disaster in Japan, and the political unrest in North Africa and the Middle East. What is more, the sovereign debt crises in the euro zone and the U.S. led to an enduring loss of confidence in the global economy.

On the back of these events, global economic growth weakened substantially in 2011, rising by only 2.6 % compared with 4.0 % in 2010. The U.S. economy was more stable than expected, registering growth of 1.8 %. The crisis management of political leaders in Western Europe weighed heavily on the continent’s economy, which grew by 1.8 % in 2011. The Asia-Pacific region succeeded in shaking off the effects of the natural disaster in Japan, growing by a satisfactory 3.7 % and retaining its crown as the world’s top growth region (source: EIU, February 2012).

The Asia-Pacific region is still the leader in terms of economic growth.

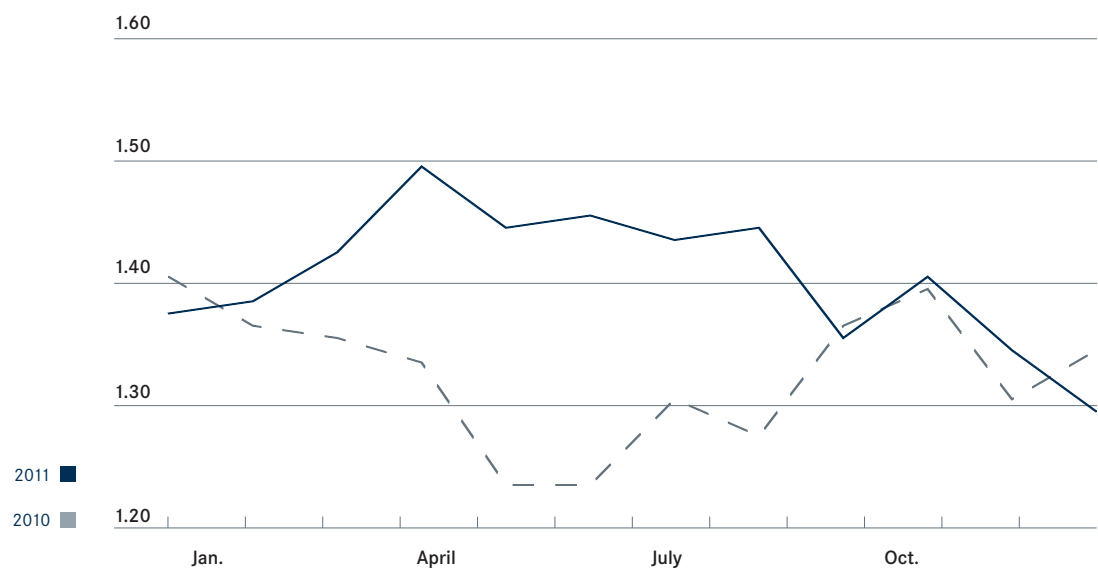
Asia-Pacific, North America and Western Europe are the aviation industry’s key markets, together accounting for 70 % of total passenger traffic, 90 % of freight traffic and 90 % of the international aircraft fleet.



The euro / U.S. dollar exchange rate is of strong interest to MTU as an export-oriented company.

As an export-oriented aviation company, MTU has a strong interest in the euro / U.S. dollar exchange rate. As in previous years, the euro / U.S. dollar exchange rate was marked by high volatility in 2011. The average exchange rate for the period January 1 to December 31, 2011, was 1.3920 U.S. dollars to the euro and thus well above the previous year's average of 1.3260 U.S. dollars to the euro. The euro peaked at 1.4882 U.S. dollars on May 4, 2011, and reached its lowest level of the year of 1.2889 U.S. dollars on December 29, 2011. The closing rate for the year on December 30, 2011, was 1.2939 U.S. dollars to the euro, somewhat below the 2010 closing rate of 1.3362.

#### U.S. dollar exchange rate movements 2010 and 2011



The crude oil price was less volatile in 2011 than in 2010, with a WTI average spot price per barrel of 95 U.S. dollars over the year (source: EIA). This represents an increase of around 20% compared with the 2010 average (79 U.S. dollars per barrel). Reasons for this price rise are to be found in constantly increasing production costs and growing demand from Asia. As their kerosene bill is the biggest cost factor for airlines, the trend toward either grounding or phasing out old, inefficient aircraft types remains unbroken, thus lending impetus to the production of new models.

Evolution of crude oil and kerosene prices in 2011 (spot price in U.S. dollars/barrel)



Source: US Energy Information Administration

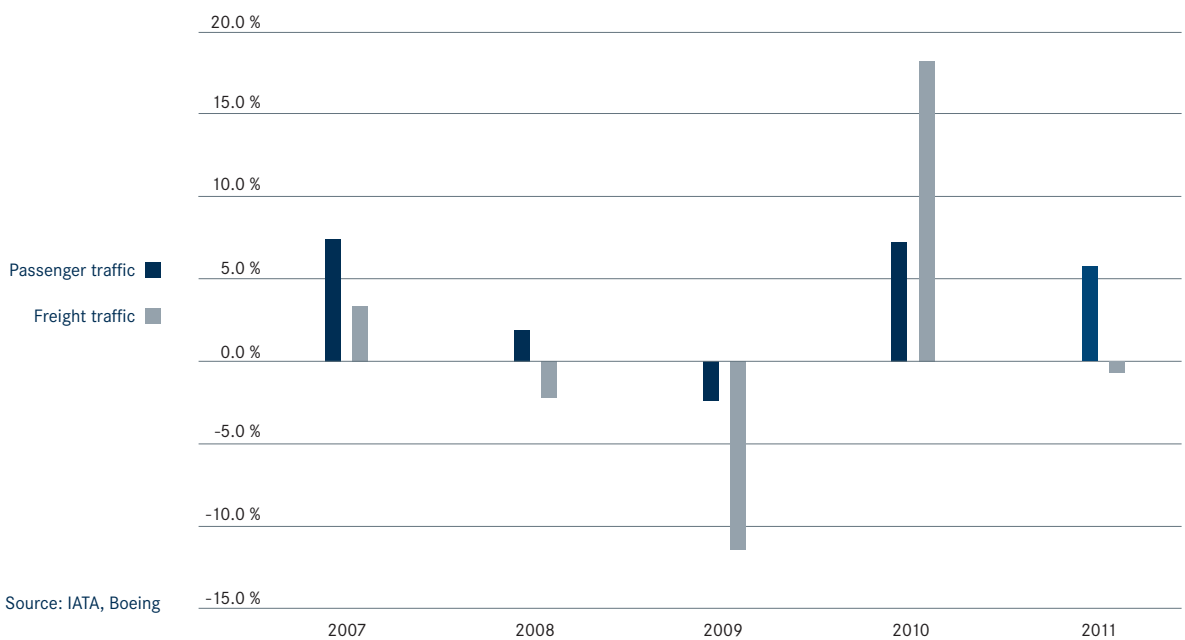
## 2.2. INDUSTRY-SPECIFIC DEVELOPMENTS IN THE AVIATION SECTOR

Global passenger traffic rose in 2011 by 5.9%, a figure substantially above the long-term trends that correlate with economic growth. By contrast, freight traffic decreased by 0.7%.

Flying hours increased by 6% in 2011.

Flying hours, which are an indicator of demand for engine parts and maintenance, grew by 6% in 2011 (source: Ascend Online, UBS).

Growth in the volume of global passenger and freight traffic



Source: IATA, Boeing

Airlines continued to hone their capacity management in 2011, and maintained their seat occupancy factor at the same high level as in 2010, namely 78%.

Orders for new aircraft continued to rise in 2011. The order intake for short- and medium-haul aircraft and widebody jets increased from 1,400 units in 2010 to 2,692 in 2011. This figure includes 1,566 short- and medium-haul aircraft equipped with the new, more economical Pratt & Whitney PW1000G series or CFMI's Leap engines. The order backlog for single-aisle and widebody aircraft rose by some 20% in 2011 to reach 8,600 aircraft. The year 2011 also saw a new delivery record for Airbus and Boeing, with over 1,011 aircraft leaving their production plants. In December 2011, the percentage of aircraft grounded was 10% as opposed to 12% in 2010.

Ticket prices, too, rose in 2011. The lucrative business travel sector revived, adding substantially to airline income. According to IATA statistics, the industry as a whole posted an increase in revenues of around 9% to U.S. \$ 596 billion (2010: U.S. \$ 547 billion). Higher fuel costs put a damper on profits. The industry as a whole now expects to make a profit of U.S. \$ 6.9 billion for 2011.

There was no recovery in the business jet sector in 2011, with deliveries slumping by 13% in the first two quarters (source: GAMA). The slight pick-up in deliveries in the third quarter may indicate a change in this trend.

### 2.3. OVERALL ASSESSMENT OF THE BUSINESS SITUATION

In 2011, the global economy was unable to repeat its 2010 performance in terms of growth rates. Although economic development in emerging markets – especially in China – remained buoyant, growth rates in the industrialized economies were dragged down by the euro zone's sovereign debt crisis.

Airline profits in 2011 exceeded IATA's original forecast by a wide margin.

As a result of these factors, global passenger traffic grew by 5.9% in 2011. Airlines posted total revenues of U.S. \$ 596 billion and profits of U.S. \$ 6.9 billion, well overshooting the profit figure of U.S. \$ 4 billion forecast by IATA at the start of the year.

Airbus and Boeing both notched up new delivery records, while the order backlog for both short- and medium-haul aircraft and widebody aircraft rose substantially.

### 3. FINANCIAL SITUATION

MTU Aero Engines' group revenues increased in the financial year 2011 by 8.3% to € 2.9 billion. Revenues in the commercial and military engine business grew by 11.0% and in the commercial maintenance business by 4.0%. The group's operating profit increased in 2011 by 5.6% to € 328.0 million, which is higher than both the original and the revised earnings forecasts for the year. As a result of the high free cash flow, net financial debt was reduced to € 12.2 million.

The following explanatory comments and analyses are derived from the audited MTU consolidated financial statements for the financial years ending December 31, 2011, and 2010. The consolidated financial statements are drawn up in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), to the extent that these have been adopted by the European Union.

In accordance with IFRS requirements, certain new or revised/amended standards and interpretations were applied for the first time in the financial statements for 2011. Their application did not give rise to any changes with a significant impact on the group's financial situation, net assets or operating results. Consequently, no changes in the financial reporting principles or in management judgments with respect to the application of the accounting standards had an effect on the group's business performance in the reporting period.

#### INFORMATION ON EXCHANGE RATES

The financial data presented in this annual report are stated in euros, U.S. dollars, Canadian dollars, Chinese yuan renminbi or Polish zloty. All currency translations are based on the official exchange rates published by the European Central Bank.

#### Foreign currency exchange rates

Currency	ISO-Code	Rate on balance sheet date		Average rate	
		Dec. 31, 2011 1 euro =	Dec. 31, 2010 1 euro =	2011 1 euro =	2010 1 euro =
United States dollar	USD	1.2939	1.3362	1.3920	1.3260
Canadian dollar	CAD	1.3215	1.3322	1.3761	1.3656
Chinese yuan renminbi	CNY	8.1588	8.8220	8.9960	8.9738
Polish zloty	PLN	4.4580	3.9750	4.1206	3.9949

#### 3.1. OPERATING RESULTS

MTU in its present form was created with effect from January 1, 2004, when Kohlberg Kravis Roberts & Co. Ltd. (KKR) purchased 100% of the company's shares from the then DaimlerChrysler AG. In the context of the acquisition, assets, liabilities and contingent liabilities were identified in accordance with IFRS 3 and measured at fair value. Since then, the identified intangible assets, in particular, have led to considerable scheduled amortization expenses each year. In the following text they are referred to collectively as 'effects of the purchase price allocation' and, in order to facilitate comparison, corresponding adjustments have been applied to eliminate them from the indicators presented below.



## GROUP

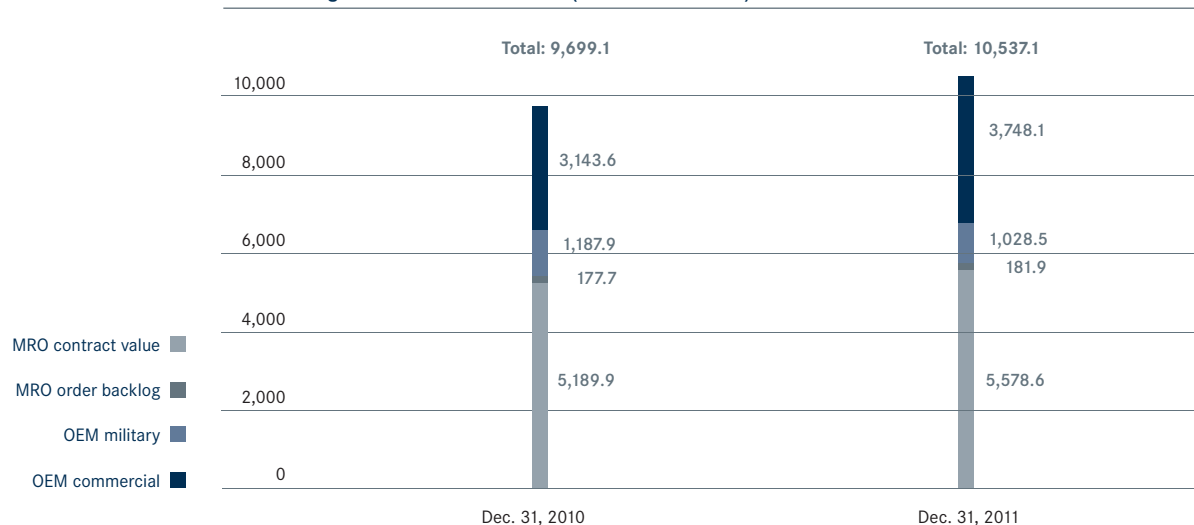
## Consolidated income statement

	Change 2011 - 2010		2011		2010	
	in € million	in %	in € million	in %	in € million	in %
<b>Revenues</b>	<b>224.7</b>	<b>8.3</b>	<b>2,932.1</b>	<b>100.0</b>	<b>2,707.4</b>	<b>100.0</b>
Cost of sales	-201.3	-9.2	-2,385.8	-81.4	-2,184.5	-80.7
<b>Gross profit</b>	<b>23.4</b>	<b>4.5</b>	<b>546.3</b>	<b>18.6</b>	<b>522.9</b>	<b>19.3</b>
Costs by function	-5.2	-2.0	-260.7	-8.9	-255.5	-9.4
Depreciation/amortization effects of purchase price allocation	-0.9	-2.1	42.4	1.5	43.3	1.6
<b>Adjusted earnings before interest and tax (EBIT adjusted)</b>	<b>17.3</b>	<b>5.6</b>	<b>328.0</b>	<b>11.2</b>	<b>310.7</b>	<b>11.5</b>
Depreciation/amortization effects of purchase price allocation	0.9	2.1	-42.4	-1.5	-43.3	-1.6
<b>Earnings before interest and tax (EBIT)</b>	<b>18.2</b>	<b>6.8</b>	<b>285.6</b>	<b>9.7</b>	<b>267.4</b>	<b>9.9</b>
Financial result	-14.6	-36.3	-54.8	-1.8	-40.2	-1.5
<b>Earnings before tax (EBT)</b>	<b>3.6</b>	<b>1.6</b>	<b>230.8</b>	<b>7.9</b>	<b>227.2</b>	<b>8.4</b>
Income taxes	12.4	14.6	-72.6	-2.5	-85.0	-3.1
<b>Earnings after tax (EAT)</b>	<b>16.0</b>	<b>11.3</b>	<b>158.2</b>	<b>5.4</b>	<b>142.2</b>	<b>5.3</b>
Undiluted earnings per share in €	0.33	11.3	3.24		2.91	
Diluted earnings per share in €	0.32	11.3	3.15		2.83	

## ORDER BACKLOG

MTU's order backlog consists of firm customer orders that commit the group to delivering products or providing services, plus the contractual value of service agreements.

## Order backlog and value of MRO contracts (before consolidation) in € million



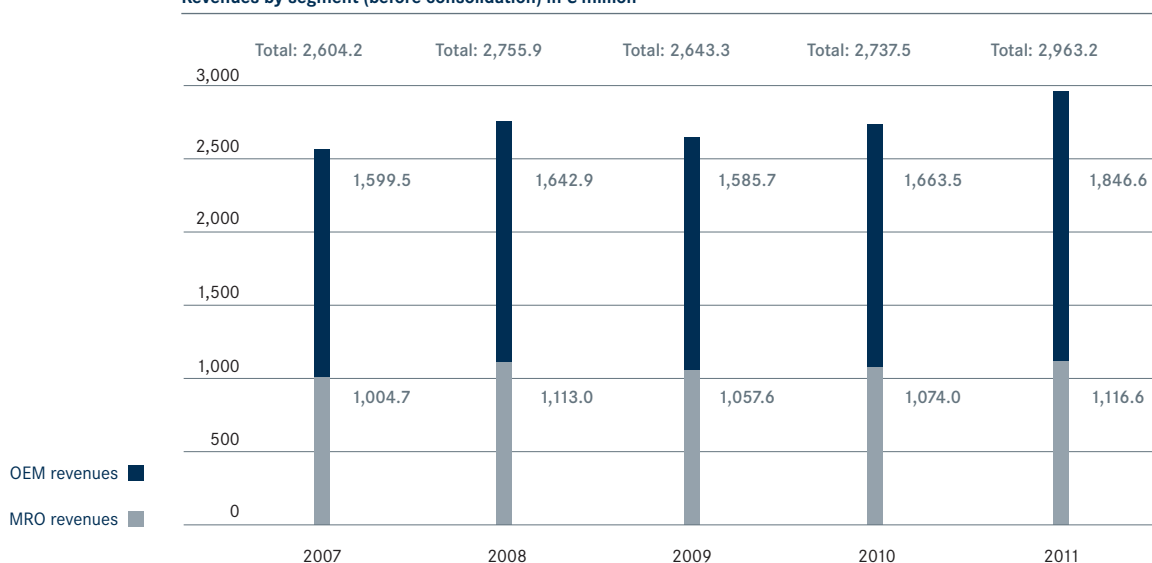
The total volume of book orders amounts to € 10.5 billion and, in purely arithmetical terms, represents a workload of approximately three years.

In 2011, OEM revenues increased by 11.0% and MRO revenues by 4.0%.

## REVENUES

Group revenues increased in the financial year 2011 by € 224.7 million (8.3%) to € 2,932.1 million. Compared with the previous year, revenues in the commercial and military engine business (OEM), before consolidation, rose by € 183.1 million (11.0%) to € 1,846.6 million, while the corresponding revenues in the commercial maintenance business (MRO) grew by € 42.6 million (4.0%) to € 1,116.6 million.

### Revenues by segment (before consolidation) in € million



## COST OF SALES AND GROSS PROFIT

The cost of sales increased by € 201.3 million (9.2%) to € 2,385.8 million. At the same time, revenues increased by € 224.7 million (8.3%). As a result, gross profit improved by € 23.4 million (4.5%) to € 546.3 million. The gross profit margin amounts to 18.6% (2010: 19.3%).

## RECONCILIATION OF ADJUSTED PERFORMANCE INDICATORS

The main reason for which adjustments are applied is to eliminate the effect of nonrecurring items that are superimposed on the results of operating activities and obscure the true comparability of EBIT and other performance indicators for the group and the individual operating segments with the figures for previous years. Starting out from the unadjusted earnings figures, the respective adjusted values are obtained by adding (expenses) or subtracting (income) the nonrecurring items.

Examples of adjusted performance indicators include EBIT adjusted and the adjusted EBIT margin. The International Financial Reporting Standards (IFRSs) do not stipulate any requirements concerning adjusted performance indicators.

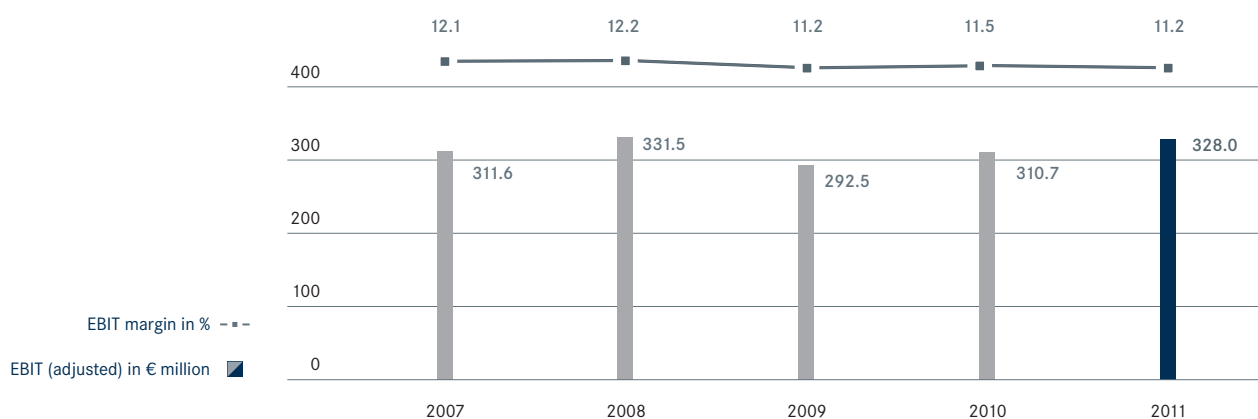
The adjusted performance indicators should not be viewed in isolation as an alternative to the other indicators presented in accordance with IFRS, but as additional information.

## Reconciliation of the consolidated income statement

in € million	2011			2010		
	Financial year	Non-recurring items	Financial year w/o non-recurring items	Financial year	Non-recurring items	Financial year w/o non-recurring items
<b>Revenues</b>	<b>2,932.1</b>		<b>2,932.1</b>	<b>2,707.4</b>		<b>2,707.4</b>
Cost of sales	-2,385.8	37.7	-2,348.1	-2,184.5	38.5	-2,146.0
<b>Gross profit</b>	<b>546.3</b>	<b>37.7</b>	<b>584.0</b>	<b>522.9</b>	<b>38.5</b>	<b>561.4</b>
Research and development expenses	-131.6	2.7	-128.9	-129.0	2.9	-126.1
Selling expenses	-80.3	1.1	-79.2	-79.7	1.1	-78.6
General administrative expenses	-57.0	0.9	-56.1	-52.3	0.8	-51.5
Other operating income and expenses	5.6		5.6	6.1		6.1
Profit/loss of companies accounted for using the equity method				-2.1		-2.1
Profit/loss of companies accounted for at cost	2.6		2.6	1.5		1.5
<b>Earnings before interest and tax (EBIT)</b>	<b>285.6</b>	<b>42.4</b>	<b>328.0</b>	<b>267.4</b>	<b>43.3</b>	<b>310.7</b>
Financial result	-54.8		-54.8	-40.2		-40.2
<b>Earnings before tax (EBT)</b>	<b>230.8</b>	<b>42.4</b>	<b>273.2</b>	<b>227.2</b>	<b>43.3</b>	<b>270.5</b>
Income taxes	-72.6	-3.2	-89.1	-85.0	-3.2	-88.2
<b>Earnings after tax (EAT)</b>	<b>158.2</b>	<b>39.2</b>	<b>184.1</b>	<b>142.2</b>	<b>40.1</b>	<b>182.3</b>
<b>EBIT</b>	<b>285.6</b>	<b>42.4</b>	<b>328.0</b>	<b>267.4</b>	<b>43.3</b>	<b>310.7</b>
Depreciation/amortization of:						
Intangible assets						
Depreciation/amortization effects of purchase price allocation	40.1	-40.1		40.1	-40.1	
Property, plant and equipment						
Depreciation/amortization effects of purchase price allocation	2.3	-2.3		3.2	-3.2	
<b>EBIT (adjusted)</b>	<b>328.0</b>		<b>328.0</b>	<b>310.7</b>		<b>310.7</b>

Adjusted earnings before interest and tax (EBIT adjusted) are determined by adding the effects of purchase price allocation arising from the company's acquisition to earnings before interest and tax (EBIT). Operating profit (EBIT adjusted) increased by 5.6% to € 328.0 million (2010: € 310.7 million), while the adjusted EBIT margin amounted to 11.2% (2010: 11.5%).

## Group EBIT (adjusted) and EBIT margin



#### FINANCIAL RESULT

MTU's financial result decreased by € -14.6 million in the financial year 2011 to a net expense of € -54.8 million (2010: € -40.2 million). Compared with the previous year, there was a marginal improvement of € 0.9 million in the interest result, whereas the financial result on other items decreased by € - 15.5 million to a net expense of € -42.1 million (2010: € -26.6 million). The main factors responsible for this change were currency translation losses amounting to € 3.7 million (2010: currency translation gains amounting to € 11.1 million) and fair value losses on contingent liabilities amounting to € -7.0 million (2010: € -1.3 million).

#### EARNINGS BEFORE TAX (EBT)

The company's good operating performance had a positive impact on earnings before tax (EBT), which increased by € 3.6 million to € 230.8 million (2010: € 227.2 million).

#### INCOME TAXES

Income taxes in the financial year 2011 amounted to a total of € 72.6 million (2010: € 85.0 million). The effective group tax rate, relative to earnings before tax, amounted to 31.5 % (2010: 37.4 %). A table showing the reconciliation of the expected tax expense to the actual tax expense can be found in Note 15. to the consolidated financial statements (Income taxes).

#### EARNINGS AFTER TAX (EAT)

Earnings after tax (EAT) grew by € 16.0 million (11.3%) to € 158.2 million (2010: € 142.2 million).

#### NET PROFIT AVAILABLE FOR DISTRIBUTION

The net profit available for distribution to MTU shareholders for the financial year 2011 amounted to € 61.2 million – after deduction of an allocation to revenue reserves of € 40.0 million agreed by the Board of Management and Supervisory Board. The total dividend payout to entitled shareholders, who hold a total of 50,632,685 shares (including 1,820,197 treasury shares issued to holders of the convertible bond when it reached maturity in January 2012), amounts to € 60,759,222 – on condition that the proposal is approved by the Annual General Meeting.

#### EARNINGS PER SHARE

Undiluted earnings per share amounted to € 3.24 (2010: € 2.91). Potential common shares from the convertible bond and the Share Matching Plan (and from the Matching Stock Program in the comparative figures for 2010) diluted these earnings per share. Inclusive of these effects, diluted earnings per share amounted to € 3.15 (2010: € 2.83).

#### DIVIDEND

In view of the group's continuing good business performance, the Board of Management and Supervisory Board of MTU Aero Engines Holding AG, Munich will propose to the Annual General Meeting on May 3, 2012, that a dividend of € 1.20 per share (2010: € 1.10) should be paid out to shareholders. The total dividend payment, including the dividend payable on 1,820,197 shares issued in January 2012 when the convertible bond reached maturity, amounts to € 60.8 million for 2011 (2010, by resolution of the Annual General Meeting: € 53.6 million), after deduction of the proposed allocation to revenue reserves. The net dividend yield for 2011, based on the share price of € 49.44 at December 31, 2011, thus amounts to 2.4%. The dividend is expected to be paid on May 4, 2012 – on condition that the proposal is approved by the Annual General Meeting. A table showing the reconciliation of group earnings after tax (EAT) as defined in IFRS to the net profit available for distribution by MTU Aero Engines Holding AG is provided in the Notes to the consolidated financial statements.

MTU proposes to increase its dividend to € 1.20 per share.

**OEM SEGMENT****ORDER BACKLOG**

The order backlog for the commercial and military engine business (OEM) is reported on the basis of list prices. Given that orders for spare parts for commercial engines are generally fulfilled within a short time of their receipt, the order backlog does not contain a substantial volume of such orders.

**COMMERCIAL ENGINE BUSINESS**

The invoiced value of MTU's order book for commercial engines, expressed in U.S. dollars, stood at U.S. \$ 4,849.7 million on December 31, 2011, and therefore U.S. \$ 649.2 million (15.5%) higher than the previous year's figure of U.S. \$ 4,200.5 million.

The order backlog translated into euros at the 2011 year-end closing rate increased by € 604.5 million (19.2%) to € 3,748.1 million (2010: € 3,143.6 million).

In purely arithmetical terms, the order backlog for commercial engines represents slightly over two years' production capacity.

**MILITARY ENGINE BUSINESS**

In the case of military programs, the customer typically places an order for a fixed number of engines at the time the production agreement is concluded. The full value of the contract flows into the order backlog when the contract is signed. This order backlog reduces over a prolonged period of time, in line with deliveries.

The backlog of orders for military engines, which are priced in euros, totaled € 1,028.5 million at the end of 2011. This is € 159.4 million (13.4%) below the previous year's amount of € 1,187.9 million.

The order backlog for military engines similarly represents slightly over two years' production capacity.

**Order backlog commercial and military engine business (OEM)**

in million	Change 2011 - 2010		Dec. 31, 2011	Dec. 31, 2010
	in million	in %		
Commercial engines in U.S. \$	649.2	15.5	4,849.7	4,200.5
Commercial engines in €	604.5	19.2	3,748.1	3,143.6
Military engines in €	-159.4	-13.4	1,028.5	1,187.9
<b>Total order backlog in €</b>	<b>445.1</b>	<b>10.3</b>	<b>4,776.6</b>	<b>4,331.5</b>

The total order backlog for the OEM segment increased in 2011 by 10.3%.

## REVENUES

The company generated revenues of € 1,846.6 million in the OEM segment. This is € 183.1 million (11.0%) more than the result achieved in 2010.

In 2011, revenues in the commercial engine business (before consolidation) increased by € 223.5 million (19.0%) to € 1,401.1 million. This increase is mainly due to the ramp-up in deliveries of GP7000 and GENx engines. Adjusted for the effect of the U.S. dollar exchange rate, revenues grew by 24.9%.

Revenues in the military engine business (before consolidation) decreased by € 40.4 million (8.3%) from € 485.9 million in 2010 to € 445.5 million in 2011. The ongoing entry into service of the Eurofighter assures a steady flow of revenue from the EJ200 engine; however, revenues from other military programs are declining.

### Revenues and EBIT adjusted (OEM)

EBIT (adjusted) for the OEM segment increased to € 237.9 million.

in € million	Change 2011 - 2010		2011	2010
	in € million	in %		
<b>Revenues</b>	183.1	11.0	1,846.6	1,663.5
Cost of sales	-172.8	-13.4	-1,458.2	-1,285.4
<b>Gross profit</b>	<b>10.3</b>	<b>2.7</b>	<b>388.4</b>	<b>378.1</b>
Gross margin in %			21.0	22.7
<b>EBIT (adjusted)</b>	<b>6.8</b>	<b>2.9</b>	<b>237.9</b>	<b>231.1</b>
EBIT margin adjusted in %			12.9	13.9

## EBIT (ADJUSTED) AND EBIT MARGIN

While revenues from production activities in the OEM segment increased at a higher rate than revenues from spare parts sales, adjusted earnings before interest and tax (EBIT adjusted) in this segment increased only slightly to € 237.9 million (2010: € 231.1 million). The adjusted EBIT margin decreased from 13.9% to 12.9%.

## CAPITAL EXPENDITURE

Capital expenditure on intangible assets and property, plant and equipment doubled to € 168.1 million (2010: € 84.1 million). The main items of capital expenditure in the OEM segment were the acquisition of a stake in the PW1100G development program for the A320neo engine, amounting to € 69.3 million, and internally generated development costs for the GE38 helicopter engine program and the GENx engine program amounting to € 8.7 million and € 3.5 million respectively.

## EMPLOYEES

The number of employees, calculated as a quarterly average, increased by 132 to 5,044 (2010: 4,912), mainly due to expansion of the company's site in Poland.

## MRO SEGMENT

### ORDER BACKLOG AND VALUE OF CONTRACTS

The order backlog for commercial maintenance consists of orders for work on engines that have been delivered to the maintenance shop and where failure analysis has been completed.

Future orders under long-term service agreements are not included in the order backlog. For this reason, in addition to the narrowly defined order backlog, MTU also discloses in its statements the expected value of orders for work on engines for which maintenance agreements are in place.

In purely arithmetical terms, the sum total of order backlog and value of contracts represents a workload of slightly less than five years. The majority of contracts in the MRO segment are priced in U.S. dollars. The order backlog for the commercial maintenance business in 2011 amounted to U.S. \$ 235.4 million, which is U.S. \$ 2.0 million or 0.8% lower than 2010's figure of U.S. \$ 237.4 million. The contractual value of long-term service agreements increased by 4.1% to U.S. \$ 7,218.1 million at the end of 2011. MTU has assured itself a prominent position in a new market with substantial future potential by winning contracts worth a total of U.S. \$ 550 million for the GE90, the world's most powerful commercial jet engine.

Translated into euros, the order backlog and value of contracts increased by € 392.9 million (7.3%) to € 5,760.5 million (2010: € 5,367.6 million) at the end of 2011.

#### Order backlog and value of contracts for commercial MRO business

in million	Change 2011 - 2010		Dec. 31, 2011	Dec. 31, 2010
	in million	in %		
Order backlog in U.S. \$	-2.0	-0.8	235.4	237.4
<b>Order backlog in €</b>	<b>4.2</b>	<b>2.4</b>	<b>181.9</b>	<b>177.7</b>
Value of contracts in U.S. \$	283.4	4.1	7,218.1	6,934.7
<b>Value of contracts in €</b>	<b>388.7</b>	<b>7.5</b>	<b>5,578.6</b>	<b>5,189.9</b>
<b>Total order backlog and value of contracts in €</b>	<b>392.9</b>	<b>7.3</b>	<b>5,760.5</b>	<b>5,367.6</b>

#### REVENUES

MTU's revenues in the commercial maintenance business (before consolidation) in the financial year 2011 increased by € 42.6 million to € 1,116.6 million (2010: € 1,074.0 million). The main sources of this increase in revenues are the KC-10 maintenance contract, which is being serviced by the MTU sites in Hannover and Canada, and unscheduled shop visits for maintenance of CF34 engines at the MTU site in Berlin.

#### Revenues and EBIT adjusted (MRO)

EBIT (adjusted) for the MRO segment increased to € 93.1 million.

in € million	Change 2011 - 2010		2011	2010
	in € million	in %		
<b>Revenues</b>	<b>42.6</b>	<b>4.0</b>	<b>1,116.6</b>	<b>1,074.0</b>
Cost of sales	-30.2	-3.2	-963.5	-933.3
<b>Gross profit</b>	<b>12.4</b>	<b>8.8</b>	<b>153.1</b>	<b>140.7</b>
Gross margin in %			13.7	13.1
<b>EBIT adjusted</b>	<b>14.9</b>	<b>19.1</b>	<b>93.1</b>	<b>78.2</b>
EBIT margin adjusted in %			8.3	7.3

#### EBIT (ADJUSTED) AND EBIT MARGIN

Adjusted earnings before interest and tax (EBIT adjusted) in the MRO segment increased by € 14.9 million (19.1%) to € 93.1 million. The EBIT margin (adjusted) rose to 8.3% (2010: 7.3%).

#### CAPITAL EXPENDITURE

Capital expenditure on intangible assets and property, plant and equipment increased by € 12.3 million to € 37.6 million (2010: € 25.3 million).

#### EMPLOYEES

The number of employees, calculated as a quarterly average, increased by 166 to 3,056 (2010: 2,890). This increase was evenly distributed across almost all MTU locations.

### 3.2. FINANCIAL SITUATION

Liquidity is safeguarded by forward financial planning over a period of several years.

#### PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

The main objectives of financial management are to ensure the constant availability of adequate liquid reserves, avoid financial risks, and diversify sources of financing in the interests of flexibility. Measures to safeguard liquidity are based on forward financial planning over a period of several years. MTU also makes use of internal and external funding instruments.

All consolidated group companies take part in this planning process. The business operations of the operating segments and the resulting cash inflow represent the group's main source of liquidity. Longer-term liquidity forecasts are based on operative planning. Short- and medium-term forecasts are updated once a month. MTU utilizes cash flow surpluses generated by individual group companies to cover the funding requirements of other companies in the group (cash pooling). This reduces the need for external loans and optimizes net interest expenses. MTU also makes use of a variety of internal and external funding instruments to assure its future liquidity, including long-term financing via pension provisions, the convertible bond with a term to maturity of five years issued in 2007, the raising of promissory notes, and credit arrangements covering short- and medium-term financing needs. These sources of financing are supplemented by off-balance-sheet operating lease agreements. For information on the company's capacity to raise funds through capital increases (approved and conditional capital), please refer to Note 29. (Equity) to the consolidated financial statements. Through these diverse measures, MTU has created a sound basis on which to meet its future financing requirements.

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#### Financing sources

Financing instruments <sup>1)</sup>	Maturity date	Currency	Interest rate
Convertible bond	Feb. 1, 2012	Euro	Fixed
Pension obligations	Continuous	Euro	Yield as for premium fixed-income industrial
Promissory notes	June 5, 2012 / 2014	Euro	Fixed and variable (6-month Euribor rate plus margin)
Revolving credit facility <sup>2)</sup>	Aug. 3, 2012	Euro	Euribor rate plus margin
Operating lease agreements	1–5 years	Euro/U.S. dollar	Fixed

<sup>1)</sup> Financial resources with unlimited availability.

<sup>2)</sup> The availability of unused lines of credit (revolving credit facilities) gives MTU wider scope in its financing activities.



➤ further information  
on page 212 ff. and page 125 ff.

➤ further information  
on page 113 ff. and 233 ff.

The group maintains good  
business relationships  
with several partner lending  
banks.

➤ further information  
on page 233 ff.

The factors considered when choosing financial instruments include flexibility, credit terms, the profile of maturity dates, and borrowing costs. In keeping with standard banking practice, the main sources of financing include covenants requiring the company to ensure that its performance indicators remain within defined limits. MTU has complied with the contractual obligations arising from such covenants both at December 31, 2011 and at the end of every quarter. Further information on agreed covenants is provided in Note 33. to the consolidated financial statements (Financial liabilities). Significant agreements relating to change of control subsequent to a takeover bid are dealt with in Section 7. (Other disclosures).

In Section 6. (Risk report) of the group management report and Note 41. to the consolidated financial statements (Risk management and derivative financial instruments), information is provided on MTU's approach to credit and valuation risks, methods used to hedge risks associated with interest rates and foreign currencies, and methods of dealing with price-change, nonpayment and liquidity risks.

The banking policy including procedures for the approval of banking relationships, loan agreements, worldwide liquidity and asset management, the management of currency and interest rate risks, and the management of the group's internal cash flow are set down in the treasury principles. It is a basic principle of the group that its lines of credit are administered at corporate level. By centralizing the liquidity management function, the group is in a position to allocate resources efficiently within the organization. As a rule, the group's financial liabilities are not secured by collateral.

The group maintains good business relationships with a number of different partner lending banks, and in this way avoids being too strongly dependent on a single institution. The banking partners with whom the group and its affiliates conduct business are required to have a long-term credit rating of at least 'investment grade'.

#### **FINANCIAL ANALYSIS**

The banking and financial crisis had no impact on the group's overall financial situation. MTU does not hold any financial instruments as defined in IAS 39 or IFRS 7 that are affected by the current sovereign debt crisis.

A sensitivity analysis of risk concentration based on credit, market and liquidity risks is presented in Note 41. to the consolidated financial statements (Risk management and derivative financial instruments).

MTU has not engaged in any transactions involving off-balance-sheet financial instruments, such as the sale of receivables in connection with asset-backed securities, sale-and-leaseback agreements, or obligations toward special-purpose entities not included in the consolidated financial statements, neither in 2011 nor in any prior year, with the sole exception of operating lease arrangements.

## NET FINANCIAL DEBT

Net financial debt serves as an indicator of the MTU group's overall liquidity and is defined as the difference between gross financial debt and current financial assets. MTU's net financial debt at December 31, 2011 amounted to € 12.2 million. This year-on-year decrease of € 44.0 million or 78.3% (Dec. 31, 2010: € 56.2 million) resulted from the company's high cash flow.

### Net financial debt

in € million	Change 2011 - 2010		Dec. 31, 2011	Dec. 31, 2010
	in € million	in %		
<b>Bonds</b>				
Convertible bond	3.9	2.6	156.3	152.4
<b>Financial liabilities to banks</b>				
Promissory notes	0.3	1.2	25.6	25.3
Other liabilities to banks			34.4	34.4
<b>Finance lease liabilities</b>	-21.0	-84.3	3.9	24.9
<b>Derivative financial liabilities</b>	16.5	66.3	41.4	24.9
<b>Gross financial debt</b>	<b>-0.3</b>	<b>-0.1</b>	<b>261.6</b>	<b>261.9</b>
<b>less:</b>				
Cash and cash equivalents	86.9	77.7	198.8	111.9
Derivative financial assets	-12.1	-55.5	9.7	21.8
Financial assets not measured at fair value through profit or loss	-31.1	-43.2	40.9	72.0
<b>Net financial debt</b>	<b>-44.0</b>	<b>-78.3</b>	<b>12.2</b>	<b>56.2</b>

Net financial debt dropped significantly to € 12.2 million at December 31, 2011.

## BONDS

The convertible bond has a par value of € 180.0 million (divided into 1,800 units each with a par value of € 100,000) and a term to maturity of five years. The units of the bond are scheduled for repayment on February 1, 2012 (date of final maturity) at par value plus interest accrued up to that date, unless they are repaid, converted, or repurchased and invalidated prior to the date of final maturity. The units of the bond can be converted into registered non-par value common shares in the company at a pro rata amount (€ 1 per share) of the company's total share capital.

At a conversion price of € 49.50, the conversion ratio at issue date was 2,020.20 shares. The coupon rate is fixed at 2.75%, payable yearly on February 1. The issuing company is Amsterdam-based MTU Aero Engines Finance B.V.

In the period from September 17 to October 31, 2008, MTU repurchased units of its own convertible bond on the market for a total nominal volume of € 27.2 million, prior to their final maturity. The total price paid for these securities amounted to € 21.9 million (including transaction costs but excluding interest at the coupon rate), which corresponds to an average of 80.7% of the bond units' nominal value. This amount was divided into an equity portion and a liabilities portion. On June 23, 2010, one holder of the convertible bond exercised their conversion option, converting a nominal

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The group assures the flexibility  
of its borrowing arrangements  
through unused lines of credit.

amount of € 100,000 into 2,020 shares. The remaining outstanding units of the convertible bond with a total nominal value of € 152.7 million (2010: € 152.7 million) are recognized at amortized cost. More detailed information, including the calculation of the equity and liability components of the repurchased units of the bond, is provided in Note 33. to the consolidated financial statements (Financial liabilities). Please refer to Section 4. of this group management report (Subsequent events) for information on the bond's conversion at maturity.

#### BORROWING ARRANGEMENTS

The group's medium-term flexibility is assured by unused lines of credit amounting to € 87.6 million at the end of the financial year 2011 (2010: € 71.0 million). MTU continuously monitors the need for available lines of credit on the basis of the volume of financial liabilities at any given time as well as future financing requirements.

Any credit actually utilized is subject to interest at the usual market reference rates plus an additional margin. MTU does not expect to see any major changes in lending conditions at the present time. Unused credit facilities are subject to a loan commitment fee. As of December 31, 2011, MTU and its affiliates had met all loan repayment and other obligations (covenants) arising from financing agreements. The availability of unused lines of credit increases the scope and flexibility of the group's financing opportunities.

MTU is not a party to any off-balance-sheet transactions which might in any material way affect the company's present or future financial situation, operating results, liquidity, capital expenditure, assets or capital resources.

#### FINANCIAL LIABILITIES TO BANKS

On June 3, 2009, MTU placed four promissory notes for a total nominal note amount of € 65.0 million. Through these promissory notes, which consist of four tranches with fixed maturity dates as listed below, the group aims to diversify its sources of financing:

##### Promissory notes

Maturity date	Type of interest	Note amount (nominal) at issue date in € million	Repurchased June 7, 2010 in € million	Repurchased Dec. 6, 2010 in € million	Remaining note amount (nominal) in € million
June 5, 2012	fixed	1.5			1.5
June 5, 2014	fixed	11.5			11.5
June 5, 2012	variable <sup>1)</sup>	27.0	15.0		12.0
June 5, 2014	variable <sup>1)</sup>	25.0	15.0	10.0	
		<b>65.0</b>	<b>30.0</b>	<b>10.0</b>	<b>25.0</b>

<sup>1)</sup> 6-month Euribor rate plus margin.

The promissory notes were recognized at their fair value on the date of acquisition, which corresponds to the nominal note amount less transaction costs amounting to € 0.4 million. The promissory notes are measured at amortized cost.

At December 31, 2011, the group had not drawn down any funds under its revolving credit facility (2010: € 0.0 million).

The other liabilities to banks amounting to € 34.4 million (2010: € 34.4 million) relate to third-party loans provided to subsidiaries. At € 60.0 million, total financial liabilities to banks were virtually unchanged over the 2010 figure of € 59.7 million.

#### FINANCE LEASE LIABILITIES

Finance lease liabilities represent obligations under finance lease arrangements that are capitalized and amortized using the effective interest method. For information on the accounting treatment of lease assets and a summary of capitalized lease assets, please refer to Note 5.9. (Leasing) and Note 20. (Property, plant and equipment) to the consolidated financial statements.

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#### DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

In the financial year 2011, over 90% of the net surplus income denominated in U.S. dollars, after deduction of expenses denominated in U.S. dollars, was covered by hedging transactions. At December 31, 2011, hedging transactions were in place for the financial years 2012 and 2013 covering 62% and 46% respectively of the surplus U.S. dollar income. At the same date, further arrangements were in place to cover 27% and 11% respectively of the expected surplus U.S. dollar income in the financial years 2014 and 2015.

In 2011, over 90% of net surplus income in U.S. dollars was covered by hedging transactions.

The increase of € 16.5 million in derivative financial liabilities to € 41.4 million (2010: € 24.9 million) relates principally to changes in the fair value of forward foreign exchange contracts and currency options used to hedge cash flows.

The derivative financial assets mainly comprise fair value gains on forward foreign exchange transactions and forward commodity sales contracts for nickel concluded for hedging purposes. Derivative financial assets decreased by € 12.1 million to € 9.7 million (2010: € 21.8 million) as a result of market-related changes in the euro-U.S. dollar exchange rate.

For further information on credit and market risks arising from derivative financial assets and liabilities, please refer to Note 41. to the consolidated financial statements (Risk management and financial derivatives).

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#### Cash and cash equivalents

in € million	Change 2011 - 2010		Dec. 31, 2011	Dec. 31, 2010
	in € million	in %		
Balance on current accounts, cash in hand	-14.6	-30.6	33.1	47.7
Fixed-term and overnight deposits	101.5		165.7	64.2
<b>Total cash and cash equivalents</b>	<b>86.9</b>	<b>77.7</b>	<b>198.8</b>	<b>111.9</b>

## ANALYSIS OF CAPITAL EXPENDITURE

### CAPITAL EXPENDITURE BY CLASS OF ASSET

Capital expenditure in 2011 comprised € 92.0 million (2010: € 24.6 million) on intangible assets, € 113.7 million (2010: € 84.8 million) on property, plant and equipment, and € 2.3 million (2010: € 2.6 million) on financial assets.

#### Capital expenditure

in € million	Change 2011 - 2010		2011	2010
	in € million	in %		
OEM	65.8		84.4	18.6
MRO	1.6	26.7	7.6	6.0
<b>Intangible assets</b>	<b>67.4</b>		<b>92.0</b>	<b>24.6</b>
OEM	18.2	27.8	83.7	65.5
MRO	10.7	55.4	30.0	19.3
<b>Property, plant and equipment</b>	<b>28.9</b>	<b>34.1</b>	<b>113.7</b>	<b>84.8</b>
OEM	-0.3	-11.5	2.3	2.6
<b>Financial assets<sup>1)</sup></b>	<b>-0.3</b>	<b>-11.5</b>	<b>2.3</b>	<b>2.6</b>
<b>Total capital expenditure</b>	<b>96.0</b>	<b>85.7</b>	<b>208.0</b>	<b>112.0</b>

<sup>1)</sup> Only includes assets accounted for using the equity method or at cost.

### CAPITAL EXPENDITURE ON INTANGIBLE ASSETS

MTU's participation in the development costs of General Electric's GE38 helicopter engine project secured it an 18 % share in the program. Development costs amounting to € 8.7 million arising under this program in 2011 (2010: € 6.9 million) are included in the capital expenditure on intangible assets for the OEM business.

On the basis of a cooperation agreement between the General Electric Company and MTU Aero Engines GmbH, Munich, MTU acquired a 6.65 % stake in the GENx engine program for the Boeing 787 and 747-8. In the financial year 2011, internally generated development costs amounting to € 3.5 million (2010: € 7.1 million) were incurred in connection with this engine program.

In late 2010, Airbus announced the start of its re-engineing program for the successful A320 family. The A320neo family ("neo" stands for new engine option) is expected to consume as much as 15 % less fuel, fly more quietly, save operating costs, and emit less CO<sub>2</sub> and NO<sub>x</sub>. One of the engine options for these aircraft is the Pratt & Whitney PW1100G, a program in which MTU has an 18 % share.

In the financial year 2011, MTU capitalized a total of € 69.3 million (2010: € 0.0 million) in connection with its investment in the PW1100G engine program. Of this amount, € 50.4 million was used to purchase shares in the RRSP program. The cash outflows will occur from 2011 onward, probably until 2018, in accordance with a schedule of payments agreed with the cooperation partner. Payments of € 6.5 million were made in 2011. In addition to this capitalized program investment, MTU also incurred expenses of € 5.1 million in 2011 (2010: € 0.0 million) in the form of acquired development costs for the PW1100G, and capitalized an amount of € 13.8 million (2010: € 0.0 million) for internally generated development costs.

A total of € 69.3 million was capitalized in 2011 in connection with the PW1100G program.

The commercial maintenance business develops special repair techniques designed to reduce the cost and increase the efficiency of engine maintenance. Development costs for these technologies totaling € 3.4 million (2010: € 5.1 million) were capitalized as intangible assets in 2011.

A full presentation of capital expenditure on intangible assets, which totaled € 92.0 million in 2011 (2010: € 24.6 million), is provided in Note 18. to the consolidated financial statements (Analysis of changes in intangible assets, property, plant and equipment, and financial assets).

#### CAPITAL EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT

The capital expenditure on technical equipment, plant and machinery totaling € 15.6 million (2010: € 24.1 million) relates mainly to the purchase of CNC lathes and grinding/milling machines.

Additions to this item in the financial year 2011 totaling € 56.6 million (2010: € 28.8 million) for advance payments and construction in progress relate mainly to building work and equipment for the new blisk manufacturing facility in Germany.

MTU's capital expenditure on property, plant and equipment amounted to € 113.7 in 2011.

A full presentation of capital expenditure on property, plant and equipment, which totaled € 113.7 million in 2011 (2010: € 84.8 million), is provided in Note 18. to the consolidated financial statements (Analysis of changes in intangible assets, property, plant and equipment, and financial assets).

#### LIQUIDITY ANALYSIS

MTU uses free cash flow as an indicator of its liquidity, defining it as cash flow from operating activities less capital expenditure on intangible assets, property, plant and equipment, and financial assets.

#### Consolidated cash flow statement (abridged)

in € million	Change 2011 - 2010		2011	2010
	in € million	in %		
Cash flow from operating activities	36.6	14.6	287.9	251.3
Cash flow from investing activities	46.5	26.8	-126.7	-173.2
Cash flow from financing activities	14.1	15.6	-76.5	-90.6
Translation differences	-1.4	-38.9	2.2	3.6
<b>Change in cash and cash equivalents</b>	<b>95.8</b>		<b>86.9</b>	<b>-8.9</b>
Cash and cash equivalents at beginning of financial year			111.9	120.8
Cash and cash equivalents at end of financial year			198.8	111.9

#### CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities in 2011 amounted to € 287.9 million, which was € 36.6 million (14.6%) higher than the 2010 figure of € 251.3 million.

**CASH FLOW FROM INVESTING ACTIVITIES**

The cash flow from investing activities decreased by € 46.5 million (26.8%) to € 126.7 million (2010: € 173.2 million), principally as a result of proceeds from the disposal of financial assets amounting to € 32.4 million (2010: expenditure on financial assets amounting to € 68.8 million). Cash flow from investing activities also includes proceeds from the disposal of property, plant and equipment amounting to € 1.3 million (2010: € 5.0 million).

**3.3. NET ASSETS**

Total assets grew year-on-year by € 312.5 million (9.1%) to € 3,738.6 million (2010: € 3,426.1 million), while the equity ratio increased as a result of the operating results to 24.2% (2010: 23.9%).

**CHANGES IN BALANCE SHEET ITEMS****MTU consolidated balance sheet**

	Change 2011 - 2010		Dec. 31, 2011		Dec. 31, 2010	
	in € million	in %	in € million	in %	in € million	in %
<b>Assets</b>						
<b>Non-current assets</b>						
Intangible assets and property, plant and equipment	66.0	3.7	1,850.9	49.5	1,784.9	52.1
Other assets	-13.5	-27.8	35.0	1.0	48.5	1.4
<b>Total non-current assets</b>	<b>52.5</b>	<b>2.9</b>	<b>1,885.9</b>	<b>50.5</b>	<b>1,833.4</b>	<b>53.5</b>
<b>Current assets</b>						
Inventories	122.8	17.5	823.8	22.0	701.0	20.5
Receivables <sup>1)</sup> , advance payments and other assets	50.3	6.5	830.1	22.2	779.8	22.7
Cash and cash equivalents	86.9	77.7	198.8	5.3	111.9	3.3
<b>Total current assets</b>	<b>260.0</b>	<b>16.3</b>	<b>1,852.7</b>	<b>49.5</b>	<b>1,592.7</b>	<b>46.5</b>
<b>Total assets</b>	<b>312.5</b>	<b>9.1</b>	<b>3,738.6</b>	<b>100.0</b>	<b>3,426.1</b>	<b>100.0</b>
<b>Equity and liabilities</b>						
<b>Equity</b>	<b>86.8</b>	<b>10.6</b>	<b>906.1</b>	<b>24.2</b>	<b>819.3</b>	<b>23.9</b>
<b>Non-current debt</b>						
Provisions	-0.6	-0.1	548.4	14.7	549.0	16.0
Liabilities	-131.6	-24.0	416.0	11.1	547.6	16.0
<b>Total non-current debt</b>	<b>-132.2</b>	<b>-12.1</b>	<b>964.4</b>	<b>25.8</b>	<b>1,096.6</b>	<b>32.0</b>
<b>Current debt</b>						
Provisions / income tax liabilities	-57.1	-19.3	238.4	6.4	295.5	8.6
Liabilities	415.0	34.2	1,629.7	43.6	1,214.7	35.5
<b>Total current debt</b>	<b>357.9</b>	<b>23.7</b>	<b>1,868.1</b>	<b>50.0</b>	<b>1,510.2</b>	<b>44.1</b>
<b>Total equity and liabilities</b>	<b>312.5</b>	<b>9.1</b>	<b>3,738.6</b>	<b>100.0</b>	<b>3,426.1</b>	<b>100.0</b>

<sup>1)</sup> Trade receivables and construction contract receivables.

## ASSETS

Intangible assets and property, plant and equipment increased by a total of € 66.0 million to € 1,850.9 million (2010: € 1,784.9 million), net of scheduled depreciation/amortization charges. The increase in intangible assets was principally due to capital expenditure in connection with the company's stakes in the PW1100G engine program (€ 69.3 million), the GENx program (€ 3.5 million) and the GE38 engine program (€ 8.7 million). The increase in property, plant and equipment was principally due to advance payments for the building and machinery for the new blisk manufacturing facility amounting to € 15.0 million.

In 2011, inventories grew by € 122.8 million or 17.5% to € 823.8 million (2010: € 701.0 million). Inventories of raw materials and supplies increased by € 26.5 million to € 349.6 million (2010: € 323.1 million) and work in progress, at € 422.7 million, was € 75.3 million higher than the previous year's amount of € 347.4 million. Prepayments rose by € 21.0 million to € 51.5 million (2010: € 30.5 million). Inventories accounted for 22.0% of net assets, a higher ratio than in 2010 (20.5%). Inventory turnover related to revenues amounted to 3.8 (2010: 4.0). Trade receivables, construction contract receivables (after deduction of advance payments received) and other current assets including prepayments rose year-on-year by € 50.3 million (6.5%) to € 830.1 million. Of these, trade receivables grew by € 73.2 million (13.8%) to € 605.1 million. Construction contract receivables, net of the corresponding advance payments received, decreased marginally year on year, by € 1.4 million (1.0%) to € 136.8 million.

Financial assets decreased by € 43.4 million (41.9%) to € 60.3 million.

Cash and cash equivalents amounted to € 198.8 million at the balance sheet date (2010: € 111.9 million). Expressed as a percentage of total assets, this item rose to 5.3% (2010: 3.3%).

In terms of the structure of assets, the proportion of non-current assets decreased by 3.0 percentage points to 50.5% (2010: 53.5%).

## GROUP EQUITY

### Group equity

in € million	2011	2010
Equity at January 1	819.3	730.7
Other comprehensive income		
Derivative financial instruments	-12.9	-3.9
Available-for-sale financial assets (AFS)		-0.1
Translation differences	1.2	9.1
Earnings after tax (EAT)	158.2	142.2
Dividend payment to shareholders of MTU Aero Engines Holding AG	-53.6	-45.5
Purchase of treasury shares	-9.4	-13.6
Bond conversion to equity		0.1
Fair-value measurement and issue of treasury shares under the Matching Stock Program (MSP) and Share Matching Plan (SMP)	-4.2	-2.2
Sale of treasury shares under the MAP employee stock option program	7.5	2.5
<b>Total change in equity</b>	<b>86.8</b>	<b>88.6</b>
<b>Equity at December 31</b>	<b>906.1</b>	<b>819.3</b>

Inventories accounted for 22.0% of net assets, a higher ratio than in 2010.



**POSITIVE CHANGES IN GROUP EQUITY**

The overall increase of € 86.8 million in group equity in the financial year 2011 (2010: € 88.6 million) is mainly attributable to the earnings after tax (EAT) generated in the financial year, which amounted to € 158.2 million (2010: € 142.2 million). Individual positive changes in equity include an amount of € 7.5 million relating to shares sold to employees under the MAP stock option program (2010: € 2.5 million). Translation differences resulted in an increase of € 1.2 million in group equity (2010: € 9.1 million).

**NEGATIVE CHANGES IN GROUP EQUITY**

Negative changes in group equity in 2011 include an amount of € 53.6 million for the dividend payment to shareholders of MTU Aero Engines Holding AG for the financial year 2010 (2010: dividend payment of € 45.5 million for the financial year 2009). Further negative changes in group equity include the amount of € 12.9 million from fair value losses on cash flow hedges (2010: € 3.9 million) and losses of € 4.2 million (2010: € 2.2 million) relating to the fair-value measurement and issue of treasury shares under the Matching Stock Program (MSP) and the Share Matching Plan (SMP). A breakdown of the share-based compensation components is provided in Note 29.4. to the consolidated financial statements (Capital reserves). The purchase of treasury shares resulted in a € 9.4 million reduction in group equity (2010: € 13.6 million).

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**CHANGES IN THE FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS RECOGNIZED UNDER OTHER COMPREHENSIVE INCOME (OCI)**

At December 31, 2011, the nominal amount of the outstanding portfolio of hedging instruments classified as cash flow hedges in accordance with IAS 39 amounted to U.S. \$ 1,485.0 million (which translates to € 1,147.7 million at the exchange rate prevailing at the balance sheet date). These instruments serve as a hedge against changes in the exchange rate parity between the U.S. dollar and the euro. Measurement of the fair value of the MTU cash flow hedge portfolio at the end of 2011, based on the euro / U.S. dollar exchange rate of 1.29 prevailing at the balance sheet date, resulted in a negative change of € 12.9 million in the fair value recognized under other comprehensive income (OCI) compared with December 31, 2010. In 2010, the measurement based on the euro / U.S. dollar exchange rate of 1.34 prevailing at the balance sheet date had resulted in a negative change of € 3.9 million in the fair value recognized under OCI. Positive changes in the fair value (net of taxes) of cash flow hedges are recognized under financial assets, whereas negative changes in the fair value (net of taxes) of cash flow hedges are included in financial liabilities. Changes in the fair value of cash flow hedges at the end of the financial year are recognized directly in equity as an adjustment to OCI. These adjustments are applied net of the corresponding changes in deferred tax assets (for cash flow hedges with a negative change in fair value) or in deferred tax liabilities (for cash flow hedges with a positive change in fair value).

**FINANCIAL DEBT**

Non-current debt decreased by € 132.2 million (12.1%) to € 964.4 million, their share in total equity and liabilities falling by 6.2 percentage points to 25.8% (2010: 32.0%). The main cause of this reduction is the reclassification of the convertible bond, which matures on February 1, 2012, from non-current to current liabilities. The nominal value of the convertible bond at 31 December, 2010 was € 148.6 million. In total, non-current provisions were virtually unchanged over 2010 at € 548.4 million. This figure includes pension provisions amounting to € 428.5 million (2010: € 409.0 million), which had increased as expected by € 19.5 million (4.8%). Non-current other provisions decreased by € 20.1 million (14.4%) to € 119.9 million (2010: € 140.0 million) at December 31, 2011, mainly as a result of the measurement of contingent liabilities arising from business combinations. Changes in contingent liabilities are presented in more detail in Note 32. to the consolidated financial statements (Other provisions).

The amount of medium- to long-term debt capital included in total equity and liabilities was reduced to 25.8%.

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Non-current liabilities in the amount of € 416.0 million (2010: € 547.6 million) principally comprised financial liabilities amounting to € 53.4 million (2010: € 204.7 million) and deferred tax liabilities of € 229.6 million (2010: € 231.5 million).

The combined total of equity and non-current debt decreased in the financial year 2011 by € 45.4 million (2.4%) to € 1,870.5 million (2010: € 1,915.9 million). This means that 99.2% (2010: 104.5%) of the company's non-current assets are matched by financing funds available on a medium- to long-term basis.

Current debt rose by € 357.9 million (23.7%) to € 1,868.1 million, mainly as a result of the reclassification of the convertible bond, which matures on February 1, 2012, from non-current to current liabilities. The nominal value of the convertible bond at 31 December, 2010, was € 148.6 million. Provisions and income tax liabilities fell by € 57.1 million (19.3%) to € 238.4 million. This item includes pension provisions amounting to € 28.5 million (2010: € 24.2 million), current other provisions amounting to € 199.9 million, which decreased by € 0.2 million (0.1%) compared with the previous year, and income tax payable, which fell from € 71.2 million to € 10.0 million. Current liabilities increased by € 415.0 million (34.2%) to € 1,629.7 million. These include obligations toward employees totaling € 41.3 million (2010: € 39.2 million), financial liabilities amounting to € 208.2 million (2010: € 57.2 million), trade payables amounting to € 592.7 million (2010: € 424.5 million), the balance of construction contract payables after deduction of the corresponding receivables amounting to € 715.0 million (2010: € 666.3 million), and sundry other identifiable obligations.

Within the structure of equity and financial debt, the equity ratio increased by 0.3 percentage points to 24.2% (2010: 23.9%), while short-term debt capital increased by 5.9 percentage points. Overall, there has been a shift in the structure away from medium- and long-term toward more short-term debt capital.

The equity ratio increased to 24.2% in 2011.

#### OFF-BALANCE-SHEET ASSETS

The group has assets that are not included in the balance sheet. These mainly relate to certain leased or rented goods (under an operating lease). Further explanatory comments are provided in Note 42.1.1. to the consolidated financial statements (Obligations arising from operating lease arrangements). The most important intangible assets include the MTU brand, which has continually grown in strength in the year under review, and MTU's portfolio of intellectual property, which contains over 2,800 patents and other forms of industrial property and serves to protect the company's technology rights. More detailed information on MTU's patent portfolio is provided in Section 1.4. (Research and development) under the subheading "Safeguarding technological assets". Significant value can also be attributed to the company's long-established and smoothly running risk- and revenue-sharing partnerships with the world's leading engine manufacturers Pratt & Whitney, General Electric and Rolls-Royce, and with Avio, Snecma Moteurs and Volvo Aero. One of the advantages of these partnerships is that they assure stability in a changing business environment and reduce entrepreneurial risks.

➤ further information on page 239 ff.

➤ further information on page 71

They also give MTU access to the full global potential of the commercial engine market. Another advantage of these intensive collaborations is that they frequently give rise to mutually beneficial research and development projects in which know-how and development capacity are pooled.

**OFF-BALANCE SHEET FINANCIAL INSTRUMENTS**

With the sole exception of operating lease arrangements, MTU does not make use of any other off-balance-sheet financial instruments.

**OTHER DISCLOSURES**

MTU has not engaged in any so-called 'grooming' transactions such as sale-and-leaseback agreements, factoring, ABS structures, or transactions in or with non-consolidated special-purpose entities (SPEs). For information on discretionary decision-making with respect to the use of accounting and measurement methods and necessary estimates, see Note 5.24. (Discretionary scope, measurement uncertainties and sensitivity) and Note 40. (Sensitivity analysis of goodwill) to the consolidated financial statements.

➤ further information  
on page 165 ff. and page 232

**3.4. MAJOR EVENTS AFFECTING BUSINESS PERFORMANCE**

Earnings for the financial year 2011 were not affected by any significant nonrecurring factors.

**3.5. COMPARISON OF ACTUAL AND FORECAST BUSINESS PERFORMANCE**

The original forecast for business performance issued on February 23, 2011, was based on the expectation that revenues would increase by 7-8% and that earnings would remain stable. All of the criteria of this forecast were either met or exceeded. Compared with the revised forecast of August 1, 2011, actual revenues of € 2,932.1 million were slightly higher than anticipated. Despite the unfavorable development of exchange rate parities in the course of the financial year 2011, operating profit (EBIT adjusted), at € 328.0 million, exceeded the forecast. Thanks to the good operating result, adjusted earnings after tax (EAT adjusted), at € 184.1 million, were also in line with expectations.

All of the forecast criteria were  
either met or exceeded.

**Forecast and actual results**

in € million	Actual 2011	Forecast 2011 at Aug. 1, 2011	Forecast 2011 at Feb. 23, 2011	Actual 2010	Change 2010-2011 in %
Revenues	2,932.1	7-8 % increase reaffirmed	increase of 7-8 %	2,707.4	8.3
Adjusted earnings before interest and tax (EBIT adjusted)	328.0	approx. 325	stable	310.7	5.6
Adjusted earnings after tax (EAT adjusted)	184.1	slight increase	stable	182.3	1.0

**REVENUES FORECAST**

In the outlook for 2011 presented by the Board of Management in the Annual Report 2010, it was anticipated that it would be possible to increase revenues by 7-8% compared with the level of 2010 (€ 2,707.4 million), based on an expected average U.S. dollar exchange rate of 1.35 to the euro. In an interim report issued on August 1, 2011, MTU affirmed its original forecast, even though there were signs that the exchange rate between the U.S. dollar and the euro was likely to deteriorate from MTU's standpoint. Notwithstanding the unfavorable exchange rates prevailing during parts of the year, MTU succeeded in increasing its revenues for the year as a whole by € 224.7 million to € 2,932.1 million.

#### **EARNINGS FORECAST FOR OPERATING PROFIT (EBIT ADJUSTED)**

The forecast issued by MTU on February 23, 2011, in respect of its operating profit (EBIT adjusted) was based on the expectation that earnings would remain stable. Nonetheless, during the presentations on August 1, 2011, the group increased its forecast for this performance indicator to € 325 million. The year-end result for operating profit (EBIT adjusted) amounted to € 328.0 million, which is € 3 million higher than the revised forecast issued in August 2011 and significantly higher than the earlier forecast made in February 2011.

#### **EARNINGS FORECAST FOR EARNINGS AFTER TAX (EAT) / NET INCOME**

The outlook presented by the Board of Management in the Annual Report 2010 expected adjusted earnings after tax (EAT/net income) in the financial year 2011 to amount to € 182.3 million, on condition that it would not be necessary to take significant measures involving derivatives to reduce exposure to U.S. dollar exchange rate risk. At December 31, 2011, adjusted earnings after tax (EAT) actually amounted to € 184.1 million, which is € 1.8 million higher than the previous year's result and an improvement on the forecast net income.

### **3.6. OVERALL ASSESSMENT OF BUSINESS PERFORMANCE IN 2011**

The group's key performance indicators once more surpassed the forecasts.

Global economic growth weakened significantly in 2011. However, despite this general trend, MTU's revenues increased by 8.3% in the financial year 2011. Operating profit rose to € 328.0 million (2010: € 310.7 million). A central focus of activities at MTU in the financial year 2011 was the production ramp-up for new engine programs. At the same time, MTU made strategic investments in future engine programs. The company also continued to devote substantial resources to in-house development projects that will enable it to extend its technological leadership. Despite this additional expenditure, MTU nevertheless achieved an operating margin of 11.2%. Free cash flow once again developed very positively, reaching € 129.0 million, which helped to further reduce net financial debt. All in all, the group's key performance indicators once more surpassed the forecasts made in the course of the year.

## 4. SUBSEQUENT EVENTS

The amount of equity will increase in the first quarter 2012 due to conversion of the convertible bond. Above and beyond this, no events of material importance with any significant impact of the financial situation, net assets or operating results of the MTU group occurred after the end of the reporting period.

Holdings of the convertible bond exercised their conversion option in January 2012. Of the nominal amount of € 152.7 million still outstanding on December 31, 2011, a total nominal amount of € 90.1 million was converted into MTU stock. As a result, the company's equity will rise in the first quarter of 2012. Above and beyond this, no events of material importance with any significant impact on the financial situation, net assets or operating results of the MTU group occurred at the end of the financial year.

Business performance after the close of the financial year was in line with expectations.

## 5. FORECASTS

Despite the slowdown in global economic growth, MTU expects to increase its revenues in 2012 by a percentage in the mid-single-digit range, compared with 2011. The company expects to be able to increase its operating profit (EBIT adjusted) in 2012 by between 8 and 10%, and also in the longer term benefit from the growth trends in the aviation industry.

### 5.1. GENERAL ECONOMIC CLIMATE

While the Economist Intelligence Unit (EIU) expects global economic growth to decline further – from 2.6% in 2011 to 2.0% in 2012 (EIU, February 2012) – the International Monetary Fund is slightly more optimistic, forecasting a growth rate of about 3% for 2012 (IMF World Economic Outlook, September 2011).

The biggest risk to global economic growth is posed by the euro zone's sovereign debt crisis. Both the EIU and the OECD (Economic Outlook No. 90, November 2011) expect to see a brief period of falling economic performance in early 2012, and a return to positive figures forecast for mid-year. At 1.8%, growth in North America is estimated to be below average. With forecast annual growth rates in excess of 4% over the next two years, the Asia-Pacific region will continue to be the biggest contributor to global economic growth. A similarly positive development is also expected for Latin America and the Middle East.

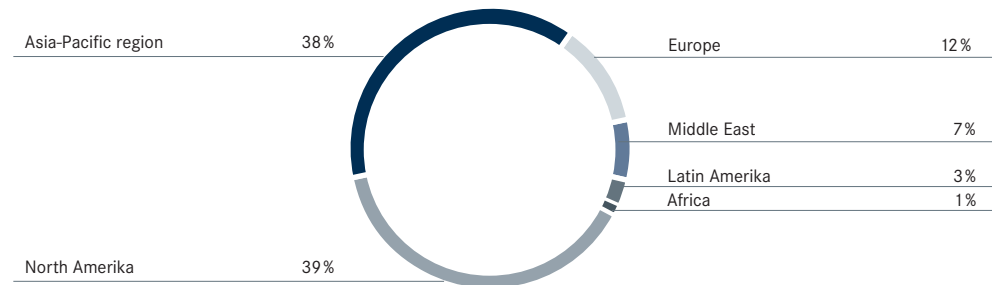
### 5.2. INDUSTRY-SPECIFIC DEVELOPMENTS IN THE AVIATION SECTOR

International passenger traffic is expected to rise by 4.0% in 2012.

In December 2011, IATA issued forecasts for passenger and freight traffic in 2012, according to which passenger traffic is expected to rise by 4.0%, while freight traffic will remain stable. This means that, even in the face of the uncertain economic outlook, the growth rate in passenger traffic will remain at its normal long-term level. By contrast, a return to former strength is not yet expected for the freight market.

Growth in the aviation market will differ markedly depending on region. In Europe, the weak economic forecasts will have a negative impact on air traffic growth. North America is a saturated market offering few opportunities for growth, while IATA expects to see an above-average recovery in the Asia-Pacific region. Japanese airlines, in particular, will be able to make good the negative effects of the earthquake and tsunami that afflicted their country. Prospects for the Middle East and Latin America remain good.

IATA expects airline revenues in 2012 to be 3.7% higher than in 2011 thanks to the increased volume of air traffic and higher ticket prices, while profits look set to reach U.S. \$ 3.5 billion. Stubbornly high fuel prices are likely to remain a driver of orders for new, fuel-efficient aircraft.

**Order backlog for single-aisle and widebody aircraft by region**

Source: Ascend Online,  
December 31, 2011

The order backlog comprises 8,600 aircraft with a seating capacity of 120 passengers or more. At current production rates, that corresponds to a workload of six to seven years.

Order backlogs remain good for both the A320 and 737NG families as well as for the widebody jets of the A330, A380, 767 and 777 series. The next-generation of fuel-efficient aircraft – the A320neo, 737MAX, CSeries, MS-21 and C919 in the short- and medium-haul segment, and the A350, 787 and 747-8 in the widebody segment – are also expanding their market share.

Airbus and Boeing plan to boost their production by 15% in 2012.

Airbus and Boeing intend to boost their production by 15% each in 2012 – both with short- and medium-haul aircraft (such as the A320 and 737), and with long-haul aircraft such as the 777, 787 and A380 families.

Deliveries of business jets are likely to rise slightly in 2012. The new aircraft models due for market release in the course of the year could trigger a surge in sales.

The introduction of legislation to include aviation in the European emissions trading scheme (EU ETS) has stirred up a considerable amount of controversy. As of January 2012, all operators of flights to and from (and within) Europe are required to surrender allowances for each metric ton of CO<sub>2</sub> emitted during these flights, or if necessary purchase additional allowances. Penalties will be imposed on airlines failing to comply with these rules. Industry analysts estimate that airlines will face additional costs of between € 500 and 900 million in 2012 as a result (sources: IATA, Thomson Reuters Onpoint Carbon). Countries such as China and the United States see this EU legislation as a violation of their sovereign rights, and have voiced strong opposition. IATA and certain major airlines are also critical of the new legislation. The EU hopes to resolve the conflict through negotiation, and thus avoid escalation into a trade war. The ultimate aim is to establish a global agreement on aviation emissions control.

### 5.3. OPPORTUNITIES FOR MTU

#### OPPORTUNITIES PRESENTED BY CHANGES IN THE OPERATING ENVIRONMENT

MTU's systematic, forward-looking investment policy based on basic research and innovative engine technologies designed to lower fuel consumption and emissions, reduce noise, and cut costs serves to strengthen the company's position as a leader in innovation and technology. This, in turn, generates opportunities for the company to expand its position within risk- and revenue-sharing partnerships and to participate in lucrative new engine programs. The MRO segment, too, is likely to benefit from rising demand and access to new engine programs.

Among its customers in the military sector, MTU has established a reputation as a qualified partner with comprehensive system know-how in product development, manufacture and maintenance. That opens up opportunities for developing new engines and refining existing ones.

#### OPPORTUNITIES PRESENTED BY THE COMPANY'S BUSINESS PERFORMANCE

An improvement in the exchange rate parity between the euro and the U.S. dollar would lead to a modest improvement in MTU's earnings situation. If energy prices were to stabilize or even retreat to a lower level, and if commodity prices were to fall, this would have a positive effect on MTU's cost structure and hence on its business results.

#### OTHER OPPORTUNITIES

Other opportunities are listed in the SWOT analysis presented in Section 6.4., which forms part of the risk report. For information on how identified opportunities can be exploited and the associated risks avoided, see Section 6. (Risk report).

 further information  
on page 123

### 5.4. FUTURE DEVELOPMENT OF MTU

The statements below are based on the knowledge available at the beginning of 2012. Owing to the large number of new programs, any delays that might occur in development or in the ramp-up of series production would have a corresponding effect on the performance indicators.

#### NO CHANGE IN PERFORMANCE INDICATORS

'EBIT adjusted' and 'free cash flow' constitute the two performance indicators by which MTU controls and measures its success as a corporation, both today and in future.

#### PLANNED CHANGES IN BUSINESS POLICY

The company does not intend to make any fundamental changes to its business policy in the years ahead.

#### NEW PRODUCTS AND SERVICES

In recent years, MTU has acquired an interest in several new engine programs – such as those for the Airbus A380 (GP7000), the Boeing 787/747-8 (GENx), the Bombardier CSeries (PW1524G), the Mitsubishi Regional Jet (PW1217G) and, most recently, the Airbus A320neo (PW1133G) – which will account for a predominant share of its revenues in the decades ahead.

In the coming decades, new engine programs will account for a significant proportion of MTU's revenues.

In the coming financial years, the company will continue to drive forward development of the geared turbofan for new engine programs and place volume production of the turbine center frame for the GENx engine on a firm footing.

### OUTLOOK FOR 2012

#### TARGETS

MTU's targets for the financial year 2012 are as follows:

#### Outlook for 2012

in € million	Forecast 2012	Actual 2011
Revenues	percentage in mid single-digit range	2,932.1
Adjusted earnings before interest and tax (EBIT adjusted)	increase of 8-10%	328.0
Adjusted earnings after tax (EAT adjusted) <sup>1)</sup>	increase of 10-12%	196.6

<sup>1)</sup> As of the financial year 2011, adjusted earnings after tax (EAT adjusted) additionally includes effects of financial instruments measured at fair value through profit or loss and effects arising from the measurement of assets and liabilities – with the exception of the interest component of pension obligations. Adjusted earnings before tax (EBT adjusted) are obtained by deducting taxes at the expected group tax rate, resulting in an increase of 10 to 12% compared to 2011 as the target for adjusted earnings after tax (EAT adjusted) for 2012.



The company expects group revenues in 2012 to rise by a percentage in the mid-single-digit range compared with 2011. MTU's risk- and revenue-sharing agreements with leading engine makers and its strong presence in its home market will serve to keep the regional distribution of the company's revenues stable, and it plans to achieve over 80% of its total revenues in its traditional markets of North America and Europe. The company does not expect to see any major changes in its sales markets in the coming financial years.

#### REVENUES BY OPERATING SEGMENT

In the financial year 2012, MTU expects to generate revenues in its two operating segments – the commercial and military engine business (OEM) and the commercial maintenance business (MRO) – as follows:

- MTU expects its revenues from the volume production of commercial engines to rise by around 10% in U.S. dollar terms compared with 2011, with revenues from spare parts sales increasing by between 5 and 10% in U.S. dollar terms. This assumption is based on the ramp-up in deliveries of the GENx engine for the Boeing 787 and 747-8, growing revenues from the GP7000 program for the Airbus A380, increasing deliveries of the V2500 engine for the A320 family, and engine deliveries for business jets. Identified risks relate particularly to the possibility of delays in ramping up the Boeing 787 and 747-8 aircraft programs, and of extensions to the delivery schedule for the Airbus A380.
- MTU expects to see stable revenues from its military business in 2012 compared with the previous year.
- Commercial maintenance revenues are expected to increase by 5 - 10% in U.S. dollar terms in 2012. MTU also anticipates rising demand for maintenance of the V2500 and PW2000 engines.

#### OPERATING PROFIT

MTU expects its 2012 operating profit (EBIT adjusted) to grow by 8-10% compared with 2011, while its adjusted EBIT margin is again expected to be around 11-12%. This will be mainly due to the positive effects of programs launched in 2010 and 2011 to enhance efficiency. A further positive factor in 2012 will be the reduction in development expenditure.

MTU expects EBIT (adjusted) to grow by 8-10% in 2012.

#### ADJUSTED EARNINGS AFTER TAX (EAT ADJUSTED)

Adjusted earnings after tax (EAT adjusted) are expected to rise by 10-12% in 2012. Adjusted earnings after tax (EAT adjusted) are determined by adding the effects of financial instruments measured at fair value through profit or loss, and the effects of the measurement of assets and liabilities – with the exception of the interest component of pension provisions – to earnings before tax.

#### DIVIDEND PAYMENT

Given MTU's successful business performance, the company's dividend is to rise for the second successive year: the Board of Management and the Supervisory Board intend to propose a dividend of € 1.20 per share for the financial year 2011 to the Annual General Meeting.

The following chart shows the trend in dividend (the year shown is that of the cash outflow for the dividend of the previous financial year).

#### Dividend paid

in €	2012 <sup>1)</sup>	2011	2010	2009	2008
Dividend paid per share, in €	1.20	1.10	0.93	0.93	0.93

<sup>1)</sup> As proposed by the Board of Management and the Supervisory Board to the Annual General Meeting.

#### CAPITAL EXPENDITURE AND FUNDING RESOURCES

Capital expenditure in the financial year 2012 will focus on building up the production capacity (including special tools and equipment) required for the GTF programs as well as on the start of series production for the GENx program. In 2012, capitalized development costs for the GENx, GE38 and PW1100G engine programs are likely to be around € 10 million higher than in 2011.

The structure of the company's funding resources is expected to remain unchanged in 2012 – with the exception of the convertible bond, which becomes due for repayment on February 1, 2012, if not converted earlier. All the projects planned as part of ongoing operations can be financed from free cash flow. Above and beyond this, authorized capital provides the company with further funding options that have not yet been utilized.

#### DEVELOPMENT OF PRICES AND COSTS

MTU does not expect the prices and conditions prevailing in its procurement and sales markets to change substantially. In order to reduce the risk of price changes, MTU has concluded hedging agreements for commodities and U.S. dollar cash flows – described more fully in Section 6. (Risk report) and in Note 41. to the consolidated financial statements (Risk management and derivative financial instruments) – and made contractual agreements with suppliers.

 further information  
on page 133 ff. and 233 ff.

#### LEGAL STRUCTURE

No material changes to the legal structure of the group are being considered at the present time.

#### EMPLOYEES

MTU does not expect the size of its workforce in 2012 to differ from that of 2011.

#### OUTLOOK FOR 2013

##### REVENUES

MTU expects its revenues to  
grow by around 5 % in 2013.

In the financial year 2013, MTU expects to see sustained growth in both the global economy and the aviation industry. Based on IATA's medium-term forecasts and the aircraft manufacturers' projected production volumes, and assuming an unchanged U.S. dollar exchange rate, MTU's revenues in 2013 are expected to grow by around 5 % from the level of 2012.

##### OPERATING PROFIT

In 2013, MTU expects its development expenditure to remain at the same level as in 2012, accompanied by a sustained increase in production activities deriving from the GENx and GP7000 programs and in connection with initial deliveries for the PW1524G engine program (Bombardier CSeries). Despite the additional costs involved, the group expects its earnings to remain on a positive course throughout the financial year 2013, resulting in an adjusted EBIT margin of 11–12%. This provisional figure may change if the company acquires additional shares in engine programs.

#### 5.5. OVERALL PROGNOSIS OF FUTURE BUSINESS DEVELOPMENTS IN 2012 AND 2013

The Board of Management of MTU remains optimistic that it will be able to profitably expand the company's business. In the years ahead, MTU will benefit from the strong growth generated by the V2500 program and the GENx and GP7000 widebody programs, as well from above-average growth in its MRO business. In spite of the additional costs occasioned by the ramp-up of new programs and by lower advance payments in the military business, the company anticipates a free cash flow in the medium to high double-digit million range. In the years that follow, MTU expects to see a further rise in EBIT adjusted and an EBIT margin of 11–12% as well as attractive potential dividends for its shareholders.

## 6. RISK REPORT

In order to secure its competitiveness in the long term, MTU regularly analyzes and evaluates the risks inherent in its day-to-day business through the instrument of an integrated risk management system. No major change was identified in the company’s risk exposure compared with 2010.

MTU has an integrated opportunity and risk management system in place.

Risk is an inherent part of any entrepreneurial activity. To meet the expectations of its shareholders, MTU must exploit opportunities, which entails a certain degree of risk.

MTU has an integrated opportunity and risk management system in place, which is linked to the group’s value-oriented performance indicators and its organizational structure. The system ensures compliance with statutory requirements and is based on the internationally recognized COSO II Enterprise Risk Management (ERM) Framework.

The systematic consideration of significant risk factors is of vital importance to the MTU group, and serves as a fundamental basis for value-oriented controlling functions and ongoing business success. MTU knows the risks it faces, is aware of their effects and can manage them appropriately.

### Significant risk factors for MTU

General economy	Aerospace industry	Market	Strategy	Miscellaneous
<ul style="list-style-type: none"> <li>▪ Business cycle</li> <li>▪ U.S. dollar</li> <li>▪ Commodity prices</li> </ul>	<ul style="list-style-type: none"> <li>▪ FFA-approved parts manufacturers</li> <li>▪ Profitability of end customers (airlines)</li> <li>▪ Liability</li> </ul>	<ul style="list-style-type: none"> <li>▪ Budget situation</li> <li>▪ Price concessions on commercial engines</li> <li>▪ Access to maintenance licenses</li> </ul>	<ul style="list-style-type: none"> <li>▪ Choice of programs</li> <li>▪ Development costs</li> <li>▪ M&amp;A activities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Human resources</li> <li>▪ IT</li> <li>▪ Environment</li> <li>▪ Compliance</li> </ul>

### 6.1. STRATEGY AND MANAGEMENT

#### CONTROL ENVIRONMENT

MTU regards a suitable control environment as being essential for a functioning risk management system. The following are considered the main elements of such an environment:

- management style and philosophy,
- integrity and ethical values,
- staff training and development.

The concept of learning from mistakes is embodied in the MTU Principles, which describe this as a means of facilitating teamwork and promoting constructive behavioral attitudes. The logical consequence of striving for continuous improvement is the establishment of a CIP organization (Continuous Improvement Project), which aims to encourage employees to deal openly with weak points and create a culture that forms the basis of a functioning risk management system.

#### **RISK MANAGEMENT OBJECTIVES AND RISK STRATEGY**

The ultimate objective of MTU's risk management system is to ward off risks to the substance of MTU, and to safeguard the company's existence and future business success.

MTU does not merely limit itself to ensuring compliance with statutory requirements. It has integrated its corporate risk management system, including opportunity management, into all essential management processes, from strategic planning right through to reporting to the Board of Management and the Supervisory Board.

#### **IDENTIFICATION, ANALYSIS AND MANAGEMENT OF RISKS**

MTU regards risk management as a continuous, end-to-end process to ensure responsible behavior when dealing with specific risks at business unit level and general risks affecting several business units or the entire group, including risks which need to be assessed on a wider scale.

The risk inventory of the group, which encompasses all the business units and all the risk factors to which MTU is exposed, forms the basis for identifying risks. According to the COSO Framework, it is divided into governance and compliance, strategy and planning, operations and infrastructure, and reporting.

The affiliates and business units are responsible for identifying, assessing, controlling and monitoring the risks in their specific areas and documenting them in risk maps. They submit reports to the central risk management department for risks exceeding an amount of € 1 million over the five-year period under consideration, at dates allowing them to be reviewed together with the quarterly financial results. Risks are assessed based on uniform definitions of the probabilities of loss occurrence and, as far as quantifiable, as a possible deviation of the group performance indicators 'EBIT (adjusted)' and 'free cash flow' from the currently valid operational planning figures.

The central risk management department aggregates and consolidates the risks and evaluates the overall risk position at group level.

#### **RISK REPORTING AND COMMUNICATION**

The Board of Management receives a risk report once a quarter and is kept informed of the group's current risk situation. The Top Risk Map comprises all risks above € 5 million and gives details of their probability of occurrence as well as potential countermeasures.

Opportunities and risks are not offset. Moreover, the Top Risk Map for the group forms part of the regular reports submitted to the Board of Management and Supervisory Board.

#### **MONITORING THE RISK MANAGEMENT PROCESS**

Monitoring the risk management process is of crucial importance for ensuring the proper functioning and ongoing development of the risk management system.

In addition to verification of the system employed for the early recognition of risks by the auditor during the auditing of the annual financial statements, the risk management system is monitored and verified by a number of other functions:

- regular checks by the internal auditing department,
- supervision by the Supervisory Board,
- checking in the course of the EFQM audits,
- process reviews by the Risk Management Board in the form of a self-assessment.

The central risk management department is informed of risks estimated at € 1 million or more.

In order to ensure that its risk management system is up to date, MTU carried out a benchmark analysis with comparable companies in 2011. The results of this analysis demonstrated that its risk management system is on an equally high level.

## 6.2. MAIN FEATURES OF THE INTERNAL CONTROL SYSTEM AND THE RISK MANAGEMENT SYSTEM RELATING TO THE ACCOUNTING PROCESS

### LEGAL BACKGROUND AND SUBJECT OF THE REPORT

In line with the explanatory memorandum to the BilMoG, a report on the main features of our internal control system (ICS) and risk management system (RMS) relating to the (consolidated) accounting process is included in MTU's risk report. The latter thus presents a unified and integrated picture. We have also taken account of the German accounting standard DRS 5, which is still valid, and the amendment DRÄS 5.

The following statements apply to all group companies included in the consolidated financial statements.

### OBJECTIVES AND COMPONENTS OF THE INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM IN RELATION TO THE ACCOUNTING PROCESS

The Board of Management, Supervisory Board and Audit Committee of MTU attach the greatest importance to ensuring the regularity, accuracy and reliability of MTU's financial reporting for recipients of MTU's financial statements. The control and monitoring processes required for this are tailored to the complex business model of the MTU group, and are an important part of a comprehensive corporate governance approach that defines the basic framework for creating sustainable value for shareholders, customers, employees and the public. High-quality financial reporting to these recipients is regarded as imperative. The organizational, controlling and monitoring structures described below ensure that business data are recorded, processed and assessed correctly and in accordance with statutory and financial reporting requirements.

The internal control and risk management system of MTU guarantees an efficient accounting process that avoids errors as far as possible, or at least uncovers them at an early stage.

- The accounting-related RMS is an integral part of the group's comprehensive company-wide risk management system. It forms the basis for the uniform and appropriate handling of risks and for communicating them within the group. The risks entailed in financial reporting at group level are a part of the corporate risks to be monitored as a whole.
- The design of the accounting-related internal control system (ICS) at MTU meets the requirements of the German Accounting Law Modernization Act (BilMoG) as set out in the government's explanatory memorandum, the definition of IDW (Institut der Wirtschaftsprüfer IDW e.V.), and the internationally recognized and established framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO I). MTU understands an internal control system (ICS) to be the principles, procedures and measures introduced at the company by its management that are aimed at the organizational implementation of the decisions of management to
  - safeguard the effectiveness and economic efficiency of business operations, which also includes protecting the company's assets,
  - ensure the regularity and reliability of internal and external accounting, and
  - comply with statutory regulations relevant to the company.

MTU attaches the greatest importance to the regularity, accuracy and reliability of its financial reporting.

The ICS of the MTU group is underpinned by an internal management system based on efficient and effective processes as well as process-integrated organizational security measures incorporated into the organizational structure and the process organization of the MTU group and its group companies. Checks integrated in the processes reduce the probability of errors occurring and help bring to light those that have already occurred.

- The internal auditing system, which is process-independent, plays an important role in checking the effectiveness of and improving the accounting-related ICS and RMS. The corporate audit department of MTU assesses controlling and monitoring systems and contributes to their enhancement. It is also considered to have an advisory function that aims at improving business processes and ultimately the effectiveness of the internal control system. The charter of the corporate audit department complies with national and international requirements of the Deutsches Institut für Interne Revision and the Institute of Internal Auditors. The corporate audit department is also bound by the code of professional ethics. The administrative standards of the internal auditing department are available to all employees for perusal on MTU's intranet.
- The Audit Committee of the Supervisory Board deliberates on risk management and on the findings of internal auditing. In accordance with Section 107(3) Stock Corporation Act (AktG), as amended by the German Accounting Law Modernization Act (BilMoG), the Audit Committee is responsible also for monitoring the effectiveness of the risk management system, the internal systems of control, the internal auditing systems, the financial reporting process and the audit of the financial statements, and, in particular, assessing their independence.

The Audit Committee deliberates on risk management and on the findings of internal auditing.

#### MAIN FEATURES OF THE INTERNAL CONTROL SYSTEM AND THE RISK MANAGEMENT SYSTEM RELATED TO THE ACCOUNTING PROCESS

- MTU has a clear management and corporate structure. Key functions spanning more than one business unit are managed centrally, although the individual subsidiaries have a certain degree of autonomy at the same time.
- The integrity and responsibility of all employees, also in terms of finances and financial reporting, are ensured by their undertaking to observe the company's code of conduct.
- As a result of employing highly qualified staff, conducting targeted and regular advance training programs, strictly complying with the dual control principle, and consistently separating functions in financial accounting when creating and entering accounting vouchers and in management accounting, it is ensured that national accounting rules and international accounting standards are observed in annual and consolidated financial statements.
- The IT systems are protected against unauthorized access by appropriate installations in the IT area. As far as possible, standard software is used in the finance systems area. Within the framework of the comprehensive IT strategy and the IT architecture, the IT system's application controls are reviewed internally and externally on a regular basis against a background of a high level of automatic controls and plausibility checks. The IT general controls are checked during internal and external IT audits.
- All the annual financial statements of group companies included in consolidation are audited by an auditor at least once a year, who also reviews the condensed consolidated financial statements and interim group management report in the half-yearly financial report.
- An adequate system of guidelines has been drawn up and is updated in line with requirements.

Any deviations from plan during the year are identified rapidly.

- The departments and business units involved in the accounting process are suitably equipped and regularly trained both in quantitative and qualitative terms.
- Bookkeeping data received or forwarded are continually checked to see that they are complete and correct, e.g. by random checks. Programmed plausibility checks are carried out with the software used, e.g. in the course of payment cycles as well as during the consolidation process.
- Suitable controls are in place in all accounting-relevant processes (such as dual control, analytical checks).
- Accounting-relevant processes are also checked by the process-independent corporate audit department.
- The group accounting department, which is the immediate point of contact for the managing directors of subsidiaries regarding reporting and the annual and monthly financial statements, prepares and draws up the consolidated financial statements in compliance with IFRS.
- As every subsidiary and joint venture is obligated to report its business figures to the group holding company in compliance both with the local GAAP and with IFRS in a standardized reporting format, any planned/actual deviations during the year can be identified rapidly, enabling a swift and appropriate response.
- In the course of its monthly reports, Group Accounting monitors all the processes relating to the consolidated financial statements, such as capital consolidation, debt consolidation, consolidation of expenditures and revenues and the elimination of unrealized results of intra-group transactions, in consultation with the group companies.
- For particular issues in the group and at individual subsidiaries and joint ventures, such as special accounting issues etc., Group Accounting also acts at holding level as a central point of contact and controlling body for reporting. Special evaluations are also carried out during the year at the request of various management levels. If a need for support arises at short notice in connection with special, complex IFRS issues or company acquisitions requiring examination, this demand is met by qualified staff or by employing the services of external auditors.

## 6.3. SPECIFIC RISKS

### GENERAL RISKS AND INDUSTRY-RELATED RISKS

#### RISKS ARISING FROM GENERAL ECONOMIC TRENDS

Significant risks to the MTU group's business development are presented by the U.S. dollar exchange rate, the level of commodity prices, and general economic factors. Even taking the latest market forecasts into account, MTU does not currently discern any major negative impacts for the company arising from the financial crisis. MTU does not hold any financial instruments as defined in IAS 39 or IFRS 7 that are affected by the current sovereign debt crisis. If the current, positive rate of economic growth should begin to slacken again as a result of the financial crisis, this could potentially impact the volume of passengers using business jets, prompt a more cautious approach to orders for new air transportation capacity in both the freight and passenger segments, and – if national budgets are cut further – negatively impact the military engine business. Other risks affecting industry in general include rising energy costs, the unavailability of suppliers, and delays in deliveries from suppliers. From the present point of view, there are no identifiable risks to the substance of MTU arising from general economic trends.

In 2011, MTU paid close heed to the consequences of the nuclear reactor disaster in Fukushima. The risk management department analyzed its potential impact on the company's workforce, supply chain, and customers (OEMs, airlines) as well as on air traffic – both for the individual areas of responsibility and the company as a whole – discussed the necessary measures and put them into practice. The nuclear disaster did not have any lasting negative impact on the MTU group's results.

#### RISKS INHERENT IN THE AEROSPACE INDUSTRY

Because engines have long product lifecycles, MTU's spare parts business is increasingly exposed to competition from companies that manufacture parts under the FAA's system of Parts Manufacturer Approval (PMA). These companies are able to sell FAA-approved parts at lower prices than the original engine manufacturer because they have not had to bear the financial burden of high development costs and the loss-making early stages of volume production. The so-called PMA (Parts Manufacturer Approval) parts are produced by companies that have been approved by the U.S. aviation authority (FAA). MTU counters the risks inherent in the aerospace industry with its level of cutting-edge technology, which it constantly safeguards and advances.

MTU counters the risks inherent in the aerospace industry with its advanced level of cutting-edge technology.

Since air traffic is so dependent on economic factors – and susceptible to crises – airlines frequently encounter financial difficulties. The already strained situation may be further exacerbated by escalating fuel prices and by an intensification of the difficult financial situation of many airlines. As MTU operates in various sectors of the market and in different thrust ranges, it spreads this risk in line with the market.

At the present time, MTU does not expect any significant negative impact on the group's operating results, financial situation or net assets.

#### RISKS ARISING FROM CORPORATE STRATEGY

The main forms of strategy risk are misjudgments when taking decisions concerning investments in engine programs, the establishment of new sites, and possible M&A activities. MTU's business model is based on long-term processes, particularly in the OEM segment. In the commercial sector, many years can pass between the decision to invest in a new engine and the breakeven point. The risk is that the original economic and technological parameters on which the decision was based might change over the course of time, and that the customers, i.e. the airlines, might change their minds and choose a different engine at a later stage of the project. MTU counters such strategy risks by



engaging highly qualified specialists at the decision-making stage and by using documented processes to perform cost-benefit analyses, which make it compulsory to carry out the risk analysis on the basis of a variety of different scenarios. The company's broad product portfolio – comprising engines in all thrust classes – helps to spread the risk and minimize its dependence on individual engine programs.

MTU has not identified any strategy risks at the present time that might endanger the substance of the company.

## OPERATIONAL RISKS

### MARKET RISKS

The customers in the military engine segment are national and multinational agencies whose budgets vary widely with the level of public spending. When they are faced with budgetary constraints, there is a risk that contracts might be rescheduled or canceled. In the military engine business, the company is firmly embedded in international cooperative ventures, which tends to have a limiting effect on risks because the partners work together to protect their common interests. The terms of existing contracts in the military sector are generally defined to cover a prolonged period of time, thus effectively excluding the possibility of modifying prices.

MTU sells most of its products under risk- and revenue-sharing arrangements.

The commercial engine market has an oligopolistic structure. MTU sells most of its products under risk- and revenue-sharing arrangements. The lead partners in the consortium determine the prices, conditions and concessions. MTU, as a consortium partner, is bound by these conditions, but it is through such partnerships the company gains access to the leading engine programs of the major engine manufacturers. The customers of these risk- and revenue-sharing partnerships in the commercial engine and MRO business are airlines. Various types of concessions to customers are common practice in the marketing of commercial production engines. MTU is obliged to absorb these concessions to the extent of its program share in risk- and revenue-sharing arrangements. The fact that the cooperation partners share a common interest helps to prevent excessive concessions during contract negotiations. Furthermore, risks are spread across the various programs. Concessions to major customers during the launch phase of a program are largely offset by a decline in the marketing expenses for older programs.

From the present point of view, there are no identifiable market risks to the substance of MTU.

### DEVELOPMENT RISKS

In the commercial and military engine business, MTU undertakes to perform development work during which delays and additional costs may arise. The company nevertheless ensures strict adherence to time schedules and budgets by permanently monitoring project management and applying appropriate corrective measures where necessary. Furthermore, through its involvement in collaborative ventures, it works in partnerships that extend beyond corporate boundaries, thus spreading the risk.

MTU products are subject to extremely stringent safety requirements. The company requires numerous official certifications, particularly from the German Federal Office of Civil Aviation (LBA) and the U.S. Federal Aviation Administration (FAA), in order to carry out its activities. These certifications are valid for limited periods and can be renewed only after further tests have been carried out. The manufacturing and repair processes are documented in detail to ensure compliance with all regulations.

### PROCUREMENT AND PURCHASING RISKS

For some raw materials, individual parts and components and for the provision of specific services, MTU is dependent on suppliers and third-party vendors. Risks can arise in the form of the unavailability of suppliers, problems with quality, and price increases. MTU strives to reduce its reliance on

individual suppliers by securing the services of several, equally qualified vendors for materials, parts and services. In the case of single-source suppliers, MTU enters into long-term agreements as a hedge against unforeseen shortages and to reduce the risk of sudden price hikes. The risks involved are manageable thanks to the broad diversity of the links in the supply chain.

#### **PRODUCTION RISKS**

In order to meet the requirements of the airlines and OEMs in respect of engine weight, fuel consumption and noise emissions, MTU is compelled to develop new, highly complex manufacturing processes for its components and to have them approved by the authorities, a procedure that can delay the start of production. It could also happen that these new techniques do not meet the requirements in full (see “Development risks”).

➤ further information  
on page 119

Delays may therefore arise in the initial production stage of new, high-volume programs involving new production resources or manufacturing processes, which in turn may affect the agreed delivery deadlines. MTU minimizes this risk through strict project management and the deployment of specialists.

#### **PROGRAM RISKS**

At the present time, MTU has not identified any material or substantial risks arising from engine programs. However, because such programs involve long lead times, their measurement may be significantly affected by interest rate changes and by the postponement of deliveries.

#### **PERSONNEL RISKS**

MTU has drawn up guidelines and a code of conduct that are valid for all of its employees throughout the world and by means of which it strives to establish binding rules for internal and external communication. Employees who are entrusted with confidential or insider information make a solemn commitment to abide by the applicable regulations, such as those laid down in the German Investor Protection Improvement Act (AnSVG), and to exercise the appropriate integrity when handling such information.

MTU minimizes personnel risks by means of fast-track professional training and development programs and performance-related compensation.

The commitment, motivation and skills of the company’s employees are major contributory factors to its business performance. There is considerable rivalry in the recruitment market for the aerospace sector, as companies compete to find the best-qualified employees to work on the development, manufacture and maintenance of cutting-edge technical products. This harbors a fluctuation risk. MTU minimizes the associated risks by means of fast-track professional training and development programs, performance-related compensation, mentoring schemes and early succession planning.

A high development capacity will be needed in the coming years to meet the demands of the new engine programs. MTU is meeting this challenge by setting up new development centers in Munich and in Poland, and by collaborating with universities.

Variations in business volume present MTU with the challenge of managing its capacities according to current demand. The company has responded by redeploying and retraining employees in other business units. MTU is also taking advantage of natural fluctuation and using the system of flexible working hours to encourage employees to reduce their flextime credit.

Insurance policies are in place to limit potential liability risks that might be caused by individuals employed by the company. Personnel risks are considered to be low.

**IT RISKS**

The main IT risks are loss of confidential data through espionage and system failures. Due to its business with military customers, MTU is particularly sensitive about how confidential data are handled and has a highly advanced data protection and security system. When new IT systems are launched, there is a possibility of workflows being disrupted. MTU minimizes these risks by employing qualified experts and using professional project management. MTU regards the risks in this area as being manageable.

**FINANCIAL RISKS****CURRENCY RISK, CREDIT RISK AND HEDGING TRANSACTIONS**

More than 80% of MTU's revenues are generated in U.S. dollars (equivalent to approximately € 2,490 million in 2011). On the other hand, a large proportion of expenses is likewise invoiced in U.S. dollars, providing a 'natural hedge.' Most other expenses are incurred in euros and, to a lesser extent, in Polish zloty, Chinese yuan renminbi and Canadian dollars. Earnings are dependent on changes in the exchange rate parity between the U.S. dollar and the cited currencies from the order date to the delivery date, in the measure to which MTU does not make use of financial instruments to hedge against its current and future net exposure. In line with the corporate policy of generating profit solely on the basis of its operating activities and not through currency speculation, MTU makes use of hedging strategies for the exclusive purpose of controlling and minimizing the effect of U.S. dollar exchange rate volatility on EBIT.

The financial instruments employed by MTU cover the greater part of the net exposure to currency risk, leaving only a small proportion of the U.S. dollar surplus exposed to this type of risk. The unhedged portion of forecast transactions is calculated at the euro cash rate on the date payment is received.

**HEDGE PORTFOLIO**

MTU holds a long-term hedge portfolio comprising financial instruments with terms to maturity stretching over several years. At December 31, 2011, the value of the portfolio of hedging instruments with terms until 2015 amounted to U.S. \$ 1,485.0 million (which translates to € 1,147.7 million at the exchange rate prevailing on the balance sheet date).

The greater part of MTU's net exposure to currency risk is covered by forward foreign exchange contracts.

For accounting purposes, MTU prudently only designates a portion of its hedged forecast transactions as hedged items to reduce the expected net currency risk exposure. Forward foreign exchange contracts are the main hedging instrument used.

➤ further information on page 233 ff.

Further explanatory comments concerning financial instruments (including the derivative financial instruments held at December 31, 2011) are provided in Note 41. to the consolidated financial statements (Risk management and derivative financial instruments).

The company's long-term hedging strategy makes currency risks manageable.

**NON-PAYMENT RISK**

In the commercial engine business and commercial MRO, airlines are indirect and direct customers of MTU. These companies may find themselves facing financial difficulties, with the result that their situation affects the receivables of MTU and its partners. The consortium leaders in the commercial engine and spare parts businesses have extensive receivables management systems in place. In the commercial MRO business, the responsible MTU departments track open accounts receivable in short cycles. Before a deal is finalized, risks are assessed and necessary precautions are taken. Wherever possible, the company takes advantage of export credit guarantees (Hermes coverage) to protect itself against political and credit risk. As a matter of principle, the group avoids signing contracts for which the parameters cannot be calculated. Hence MTU considers non-payment risks to be transparent and manageable.

## **OTHER RISKS**

### **COMPLIANCE RISKS**

Compliance risks exist in all areas of the company. They arise when managers or employees of the company fail to comply with laws and regulations or fail to observe internal rules. This can be particularly critical in areas where the protection of confidential documents and information plays a significant role.

To minimize risks and to safeguard compliance, MTU has implemented a number of measures:

- globally binding rules of conduct valid throughout the group,
- online compliance training of all business units and employees affected,
- setting up a central office to receive reports of suspected misconduct,
- setting up a Compliance Board,
- continuous security checks of employees.

The possibility of legal action in respect of compliance issues can never be entirely ruled out, whether this be due to lack of knowledge on the part of individual employees or to criminal intent.

### **LIABILITY RISKS**

In the aviation industry as elsewhere, accidents can still occur despite strict compliance with manufacturing quality standards and utmost diligence in performing maintenance work. In the military engine business (excluding exports), MTU is largely exempt from product risk liability through government agency indemnification. The remaining forms of liability, especially in the commercial engine business, are covered by contractual clauses and by high-coverage insurance policies, including aircraft liability insurance. Other risks that could threaten the continued existence of the company, such as loss of income through fire or the interruption of business operations, are similarly covered. By limiting liability risks and taking out insurance cover, the risks are rendered transparent and manageable.

### **RISKS ARISING FROM GENERAL AND TAX LEGISLATION**

MTU sees no important risks arising from general or tax legislation that could have a significant impact on the company's net assets, financial situation or operating results.

### **ENVIRONMENTAL RISKS**

MTU is subject to numerous laws and regulations aimed at protecting the environment. Any tightening of the applicable environmental requirements in connection with the use of chemicals in manufacturing and test rig emissions may give rise to additional investment costs. Further information can be found in Section 1.5. (Corporate responsibility). MTU requires special certification in order to operate certain production facilities. The regulations must be strictly observed and all procedures fully documented. An environmental management system certified to DIN EN ISO 14001 minimizes the risks in this area.

### **ORGANIZATIONAL RISKS**

The company has not identified any risks arising from controlling and monitoring systems or relating to organization and management.

### **MUTUAL RISKS OF JOINT VENTURES**

In the commercial maintenance business, MTU's interests in the Asian market include a 50:50 joint venture, MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China. In jointly controlled entities where decisions have to be made by consensus, there is always a risk of differences of opinion.

A certified environmental management system minimizes environmental risks.

➤ further information on page 74 ff.

## 6.4. SWOT ANALYSIS

The results of an analysis of the main strengths, weaknesses, opportunities and threats (SWOT) presented by MTU's corporate structure and market environment can be summarized as follows:

### SWOT analysis of the MTU group

Corporate	Market
<b>Strengths</b>	<b>Opportunities</b>
Technological leadership	Market environment of business units on a long-term growth trend
– OEM: Excellence in engine modules: low-pressure turbines, high-pressure and IP compressors	
– MRO: Excellence in advanced repair techniques	
– Manufacturing technologies	
Balanced mix of production and after-market business, covering all stages from development and manufacturing to maintenance	Increasing technological complexity of future engines
Sustained capacity utilization assured by high order backlog	Good market opportunities for fuel-efficient engine designs (geared turbofan) in the event of steadily rising oil prices
High, stable profitability	Solid financing structure and technological leadership open the way to program investments
Focus on high-profit-margin engine business	Possible increase in OEM revenues resulting from IAE restructuring
Presence in fast-growing Asian market	Growth opportunities in the attractive GE90 market
Long-term contracts in the OEM business, involvement in consortia and cooperative ventures	Growth of MRO in newly industrializing countries
Quality and on-time delivery form basis for reliable partnerships	Airline outsourcing in order to concentrate on core activities offers additional opportunities for MRO business
Proximity of MRO sales network to customers	Greater exploitation of synergies between areas of commercial business
Solid financing structure	Positive changes in U.S. dollar exchange rate
<b>Weaknesses</b>	<b>Threats</b>
High dependency on U.S. dollar	Low, volatile profitability on the part of end customers (airlines); possible spending cuts in the event of an economic downturn
Earnings dependent on market success of OEMs and their products	Inherent risk of advanced technology development with regard to estimated schedules and costs
High wage levels at home manufacturing sites	Competition from low-cost PMA parts
	Entry of newly industrializing nations into the aerospace industry
	Restrained public spending may lead to defense budget cuts.
	Difficulty of obtaining licenses in the MRO business
	Competition in the market for maintenance services, resulting in excess capacity for certain MRO programs.
	Negative changes in U.S. dollar exchange rate

#### **6.5. OVERALL PROGNOSIS OF MTU'S RISK EXPOSURE**

At December 31, 2011, there had been no substantial changes in MTU's risk exposure compared with the end of the previous year. The group is of the opinion that it would serve no purpose to aggregate the most important individual risks, on the grounds that it is improbable that hypothetical risks would arise simultaneously.

The level of risk exposure is manageable; from the present point of view, the MTU group's continuing existence as a going concern is not endangered. MTU does not anticipate any fundamental changes in its risk exposure at the present time. MTU has taken every possible organizational measure to ensure early awareness of potential risk situations.

## 7. OTHER DISCLOSURES

MTU complies with the prescribed disclosure requirements by issuing a corporate governance statement, a management compensation report, information on directors' dealings, and disclosures in accordance with the Takeover Directive Implementation Act, as specified in Section 315(4) of the German Commercial Code (HGB). The rules applied in this context are customary practice for listed companies, and are not intended to obstruct or impede any possible takeover bid.

### 7.1. CORPORATE GOVERNANCE STATEMENT

#### DECLARATION OF CONFORMITY

The management and supervisory boards of listed companies issue an annually renewed declaration stating that the recommendations of the Government Commission on the German Corporate Governance Code have been and are being complied with, where necessary citing those recommendations that have not been or are not being applied. The declaration of conformity of MTU Aero Engines is included in the corporate governance report on page 38.

➤ further information  
on page 38

There is a section devoted to corporate governance on the MTU website at [www.mtu.de](http://www.mtu.de) under Investor Relations.

#### MANAGEMENT PRACTICES EXTENDING BEYOND STATUTORY REQUIREMENTS

A full description of management practices that extend beyond statutory requirements is provided in the corporate governance report.

#### WORKING PROCEDURES OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

A description of the working procedures of the Board of Management and Supervisory Board is provided in the corporate governance report.

### 7.2. REFERENCE TO MANAGEMENT COMPENSATION REPORT

➤ further information  
on page 43 ff.

The compensation awarded to members of the Board of Management is made up of fixed and variable components. A more detailed description, including a table of individual members' compensation entitlements, can be found in the 'Corporate governance' section of this Annual Report. The management compensation report forms an integral part of the group management report.

### 7.3. DIRECTORS' DEALINGS

Pursuant to Section 15a of the German Securities Trading Act (WpHG), members of the Board of Management and the Supervisory Board have a legal obligation to disclose transactions involving the purchase or sale of shares in MTU Aero Engines Holding AG, Munich, or related financial instruments, on condition that the total amount of the transactions undertaken by a board member or related persons reaches or exceeds € 5,000 within a single calendar year. This disclosure requirement applies equally to any other management staff with executive powers and to persons closely related to them. These transactions are posted on the MTU website at [www.mtu.de](http://www.mtu.de) and published in the register of companies.

The total number of shares in MTU Aero Engines Holding AG, Munich held by members of the company's Board of Management and Supervisory Board at December 31, 2011, equaled less than 1% of the company's share capital (at December 31, 2010, less than 1%).

➤ further information  
on page 30, 60 f. and 240 ff.

The mandates of members of the MTU Board of Management and Supervisory Board are described in the sections entitled 'The Board of Management' and 'The Supervisory Board' respectively. Information on related-party transactions is provided in Note 43. to the consolidated financial statements (Relationships with related companies and persons).

#### 7.4. DISCLOSURES IN CONNECTION WITH THE TAKEOVER DIRECTIVE

The following disclosures are made pursuant to Section 315(4) of the German Commercial Code (HGB) (takeover directive implementation).

##### COMPOSITION OF SUBSCRIBED CAPITAL

The subscribed capital (capital stock) of MTU Aero Engines Holding AG is unchanged, and amounts to € 52.0 million, divided into 52.0 million registered non-par shares. All shares have equal rights and each share entitles the holder to one vote at the Annual General Meeting.

##### RESTRICTIONS CONCERNING VOTING RIGHTS AND THE TRANSFER OF SHARE OWNERSHIP

At December 31, 2011, MTU held 3,187,512 treasury shares. No voting rights are exercised in respect of treasury shares. The articles of association of MTU Aero Engines Holding AG do not contain any restrictions concerning voting rights or the transfer of share ownership. The Board of Management has no knowledge of any agreement between shareholders that could give rise to any such restrictions.

##### CAPITAL INVESTMENTS EXCEEDING 10 % OF THE VOTING RIGHTS

According to its notification dated November 15, 2010, Capital Research and Management Company held 10.22% of MTU's voting rights (5,313,949 shares).

##### SHARES WITH SPECIAL RIGHTS CONFERRING POWERS OF CONTROL ON THE HOLDER

MTU has not issued any shares with special rights conferring powers of control on the holder.

##### METHOD OF CONTROLLING VOTING RIGHTS WHEN EMPLOYEES OWN STOCK CAPITAL AND DO NOT EXERCISE THEIR CONTROL RIGHTS DIRECTLY

Employees holding shares in MTU Aero Engines Holding AG exercise their control rights like any other shareholder, in strict compliance with statutory regulations and the company's articles of association.

##### RULES GOVERNING THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE BOARD OF MANAGEMENT

Members of the Board of Management are appointed by the Supervisory Board in accordance with the provisions of Section 84 of the German Stock Corporation Act (AktG). The Supervisory Board also determines the number of members in the Board of Management which, according to the articles of association, must consist of at least two members. The Supervisory Board is entitled to select one member of the Board of Management to serve as its chairman. Members of the Board of Management serve for a term of office not exceeding five years. This initial term of office may be prolonged, in the same or a different capacity, for an additional five years. Pursuant to Section 31 of the German Co-Determination Act (MitbestG), the appointment of a member of the Board of Management requires a two-thirds majority of the votes of the Supervisory Board. In default of a majority vote, the Supervisory Board's Mediation Committee is granted a one-month period within which it must submit an alternative proposal for the appointment. If no candidate is accepted as a result of this second vote, a third voting round is held, in which the chair of the Supervisory Board has two votes but the deputy chair is not entitled to a second vote.

The Supervisory Board has the right to refuse the appointment of a member or chair of the Board of Management on significant grounds – for instance gross breach of duty or incapacity to manage a business in an orderly manner.



#### **RULES GOVERNING AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

All amendments to the articles of association require a resolution on the part of the Annual General Meeting, pursuant to Section 179 of the German Stock Corporation Act (AktG). Under the terms of the articles of association, such resolutions must be carried by a simple majority of the votes or, in cases where a majority of the voting stock must be represented at the meeting, by the simple majority of the voting stock – unless otherwise stipulated by the law (Section 18(1) of the articles). The right to add amendments of a purely formal nature, for instance changes to the share capital as the result of utilization of the authorized capital, is devolved to the Supervisory Board under the terms of Section 13 of the articles of association. Amendments to the articles of association become effective on the date at which they are entered in the commercial register (Section 181(3) of the German Stock Corporation Act, AktG).

#### **AUTHORIZATIONS CONFERRED ON THE BOARD OF MANAGEMENT, ESPECIALLY CONCERNING THE ISSUE AND PURCHASE OF SHARES**

##### **AUTHORIZED CAPITAL**

By resolution of the Annual General Meeting on April 22, 2010, the Board of Management is authorized until April 21, 2015 to increase the company's capital stock by up to € 5.2 million, with the prior approval of the Supervisory Board, by issuing, either in a single step or in several steps, new registered non-par-value shares in return for cash contributions (Authorized capital I 2010).

By resolution of the Annual General Meeting on May 5, 2011, the Board of Management is further authorized until April 21, 2015 to increase the company's capital stock by up to € 15.6 million, with the prior approval of the Supervisory Board, by issuing, either in a single step or in several steps, new registered non-par-value shares in return for cash contributions (Authorized capital II 2011).

In addition, by resolution of the same Annual General Meeting, the Board of Management is authorized until April 21, 2015 to increase the company's capital stock by up to € 5.2 million, with the prior approval of the Supervisory Board, by issuing, either in a single step or in several steps, new registered non-par-value shares in return for cash and/or non-cash contributions (Authorized capital III 2011).

##### **CONVERTIBLE BONDS AND BONDS WITH WARRANTS**

At the Annual General Meeting on April 22, 2010, the Board of Management was authorized until April 21, 2015 to carry out conditional capital increases with the prior approval of the Supervisory Board:

- The company's capital stock may be increased by up to € 3.64 million through the issue of up to 3,640,000 million new registered non-par-value shares. The purpose of this conditional capital increase is to issue shares to owners or creditors of convertible bonds and/or bonds with warrants in accordance with the authorization granted to the company's Board of Management under a resolution passed by the Annual General Meeting on May 30, 2005. Shares may be issued at a conversion price or warrant exercise price determined on the basis of the conditions laid down in the relevant authorization.
- The company's capital stock may be increased by up to € 22.36 million through the issue of up to 22,360,000 million new registered non-par-value shares, each corresponding to a proportional amount (one euro) in the company's total capital stock (conditional capital). The purpose of this conditional capital increase is to issue shares to owners or creditors of convertible bonds and/or bonds with warrants in accordance with the authorization granted to the company's Board of Management under a resolution passed by the Annual General Meeting on April 22, 2010. Shares may be issued at a conversion price or warrant exercise price determined on the basis of the conditions laid down in the relevant authorization.

The Board of Management is authorized until April 21, 2015, to issue, with the prior approval of the Supervisory Board, bearer convertible bonds and/or bonds with warrants (collectively referred to as 'securities'), with or without maturity date, with a total nominal value of up to € 500 million, and to grant the owners of convertible bonds and/or bonds with warrants the right, obligation or option to convert them into registered non-par-value shares of the company representing a share in the capital stock of up to € 22.36 million under the conditions established for the issue of convertible bonds or bonds with warrants. The securities may be issued in return for cash contributions only. They may be issued in euros or – to an equivalent value – in any other legal currency, for instance that of an OECD country. They may also be issued by an affiliated company in which MTU holds a controlling interest (group company). In such cases, and subject to the prior approval of the Supervisory Board, the Board of Management is authorized to act as guarantor for the securities, and to grant the owners of the securities the right, obligation or option to convert them into new registered non-par-value shares in MTU.

**RESOLUTION CONCERNING THE AUTHORIZATION TO PURCHASE AND USE TREASURY SHARES PURSUANT TO SECTION 71(1) ITEM 8 OF THE GERMAN STOCK CORPORATION ACT (AKTG) AND CONCERNING THE EXCLUSION OF SUBSCRIPTION RIGHTS**

At the Annual General Meeting on April 22, 2010, a resolution was passed by a majority of votes representing 98.03% of the stock capital with voting rights held by those present at the meeting to accept the proposal by the Supervisory Board and Board of Management concerning the authorization to purchase and use treasury shares pursuant to Section 71(1) item 8 of the German Stock Corporation Act (AktG) and concerning the exclusion of subscription rights. The resolution adopted by the Annual General Meeting conferred the following authorizations on the company:

- The company is authorized to purchase treasury shares accounting for a proportion of up to 10% of the company's issued capital stock, as applicable on the date of the resolution, during the period from April 23, 2010, through April 22, 2015, pursuant to Section 71(1) item 8 of the German Stock Corporation Act (AktG). At no point in time may the acquired shares, together with other treasury shares in the company's possession or which are assigned to it pursuant to Section 71a et seq. of the German Stock Corporation Act (AktG), exceed 10% of the company's capital stock. At the discretion of the Board of Management, the shares may be purchased through the stock exchange or by means of a public offering addressed to all shareholders (or – if legally acceptable – through an open invitation to submit offers for sale). The shares must be sold in return for proceeds that do not lie more than 10% above or below the quoted share price, net of any supplementary transaction charges. The reference for the quoted share price as defined in the above ruling, in the case of a sale through the stock exchange, is the average value of share prices in the closing session of Xetra trading (or a comparable successor system) on the last three trading days prior to the publication of the offering or invitation. In the case of shares purchased by means of a public offering addressed to all shareholders (or an open invitation to submit offers for sale), the reference for the quoted share price is the average value of share prices in the closing session of Xetra trading (or a comparable successor system) on the last three trading days prior to the publication of the offering or invitation. In the event of substantial fluctuations in the share price, the Board of

Management is authorized to publish a new public offering or invitation to submit offers for sale, based on a recalculated average value of share prices according to the previously mentioned formula. The volume of the offer can be limited in the case of shares purchased by means of a public offering addressed to all shareholders (or an open invitation to submit offers for sale). If the take-up of the offering (or the total number of offers) exceeds this volume, the purchase must be transacted in proportion to the number of shares offered. Preferential treatment may be given to small packages (up to 100 shares) offered for sale. Further conditions may be imposed in the offering or invitation to submit offers.

- The Board of Management is authorized to sell the purchased treasury shares in another manner than through the stock exchange or by means of a public offering addressed to all shareholders, on condition that the shares are sold in return for cash contributions at a price that does not lie significantly below the market price of similarly entitled MTU shares at the time of sale.
- The Board of Management is authorized, with the prior approval of the Supervisory Board, to sell the purchased treasury shares in another manner than through the stock exchange or by means of an offering addressed to all shareholders if the treasury shares are sold to program participants in conjunction with the company's stock option programs and those participants are, or were, employees or officers of the company or one of its associated companies. If shares are to be issued to active or former members of the MTU Board of Management under the terms of the company's stock option programs, the Supervisory Board is authorized to transact this issue.
- The Board of Management is furthermore authorized to use the purchased treasury shares as partial or complete payment in conjunction with business combinations or the acquisition, whether direct or indirect, of businesses, parts of businesses or equity investments.
- The Board of Management is also authorized, with the prior approval of the Supervisory Board, to use the purchased treasury shares to discharge obligations or exercise rights relating to convertible bonds, bonds with warrants, certificates of beneficial interest or income bonds (or combinations of such instruments) issued by the company or by a dependent group company.
- The Board of Management is moreover authorized, with the prior approval of the Supervisory Board and without any requirement for a further resolution to be passed by the Annual General Meeting, to retire purchased treasury shares in whole or in part. Their retirement may be effected by employing a simplified procedure without any capital reduction, by adapting the actuarial value of the outstanding portion of shares to that of the company's stock capital. The retirement may be limited to a defined fraction of the purchased shares. The authorization to retire shares may be utilized on one or more occasions. If the simplified procedure is employed, the Board of Management is authorized to amend the number of outstanding shares stated in the articles of association.
- The above-stated authorizations may be exercised on one or more occasions, in whole or in part, singly or in combination. They may be exercised also by group companies as defined in Section 17 of the German Stock Corporation Act (AktG).

- The subscription rights of existing shareholders in respect of these treasury shares is excluded insofar as the shares are utilized in the manner described in the above-stated authorizations.
- The authorization to purchase treasury shares granted to the company on May 26, 2009, is revoked as of the effective date of this new authorization. The authorization to use the treasury shares purchased under the terms of the above-mentioned earlier resolution dated May 26, 2009, remains in force.

#### **SIGNIFICANT AGREEMENTS RELATING TO CHANGE OF CONTROL SUBSEQUENT TO A TAKEOVER BID**

##### **GROUP HOLDING COMPANY (MTU AERO ENGINES HOLDING AG, MUNICH)**

The group holding company, MTU Aero Engines Holding AG, Munich, has not entered into any significant agreements with third parties or affiliated companies relating to change of control subsequent to a takeover bid.

##### **GROUP COMPANIES**

The following agreements were concluded with group companies:

##### **CONVERTIBLE BOND**

The convertible bond with a total nominal value of € 180.0 million issued by the company's consolidated subsidiary MTU Aero Engines Finance B.V., Amsterdam, the Netherlands ('bond debtor'), in the financial year 2007 has given rise to the following agreements relating to change of control subsequent to a takeover bid:

In the event of a change of control, the bond debtor or MTU Aero Engines Holding AG, Munich, in its capacity as guarantor will notify the bondholders of this fact through the intermediary of the depository immediately after obtaining knowledge of the change of control. A change of control is deemed to have taken place if an individual or a group of individuals acting collectively acquires a controlling interest in the guarantor. The merger of one of the guarantor's subsidiaries with the guarantor itself and the transfer of rights from the former to the latter does not constitute a change of control under any circumstances.

Notwithstanding the requirements of Section 315(4) of the German Commercial Code (HGB) and German accounting standard DRS 15a, control in the context of bond issuance means:

- direct or indirect legal or commercial ownership as defined in Section 22 of the German Securities Trading Act (WpHG) as of a total of 50% or more of the voting rights in the guarantor or, as defined in Section 17 of the German Stock Corporation Act (AktG), the ability to determine affairs of the guarantor in any other manner,
- or
- in the case of a takeover bid for shares of the guarantor, the existence of circumstances under which the shares already under the bidder's control added to the shares for which the bid has already been accepted together entitle the bidder to 50% or more of the voting rights in the guarantor, if at the same time the bid has become unconditional,
- or
- the sale or transfer of ownership of all or substantially all assets by the guarantor to another individual or group of individuals.

#### PROMISSORY NOTES

The four promissory notes for a total note amount of € 65.0 million raised by MTU Aero Engines Holding AG, Munich, on June 3, 2009, gave rise to the following agreements relating to change of control subsequent to a takeover bid:

- Notwithstanding existing statutory cancellation rights, the lenders are entitled to declare due an amount that corresponds to their share in the loan and demand the immediate repayment of this amount of principal plus accumulated interest up to the date of repayment in the event that an individual or several individuals acting collectively, or one or several third parties acting on the instructions of said individual(s), at any time directly or indirectly (depending on whether the Board of Management or Supervisory Board has granted its approval to the borrower) hold(s) more than 50% of the outstanding subscribed capital or hold(s) or acquire(s) a number of the borrower's shares corresponding to 50% or more of the voting rights.
- Requests for repayment must be submitted in writing, citing the reason for the cancellation of the loan and the underlying circumstances, and sent by registered mail to the borrower and the paying agency.

#### REVOLVING CREDIT FACILITY

The terms of the revolving credit facility amounting to € 100 million entitle the lender to cancel the agreement in the event that one individual or a group of individuals should acquire a controlling interest in MTU Aero Engines GmbH, Munich, or any other group company benefiting from the credit agreement, or in the event that one individual or a group of individuals should hold more than 50% of the share capital or corporate capital.

#### OTHER AGREEMENTS

It is possible that the group holding company might nevertheless be indirectly affected by a change of control through risk- and revenue-sharing agreements entered into by its group subsidiary, MTU Aero Engines GmbH, Munich. Under such agreements, a company acquires a stake in an engine program by investing its own resources – workforce capacity and financial resources (risk) – and in turn receives a proportion of the revenues corresponding to its percentage share in the program.

Such agreements, like certain other agreements concluded by other group subsidiaries operating in the MRO segment, often contain change-of-control clauses that entitle the other party to terminate the agreement in the event that one of that party's competitors should acquire a given percentage of the company's voting rights (generally 25 – 30%, occasionally rising to 50% of the equity capital).

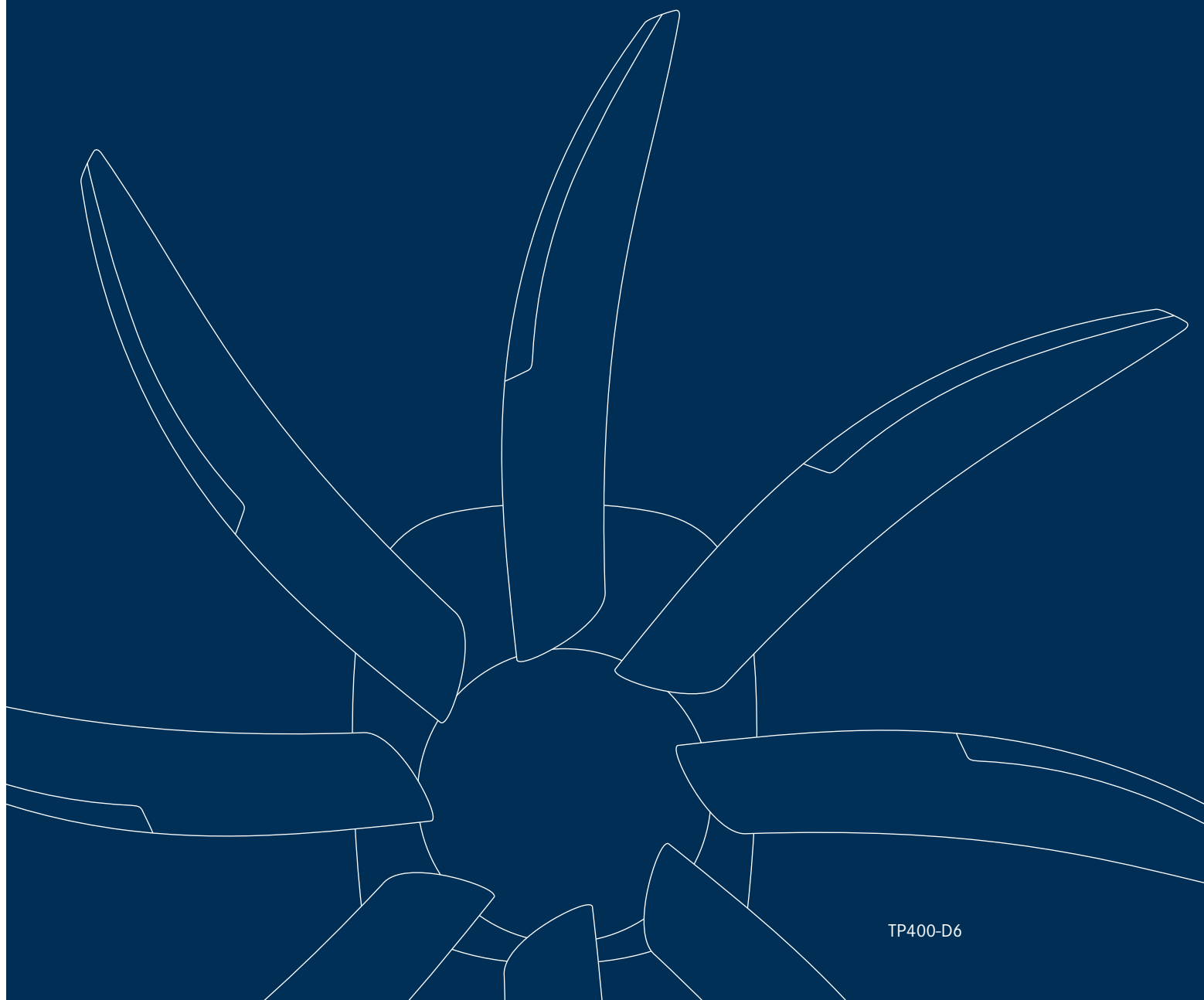
#### CLAIMS FOR COMPENSATION IN THE EVENT OF A TAKEOVER BID

The company has not entered into any agreements entitling members of the Board of Management or other employees to claim compensation in the event of a takeover bid.

Going for growth

# 110% more powerful

Boasting 11,000 shaft horsepower, the TP400-D6 is the Western world's most powerful propeller turbine. The turboprop engine of the A400M military transporter thus offers 110 percent more power than the previous record holder, the Tyné. Whether in military or commercial applications, it is powerful engines like this that make large cargo aircraft both feasible and economical in operation.



TP400-D6

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# CONSOLIDATED INCOME STATEMENT

## Consolidated Income Statement

in € million	Note	2011	2010
<b>Revenues</b>	(6.)	<b>2,932.1</b>	<b>2,707.4</b>
Cost of sales	(7.)	-2,385.8	-2,184.5
<b>Gross profit</b>		<b>546.3</b>	<b>522.9</b>
Research and development expenses	(8.)	-131.6	-129.0
Selling expenses	(9.)	-80.3	-79.7
General administrative expenses	(10.)	-57.0	-52.3
Other operating income and expenses	(11.)	5.6	6.1
Profit/loss of companies accounted for using the equity method	(13.)		-2.1
Profit/loss of companies accounted for at cost	(13.)	2.6	1.5
<b>Earnings before interest and tax (EBIT)</b>		<b>285.6</b>	<b>267.4</b>
Interest income		3.7	6.3
Interest expenses		-16.4	-19.9
Interest result	(12.)	-12.7	-13.6
Financial result on other items	(14.)	-42.1	-26.6
<b>Financial result</b>		<b>-54.8</b>	<b>-40.2</b>
<b>Earnings before tax (EBT)</b>		<b>230.8</b>	<b>227.2</b>
Income taxes	(15.)	-72.6	-85.0
<b>Earnings after tax (EAT)</b>		<b>158.2</b>	<b>142.2</b>
<b>Earnings per share in €</b>			
Undiluted earnings per share (EPS)	(16.)	3.24	2.91
Diluted earnings per share (DEPS)	(16.)	3.15	2.83



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

### Consolidated Statement of Comprehensive Income

in € million	Note	2011	2010
<b>Earnings after tax (EAT)</b>		<b>158.2</b>	<b>142.2</b>
Translation differences arising from the financial statements of international subsidiaries		1.2	9.1
Net gains/losses on cash flow hedges		-12.9	-3.9
Net gains/losses on 'available-for-sale' financial assets			-0.1
<b>Other comprehensive income</b>	<b>(29.7)</b>	<b>-11.7</b>	<b>5.1</b>
<b>Total comprehensive income</b>		<b>146.5</b>	<b>147.3</b>

# CONSOLIDATED BALANCE SHEET

## Assets

in € million	Note	Dec. 31, 2011	Dec. 31, 2010
<b>Non-current assets</b>			
Intangible assets	(19.)	1,266.3	1,225.4
Property, plant and equipment	(20.)	584.6	559.5
Financial assets	(21.)	16.2	25.8
Other assets	(25.)	5.1	6.0
Deferred tax assets	(38.)	13.7	16.7
<b>Total non-current assets</b>		<b>1,885.9</b>	<b>1,833.4</b>
<b>Current assets</b>			
Inventories	(22.)	823.8	701.0
Trade receivables	(23.)	605.1	531.9
Construction contract receivables	(24.)	136.8	138.2
Income tax claims	(27.)	5.8	
Financial assets	(21.)	44.1	77.9
Other assets	(25.)	34.2	25.8
Cash and cash equivalents	(26.)	198.8	111.9
Prepayments	(28.)	4.1	6.0
<b>Total current assets</b>		<b>1,852.7</b>	<b>1,592.7</b>
<b>Total assets</b>		<b>3,738.6</b>	<b>3,426.1</b>

## CONSOLIDATED BALANCE SHEET

### Equity and liabilities

in € million	Note	Dec. 31, 2011	Dec. 31, 2010
<b>Equity</b>	<b>(29.)</b>		
Subscribed capital		52.0	52.0
Capital reserves		340.9	348.2
Revenue reserves		622.2	517.6
Treasury shares		-100.0	-101.2
Other comprehensive income		-9.0	2.7
<b>Total equity</b>		<b>906.1</b>	<b>819.3</b>
<b>Non-current liabilities</b>			
Pension provisions	(30.)	428.5	409.0
Other provisions	(32.)	119.9	140.0
Financial liabilities	(33.)	53.4	204.7
Other liabilities	(36.)	133.0	111.4
Deferred tax liabilities	(38.)	229.6	231.5
<b>Total non-current liabilities</b>		<b>964.4</b>	<b>1,096.6</b>
<b>Current liabilities</b>			
Pension provisions	(30.)	28.5	24.2
Income tax liabilities	(31.)	10.0	71.2
Other provisions	(32.)	199.9	200.1
Financial liabilities	(33.)	208.2	57.2
Trade payables	(34.)	592.7	424.5
Construction contract payables	(35.)	715.0	666.3
Other liabilities	(36.)	113.8	66.7
<b>Total current liabilities</b>		<b>1,868.1</b>	<b>1,510.2</b>
<b>Total equity and liabilities</b>		<b>3,738.6</b>	<b>3,426.1</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## Consolidated Statement of Changes in Equity

in € million	Subscribed capital	Capital reserves	Revenue reserves	Treasury shares	Other comprehensive income			Group equity
					Translation differences	Financial assets (AFS)	Derivative financial instruments	
<b>Carrying amount at Jan. 1, 2010</b>	<b>52.0</b>	<b>353.6</b>	<b>420.9</b>	<b>-93.4</b>	<b>-5.1</b>		<b>2.7</b>	<b>730.7</b>
Earnings after tax (EAT)			142.2					142.2
Other comprehensive income					9.1	-0.1	-3.9	5.1
<b>Total comprehensive income</b>			<b>142.2</b>		<b>9.1</b>	<b>-0.1</b>	<b>-3.9</b>	<b>147.3</b>
Total dividend payment			-45.5					-45.5
MAP employee stock option program		-0.2		2.7				2.5
Matching Stock Program (MSP) / Share Matching Plan (SMP)		-5.2		3.0				-2.2
Conversion of convertible bond				0.1				0.1
Purchase of treasury shares				-13.6				-13.6
<b>Carrying amount at Dec. 31, 2010</b>	<b>52.0</b>	<b>348.2</b>	<b>517.6</b>	<b>-101.2</b>	<b>4.0</b>	<b>-0.1</b>	<b>-1.2</b>	<b>819.3</b>
Earnings after tax (EAT)			158.2					158.2
Other comprehensive income					1.2		-12.9	-11.7
<b>Total comprehensive income</b>			<b>158.2</b>		<b>1.2</b>		<b>-12.9</b>	<b>146.5</b>
Total dividend payment			-53.6					-53.6
MAP employee stock option program		1.0		6.5				7.5
Matching Stock Program (MSP)		-8.7		4.1				-4.6
Share Matching Plan (SMP)		0.4						0.4
Purchase of treasury shares				-9.4				-9.4
<b>Carrying amount at Dec. 31, 2011</b>	<b>52.0</b>	<b>340.9</b>	<b>622.2</b>	<b>-100.0</b>	<b>5.2</b>	<b>-0.1</b>	<b>-14.1</b>	<b>906.1</b>

# CONSOLIDATED CASH FLOW STATEMENT

## Consolidated Cash Flow Statement

in € million	2011	2010
<b>Earnings after tax (EAT)</b>	<b>158.2</b>	<b>142.2</b>
Amortization/depreciation of intangible assets and property, plant and equipment	135.4	130.9
Profit/loss of companies accounted for at cost	-2.6	-1.5
Profit/loss of companies accounted for using the equity method		2.1
Gains/losses on the disposal of assets	-0.7	0.2
Increase/decrease in pension provisions	23.8	21.6
Increase/decrease in other provisions	-20.3	-81.0
Other non-cash items	10.0	-2.9
Increase/decrease in working capital		
Change in inventories	-122.8	-52.3
Change in trade receivables	-73.2	-140.7
Change in construction contract receivables and payables	50.1	19.5
Change in other assets	-5.6	-2.3
Change in trade payables	167.8	103.6
Change in other liabilities	22.2	79.8
Interest result	12.7	13.6
Interest paid	-12.7	-16.4
Interest received	4.0	5.8
Dividends received	2.6	1.5
Income taxes	72.6	85.0
Income tax received/paid	-133.6	-57.4
<b>Cash flow from operating activities</b>	<b>287.9</b>	<b>251.3</b>
Capital expenditure on:		
Intangible assets	-46.8	-24.6
Property, plant and equipment	-113.6	-84.8
Financial assets	-133.0	-191.6
Proceeds from disposal of:		
Intangible assets/Property, plant and equipment	1.3	5.0
Financial assets	165.4	122.8
<b>Cash flow from investing activities</b>	<b>-126.7</b>	<b>-173.2</b>
Repayment of promissory notes		-40.0
Increase in non-current financial liabilities		26.3
Repayment of current financial liabilities	-20.9	
Repayment of non-current financial liabilities	-0.1	-20.3
Total dividend payment	-53.6	-45.5
Purchase of treasury shares	-9.4	-13.6
Sale of shares under the MAP employee stock option program	7.5	2.5
<b>Cash flow from financing activities</b>	<b>-76.5</b>	<b>-90.6</b>
Effect of translation differences on cash and cash equivalents	2.2	3.6
<b>Other changes in cash and cash equivalents</b>	<b>2.2</b>	<b>3.6</b>
<b>Change in cash and cash equivalents</b>	<b>86.9</b>	<b>-8.9</b>
Cash and cash equivalents at beginning of financial year	111.9	120.8
Cash and cash equivalents at end of financial year	198.8	111.9

## SEGMENT REPORTING BY OPERATING SEGMENT

### Reporting by operating segment

in € million	Commercial and military engine business (OEM)		Commercial maintenance business (MRO)	
	2011	2010	2011	2010
External revenues	1,819.0	1,639.4	1,113.1	1,068.0
Intersegment revenues	27.6	24.1	3.5	6.0
<b>Total revenues</b>	<b>1,846.6</b>	<b>1,663.5</b>	<b>1,116.6</b>	<b>1,074.0</b>
<b>Gross profit</b>	<b>388.4</b>	<b>378.1</b>	<b>153.1</b>	<b>140.7</b>
Amortization of intangible assets	44.4	42.9	8.3	8.0
Depreciation of property, plant and equipment	61.0	57.9	21.7	22.1
<b>Total amortization/depreciation</b>	<b>105.4</b>	<b>100.8</b>	<b>30.0</b>	<b>30.1</b>
<b>Earnings before interest and tax (EBIT)</b>	<b>199.2</b>	<b>191.8</b>	<b>89.4</b>	<b>74.2</b>
Depreciation/amortization effects of purchase price allocation	38.7	39.3	3.7	4.0
<b>Adjusted earnings before interest and tax (EBIT adjusted)</b>	<b>237.9</b>	<b>231.1</b>	<b>93.1</b>	<b>78.2</b>
<b>Assets</b>	<b>3,258.3</b>	<b>3,022.8</b>	<b>967.9</b>	<b>894.0</b>
<b>Liabilities</b>	<b>2,381.4</b>	<b>2,165.4</b>	<b>538.0</b>	<b>490.8</b>
<b>Significant non-cash items<sup>1)</sup></b>	<b>70.4</b>	<b>130.4</b>	<b>12.7</b>	<b>8.1</b>
<b>Capital expenditure on:</b>				
Intangible assets	84.4	18.6	7.6	6.0
Property, plant and equipment	83.7	65.5	30.0	19.3
<b>Total capital expenditure on intangible assets and property, plant and equipment</b>	<b>168.1</b>	<b>84.1</b>	<b>37.6</b>	<b>25.3</b>
<b>Key segment data:</b>				
EBIT in % of revenues	10.8	11.5	8.0	6.9
EBIT (adjusted) in % of revenues	12.9	13.9	8.3	7.3

<sup>1)</sup> Significant non-cash items mainly comprise changes to other provisions.

Detailed explanatory comments on the information disclosed for the operating segments is provided in the following tables and in Part V. of these notes (Segment Information), together with information on major customers, and an analysis by geographical area. The contribution to EBIT (earnings before interest and tax) by associates and joint ventures in the MRO segment accounted for using the equity method amounted to € 0.0 million in the financial year 2011 (2010: € 2.1 million).

	Other entities/holding company		Consolidation/reconciliation		MTU group	
	2011	2010	2011	2010	2011	2010
					2,932.1	2,707.4
	7.4	10.2	-38.5	-40.3		
	<b>7.4</b>	<b>10.2</b>	<b>-38.5</b>	<b>-40.3</b>	<b>2,932.1</b>	<b>2,707.4</b>
	<b>7.4</b>	<b>10.2</b>	<b>-2.6</b>	<b>-6.1</b>	<b>546.3</b>	<b>522.9</b>
					52.7	50.9
					82.7	80.0
					<b>135.4</b>	<b>130.9</b>
	-2.0	-1.2	-1.0	2.6	<b>285.6</b>	<b>267.4</b>
					42.4	43.3
	-2.0	-1.2	-1.0	2.6	<b>328.0</b>	<b>310.7</b>
	<b>873.1</b>	<b>887.4</b>	<b>-1,360.7</b>	<b>-1,378.1</b>	<b>3,738.6</b>	<b>3,426.1</b>
	<b>211.5</b>	<b>267.2</b>	<b>-298.4</b>	<b>-316.6</b>	<b>2,832.5</b>	<b>2,606.8</b>
	<b>0.5</b>	<b>0.5</b>				
					92.0	24.6
					113.7	84.8
					<b>205.7</b>	<b>109.4</b>
	-27.0	-11.8			9.7	9.9
	-27.0	-11.8			11.2	11.5

Intersegment sales are transacted on an arm's-length basis at normal market transfer prices – no different from those employed in transactions with external third parties.

## IMPAIRMENT LOSSES AND IMPAIRMENT LOSS REVERSALS

In the financial years 2011 and 2010, no impairment losses were recognized on intangible assets, financial assets, or property, plant and equipment.

### Reconciliation of segment information with MTU group consolidated financial statements

in € million	2011	2010
<b>Total revenues</b>		
Revenues of the reportable segments	2,970.6	2,747.7
Consolidation	-38.5	-40.3
<b>Group revenues</b>	<b>2,932.1</b>	<b>2,707.4</b>
<b>Adjusted earnings before interest and tax (EBIT adjusted)</b>		
EBIT (adjusted) of the reportable segments	329.0	308.1
Depreciation/amortization effects of purchase price allocation	-42.4	-43.3
Consolidation	-1.0	2.6
<b>Earnings before interest and tax (EBIT)</b>	<b>285.6</b>	<b>267.4</b>
Interest income	3.7	6.3
Interest expenses	-16.4	-19.9
Financial result on other items	-42.1	-26.6
<b>Earnings before tax (EBT)</b>	<b>230.8</b>	<b>227.2</b>

### Reconciliation of segment information with MTU group consolidated financial statements

in € million	Dec. 31, 2011	Dec. 31, 2010
<b>Assets</b>		
Assets of the reportable segments	5,099.3	4,804.2
Consolidation	-1,360.7	-1,378.1
<b>Group assets</b>	<b>3,738.6</b>	<b>3,426.1</b>
<b>Liabilities</b>		
Liabilities of the reportable segments	3,130.9	2,923.4
Consolidation	-298.4	-316.6
<b>Group liabilities</b>	<b>2,832.5</b>	<b>2,606.8</b>

Information on the components of these assets is provided in Part V. (Segment Information).



**Information on revenues derived from products and services**

in € million	2011	2010
<b>Commercial engine business</b>		
Manufacturing	1,332.1	1,116.4
Other products	69.0	61.2
<b>Total commercial engine business</b>	<b>1,401.1</b>	<b>1,177.6</b>
<b>Military engine business</b>		
Manufacturing	239.4	278.7
Other products	206.1	207.2
<b>Total military engine business</b>	<b>445.5</b>	<b>485.9</b>
<b>Total commercial and military engine business (OEM)</b>	<b>1,846.6</b>	<b>1,663.5</b>
<b>Commercial maintenance business (MRO)</b>		
Engine maintenance, repair and overhaul	1,004.6	978.5
Other products	112.0	95.5
<b>Total commercial maintenance business (MRO)</b>	<b>1,116.6</b>	<b>1,074.0</b>
<b>Total other products of other entities</b>	<b>7.4</b>	<b>10.2</b>
<b>Consolidation</b>	<b>-38.5</b>	<b>-40.3</b>
<b>Group revenues</b>	<b>2,932.1</b>	<b>2,707.4</b>

**Information on revenues from major customers**

in € million	2011	2010
<b>Revenues from major customers</b>	<b>1,803.8</b>	<b>1,638.3</b>
of which attributable to:		
Commercial engine business (OEM)	1,302.2	1,128.9
Military engine business (OEM)	379.3	419.9
Commercial maintenance business (MRO)	122.3	89.5

Approximately 62% of MTU's revenues (2010: approximately 60%) are attributable to nine major customers (2010: nine customers). Four of these customers each separately accounted for more than 10% of total group revenues.

## ANALYSIS BY GEOGRAPHICAL AREA

### Revenues according to customer's country of domicile

in € million	2011	2010
Germany	429.5	486.0
Europe	281.9	317.7
North America	1,907.1	1,551.7
South America	89.1	103.8
Africa	7.2	9.3
Asia	210.9	220.9
Australia/Oceania	6.4	18.0
<b>Total</b>	<b>2,932.1</b>	<b>2,707.4</b>

Approximately 65 % of MTU's revenues were generated from business with customers in North America (2010: 57 %).

### Capital expenditure on intangible assets and property, plant and equipment

in € million	2011	2010
Germany	191.6	96.6
Europe	6.5	8.6
North America	6.0	2.3
South America		
Africa		
Asia	1.6	1.9
Australia/Oceania		
<b>Total</b>	<b>205.7</b>	<b>109.4</b>

Approximately 93 % (2009: approximately 88 %) of the capital expenditure on intangible assets and on property, plant and equipment relates to expenditure by group companies in Germany.

### Non-current assets

in € million	Dec. 31, 2011	Dec. 31, 2010
Germany	1,764.3	1,708.7
Europe	51.0	60.4
North America	28.4	26.1
South America		
Africa		
Asia	42.2	38.2
Australia/Oceania		
<b>Total</b>	<b>1,885.9</b>	<b>1,833.4</b>

The non-current assets comprise intangible assets, property, plant and equipment, financial assets, other non-current assets, and deferred tax assets.

# I. ACCOUNTING POLICIES AND PRINCIPLES

## 1. GENERAL INFORMATION

MTU Aero Engines Holding AG, Munich, and its subsidiaries – hereinafter referred to as MTU Aero Engines Holding AG, MTU or the MTU group – is among the world's leading manufacturers of engine modules and components, and is the world's largest independent provider of MRO services for commercial aero engines.

The business activities of the MTU group range through the entire lifecycle of an engine program, i.e. from development, construction, testing and production of new commercial and military engines and spare parts, through to maintenance, repair and overhaul of commercial and military engines. MTU divides its activities into two operating segments: commercial and military engine business (OEM business) and commercial maintenance business (MRO business).

MTU's commercial and military engine business covers the development and production of modules, components and spare parts for engine programs, including final assembly. MTU's military engine business additionally includes maintenance services for these engines. The commercial maintenance business covers activities in the areas of maintenance and logistical support for commercial engines.

MTU Aero Engines Holding AG (parent company), registered office Dachauer Str. 665, 80995 Munich, Germany, is registered under HRB 157 206 in the commercial registry at the district court of Munich.

The consolidated financial statements were approved for publication by the Board of Management of MTU Aero Engines Holding AG, Munich, on February 10, 2012.

### 1.1. ACCOUNTING PRINCIPLES

MTU's consolidated financial statements have been drawn up in accordance with International Financial Reporting Standards (IFRSs), such as these apply in the European Union (EU), and the supplementary requirements of Section 315a (1) of the German Commercial Code (HGB). All IFRSs issued by the International Accounting Standards Board (IASB) that were effective at the time these consolidated financial statements were drawn up and were applied by MTU have been endorsed by the European Commission for use in the EU. MTU's consolidated financial statements thus also comply with the IFRSs issued by the IASB. The terms IAS and IFRS used in this document refer to both sets of standards.

The consolidated financial statements and group management report as at December 31, 2011 have been compiled in accordance with Section 315a (1) of the German Commercial Code (HGB) and published in the electronic version of the Federal Gazette (Bundesanzeiger).

The financial year is identical with the calendar year. Comparative data for the previous year are disclosed in the consolidated financial statements.

In the presentation of the balance sheet, a distinction is made between non-current and current assets and liabilities. A more detailed presentation of certain of these items in terms of their timing is provided in the notes to the consolidated financial statements. The income statement is laid out according to the cost-of-sales accounting format, in which revenues are balanced against the expenses incurred in order to generate these revenues, and the expenses are recorded in the appropriate line items by function: manufacturing, development, selling and general administration. The consolidated financial statements have been compiled in euros. All amounts are stated in millions of euros (€ million), unless otherwise specified.

The financial statements prepared by MTU Aero Engines Holding AG, Munich, and its subsidiaries are included in the consolidated financial statements. Uniform methods of recognition and measurement are applied throughout the group.

**ACCOUNTING STANDARDS AND INTERPRETATIONS, AND AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS, APPLIED FOR THE FIRST TIME**

The following standards and interpretations issued by the IASB were effective and applied for the first time in the financial year 2011:

**New and revised/amended standards and interpretations**

Standard	Title <sup>1)</sup>	Date of issuance by the IASB	Effective date <sup>2)</sup>	EU endorsement
<b>New interpretation</b>				
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Nov. 26, 2009	July 1, 2010	July 23, 2010
<b>Revisions and amendments to standards and interpretations</b>				
IAS 32	Financial Instruments: Presentation (classification of rights issues)	Oct. 8, 2009	Feb. 1, 2010	Dec. 23, 2009
IAS 24	Related Party Disclosures	Nov. 4, 2009	Jan. 1, 2011	July 19, 2010
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Nov. 26, 2009	Jan. 1, 2011	July 19, 2010
Various	Improvements to IFRS (annual improvements projects 2008 - 2010)	May 6, 2010	Jan. 1, 2011	Feb. 19, 2011

<sup>1)</sup> amendments to IFRS 1 are not included above as they are not considered to be relevant to MTU.

<sup>2)</sup> effective for annual periods beginning on or after this date.

Application of these (amended) standards and interpretations in the financial year 2011 had no effect on the methods of reporting used by MTU.

**STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE**

The following IASB accounting standards, which have been issued but were not yet effective for the financial year 2011, have not been applied in advance of their effective date:

**New and revised standards and interpretations**

Standard	Title <sup>1)</sup>	Date of issuance by the IASB	Effective date <sup>2)</sup>	EU endorsement
<b>New standards and interpretations</b>				
IFRS 9	Financial instruments	Nov. 12, 2009	Jan. 1, 2015	Unknown
IFRS 10	Consolidated Financial Statements	May 12, 2011	Jan. 1, 2013	Expected Q3 2012
IFRS 11	Joint Arrangements	May 12, 2011	Jan. 1, 2013	Expected Q3 2012
IFRS 12	Disclosure of Interests in Other Entities	May 12, 2011	Jan. 1, 2013	Expected Q3 2012
IFRS 13	Fair Value Measurement	May 12, 2011	Jan. 1, 2013	Expected Q3 2012
IAS 27 (2011)	Consolidated and Separate Financial Statements	May 12, 2011	Jan. 1, 2013	Expected Q3 2012
IAS 28 (2011)	Investments in Associates	May 12, 2011	Jan. 1, 2013	Expected Q3 2012
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Oct. 19, 2011	Jan. 1, 2013	Expected Q2 2012
<b>Revisions and amendments to standards and interpretations</b>				
IFRS 7	Financial Instruments: Disclosures (transfers of financial assets)	Oct. 7, 2010	July 1, 2011	Nov. 23, 2011
IAS 12	Income Taxes (deferred tax – recovery of underlying assets)	Oct. 20, 2010	Jan. 1, 2012	Expected Q2 2012
IAS 1	Presentation of Financial Statements (presentation of the items under “Other comprehensive income”)	June 16, 2011	July 1, 2012	Expected Q1 2012
IAS 19	Employee Benefits	June 16, 2011	Jan. 1, 2013	Expected Q1 2012
IFRS 7	Financial Instruments: Disclosure (offsetting financial assets and financial liabilities)	Dec. 16, 2011	Jan. 1, 2013	Expected Q3 2012
IAS 32	Financial Instruments: Presentation (offsetting financial assets and financial liabilities)	Dec. 16, 2011	Jan. 1, 2014	Expected Q3 2012

<sup>1)</sup> amendments to IFRS 1 are not included above as they are not considered to be relevant to MTU.

<sup>2)</sup> effective for annual periods beginning on or after this date.

MTU does not intend to apply any of these standards and interpretations, or any amendments made to them, in advance of their effective date.

In the interests of efficient reporting practice, the following descriptions of standards and interpretations are limited to those that, in view of MTU's business model and on the basis of the currently available knowledge of business transactions within the MTU group, will very probably have an impact on the methods of reporting used in future reporting periods.

#### **IFRS 9 AND AMENDMENTS TO IFRS 7 AND IAS 32 ('FINANCIAL INSTRUMENTS')**

In November 2009, the IASB issued the new standard IFRS 9, which addresses the classification and measurement of financial assets. This standard represents the first part of a three-phase project to replace IAS 39. IFRS 9 requires that financial assets are measured either at amortized cost or at fair value. Financial assets are assigned to one of the two measurement categories by looking at how an entity manages its financial instruments (its business model) and identifying the contractual cash flow characteristics of the individual financial assets.

In October 2010, the IASB issued additions to IFRS 9 in relation to accounting for financial liabilities. As a result, in cases where an entity elects to measure financial liabilities at fair value, the amount of the change in fair value due to changes in the entity's own credit risk must be recognized directly in the statement of comprehensive income or in other comprehensive income rather than in the income statement.

In December 2011, the IASB published amendments to IFRS 9 and IFRS 7 deferring the mandatory effective date of IFRS 9 to annual periods beginning on or after January 1, 2015 and modifying the transition disclosure requirements. The amendments also modify the relief provisions concerning comparative figures and related disclosures required in IFRS 7.

Given the complexity of the subject matter, it is not yet possible to make any reliable detailed statements regarding the potential impact of these amendments to IFRS 9 on the methods of reporting used by MTU.

In December 2011, the IASB also published amendments to both IAS 32 and IFRS 7 that served to clarify the rules for offsetting financial instruments. What is more, the IASB resolved to amend IAS 32 in such a way as to clarify certain aspects that had resulted in inconsistencies in practice.

The amendments to IFRS 7 require the disclosure of all financial instruments recognized in the balance sheet that are offset in accordance with IAS 32.42. The amendments further require the disclosure of all financial instruments recognized in the balance sheet that are subject to a legally enforceable gross settlement agreement or similar agreement, even if they are not offset in accordance with IAS 32.

In the opinion of the IASB, these disclosures will enable the users of financial statements to assess the actual or potential effects of offsetting agreements – including a company's right to offset financial assets and liabilities recognized in the balance sheet – on the financial situation of the company.

The effects of these amendments to IAS 32 and IFRS 7 on the methods of accounting used by MTU are currently deemed to be negligible.

**IFRS 10, 11 AND 12, IAS 27 (2011) AND IAS 28 (2011)**

In May 2011, the IASB published a package of five standards dealing with consolidated financial statements (IFRS 10), joint arrangements (IFRS 11), the disclosure of interests in other entities (IFRS 12), consolidated and separate financial statements (IAS 27 (2011)), and investments in associates and joint ventures (IAS 28 (2011)).

The main requirements of these new standards are as follows:

**IFRS 10** supersedes the previous requirements concerning consolidated financial statements in IAS 27 and special-purpose entities in SIC-12. In IFRS 10, the IASB makes a uniform principle of the concept of control. IFRS 10 states that a company has controlling interest in another entity when all of the following three conditions are met:

- (a) the investor has power over the investee,
- (b) the investor is exposed to, or has rights to, variable returns from its involvement with the investee, and
- (c) the investor has the ability to use its power to affect the amount of those returns.

The standard also provides comprehensive application guidance.

**IFRS 11**, which replaces the previous requirements in IAS 31 and SIC-13, deals with the classification of joint arrangements. A joint arrangement is defined as a contractual arrangement via which two or more parties exercise joint control over the arrangement. A joint arrangement is either a joint operation or a joint venture. In contrast to IAS 31, the recognition of assets under joint control is no longer addressed separately in IFRS 11 – instead, the rules for joint operations apply. Whether a joint arrangement is classified as a joint operation or as a joint venture depends on the rights and obligations accruing to the parties under the agreement.

In addition, IFRS 11 stipulates that joint ventures must be accounted for using the equity method, whereas IAS 31 states that either the equity method or the proportionate consolidation method is permissible for the accounting of jointly controlled entities.

**IFRS 12** is a disclosure standard addressing interests in other entities. It is to be applied by companies that hold interests in subsidiaries, joint arrangements (joint operations or joint ventures), associates and/or unconsolidated structured entities. As a general rule, the disclosures required under IFRS 12 are much more extensive than those of the standards currently in force.

The new standards IFRS 10-12 entail fundamental amendments to IAS 27 (2011) and IAS 28 (2011).

For MTU, application of these five new standards will result in the obligation to provide additional disclosures in the notes to the consolidated financial statements. What is more, the first-time adoption of IFRS 11 will entail changes in reporting of the joint venture MTU Maintenance Zhuhai, which was previously accounted for using the proportionate consolidation method. As from 2013, the latter will be accounted for in the consolidated financial statements using the equity method, entailing corresponding adjustments to the comparative figures of the previous years. As a result, the revenues for this entity, which amounted to some € 139 million in the financial year 2011, will be reduced.

As no detailed analysis of the effects of applying the new standards has thus far been carried out, it is not yet possible to quantify these effects.

### IFRS 13

IFRS 13 provides a package of uniform guidelines for calculating and disclosing fair value. The standard defines the concept of fair value, and provides a framework for calculating fair value and for disclosing it in the financial statements. IFRS 13 has a wide field of application, covering both financial and non-financial items. Subject to certain exceptions, IFRS 13 is always applied whenever another IFRS prescribes or allows the valuation of an asset or liability at fair value or when disclosures have to be made regarding the calculation of fair value. As a general rule, the disclosure requirements under IFRS 13 are more extensive than those of the standards currently in place. This includes the three-level fair value hierarchy that is used to evaluate, for example, the quantitative and qualitative information disclosed. Such information is currently required solely for financial instruments under IFRS 7; IFRS 13 extends this requirement to all assets and liabilities falling within the scope of the standard.

MTU assumes that the first-time adoption of IFRS 13 will necessitate more extensive disclosures in the notes to the consolidated financial statements. At the present point in time, it cannot be estimated with any reliability whether the adoption of IFRS 13 will affect the measurement/recognition methods used in the consolidated financial statements.

### AMENDMENTS TO IAS 1

In June 2011, the IASB published amendments to IAS 1 that introduce new rules for the presentation of other comprehensive income (OCI). The option of choosing between one or two methods of presentation has been retained. However, the presentation of OCI was amended in that subtotals are now required for those items that can be “recycled” (e.g. cash flow hedges, currency translations), and those that are not “recycled” (e.g. certain items to be included in OCI in accordance with IFRS 9 ‘Financial Instruments’ or the so-called remeasurement component in accordance with IAS 19 (2011) ‘Employee Benefits’).

Adoption of the amendments will necessitate adjustments to the presentation of OCI items in future reporting periods.

### AMENDMENTS TO IAS 19

In June 2011, the IASB published amendments to IAS 19. The most significant amendment to IAS 19 is that, in future, unexpected fluctuations in pension liabilities and plan assets – the so-called remeasurement component – which were hitherto classified as actuarial gains and losses, must be recognized directly in OCI. The previous option of choosing between immediate recognition in the income statement, recognition in OCI, or deferred recognition in line with the “corridor method” currently used by MTU, is now no longer available.

In a second amendment to IAS 19, the return on plan assets will no longer be estimated according to the expected return based on asset allocation. Instead, the expected return recognized for plan assets must not exceed the discount rate.

The third amendment to IAS 19 calls for more comprehensive disclosures, particularly in respect of the financing strategy of the pension plans. The pension plans’ credit risks must be described and quantified. It will be necessary, for instance, to provide a sensitivity analysis showing the extent to which pension liabilities could fluctuate if underlying assumptions change. The average remaining term of the pension liabilities must also be disclosed.



The treatment of termination benefits has also been amended in IAS 19, especially with regard to the point in time when a company recognizes a liability for such benefits – namely after individual employees have been notified. When adopted, the final amendments will correspond in essence, even if not verbatim, with the equivalent US-GAAP requirements. Above all, the timeframe for recognition will be longer in some cases. Moreover, the distinction for recognition purposes between termination benefits honoring years of service and those provided in exchange for termination of the employment contract has been altered. This can impact the recognition and measurement of termination benefits.

Owing to abolition of the corridor method, the accounting method used by MTU will change as from the financial year starting January 1, 2013, also necessitating adjustment of the prior-year comparative figures. Further, the actuarial losses that have been reported up to now in the notes to the consolidated financial statements will be recognized under other comprehensive income in the balance sheet – after taking into account any deferred tax assets – and will not be recognized in the income statement. In the financial year 2011, the actuarial losses amounted to around € 77 million. The amount of equity posted in future will be subject to more volatility. Moreover, the scope of the disclosures made in the notes to the consolidated financial statements will in all likelihood increase.

MTU is currently analyzing what effects the amendments to IAS 19 will have in respect of the treatment of termination benefits. In particular, it may become necessary to amend the recognition of top-up amounts for pre-retirement part-time working agreements. As even the auditing profession has yet to formulate an opinion on this matter, we cannot with any certainty forecast whether it will ultimately have an effect on MTU's consolidated financial statements.

### **1.2. INVOCATION OF SECTION 264 (3) OF THE GERMAN COMMERCIAL CODE (HGB)**

MTU Aero Engines GmbH, Munich, MTU Maintenance Hannover GmbH, Langenhagen, and MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde, which are consolidated affiliated companies of MTU Aero Engines Holding AG, Munich, and for which the consolidated financial statements of MTU Aero Engines Holding AG, Munich, constitute the exempting consolidated financial statements, have invoked the provisions of Section 264 (3) of the German Commercial Code (HGB). The official notice of these companies' invocation of the exemption was published in the electronic version of the Federal Gazette (Bundesanzeiger) in the name of MTU Aero Engines GmbH, Munich, on November 11, 2011.

### **1.3. NOTES RELATING TO CHANGES IN THE REPORTING OF THE CONSOLIDATED FINANCIAL STATEMENTS**

In the interests of greater clarity, the group presents the profit/loss of companies accounted for using the equity method, which amounted to € 0.0 million in the financial year 2011 (2010: a loss of € -2.1 million), on a separate line of the income statement. Due to the amended disclosure requirements, an additional line for the profit/loss of companies accounted for at cost, which amounted to € 2.6 million in 2011 (2010: € 1.5 million), has been added as of the financial year 2011. These two items, which in 2010 amounted to a total loss of € -0.6 million, were previously included in the financial result, but are now included as items of the operating profit (EBIT). Owing to this restatement, the comparative EBIT and EBIT adjusted figures for 2010 have each been reduced by € 0.6 million to € 267.4 million and € 310.7 million respectively.

## 2. GROUP REPORTING ENTITY

At December 31, 2011, the MTU group including MTU Aero Engines Holding AG, Munich, comprised 26 companies (2010: 23). These are presented in detail in the list of major shareholdings in Note 43.1.2. (Major shareholdings). MTU Versicherungsvermittlungs- und Wirtschaftsdienst GmbH, Munich, is not fully consolidated, on grounds of immateriality. Its equity capital at December 31, 2011 amounted to € 26,000 and its profit/loss was € 0. The assets of MTU München Unterstützungskasse GmbH, Munich, are classified as plan assets as defined in IAS 19. The fair value of these plan assets was included in the calculation of the group's defined benefit obligation for pensions. For this reason, MTU München Unterstützungskasse GmbH, Munich, is not consolidated.

### CHANGE IN COMPOSITION OF GROUP REPORTING ENTITY

#### PRESENTATION OF CHANGES IN THE GROUP COMPANIES AND EQUITY INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The number of group companies and equity investments in associated companies and joint ventures included in the consolidated financial statements has developed as follows:

#### Group reporting entity

	Germany	International	Total
<b>Shareholdings at Dec. 31, 2009</b>	<b>12</b>	<b>11</b>	<b>23</b>
Acquisitions 2010			
Disposals 2010			
<b>Shareholdings at Dec. 31, 2010</b>	<b>12</b>	<b>11</b>	<b>23</b>
Acquisitions 2011		3	3
Disposals 2011			
<b>Shareholdings at Dec. 31, 2011</b>	<b>12</b>	<b>14</b>	<b>26</b>

In order to consolidate and expand its position in the industrial gas turbine (IGT) market in Southeast Asia, MTU Aero Engines GmbH, Munich, established MTU Maintenance Service Centre Ayutthaya Ltd. in Ayutthaya, Thailand, in the first half of 2011. Also in the first six months of 2011, MTU Maintenance Zhuhai Ltd., Zhuhai, China, which is proportionately consolidated, acquired a 100% stake in MTU Maintenance Hong Kong Ltd., Hong Kong, China.

With the goal of providing MRO customers in the U.S. with even better on-wing support, MTU purchased a 75% stake in Retan Aerospace in Dallas, Texas, in the third quarter of 2011. Retan Aerospace is FAA-certified and is also an EASA Part-145 approved maintenance organization. The company, which now operates under the name of MTU Maintenance Dallas Inc., specializes in on-wing engine maintenance and overhaul and A, B and C aircraft checks.

All these companies belong to the commercial MRO business, and are of immaterial importance to the MTU group's operating results, financial situation and net assets. For this reason they are not consolidated, but appear under non-current financial assets with a total carrying amount of € 0.5 million.

#### **SUBSIDIARIES**

The consolidated financial statements of MTU Aero Engines Holding AG, Munich, include all significant companies in which MTU Aero Engines Holding AG, Munich, has a controlling interest by virtue of holding the majority of voting rights in those subsidiaries. Entities are consolidated as from the date on which control arises and are deconsolidated when control comes to an end.

#### **ASSOCIATED COMPANIES**

Associated companies are companies in which MTU has significant powers of control and which are neither subsidiaries nor joint ventures. Entities corresponding to this definition over whose financial and operating policies MTU directly or indirectly exercises significant influence are accounted for using the equity method or – if non-significant – at cost. Significant powers of control are assumed to exist if MTU Aero Engines Holding AG, Munich, directly or indirectly owns 20% or more of the voting stock of an entity.

#### **JOINT VENTURES**

Joint ventures are companies over which MTU exercises joint control together with another entity. Holdings in joint ventures with a significant impact on the consolidated financial statements are either consolidated proportionately or accounted for using the equity method. MTU's holding in the joint venture MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China, is proportionately consolidated at 50%. The group's investment in Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde, is accounted for using the equity method and included in the consolidated financial statements. Equity investments in all other joint ventures are recognized at cost on grounds of immateriality.

The following additional assets, liabilities, expenses and income are recognized in the consolidated financial statements as a result of the 50% proportionate consolidation of the joint venture MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China:

**Equity investment in the joint venture MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China**

in € million, 50% share	2011	2010
<b>Disclosures relating to the income statement</b>		
Income	142.8	124.2
Expenses	-128.4	-113.1
<b>Balance of income and expenses</b>	<b>14.4</b>	<b>11.1</b>
<b>Disclosures relating to the balance sheet</b>		
Non-current assets	42.2	38.2
Current assets	88.9	83.1
<b>Total assets</b>	<b>131.1</b>	<b>121.3</b>
Equity	72.2	57.9
Non-current liabilities	20.9	26.4
Current liabilities	38.0	37.0
<b>Total equity and liabilities</b>	<b>131.1</b>	<b>121.3</b>

At December 31, 2011, MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China, had a total of 614 employees (2010: 584 employees).

**NON-SIGNIFICANT INVESTMENTS**

Non-significant investments are shares in companies and stakes in engine programs whose overall impact on the group's net assets, financial situation and operating results is not material. These equity investments are accounted for at cost in the consolidated financial statements.

**3. CONSOLIDATION PRINCIPLES**

All business combinations are accounted for using the acquisition method as defined in IFRS 3. Under the acquisition method, the acquirer accounts for the business combination by measuring and recognizing the identifiable assets acquired and the liabilities and contingent liabilities assumed. The identifiable assets, liabilities, and contingent liabilities are measured at their fair values. In accordance with IAS 36, goodwill is tested for impairment at least annually, or at shorter intervals if there is an indication that the asset might be impaired. If the group's interest in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, that excess (negative good-will) is immediately recognized in the income statement – after remeasurement as required by IFRS 3.36.

The effects of intragroup transactions are eliminated. Accounts receivable and accounts payable as well as expenses and income between the consolidated companies are netted. Internal sales are recorded on the basis of market prices and intragroup profits and losses are eliminated.

In accordance with IAS 12, deferred taxes are recognized on temporary differences arising from the elimination of intragroup profits and losses.

#### 4. CURRENCY TRANSLATION

Transactions in foreign currencies are translated to the functional currency using the exchange rate prevailing on the date of the transaction. At the balance sheet date, monetary items are translated using the exchange rate prevailing at that date, whereas non-monetary items are translated using the exchange rate prevailing on the transaction date. Translation differences are recognized in the income statement. The assets and liabilities of group companies whose functional currency is not the euro are translated from the corresponding local currency to the euro using the closing exchange rate at the balance sheet date. In the income statements of foreign group companies whose functional currency is not the euro, income and expense items are translated each month using the exchange rate applicable at the end of the month; from these can be derived the average exchange rate for the year. The translation differences arising in this way are recognized in other comprehensive income and do not have any impact on the net profit/loss for the year.

#### 5. ACCOUNTING POLICY AND MEASUREMENT METHODS

The financial statements of MTU Aero Engines Holding AG, Munich, and of its subsidiaries are drawn up using uniform accounting policies in accordance with IAS 27.

##### 5.1. REVENUES

Revenues from the sale of goods are recognized when goods are delivered to the customer and accepted by the latter – in other words when the significant risks and rewards of ownership of the goods have been transferred by the seller. Further recognition criteria are the probability that economic benefits associated with the transaction will flow to the seller and that the revenues and costs can be measured reliably. The company's customers are trading partners in risk- and revenue-sharing programs, original equipment manufacturers (OEMs), cooperation entities, public-sector contractors, airlines and other third parties.

Revenues from maintenance contracts in the commercial MRO business are recognized when the maintenance service has been performed and the criteria for recognizing revenues have been met. In the case of long-term commercial maintenance agreements and military development and construction contracts, revenues are recognized by reference to the percentage of completion in accordance with IAS 18 and IAS 11. If the outcome of a contract cannot be estimated reliably, the zero-profit method is applied, whereby revenues are only recognized to the extent that contract costs have been incurred and it is probable that those costs will be recovered. Contracts are recognized in the balance sheet under 'construction contract receivables' (Note 24. Construction contract receivables) or under 'construction contract payables' (Note 35. Construction contract payables). Further explanation of the measurement of percentage of completion is given in connection with work in progress (Note 5.12. Inventories).

Revenues are reported net of trade discounts and concessions and customer loyalty awards.

The group's forward foreign currency contracts satisfy the conditions for applying hedge accounting according to IAS 39. The instruments used to hedge cash flows are measured at their fair value, with gains and losses recognized initially under other comprehensive income. They are subsequently recorded as revenues when the hedged item is recognized.

## 5.2. COST OF SALES

Cost of sales comprises the production-related manufacturing cost of products sold, development services paid, and the cost of products purchased for resale. In addition to the direct material cost and production costs, it also comprises systematically allocated overheads, including amortization/depreciation of the production installations and production-related other intangible assets, write-downs on inventories and an appropriate portion of production-related administrative overheads. Cost of sales also includes expenses charged by OEMs for marketing new engines in conjunction with risk- and revenue-sharing programs.

## 5.3. RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure in connection with research activities (**research costs**) is charged to expense in the period in which it is incurred.

In the case of **development costs**, a distinction is drawn between purchased ('externally acquired') development assets and self-created ('internally generated') development assets. Project costs attributable to externally acquired development assets are generally allocated to construction contract receivables on the basis of percentage of completion. Any surplus expense or income remaining after the end of a development project is amortized proportionately over the subsequent production phase.

Development costs generated in the context of company-funded R&D projects are capitalized at the construction cost to the extent that they can be attributed directly to the product and on condition that the product's technical and commercial feasibility has been proved. There must also be reasonable probability that the development activity will generate future economic benefits. The capitalized development costs comprise all costs directly attributable to the development process. Capitalized development costs are amortized on a scheduled basis over the expected product life cycle from the start of production onwards.

Capitalized development costs, as well as previously capitalized development projects that have not been completed by the end of the financial year, are subjected to an impairment test at least once a year. An impairment charge is only recognized if the carrying amount of the capitalized asset exceeds the recoverable amount.

## 5.4. INTANGIBLE ASSETS

Externally acquired and internally generated intangible assets are recognized in accordance with IAS 38 if it is probable that a future economic benefit associated with the asset will flow to the entity and the cost of the asset can be measured reliably.

Intangible assets with a **finite useful life** are carried at cost and amortized on a straight-line basis over their useful lives. As from the financial year 2011, the acquisition and construction costs in the case of qualified assets contain borrowing costs that were capitalized in accordance with the accounting methods used by MTU. In the financial year 2010, no borrowing costs were recognized, as the intangible assets contained no qualifying assets.

With the exception of goodwill, technology assets, customer relations and capitalized program assets, intangible assets are generally amortized over a period of 3-5 years. Program assets including development costs are amortized over their useful lives of up to 30 years, technology assets over 10 years, and customer relations over periods of between 4 and 26 years.

Goodwill is apportioned between the cash-generating units (CGUs) for the purpose of impairment testing. Consistent with the distinction made for segment reporting purposes, the commercial and military engine business (OEM) and the commercial maintenance business (MRO) are viewed as cash-generating units.

#### 5.5. PUBLIC SECTOR GRANTS AND ASSISTANCE

Public sector grants and assistance are recognized in accordance with IAS 20 only if there is reasonable assurance that the conditions attached to them will be complied with and that the grants will be received. Grants are recognized as income over the periods necessary to match them with the related costs that they are intended to compensate. In the case of capital expenditure on property, plant and equipment and on intangible assets, the amount of the public sector grant awarded for this purpose is deducted from the carrying amount of the asset. The grants are then recognized in the income statement using reduced depreciation/amortization amounts over the lifetime of the depreciable asset.

#### 5.6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are subject to wear and tear and are carried at their acquisition or construction cost less accumulated depreciation charges and cumulative impairment losses. The acquisition and construction costs contain payments for external services and, in the case of qualified assets, borrowing costs that were capitalized in accordance with the accounting methods used by MTU. The qualified assets are assigned to an appropriate category of property, plant and equipment once they have been completed or are operational. The revaluation model is not applied. Depreciation on property, plant and equipment is calculated using the linear method according to the useful life of the asset.

Scheduled depreciation is based on the following useful lives:

##### Useful lives of assets (in years)

Assets	in years
Buildings	25 - 50
Lightweight structures	10
Property facilities	10 - 20
Technical equipment, plant and machinery	5 - 10
Operational and office equipment	3 - 15

The depreciation of machines used in multi-shift operation is accelerated by using a higher shift coefficient to take account of additional usage.

The residual values, useful lives and depreciation methods pertaining to property, plant and equipment are regularly assessed for relevance, at least at every balance sheet date, and adjustments are made where necessary to the estimates used when compiling the financial statements.

The **cost of items of self-constructed plant and equipment** comprises all directly attributable costs and an appropriate proportion of production-related overheads, including depreciation, pro rata administrative and social security costs, and, in the case of qualified assets, borrowing costs as applicable.

#### **5.7. BORROWING COSTS**

Borrowing costs directly related to the acquisition, construction or production of qualified assets, i.e. those that take a substantial period of time to be made ready for sale or their intended use, are recognized under the construction costs of these assets until such time as the assets in question have for the most part been made ready for sale or their intended use.

In accordance with the requirements of IAS 23, borrowing costs as presented in Note 12. (Interest result) are only capitalized insofar as they relate to the purchase and preparation of qualifying assets for their intended use or sale, and only include activities that commenced on or after January 1, 2009.

Income generated from the interim investment of debt capital specifically raised to pay for qualifying assets is deducted from the recognized borrowing costs.

All other borrowing costs are recognized in the income statement in the period in which they are incurred.

#### **5.8. INVESTMENT PROPERTY**

The MTU group does not hold any investment property. An insignificant part of the buildings recognized under property, plant and equipment is rented out to external third parties. The rental income from this property amounted to € 1.2 million in the financial year 2011 (2010: € 1.2 million).

#### **5.9. LEASING**

The beneficial ownership of leased assets is attributed to the contracting party in the lease arrangement that bears the substantial risks and rewards associated with ownership of the leased asset. If the lessor retains the substantial risks and rewards (**operating lease**), the leased asset is recognized in the lessor's balance sheet. The lessee in an operating lease arrangement recognizes lease payments as an expense throughout the duration of the lease arrangement.

If the substantial risks and rewards associated with ownership of the leased asset are transferred to the lessee (**finance lease**), the leased asset is recognized in the lessee's balance sheet. The leased object is recognized at its fair value as measured at the date of acquisition, or at the present value of future minimum lease payments if lower, and depreciated over its estimated useful life, or the contract duration if shorter. The lessee immediately recognizes a finance lease liability corresponding to the carrying amount of the leased asset. The effective interest rate method is employed to amortize and update the lease liability in subsequent periods.

#### **5.10. IMPAIRMENT LOSSES ON INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT**

At each balance sheet date, an assessment is carried out to reveal any indication that the value of intangible assets or assets of property, plant and equipment might be impaired. If impairment is indicated, the recoverable amount of the asset in question is estimated. Assets with an indefinite useful life, intangible assets that are not yet ready for use, and goodwill acquired in connection with a business combination are not subject to scheduled amortization, but are instead reviewed for impairment at least once each year.



The impairment loss on intangible assets and property, plant and equipment is determined by comparing the carrying amount with the recoverable amount. If it is not possible to attribute separate future cash flows to discrete assets that have been generated independently of other assets, then an impairment test must be carried out on the basis of the cash-generating unit to which the asset ultimately belongs. If the reasons for impairment losses recognized in a prior period no longer exist, the impairment loss on these assets is reversed, except in the case of goodwill.

The recoverable amount is the higher amount of the fair value of the asset (or of the cash-generating unit) less costs to sell and value in use. The recoverable amount of the assets or cash-generating units is usually determined using a discounted cash flow (DCF) method. This involves making forecasts of the cash flow that can be generated over the estimated useful life of the asset or cash-generating unit, applying a discount rate that takes into account the risks associated with the asset or cash-generating unit. The forecast cash flows reflect certain assumptions on the part of management which are validated by reference to external sources of information.

#### **5.11. NON-CURRENT FINANCIAL ASSETS**

Investments in subsidiaries and equity investments in joint ventures that are neither fully nor proportionately consolidated, investments in associated companies, and other equity investments do not have a major qualitative and quantitative impact on the MTU group's net assets, financial situation and operating results. Since in most cases it is not possible to reliably measure their fair value because an active market does not exist, these investments are carried at cost – with appropriate adjustments for impairment loss where necessary. Dividend income and shares in the profit/loss of these investments are included in the financial result on other items.

The group's share in the profit or loss of companies accounted for using the equity method are allocated on a pro rata basis to profit/loss and the corresponding carrying amount of the investment. This profit/loss is reported in the financial result on as a separate line item for 'profit/loss of companies accounted for using the equity method.'

#### **5.12. INVENTORIES**

**Raw materials and supplies** are measured at the lower of average acquisition cost and net realizable value. Trade discounts and concessions and customer loyalty awards are taken into account when determining acquisition costs. Advance payments for inventories are capitalized. Acquisition cost comprises all direct costs of purchasing and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price generated in the ordinary course of business for the finished product in question, less estimated costs necessary to make the sale (costs to complete and selling costs).

**Work in progress** is recognized at the lower of manufacturing cost and net realizable value. Manufacturing cost comprises all production-related expenses based on normal capacity utilization. In addition to direct costs, these include an appropriate and necessary portion of the cost of material and production overheads, including production-related depreciation. Administrative expenses are also included to the extent that they can be attributed to production operations. Borrowing costs are not capitalized because work in progress does not meet the definition of a qualifying asset according to IAS 23.

The group uses the percentage-of-completion (PoC) method to recognize all **construction contracts**. If the outcome of a specific construction contract can be estimated reliably, revenues and income are recognized in proportion to the percentage of completion. The percentage of completion is determined as the ratio of contract costs incurred to total contract costs (cost-to-cost method). If the outcome of a contract cannot be estimated reliably, the zero-profit method is applied, whereby revenues are only recognized to the extent that contract costs have been incurred, resulting in a balance of zero. If settlement has not yet been received for a construction contract, the construction costs – taking profit sharing into account where relevant – are recognized as future contract receivables in the balance sheet and as revenues arising from construction contracts in the income statement. These items are defined as the difference between the sum of contract costs incurred and measured up to the balance sheet date and recorded profits less losses incurred and partial settlements.

Receivables from construction contracts are recognized separately from trade receivables in the balance sheet under the item ‘construction contract receivables.’ If advance payments received from customers are lower than the amount of receivables, the difference is deducted from the amount of construction contract receivables and accounted for as an asset. If the advance payments received are higher than the construction contract receivables, the negative balance of the construction contracts is recognized under construction contract payables. Construction contract receivables and construction contract payables are not offset against one another.

#### **5.13. FINANCIAL INSTRUMENTS**

A financial instrument is a contract that simultaneously gives rise to a financial asset in one company and to a financial liability or equity instrument in another company.

#### **5.14. FINANCIAL ASSETS**

Financial assets include, in particular, cash and cash equivalents, trade receivables, loans and other receivables, financial investments held to maturity, and non-derivative and derivative financial assets held for trading.

Financial assets are measured in accordance with their classification according to IAS 39. The measurement of a financial asset subsequent to initial recognition depends on whether the financial instrument is held for trading, held to maturity, available for sale, or whether it falls in the loans and receivables category. The assignment of an asset to a measurement category is performed at the time of acquisition and is primarily determined by the purpose for which the financial asset is held. No financial assets were reclassified in the financial year 2011 or in prior reporting periods.

At **initial recognition**, financial assets are measured at their fair value. In the case of financial assets that are not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition of the financial asset are included in the initial measurement.

**Financial instruments held for trading** are measured at fair value through profit or loss. The subcategory ‘held for trading’ primarily includes derivative financial instruments that do not form part of an effective hedging relationship as defined in IAS 39 and which hence are required to be classified as ‘held for trading’. Any profit or loss resulting from remeasurement is recognized in the income statement.

Financial investments that are intended and expected, with reasonable certainty, to be **held to maturity** are measured at amortized cost using the effective interest method.

Financial assets classified as '**loans and receivables**' are measured at amortized cost less impairment, using the effective interest rate where appropriate.

Impairment loss on trade receivables is sometimes accounted for by means of valuation allowances. The decision whether to account for credit risk by means of an allowance account or by directly recording an impairment loss on receivables depends on the degree of certainty with which the risk situation can be assessed.

Other non-derivative financial assets are classified as '**available for sale**'. These are always measured at fair value. Gains or losses resulting from the measurement of fair value are recognized directly in equity. If it is not possible to reliably measure the fair value of an equity instrument that is not quoted in an active market, the investment is measured at acquisition cost (less impairment where appropriate).

#### **IMPAIRMENT LOSS ON FINANCIAL ASSETS**

At each balance sheet date, the carrying amounts of financial assets that are not measured at fair value through profit or loss are assessed to determine whether there is any substantial objective indication of impairment.

Examples of such indications include significant financial difficulties of the debtor or a high probability that the debtor will enter bankruptcy or financial reorganization, the closure of an active market for the financial asset, significant changes in technological, economic, legal or market conditions affecting the issuer, or a significant or persistent decline in the fair value of the financial asset below its (amortized) cost. The amount of the impairment loss is recognized in the income statement. If impairment is indicated for available-for-sale financial assets, the amounts previously recognized in equity are eliminated from other comprehensive income up to the amount of the assessed impairment loss and recycled to the income statement.

If, in a subsequent period, there is objective evidence that the fair value has increased due to an event occurring after the impairment was originally recognized, the impairment loss is reversed through profit or loss. Impairment losses affecting available-for-sale equity instruments and equity instruments not quoted in an active market are not allowed to be reversed through profit or loss until such time as that loss becomes recoverable. When testing for impairment, the estimated fair value of held-to-maturity investments, and the fair value of loans and receivables measured at amortized cost, is approximated to the present value of future estimated cash flows discounted at the financial asset's original effective interest rate. The fair value of equity instruments measured at cost and not quoted in an active market is calculated on the basis of the future estimated cash flows discounted at the current rate consistent with the specific risks to which the investment is exposed.

#### **5.15. FINANCIAL LIABILITIES**

Financial liabilities often entitle the holder to return the instrument to the issuer in return for cash or another financial asset. These include, in particular, bonds and other debts evidenced by certificates, trade payables, liabilities to banks, finance lease liabilities, borrowers' note loans and derivative financial liabilities.

Financial liabilities are measured at their fair value at the time of acquisition, which is normally equivalent to the net loan proceeds. Transaction costs directly attributable to the acquisition are deducted from the amount of all financial liabilities that are not measured at fair value through profit or loss subsequent to initial recognition. If a financial liability is interest-free or bears interest at below the market rate, it is recognized at an amount below the settlement price or nominal value. The financial liability initially recognized at fair value is amortized subsequent to initial recognition using the effective interest method.

#### **5.16. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include current accounts and short-term bank deposits, have a maturity of three months or less from the date of acquisition, and are measured at cost.

#### **5.17. DERIVATIVE FINANCIAL INSTRUMENTS**

MTU uses derivative financial instruments as a hedge against currency, interest rate and price risks arising out of its operating activities and financing transactions.

At initial recognition, derivative financial instruments are measured at their fair value. The fair value is also of importance to subsequent measurement. The fair value of traded derivative financial instruments is derived, wherever possible, from quoted market prices in an active market. If no quoted market prices in an active market are available, the fair value is calculated using recognized actuarial models. The fair value of derivative financial instruments is represented by the amount that MTU would receive or would have to pay at the balance sheet date when the financial instrument is terminated. This value is calculated on the basis of the relevant exchange rates, interest rates and credit standing of the contractual partners at the balance sheet date.

The accounting treatment for derivative financial instruments depends on whether or not a hedging relationship exists between the underlying transaction and the hedged item. Derivative financial instruments that do not form part of an effective hedging relationship as defined in IAS 39 must be classified as 'held for trading' and are therefore recognized in the balance sheet at their fair value.

#### **HEDGE ACCOUNTING (HEDGING RELATIONSHIPS)**

MTU satisfies the requirements relating to hedging instruments in accordance with IAS 39 (**cash flow hedge accounting**) to hedge future payment cash flows. This reduces volatility in cash flows that could affect profit or loss. When a hedge is undertaken, the relationship between the financial instrument designated as the hedging instrument and the underlying transaction is documented, as are the risk management objective and strategy for undertaking the hedge. This includes assigning specific hedging instruments to the corresponding future transactions and assessing the effectiveness of the designated hedging instrument. Existing cash flow hedges are monitored for effectiveness on a regular basis.

Cash flow hedges are used to hedge the exposure of future cash flows arising from underlying transactions to fluctuations in foreign currency exchange rates. When a cash flow hedge is in place, the effective portion of the change in value of the hedging instrument is recognized under other comprehensive income, together with attributable deferred taxes, until such time as the outcome of the hedged transaction is recognized.

The effective hedge is recycled to the income statement as soon as the hedged transaction is recognized in profit or loss. The ineffective portion of the change in value of the hedging instrument is recognized on each balance sheet date in the financial result.

#### **5.18. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES**

Current and deferred tax assets and liabilities are recognized in the consolidated financial statements on the basis of the tax laws in force in the relevant tax jurisdictions. Current and deferred tax assets and liabilities are recognized in equity if they relate to business transactions that directly lead to a decrease or increase in equity.

Deferred tax assets and liabilities are established for temporary differences between the tax bases of assets and liabilities used when calculating taxable income and the carrying amount of these assets and liabilities in the consolidated balance sheet ("balance sheet liability method"). Similarly, where appropriate, deferred tax assets are established on tax losses, interest expense and tax credits available for carry-forward. Deferred tax assets are recognized to the extent of the probability that taxable income will be available against which the deductible temporary difference can be applied together with losses that are permitted to be carried forward for tax purposes and tax refunds. Deferred tax assets and liabilities are measured on the basis of the tax rates expected to be applicable on the date when the temporary differences are reversed. Deferred tax assets and liabilities are offset, insofar as this meets the requirements of IAS 12.74.

#### **5.19. PENSION OBLIGATIONS**

**Pension provisions** are accounted for using the projected unit credit method in accordance with IAS 19. This method takes account not only of pension and other vested benefits known at the balance sheet date, but also of estimated future increases in pensions and salaries, applying a conservative assessment of the relevant parameters. IAS 19 permits the use of different methods for recognizing actuarial gains and losses. To avoid volatility in the amount of equity as of the balance sheet date, MTU employs the so-called 'corridor' method.

When using the corridor method, cumulative actuarial gains and losses are only recognized if they exceed 10% of present value of the defined benefit obligation or 10% of the fair value of the relevant plan assets, whichever is higher. When actuarial gains or losses exceed the 10% corridor, the excess is divided by the expected average remaining working lives of the employees covered by the relevant pension plan, and recognized from the beginning of the following financial year as income or expense, as an additional component of the pension costs. The expense attributable to unwinding the interest on pension obligations and the expected return on plan assets are reported separately in the financial result. All other expenses attributable to pension obligations are allocated to the appropriate income statement line items by function.

Provisions for pre-retirement part-time working arrangements and long-service awards are measured on the basis of actuarial reports prepared in accordance with IAS 19.

#### **5.20. OTHER PROVISIONS**

Provisions are accrued to cover the cost of legal disputes and claims for damages if the group incurs a current obligation arising from a lawsuit, government investigation or other claims which derive from past events and are pending, or if it is possible that such proceedings could be initiated against the group or be enforced at a future date, and if it is probable that an outflow of economic resources will be necessary to fulfill the obligation, and it is possible to reliably estimate the amount of the obligation. Non-current provisions due in more than one year are measured on the basis of their settlement amount, discounted to the balance sheet date. The company measures provisions for pending losses on onerous contracts at the lower of the expected costs on settlement of the contract and the expected costs on termination of the contract.

#### **5.21. CONTINGENT LIABILITIES**

Contingent liabilities are potential obligations arising from past events whose existence depends on the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of MTU.

Contingent liabilities are also present obligations for which there is unlikely to be an outflow of economic resources, or where the amount of the obligation cannot be reliably estimated.

Obligations arising from contingent liabilities assumed and identified in connection with an acquisition are recognized if it is possible to reliably determine their fair value. Subsequent to initial recognition, contingent liabilities are recognized at the higher of the two values: (a) the amount that would have been recognized as a provision according to IAS 37, (b) the originally recognized amount amortized by the actual cash flows. Negative values of engine programs resulting from purchase price allocation are accounted for as contingent liabilities.

#### **5.22. SHARE-BASED PAYMENT TRANSACTIONS**

Under IFRS 2 (Share-based Payment), a distinction is made between share-based payment transactions settled in cash and those settled using equity. In the case of both instruments, the fair value is calculated at the grant date and recognized as a compensation expense over the period during which the beneficiary earns a vested right to the promised instruments. MTU recalculates the fair value of cash-settled commitments at the end of every reporting period and again on the relevant settlement date. The fair values of share-based payments are estimated using recognized option pricing models.

### 5.23. DIVIDEND PAYMENT AND PROFIT DISTRIBUTION

The claims of shareholders to dividend payments and profit distribution relating to a specific reporting period (financial year) are recognized as a liability in the period in which the corresponding resolution is passed. Disclosures relating to the Board of Management's proposal to the Annual General Meeting concerning the dividend payment are provided in Part VII of these notes under the subheading 'Recommendation for the distribution of net profit.'

### 5.24. DISCRETIONARY SCOPE, MEASUREMENT UNCERTAINTIES AND SENSITIVITY

The presentation of the group's net assets, financial situation and operating results in the consolidated financial statements depends on the use of recognition and measurement methods and of assumptions and estimations. The estimations and corresponding assumptions detailed below are crucial to an understanding of the underlying risks of financial reporting and the effects that these estimations, assumptions and uncertainties might have on the consolidated financial statements. Actual values may occasionally deviate from the assumed and estimated values. Adjustments may be made to carrying amounts at the time that better knowledge comes to light. This is especially the case in the following circumstances:

- Both at initial measurement and subsequent measurement after initial recognition, the determination of the carrying amount of intangible assets and **contingent liabilities** identified in connection with business combinations as defined in IFRS 3 involve substantial use of forward-looking estimates, due to the long product life cycles. These estimates rely on assumptions concerning factors such as risk adaptation of cash flows or discount rates and future price changes with an impact on other costs including price escalation and possible contract penalties. In the financial year 2011, the contingent liabilities for individual engine programs identified and measured in connection with the purchase price allocation were affected by the consequences of the prior year's delays in the delivery of engines, modified schedules for the delivery of engines and spare parts, modification of the escalation rates included in price projections, and anticipated development costs. The carrying amount of the contingent liabilities totaled € 102.8 million at December 31, 2011 (December 31, 2010: € 124.9 million). If the discount rate had been 100 basis points higher at December 31, 2011, the carrying amount of these liabilities would have totaled approximately € 156 million. In contrast, if the discount rate had been 100 basis points lower at December 31, 2011, the carrying amount of the liabilities would have totaled approximately € 34 million. Further explanations are given in Note 32. (Other provisions).
- Following the signing of an agreement in principle – the 'A400M Understanding' – in the financial year 2010, the customer nations (represented by the procurement agency OCCAR) and Airbus Military subsequently agreed the details of the changes to the A400M contract. Based on this generally satisfactory solution for the overall project, the review of the TP400-D6 engine program at December 31, 2011 took into consideration the absence of the contractual penalties for possible program discontinuation or non-performance penalties taken into account in 2011 and also took into consideration postponements of deliveries, cancellations of previous orders by customer nations, reworking of the software for engine control, and modified price escalations. Due to the prolonged product life cycle, changes in the applied interest rates have a significant impact on the measurement of the engine program.

A sensitivity analysis of the extent of possible consequences of price changes or possible contract penalties is not sufficiently detailed to assess the consequences of individual events, due to the multitude of sensitivity scenarios and associated high degrees of uncertainty. Further explanatory comments can be found in Note 24. (Construction contract receivables).

- The measurement of **property, plant and equipment, intangible assets and financial assets** (insofar as they are accounted for using the equity method or at cost) comprising a carrying amount at the end of the financial year of € 1,860.6 million (2010: € 1,794.8 million) involves the use of estimates. Estimations are also employed to determine the expected useful life of assets. Judgments by management form the basis for determining the fair value of assets and liabilities and the useful life of assets. In the process of determining the impairment loss on property, plant and equipment, intangible assets and financial assets, estimations are made concerning such parameters as the source, timing and amount of the impairment loss. Many different factors can give rise to an impairment loss. Factors always considered are changes in the competitive situation, expectations concerning the growth of aviation and the aircraft industry, changes in the cost of capital, changes in the future availability of financing funds, aging and obsolescence of technologies, the suspension of services, replacement costs, purchase prices paid in comparable transactions, and other general changes providing evidence of impairment.

Management is required to make estimations concerning the identification and verification of indicated impairments, expected cash flows, relevant discount rates, corresponding useful lives and residual values in order to determine the **recoverable amounts** for the operating segments 'commercial and military engine business' and 'commercial maintenance business', and the fair value of assets (or groups of assets). In particular, the estimation of cash flows on which the recoverable amounts are based in the case of new engine programs in both the commercial and military engine business depends on the assumption that it will be possible to raise funds on a continuous basis, but also that it will be necessary to make continuous investments in order to generate sustainable growth. If the demand for engines is slower than expected, this could reduce earnings and cash flows and possibly lead to the recognition of impairment losses on these investments. This could in turn have negative repercussions on operating results.

These estimations and the method used to obtain them may have a significant impact on the determined recoverable amount and on the amount of the impairment loss recognized on goodwill. Reference is made to Note 40. (Sensitivity analysis of goodwill) for a sensitivity analysis of the goodwill of the commercial and military engine business and of the commercial maintenance business.

- Management creates **allowances for doubtful accounts**. Judgment of the appropriateness of allowances for doubtful accounts is based on the repayment structure of the balance of settlements and past experience with the writing-off of debts, the customer's credit standing, and changes in the conditions of payment. At December 31, 2011, valuation allowances on trade receivables amounted to € 7.9 million (2010: € 9.4 million). If the customer's financial situation should deteriorate, the volume of the allowances that have to be created may exceed the expected volume.



- **Revenues** in the military engine business and in the commercial maintenance business are recognized in progressive stages as the work advances, using the percentage-of-completion method, if it is sufficiently probable that future economic benefits associated with the business will flow to MTU. The percentage of completion is determined by comparing the actual costs up to the balance sheet date with estimated total contract costs. If the outcome of a construction contract cannot be estimated reliably, revenues are only recognized to the extent that contract costs have been incurred and it is probable that those costs can be recovered (so-called zero-profit method). Management regularly reviews all estimates made in connection with these construction contracts, making adjustments where necessary. Revenues from the sale of engine components in the month of December are partially estimated for bookkeeping purposes. These estimates are derived principally from preliminary data supplied by the consortium leader and from material flow data, which provides a sufficiently reliable basis for estimating revenues.
- **Income taxes** must be determined for each tax jurisdiction in which the group operates. The current income taxes have to be calculated for each taxable entity, and temporary differences arising from the different treatment of certain balance sheet items in the IFRS consolidated financial statements and the tax statements need to be determined. All identified temporary differences lead to the recognition of deferred tax assets and liabilities in the consolidated financial statements. Additionally, deferred tax effects may arise, particularly from tax losses, interest expense and tax credits available for carry forward. Management judgments come into play in the calculation of current taxes and deferred taxes.

Deferred tax assets totaling € 13.7 million (2010: € 16.7 million) were recognized at December 31, 2011. The utilization of deferred tax assets depends on the possibility of generating sufficient taxable income in a particular tax category and tax jurisdiction, taking into account where appropriate any statutory restrictions relating to the maximum periods over which losses may be carried forward. A variety of factors are used to assess the probability that it will be possible to utilize deferred tax assets, including past operating results, operating business plans, the periods over which losses can be carried forward, and tax planning strategies. If the actual results deviate from these estimations, or if these estimations have to be adjusted in a future period, this may have detrimental effects on the group's net asset position, financial situation and operating results. If there is a change in the value assessment of deferred tax assets, the recognized deferred tax assets are to be written down.

- The discount rate is an important factor when determining the **provisions to be allocated for pensions and similar obligations**. An increase or decrease of 25 basis points in the discount rate can lower or raise the amount of pension obligations by approximately € 13 million. Given that actuarial gains and losses are only recognized if they exceed 10% of the amount of total obligations or 10% of the fair value of plan assets, whichever is higher, changes in the discount rate usually have no impact, or only an insignificant impact, on the recognized expense or carrying amount of the provisions for the following year in respect of the retirement benefit plans in place within the group.

Pension obligations for employee benefits that are classified and accounted for as defined benefit plans are not covered by any other plan assets except for the plan assets of MTU Maintenance Canada Ltd., Richmond, Canada, and MTU München Unterstützungskasse GmbH, Munich. The existing plan assets are offset against the pension obligations. If the plan assets exceed the corresponding pension obligations, the surplus amount of the plan assets is capitalized according to IAS 19.58A.

The total value of pension obligations and therefore the expenses in connection with employees' retirement benefits are determined using actuarial methods based on assumptions concerning interest rates and life expectancy. If it should become necessary to modify these assumptions, this could have a significant effect on the future amount of pension provisions or the expenses for pensions.

- The recognition and measurement of **other provisions** amounting to € 319.8 million (2010: € 340.1 million) and contingent liabilities amounting to € 110.7 million (2010: € 126.6 million) in connection with pending legal disputes or other pending claims arising from conciliation or arbitration proceedings, joint committee procedures, government lawsuits or other types of contingent liability (particularly those arising from risk- and revenue-sharing partnerships) involve substantial estimations on the part of MTU. For instance, the assessment of the probability that a pending case will be won or that an obligation will arise, or the quantification of the probable payment, all depend on an accurate evaluation of the prevailing situation. Provisions are accrued when a present legal or de facto obligation arises from a past event, it is probable that an outflow of economic resources will be required to fulfill this obligation and it is possible to reliably estimate the amount of the obligation. Due to the uncertainties attached to this assessment, the actual losses may deviate from those originally estimated, and hence from the amount of the provision. Furthermore, the calculation of certain specific provisions (for example to cover tax obligations, environmental obligations and legal risks) also involves considerable use of estimations. These estimations may change in the light of new information.

All assumptions and estimates are based on the prevailing conditions and judgments made at the balance sheet date. Estimations of future business developments also take into account the economic environment of the industry and the regions in which MTU is active, such as are deemed realistic at that time. In order to obtain new information, MTU relies on the services of internal experts and external consultants such as actuaries and legal counsels. Changes to the estimations of these obligations can have a significant impact on future operating results.

## II. NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 6. REVENUES

Revenues have developed as follows:

<b>Revenues</b>		
in € million	2011	2010
<b>Commercial engine business</b>		
Manufacturing revenues	1,332.1	1,116.4
Other revenues	69.0	61.2
<b>Total commercial engine business</b>	<b>1,401.1</b>	<b>1,177.6</b>
<b>Military engine business</b>		
Manufacturing revenues	239.4	278.7
Other revenues	206.1	207.2
<b>Total military engine business</b>	<b>445.5</b>	<b>485.9</b>
<b>Total commercial and military engine business (OEM)</b>	<b>1,846.6</b>	<b>1,663.5</b>
<b>Commercial maintenance business (MRO)</b>	<b>1,116.6</b>	<b>1,074.0</b>
<b>Other entities / consolidation</b>	<b>-31.1</b>	<b>-30.1</b>
<b>Total revenues</b>	<b>2,932.1</b>	<b>2,707.4</b>

A more detailed presentation of revenues, with tables showing external and intersegment revenues, their derivation from products and services and their attribution to major customers, is provided in the section preceding these Notes, under 'Reporting by operating segment'. Additional information can be found in Section 3.1. (Operating results) of the group management report.

### 7. COST OF SALES

<b>Cost of sales</b>		
in € million	2011	2010
Cost of materials	-1,942.0	-1,715.5
Personnel expenses	-399.8	-393.5
Depreciation and amortization	-121.4	-116.6
Other cost of sales <sup>1)</sup>	77.4	41.1
<b>Total cost of sales</b>	<b>-2,385.8</b>	<b>-2,184.5</b>

<sup>1)</sup> mainly comprises changes in inventories for work in progress, the effect of translation differences, and changes in provisions.

Cost of sales includes an increase of € 6.0 million (2010: € 9.0 million) in write-downs on inventories, in order to account for them at their net realizable value. Further explanatory comments on write-downs on inventories are provided in Note 22. (Inventories).

## 8. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses, defined as company-funded research and development expenditure less capitalized development costs, have developed as follows:

### Research and development expenses

in € million	2011	2010
Cost of materials	-86.4	-68.6
Personnel expenses	-72.0	-71.2
Depreciation and amortization	-7.4	-8.3
<b>Company-funded research and development expenditure</b>	<b>-165.8</b>	<b>-148.1</b>
of which the following amounts were capitalized:		
Development costs (OEM)	30.8	14.0
Development costs (MRO)	3.4	5.1
<b>Capitalized development costs</b>	<b>34.2</b>	<b>19.1</b>
<b>Research and development costs recognized as expense</b>	<b>-131.6</b>	<b>-129.0</b>

## 9. SELLING EXPENSES

### Selling expenses

in € million	2011	2010
Cost of materials	-13.4	-12.8
Personnel expenses	-49.2	-50.2
Depreciation and amortization	-2.5	-2.3
Other selling expenses	-15.2	-14.4
<b>Total selling expenses</b>	<b>-80.3</b>	<b>-79.7</b>

Selling expenses comprise expenses for advertising and marketing, expenses in connection with air shows, trade fairs and exhibitions, media relations expenses, and valuation allowances and write-downs on trade receivables.

## 10. GENERAL ADMINISTRATIVE EXPENSES

### General administrative expenses

in € million	2011	2010
Cost of materials	-6.7	-5.7
Personnel expenses	-40.3	-38.9
Depreciation and amortization	-4.1	-3.7
Other administrative expenses	-5.9	-4.0
<b>Total general administrative expenses</b>	<b>-57.0</b>	<b>-52.3</b>

General administrative expenses are expenses incurred in connection with administrative activities unrelated to development, production or sales activities.

## 11. OTHER OPERATING INCOME AND EXPENSES

### Other operating income and expenses

in € million	2011	2010
<b>Income</b>		
Gains from the disposal of intangible assets and property, plant and equipment	0.5	0.7
Reimbursement of insurance claims	0.1	2.1
Rental income		
sublet property owned by MTU	1.2	1.2
sublet property owned by third parties	0.7	0.6
Sundry other operating income	5.8	3.7
<b>Total other operating income</b>	<b>8.3</b>	<b>8.3</b>
<b>Expenses</b>		
Losses from the disposal of intangible assets and property, plant and equipment	-1.3	-0.9
Rental payments for sublet property	-0.7	-0.6
Expenses associated with insurance claims	-0.2	-0.2
Sundry other operating expenses	-0.5	-0.5
<b>Total other operating expenses</b>	<b>-2.7</b>	<b>-2.2</b>
<b>Balance of other operating income and expenses</b>	<b>5.6</b>	<b>6.1</b>

The MTU group does not hold any investment property. An insignificant part of the buildings recognized under property, plant and equipment is rented out to external third parties.

In 2011, as in the previous year, other operating income did not include any government grants.

## 12. INTEREST RESULT

<b>Interest result</b>		
Mio. € million	2011	2010
<b>Interest income</b>	<b>3.7</b>	<b>6.3</b>
Interest expense on convertible bond	-8.1	-7.9
Interest expense on liabilities to banks	-3.6	-5.2
Interest expense on finance lease agreements	-1.2	-1.3
Interest expense attributable to non-consolidated companies	-0.1	-0.1
Other interest expenses	-3.9	-5.4
Capitalized borrowing costs for qualifying assets	0.5	
<b>Interest expenses</b>	<b>-16.4</b>	<b>-19.9</b>
<b>Interest result (balance of income and expenses)</b>	<b>-12.7</b>	<b>-13.6</b>
Thereof: on financial instruments classified according to IAS 39 as:		
Loans and receivables	2.0	9.9
Available-for-sale financial assets	1.5	0.9
Financial liabilities measured at amortized cost	-16.5	-19.9
Financial instruments not within the scope of IFRS 7 or IAS 39	1.9	1.4

Interest income on financial instruments which are not within the scope of either IFRS 7 or IAS 39 amounted to € 1.9 million (2010: € 1.4 million) and related to cash and cash equivalents.

In the financial year 2011, borrowing costs in the amount of € 0.5 million (2010: € 0.0 million) were capitalized for the first time, triggering a decrease in the net interest expense. Where the borrowing costs can be directly attributed to a specific qualifying asset, the actual amount of those borrowing costs is capitalized. Where no such attribution is possible, the applied capitalization rate is determined on the basis of the weighted average of the borrowing costs incurred by the group in the year under review. In the financial year 2011, this was 4.9% (2010: 4.5%).

## 13. PROFIT/LOSS OF COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD / AT COST

In the financial year 2010, the profit/loss of companies accounted for using the equity method comprised the operating loss of the joint venture Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde. The recognition of profit or loss was discontinued in the financial year 2011, after recognizing the operating loss of € 2.1 million incurred in the financial year 2010 in the consolidated income statement for that year. No profits equaling or exceeding the share of losses not recognized were generated by this entity in the financial year 2011, nor in 2010.

The profit/loss of related companies accounted for at cost amounted to € 2.6 million (2010: € 1.5 million).

<b>Profit/loss of companies accounted for at cost</b>		
in € million	2011	2010
Military program coordination and management companies	0.5	0.1
Other related companies	2.1	1.4
<b>Total</b>	<b>2.6</b>	<b>1.5</b>

## 14. FINANCIAL RESULT ON OTHER ITEMS

The financial result on other items deteriorated slightly in the financial year 2011, with the net expense increasing by € -15.5 million to € -42.1 million (2010: a net expense of € -26.6 million). This was above all attributable to effects of currency translation amounting to a loss of € -3.7 million (2010: a gain of € 11.1 million) and to losses arising from the measurement of contingent liabilities amounting to € -7.0 million (2010: losses of € -1.3 million).

### Financial result on other items

in € million	2011	2010
Effects of currency translation		
Exchange rate gains/losses on currency holdings	-5.0	10.8
Exchange rate gains/losses on financing transactions	1.4	0.6
Exchange rate gains/losses on finance leases	-0.1	-0.3
Fair value gains/losses on derivatives		
Currency and interest rate derivatives	-4.7	-11.5
Forward commodity sales contracts	-2.4	3.3
Interest portion included in measurement of assets and liabilities		
Pension provisions	-23.6	-24.4
Contingent liabilities	-7.0	-1.3
Receivables, other provisions, plan assets, liabilities and advance payments from customers	-2.3	-3.7
Result on other financial instruments	1.6	-0.1
<b>Financial result on other items</b>	<b>-42.1</b>	<b>-26.6</b>
Thereof: on financial instruments classified in accordance with IAS 39 as:		
Financial assets at fair value through profit or loss - held for trading	15.2	13.9
Financial liabilities at fair value through profit or loss - held for trading	-20.7	-22.2

The financial result on other items groups together all income and expense items on financial instruments classified as 'held for trading' in accordance with IAS 39.

### FAIR VALUE GAINS/LOSSES ON DERIVATIVES

Fair value losses on derivative financial instruments amounted to € 4.7 million (2010: fair value losses of € 11.5 million) while fair value losses on forward commodity sales contracts for nickel amounted to € 2.4 million (2010: fair value gains of € 3.3 million). Consequently, the net amount of fair value gains/losses on derivatives improved by € 1.1 million (2010: decreased by € 15.7 million).

At December 31, 2011, MTU held contractual obligations arising from one interest-rate cap with a nominal value of € 10 million and a maturity date of June 5, 2014, which fixes a ceiling of 4% on floating-rate loans on which interest is payable at the 6-month Euribor rate.

#### INTEREST PORTION INCLUDED IN MEASUREMENT OF ASSETS AND LIABILITIES

Expenses from the unwinding of the discount on pension obligations amounting to € 23.6 million in 2011 remained roughly at the previous year's level (2010: € 24.4 million) due to the unchanged forecast discount rate for the financial year 2011.

The discount rate applied when measuring the fair value of contingent liabilities, as recognized in the income statement, was based on the WACC method. A net expense of € 2.3 million (2010: € 3.7 million) was recognized for the interest portion included in the measurement of receivables accounted for at amortized cost, other provisions, advance payments from customers and the expected return on pension plan assets.

## 15. INCOME TAXES

Recognized income taxes comprise current income taxes paid or payable in the countries in which the group operates, and deferred tax income or expense.

#### Analysis of current and deferred tax expense

in € million	2011	2010
Tax expense incurred in current period	-66.6	-107.4
Tax expense (-) / income incurred in prior periods		-9.6
<b>Current tax expense</b>	<b>-66.6</b>	<b>-117.0</b>
Deferred tax expense (-) / income resulting from temporary differences	0.6	33.1
Deferred tax expense (-) / income resulting from tax credits	-4.6	1.3
Deferred tax expense (-) / income resulting from losses available for carry-forward	-2.0	-2.4
<b>Deferred tax expense (-) / income</b>	<b>-6.0</b>	<b>32.0</b>
<b>Tax expense recognized in the income statement</b>	<b>-72.6</b>	<b>-85.0</b>

A more detailed presentation of the deferred tax expense and income is provided in Note 38. (Deferred taxes).

The tax expense incurred in 2010 for prior periods related to corporation and municipal trade tax arising from a tax field audit at MTU Maintenance Hannover.

#### TAX RECONCILIATION

For the financial year 2011, all deferred tax assets and liabilities of German entities relating to temporary differences were measured on the basis of the expected tax rate of 32.6%. This rate comprises corporation tax at a rate of 15.0% plus a solidarity surcharge of 5.5% on the calculated corporation tax expense, and municipal trade tax on earnings with an average factor of 480%, producing a municipal trade tax rate of 16.8%. For 2010, the combined income tax rate was also 32.6%. Deferred taxes arise on temporary differences between the tax bases of assets and liabilities of the individual group companies and their carrying amounts in the consolidated balance sheet. Reference is made to Note 38. (Deferred taxes) for changes in deferred tax assets and liabilities.



## Reconciliation of expected tax expense to reported tax expense:

**Tax reconciliation**

in € million	2011	2010
Earnings before tax (EBT)	230.8	227.2
Income tax rate (including municipal trade tax)	32.6%	32.6%
<b>Expected tax expense</b>	<b>-75.2</b>	<b>-74.1</b>
Impact of recognition and measurement adjustments and write-downs on deferred tax assets	1.8	2.7
Impact of non-tax-deductible expenses and tax-exempt income	-2.8	-6.0
Impact of lower tax rate for companies outside Germany	3.5	2.4
Impact of investments accounted for using the equity method		-0.7
Impact of tax field audit		-9.6
Tax credits available for carry-forward	-4.4	1.3
Tax deducted at source on profit distribution of MTU Maintenance Zhuhai	-0.6	-2.6
Change in tax rate for MTU Maintenance Zhuhai	1.9	
Other impacts	3.2	1.6
<b>Tax expense recognized in the consolidated income statement</b>	<b>-72.6</b>	<b>-85.0</b>
Effective tax rate (in %)	31.5	37.4

**IMPACT OF TAX FIELD AUDIT**

The tax field audit for MTU Maintenance Hannover GmbH covering the period 2004 to 2007 was completed during the financial year 2010. Some of the tax audit findings related to items that would result in lower taxable profits in subsequent years. The tax audit resulted in additional tax expenses amounting to € 9.6 million.

Adjusted to eliminate the impact of the additional tax expense arising from the tax audit and of the withholding tax on distributed profits of MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China, the effective group tax rate in 2010 would have been 32.0%.

**16. EARNINGS PER SHARE**

Earnings per share in the financial year 2011 were diluted by the effect of stock options allocated to the Board of Management in the financial years 2011 and 2010 under the respective tranches of the Share Matching Plan (SMP) and by conversion rights granted in connection with convertible bond, issued in the financial year 2007. In the financial year 2010, the Matching Stock Program (MSP) also had a dilutive effect.

The table below shows earnings per share together with the dilutive effect of the potential issue of common stock in connection with the convertible bond and the Share Matching Plan.

#### Undiluted and diluted earnings per share in 2011

	Undiluted earnings per share	Reconciliation of financial instruments				Diluted earnings per share
		Interest expense on convertible bond and no. of shares	Current and deferred taxes	Matching Stock Program shares	Share Matching Plan <sup>1)</sup> shares	
Earnings after tax (EAT) in € million	158.2	8.1	-2.6			163.7
Weighted average number of outstanding shares	48,820,788	3,084,849			14,882	51,920,519
<b>Earnings per share (common stock) in €</b>	<b>3.24</b>					<b>3.15</b>

<sup>1)</sup> Deferred share-based compensation for members of the Board of Management.

#### Undiluted and diluted earnings per share in 2010

	Undiluted earnings per share	Reconciliation of financial instruments				Diluted earnings per share
		Interest expense on convertible bond and no. of shares	Current and deferred taxes	Matching Stock Program shares	Share Matching Plan <sup>1)</sup> shares	
Earnings after tax (EAT) in € million	142.2	7.9	-2.6			147.5
Weighted average number of outstanding shares	48,868,149	3,084,849		152,621	7,079	52,112,698
<b>Earnings per share (common stock) in €</b>	<b>2.91</b>					<b>2.83</b>

<sup>1)</sup> Deferred share-based compensation for members of the Board of Management; adjusted for potential issue of SMP shares.

## 17. ADDITIONAL DISCLOSURES RELATING TO THE INCOME STATEMENT

After adjustments to eliminate the effect of purchase price allocation in connection with the acquisition of the group companies, and non-recurring items, and the addition of scheduled amortization/depreciation, the following intermediate results are obtained:

#### Reconciliation of EBIT to EBIT (adjusted), amortization/depreciation expense, and non-recurring items

in € million	2011	2010
<b>Earnings before interest and tax (EBIT)</b>	<b>285.6</b>	<b>267.4</b>
Amortization/depreciation effects of purchase price allocation (PPA)		
Intangible assets	40.1	40.1
Property, plant and equipment	2.3	3.2
<b>Total acquisition-related amortization/depreciation expense</b>	<b>42.4</b>	<b>43.3</b>
<b>EBIT (adjusted)</b>	<b>328.0</b>	<b>310.7</b>

Costs by function include the following personnel expenses items:

#### Personnel expenses

in € million	2011	2010
Wages and salaries	452.5	451.6
Social security, pension and other benefit expenses	93.1	87.4
<b>Total personnel expenses</b>	<b>545.6</b>	<b>539.0</b>

Pension benefits account for € 18.6 million (2010: € 14.1 million) of these expenses. The employer's share of social security contributions, which is recognized as an expense, amounted to € 74.5 million (2010: € 73.3 million).

The average number of persons employed during the financial year 2011 breaks down as follows:

#### Disclosures relating to the average number of employees

Average number of	2011	2010
Industrial staff	3,484	3,343
Administrative staff	3,643	3,534
Employees on temporary contracts	416	377
Trainees	320	323
Students on work experience projects	237	225
<b>Total average number of employees</b>	<b>8,100</b>	<b>7,802</b>

Costs by function include the following cost of materials items:

#### Cost of materials

in € million	2011	2010
Cost of raw materials and supplies	825.9	815.5
Cost of purchased services	1,190.4	964.3
<b>Total cost of materials</b>	<b>2,016.3</b>	<b>1,779.8</b>

The total amount of fees paid in the financial year 2011 to the accounting firm Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, for services including the auditing of the consolidated financial statements pursuant to Section 314(1) no. 9 of the German Commercial Code (HGB), came to € 1.1 million (2010: € 1.1 million).

#### Fees paid to the auditor

in € million	2011	2010
Financial statement auditing services	0.6	0.6
Tax consulting services	0.4	0.3
Other independent auditing services	0.1	0.2
<b>Total fees paid to the auditor</b>	<b>1.1</b>	<b>1.1</b>

The expense item 'Financial statement auditing services' comprises all fees paid to the external group auditor for the auditing of the financial statements of all MTU companies.

The expense for tax consulting services mainly comprises services rendered to expatriated MTU employees on international assignment outside Germany. The item 'Other independent auditing services' primarily relates to the auditing of the group's interim financial reports.

### III. NOTES TO THE CONSOLIDATED BALANCE SHEET

#### 18. ANALYSIS OF CHANGES IN INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, AND FINANCIAL ASSETS 2011

##### Cost of acquisition and construction 2011

in € million	Balance at Jan. 1, 2011	Translation differences	Additions	Transfer	Disposals	Balance at Dec. 31, 2011
Program assets	841.9		50.4			892.3
Program-independent technologies	124.7					124.7
Customer relations	67.7	0.9				68.6
Rights and licenses	87.0	-0.3	3.4	0.5	-1.0	89.6
Goodwill	405.2	1.3				406.5
Prepayments on intangible assets	1.4		3.7	0.4		5.5
Development costs	90.8		34.5		-0.9	124.4
<b>Intangible assets</b>	<b>1,618.7</b>	<b>1.9</b>	<b>92.0</b>	<b>0.9</b>	<b>-1.9</b>	<b>1,711.6</b>
Land, leasehold rights and buildings, including buildings on non-owned land	383.5	-1.5	1.6	1.6	-0.6	384.6
Technical equipment, plant and machinery	408.7	-0.7	15.6	18.1	-5.7	436.0
Other equipment, operational and office equipment	300.2	0.1	39.9	8.7	-35.2	313.7
Advance payments and construction in progress	40.4	-0.1	56.6	-29.3		67.6
<b>Property, plant and equipment</b>	<b>1,132.8</b>	<b>-2.2</b>	<b>113.7</b>	<b>-0.9</b>	<b>-41.5</b>	<b>1,201.9</b>
Investments in subsidiaries			0.5			0.5
Investments in associated companies	0.4					0.4
Equity investments in joint ventures	4.3					4.3
Other equity investments	3.1		1.4			4.5
Other loans	2.1		0.4		-2.5	
<b>Financial assets<sup>1)</sup></b>	<b>9.9</b>		<b>2.3</b>		<b>-2.5</b>	<b>9.7</b>
<b>Total assets</b>	<b>2,761.4</b>	<b>-0.3</b>	<b>208.0</b>		<b>-45.9</b>	<b>2,923.2</b>

<sup>1)</sup> Insofar as they are accounted for using the equity method or at cost.

**Depreciation/amortization and carrying amount 2011**

in € million	Balance at Jan. 1, 2011	Translation differences	Depreciation/ amortization	Transfer	Disposals	Balance at Dec. 31, 2011	Carrying amount Dec. 31, 2011
Program assets	221.3		28.4			249.7	642.6
Program-independent technologies	87.2		12.5			99.7	25.0
Customer relations	29.0	0.3	2.8			32.1	36.5
Rights and licenses	54.9	0.1	8.0		-1.1	61.9	27.7
Goodwill							406.5
Prepayments on intangible assets							5.5
Development costs	0.9		1.0			1.9	122.5
<b>Intangible assets</b>	<b>393.3</b>	<b>0.4</b>	<b>52.7</b>		<b>-1.1</b>	<b>445.3</b>	<b>1,266.3</b>
Land, leasehold rights and buildings, including buildings on non-owned land	70.4	0.2	11.3		-0.5	81.4	303.2
Technical equipment, plant and machinery	287.0	0.9	36.5	-0.1	-5.5	318.8	117.2
Other equipment, operational and office equipment	215.9	0.4	34.9	0.1	-34.2	217.1	96.6
Advance payments and construction in progress							67.6
<b>Property, plant and equipment</b>	<b>573.3</b>	<b>1.5</b>	<b>82.7</b>		<b>-40.2</b>	<b>617.3</b>	<b>584.6</b>
Investments in subsidiaries							0.5
Investments in associated companies							0.4
Equity investments in joint ventures							4.3
Other equity investments							4.5
Other loans							
<b>Financial assets<sup>1)</sup></b>							<b>9.7</b>
<b>Total assets</b>	<b>966.6</b>	<b>1.9</b>	<b>135.4</b>		<b>-41.3</b>	<b>1,062.6</b>	<b>1,860.6</b>

<sup>1)</sup> Insofar as they are accounted for using the equity method or at cost.

## ANALYSIS OF CHANGES IN INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, AND FINANCIAL ASSETS 2010

### Cost of acquisition and construction 2010

in € million	Balance at Jan. 1, 2010	Translation differences	Additions	Transfer	Disposals	Balance at Dec. 31, 2010
Program assets	841.9					841.9
Program-independent technologies	124.7					124.7
Customer relations	66.5	1.2				67.7
Rights and licenses	82.5	1.2	5.5	1.7	-3.9	87.0
Goodwill	403.4	1.8				405.2
Prepayments on intangible assets	1.4					1.4
Development costs	73.1		19.1		-1.4	90.8
<b>Intangible assets</b>	<b>1,593.5</b>	<b>4.2</b>	<b>24.6</b>	<b>1.7</b>	<b>-5.3</b>	<b>1,618.7</b>
Land, leasehold rights and buildings, including buildings on non-owned land	360.1	2.3	1.4	19.7		383.5
Technical equipment, plant and machinery	358.7	3.1	24.1	33.8	-11.0	408.7
Other equipment, operational and office equipment	260.3	1.3	30.5	11.9	-3.8	300.2
Advance payments and construction in progress	78.8	0.1	28.8	-67.1	-0.2	40.4
<b>Property, plant and equipment</b>	<b>1,057.9</b>	<b>6.8</b>	<b>84.8</b>	<b>-1.7</b>	<b>-15.0</b>	<b>1,132.8</b>
Investments in subsidiaries						
Investments in associated companies	0.4					0.4
Equity investments in joint ventures	6.4				-2.1	4.3
Other equity investments	3.1					3.1
Other loans			2.6		-0.5	2.1
<b>Financial assets<sup>1)</sup></b>	<b>9.9</b>		<b>2.6</b>		<b>-2.6</b>	<b>9.9</b>
<b>Total assets</b>	<b>2,661.3</b>	<b>11.0</b>	<b>112.0</b>		<b>-22.9</b>	<b>2,761.4</b>

<sup>1)</sup> Insofar as they are accounted for using the equity method or at cost.

**Depreciation/amortization and carrying amount 2010**

in € million	Balance at Jan. 1, 2010	Translation differences	Depreciation/ amortization	Disposals	Balance at Dec. 31, 2010	Carrying amount Dec. 31, 2010
Program assets	194.3		27.0		221.3	620.6
Program-independent technologies	74.8		12.4		87.2	37.5
Customer relations	25.9	0.2	2.9		29.0	38.7
Rights and licenses	50.0	0.8	8.0	-3.9	54.9	32.1
Goodwill						405.2
Prepayments on intangible assets						1.4
Development costs	0.3		0.6		0.9	89.9
<b>Intangible assets</b>	<b>345.3</b>	<b>1.0</b>	<b>50.9</b>	<b>-3.9</b>	<b>393.3</b>	<b>1,225.4</b>
Land, leasehold rights and buildings, including buildings on non-owned land	58.8	0.5	11.1		70.4	313.1
Technical equipment, plant and machinery	256.2	1.8	36.7	-7.7	287.0	121.7
Other equipment, operational and office equipment	186.2	1.0	32.2	-3.5	215.9	84.3
Advance payments and construction in progress						40.4
<b>Property, plant and equipment</b>	<b>501.2</b>	<b>3.3</b>	<b>80.0</b>	<b>-11.2</b>	<b>573.3</b>	<b>559.5</b>
Investments in subsidiaries						
Investments in associated companies						0.4
Equity investments in joint ventures						4.3
Other equity investments						3.1
Other loans						2.1
<b>Financial assets<sup>1)</sup></b>						<b>9.9</b>
<b>Total assets</b>	<b>846.5</b>	<b>4.3</b>	<b>130.9</b>	<b>-15.1</b>	<b>966.6</b>	<b>1,794.8</b>

<sup>1)</sup> Insofar as they are accounted for using the equity method or at cost.

## 19. INTANGIBLE ASSETS

Intangible assets mainly comprise program assets capitalized as part of the purchase price allocation (PPA), program-independent technologies and software (the latter mostly for engineering applications), and acquired goodwill.

The depreciation/amortization expense on intangible assets is included in the presentation of the following line items: cost of sales € 46.8 million (2010: € 45.3 million), research and development expenses € 2.8 million (2010: € 3.0 million), selling expenses € 1.4 million (2010: € 1.4 million), and general administrative expenses € 1.7 million (2010: € 1.2 million).

In the financial year 2011, additions to intangible assets totaled € 92.0 million (2010: € 24.6 million). The following is a breakdown of the main capital expenditure on intangible assets by engine program or operating segment:

### PW1100G ENGINE PROGRAM

Expenditure of € 69.3 million was incurred in the financial year 2011 (2010: € 0.0 million) in connection with MTU's 18% stake in the PW1100G, the new engine for the A320 family. Of this amount, € 55.5 million (2010: € 0.0 million) related to development assets acquired in return for payment, while € 13.8 million (2010: € 0.0 million) related to internally generated development costs.

### GENX ENGINE PROGRAM

MTU holds a 6.65% stake in the GENx engine program for the Boeing 787 and 747-8 through a cooperation agreement between the General Electric Company and MTU Aero Engines GmbH, Munich. In the financial year 2011, internally generated development costs amounting to € 3.5 million (2010: internal, € 7.1 million) were capitalized for this engine program.

### GE38 ENGINE PROGRAM

In 2008, MTU was conferred development responsibility for the power turbine of the General Electric GE38 helicopter engine, and thus for an important module of a U.S. military engine program. Internally generated development costs amounting to € 8.7 million (2010: € 6.9 million) were capitalized for this program in 2011.

### MRO

The commercial maintenance business (MRO) has developed special repair techniques designed to reduce the cost and increase the efficiency of engine maintenance, allowing intangible assets totaling € 3.4 million (2010: € 5.1 million) to be capitalized.

## 20. PROPERTY, PLANT AND EQUIPMENT

Through its capital expenditure on property, plant and equipment for the OEM segment, MTU aims to consolidate and extend its position as a leading engine manufacturer, improve efficiency, and modernize equipment and machinery to state-of-the-art standards.

In the financial year 2011, the group's total capital expenditure on property, plant and equipment amounted to € 113.7 million (2010: € 84.8 million). This increase compared with the previous year was mainly due to additions to advance payments and construction in progress for the new production facility at the Munich plant, which rose by € 27.8 million to € 56.6 million. The depreciation/amortization expense on property, plant and equipment is included in the presentation of the following line items: cost of sales € 74.4 million (2010: € 71.3 million), research and development expenses € 4.6 million (2010: € 5.3 million), selling expenses € 1.2 million (2010: € 0.9 million) and general administrative expenses € 2.5 million (2010: € 2.5 million).



**TECHNICAL EQUIPMENT, PLANT AND MACHINERY**

The capital expenditure on technical equipment, plant and machinery totaling € 15.6 million (2010: € 24.1 million) relates mainly to the purchase of CNC lathes and grinding/milling machines.

**OTHER EQUIPMENT, OPERATIONAL AND OFFICE EQUIPMENT**

The capital expenditure on other equipment, operational and office equipment, which mainly comprises special tools and equipment, fixtures and other tools for new and ongoing programs, was within normal limits in the year under review.

**ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS**

Additions to this item in the financial year 2011 totaling € 56.6 million (2010: € 28.8 million) relate to work in progress on technical equipment, plant and machinery at the German sites, mainly for new engine programs, the modernization of a test rig in Munich, and the construction of a new facility for blisk manufacturing, including blisk milling machines, also in Munich.

Capitalized assets under finance lease agreements are based on the following components:

**Minimum lease payments under finance lease agreements**

in € million	Dec. 31, 2011	Dec. 31, 2010
<b>Future minimum lease payments</b>		
due in less than one year	3.9	26.1
due in more than one and less than five years	0.1	0.2
due in more than five years		
<b>Total future minimum lease payments</b>	<b>4.0</b>	<b>26.3</b>
<b>Interest portion of future minimum lease payments</b>		
due in less than one year	-0.1	-1.4
due in more than one and less than five years		
due in more than five years		
<b>Total interest portion</b>	<b>-0.1</b>	<b>-1.4</b>
<b>Present value of future minimum lease payments</b>		
due in less than one year	3.8	24.7
due in more than one and less than five years	0.1	0.2
due in more than five years		
<b>Total present value of future minimum lease payments</b>	<b>3.9</b>	<b>24.9</b>

The reduction in the future minimum lease payments is due to the exercise on December 31, 2011 of a purchase option agreed with Silkan Gewerbepark Nord Hannover-Langenhagen GmbH & Co. KG for the industrial site at Münchener Strasse 31, Langenhagen, which was previously leased and capitalized. The acquisition of the land and buildings was documented in a declaration of acceptance and certified by a notary (doc. no. 253/2010). Further, the rights of ownership as well as the benefits and obligations in connection with the property were transferred to MTU Maintenance Hannover GmbH, Langenhagen, with effect from December 31, 2011. On payment of the purchase price, all debts outstanding under the finance lease agreement were extinguished.

The following carrying amounts resulted from the capitalized assets under finance lease agreements at the balance sheet date:

#### Carrying amounts

in € million	<b>Carrying amount Dec. 31, 2011</b>	Carrying amount Dec. 31, 2010
Land and buildings		24.1
Technical equipment, plant and machinery, operational and office equipment	1.0	1.7
<b>Total carrying amounts</b>	<b>1.0</b>	<b>25.8</b>

## 21. FINANCIAL ASSETS

The following table shows the carrying amounts of financial assets included in the consolidated financial statements:

#### Composition of financial assets

in € million	<b>Dec. 31, 2011</b>	Dec. 31, 2010
Joint ventures accounted for at cost	4.3	4.3
Financial assets accounted for at cost	5.4	5.6
<b>Subtotal</b>	<b>9.7</b>	<b>9.9</b>
Available-for-sale financial assets	40.9	72.0
Financial assets classified as cash flow hedges	8.9	17.6
Derivative financial instruments without hedging relationship	0.8	4.2
<b>Total</b>	<b>60.3</b>	<b>103.7</b>

At the balance sheet date, unrealized gains on available-for-sale financial assets totaling € 0.2 million (2010: unrealized losses of € -0.2 million) were recognized in other comprehensive income, net of related tax effects. The carrying amounts also include accrued interest of € 0.1 million (2010: € 0.5 million).

The derivative financial assets can be broken down as follows:

#### Derivative financial instruments

in € million	Total		Non-current		Current	
	<b>Dec. 31, 2011</b>	Dec. 31, 2010	<b>Dec. 31, 2011</b>	Dec. 31, 2010	<b>Dec. 31, 2011</b>	Dec. 31, 2010
Forward foreign exchange contracts	8.9	17.6	6.5	14.8	2.4	2.8
Forward commodity sales contracts	0.1	3.1		0.5	0.1	2.6
Currency options	0.7	1.1		0.6	0.7	0.5
<b>Total derivative financial instruments</b>	<b>9.7</b>	<b>21.8</b>	<b>6.5</b>	<b>15.9</b>	<b>3.2</b>	<b>5.9</b>

The following amounts have been recognized in respect of the assets, liabilities, income and expenses of joint ventures and associated companies, with the exception of MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China:

**Income statement and balance sheet disclosures for joint ventures and associated companies**

in € million	Joint ventures 2011 <sup>1)</sup>	Associated companies 2011 <sup>2)</sup>	Joint ventures 2010 <sup>1)</sup>	Associated companies 2010 <sup>2)</sup>
<b>Disclosures relating to the income statement</b>				
Income	134.0	1.091.9	132.6	1.028.5
Expenses	-127.2	-1.091.0	-129.7	-1.027.6
<b>Result</b>	<b>6.8</b>	<b>0.9</b>	<b>2.9</b>	<b>0.9</b>
<b>Disclosures relating to the balance sheet</b>				
Non-current assets	18.1	4.0	16.1	3.9
Current assets	71.4	215.8	58.7	236.6
<b>Total assets</b>	<b>89.5</b>	<b>219.8</b>	<b>74.8</b>	<b>240.5</b>
Equity	14.6	3.6	6.8	3.3
Non-current liabilities	7.4	23.9	7.9	1.0
Current liabilities	67.5	192.3	60.1	236.2
<b>Total equity and liabilities</b>	<b>89.5</b>	<b>219.8</b>	<b>74.8</b>	<b>240.5</b>

<sup>1)</sup> The disclosures for the joint ventures Ceramic Coating Center S.A.S., Paris, France, and Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia, relate to the prior year, as the actuals for the year stated were not available at the time of reporting.

<sup>2)</sup> Data for the prior financial year, as the actuals for the year stated were not available at the time of reporting.

## 22. INVENTORIES

Inventories comprise the following components:

**Inventories**

in € million	Dec. 31, 2011	Dec. 31, 2010
Raw materials and supplies	349.6	323.1
Work in progress	422.7	347.4
Advance payments	51.5	30.5
<b>Total inventories</b>	<b>823.8</b>	<b>701.0</b>

The change in inventories attributable to write-downs on raw materials and supplies and work in progress is as follows:

**Write-downs on inventories**

in € million	2011	2010
Balance at January 1	58.3	49.3
Allocated/utilized (-)	6.0	9.0
<b>Balance at December 31</b>	<b>64.3</b>	<b>58.3</b>

In line with the group's business model, the write-down method represents the best possible means of estimating the net realizable value of inventories held by MTU.

## 23. TRADE RECEIVABLES

**Trade receivables**

in € million	Dec. 31, 2011	Dec. 31, 2010
Third parties	577.4	498.4
Associated companies, joint ventures and other equity investments	27.7	33.5
<b>Total trade receivables</b>	<b>605.1</b>	<b>531.9</b>

Transactions with related companies are presented in more detail in Note 43.1.1. (Business with related companies).

The valuation allowances on trade receivables changed as follows:

**Valuation allowances**

in € million	2011	2010
<b>Allowances at January 1</b>	<b>9.4</b>	<b>7.9</b>
Translation differences	0.2	0.3
Additions (expense for specific allowances)	3.1	4.5
Utilized	-2.3	-2.0
Reversed	-2.5	-1.3
<b>Allowances at December 31</b>	<b>7.9</b>	<b>9.4</b>

The net expense for bad debts on trade receivables written off as uncollectable offset against income from bad debts recovered amounted to € -2.3 million (2010: € -0.8 million).

All expense and income amounts arising from valuation allowances and the write-off of uncollectable bad debts on trade receivables are recognized as selling expenses.

## 24. CONSTRUCTION CONTRACT RECEIVABLES

### Construction contract receivables

in € million	Dec. 31, 2011	Dec. 31, 2010
Construction contract receivables	469.5	424.3
thereof: advance payments received	-332.7	-286.1
<b>Total Construction contract receivables</b>	<b>136.8</b>	<b>138.2</b>

Interest-free advance payments received for construction contracts directly attributable to an engine project are offset against the corresponding receivables. If the amount of the directly attributable advance payments received exceeds the amount of the receivables, the balance is recognized under construction contract payables.

Income from construction contracts in the financial year 2011 amounted to € 27.2 million (2010: € 75.7 million). Contract-related costs to be offset against this income amounted to € 21.7 million (2010: € 97.7 million). The amount of € 469.5 million for construction contract receivables at December 31, 2011 (2010: € 424.3 million) includes advance payments received amounting to € 332.7 million (2010: € 286.1 million). No amounts were retained for partial settlement of construction contract receivables.

For disclosures relating to construction contract receivables that have been offset against directly attributable advance payments received, please refer to Note 35. (Construction contract payables).

The following table shows the carrying amounts and a breakdown of the past due dates of unimpaired trade and construction contract receivables at the balance sheet date:

### Impairment status and due dates of trade and construction contract receivables

in € million	Dec. 31, 2011	Dec. 31, 2010
<b>Carrying amount</b>	<b>1,074.6</b>	<b>956.2</b>
<b>Thereof: neither impaired nor past due at the balance sheet date</b>	885.4	756.5
in %	82.4	79.1
<b>Thereof: not impaired at the balance sheet date and past due in the following time windows</b>		
Less than 90 days	135.1	124.4
Between 90 and 180 days	14.1	32.9
Between 181 and 360 days	12.1	4.3
More than 360 days	5.7	9.6
<b>Total: not impaired but past due</b>	<b>167.0</b>	<b>171.2</b>
in %	15.5	17.9

## 25. OTHER ASSETS

Other assets comprise the following items:

### Other assets

in € million	Total		Non-current		Current	
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Other taxes	15.8	16.0			15.8	16.0
Receivable from employees	1.3	1.4			1.3	1.4
Receivable from suppliers	2.7	5.3			2.7	5.3
Sundry other assets	19.5	9.1	5.1	6.0	14.4	3.1
<b>Total other assets</b>	<b>39.3</b>	<b>31.8</b>	<b>5.1</b>	<b>6.0</b>	<b>34.2</b>	<b>25.8</b>

The other taxes totaling € 15.8 million (2010: € 16.0 million) solely comprise input taxes (2010: € 15.6 million) and transaction taxes amounting to € 0.4 million incurred in 2010 in respect of foreign group companies.

The sundry other assets totaling € 19.5 million (2010: € 9.1 million) groups together a variety of different assets. These include the surplus of the plan assets of MTU Maintenance Canada Ltd., Richmond, Canada, amounting to € 4.3 million (2010: € 3.5 million). Please refer to Note 30. (Pension provisions) for further information on the calculation of the surplus plan assets.

The table below shows the carrying amounts and a breakdown of the past due dates of the unimpaired loans and receivables stated in other assets at the balance sheet date:

### Impairment status and due dates of other assets

in € million	Due within 1 year		Due in more than 1 year	
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
<b>Carrying amount</b>	18.4	9.8	5.1	6.0
<b>Thereof: neither impaired nor past due at the balance sheet date</b>	18.4	9.5	5.1	6.0
in %	100.0	96.9	100.0	100.0
<b>Thereof: not impaired at the balance sheet date and past due in the following time windows</b>				
Less than 90 days		0.1		
Between 90 and 180 days				
Between 181 and 360 days		0.2		
More than 60 days				
<b>Total: not impaired but past due</b>		<b>0.3</b>		
in %		3.1		

## 26. CASH AND CASH EQUIVALENTS

The cash and cash equivalents of € 198.8 million (2010: € 111.9 million) comprise cash in hand, bank deposits and securities with an original maturity of three months or less. This item also includes foreign currency holdings amounting to € 108.0 million (2010: € 73.2 million).

MTU is not free to dispose of cash and cash equivalents in the amount of € 11.6 million (2010: € 15.9 million) held by MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China.

## 27. INCOME TAX CLAIMS

Income tax claims in the financial year 2011 amounted to € 5.8 million (2010: € 0.0 million).

## 28. PREPAYMENTS

The prepayments of € 4.1 million (2010: € 6.0 million) consist primarily of prepayments for insurance premiums and rents.

## 29. EQUITY

Changes in group equity are set out in the consolidated statement of changes in equity.

### 29.1. SUBSCRIBED CAPITAL

The company's subscribed capital (capital stock) is unchanged and amounts to € 52.0 million, divided into 52.0 million registered non-par shares.

### 29.2. AUTHORIZED CAPITAL

#### AUTHORIZED CAPITAL

The Board of Management is authorized until April 21, 2015 to increase the company's capital stock by up to € 5.2 million, with the prior approval of the Supervisory Board, by issuing, either in a single step or in several steps, new registered non-par-value shares in return for cash contributions (Authorized capital I 2010).

The Board of Management is further authorized until April 21, 2015 to increase the company's capital stock by up to € 15.6 million, with the prior approval of the Supervisory Board, by issuing, either in a single step or in several steps, new registered non-par-value shares in return for cash contributions (Authorized capital II 2011).

In addition, the Board of Management is authorized until April 21, 2015 to increase the company's capital stock by up to € 5.2 million, with the prior approval of the Supervisory Board, by issuing, either in a single step or in several steps, new registered non-par-value shares in return for cash and/or non-cash contributions (Authorized capital III 2011).

### 29.3. CONDITIONAL CAPITAL

#### CONVERTIBLE BONDS AND BONDS WITH WARRANTS

At the Annual General Meeting on April 22, 2010, the Board of Management was authorized until April 21, 2015 to issue conditional capital increases with the prior approval of the Supervisory Board:

- The company's capital stock may be conditionally increased by up to € 3.64 million through the issue of up to 3,640,000 new registered non-par-value shares. The purpose of this conditional capital increase is to issue shares to owners or creditors of convertible bonds and/or bonds with warrants in accordance with the authorization granted to the company's Board of Management under a resolution passed by the Annual General Meeting on May 30, 2005. Shares may be issued at a conversion price or warrant exercise price determined on the basis of the conditions laid down in the relevant authorization.
- The company's capital stock may be conditionally increased by up to € 22.36 million through the issue of up to 22,360,000 new registered non-par-value shares, each corresponding to a proportional amount (one euro) of the company's total capital stock (conditional capital). The purpose of this conditional capital increase is to issue shares to owners or creditors of convertible bonds and/or bonds with warrants in accordance with the authorization granted to the company's Board of Management under a resolution passed by the Annual General Meeting on April 22, 2010. Shares may be issued at a conversion price or warrant exercise price determined on the basis of the conditions laid down in the relevant authorization.
- The Board of Management is authorized until April 21, 2015 to issue, in a single step or in several steps and with the prior approval of the Supervisory Board, bearer convertible bonds and/or bonds with warrants (collectively referred to as 'securities'), with or without maturity date, with a total nominal value of up to € 500 million, and to grant the owners of convertible bonds and/or bonds with warrants the right, obligation or option to convert them into registered non-par-value shares of the company representing a share in the capital stock of up to € 22.36 million under the conditions established for the issue of convertible bonds or bonds with warrants. The securities may be issued in return for cash contributions only. They may be issued in euros or – to an equivalent value – in any other legal currency, for instance that of an OECD country. They may also be issued by an affiliated company in which MTU holds a controlling interest (group company). In such cases, and subject to the prior approval of the Supervisory Board, the Board of Management is authorized to act as guarantor for the securities, and to grant the owners of the securities the right, obligation or option to convert them into new registered non-par-value shares in MTU.



#### **29.4. CAPITAL RESERVES**

Capital reserves include premiums from the issue of shares, the equity component (net of taxes) and proportional transaction costs of the issued convertible bond, the fair value of shares granted under the Share Matching Plan, and an allocation of € 1.0 million (2010: deduction of € 0.2 million) representing the difference between the proceeds of shares sold under the MAP employee stock option program and their original acquisition cost. For information on the equity component of the convertible bond and the associated deferred tax assets/liabilities, transaction costs, and income tax reductions, please read the explanatory comments under Note 33. (Financial liabilities).

##### **MATCHING STOCK PROGRAM (MSP)**

To strengthen the motivation to meet business targets, the group has set up the MSP, an incentive and risk-sharing instrument allowing management-level employees to participate in its share capital. The MSP authorizes the subscription of phantom stocks. When the program was launched on June 6, 2005, the group granted a defined quantity of phantom stocks to the participants for the duration of five years, for allocation in equal tranches over this period. In order to be granted phantom stock, it was a condition at the start of the program that MSP participants should hold their own investment in the company's share capital. Each MSP share acquired from the program authorizes the holder to subscribe for six phantom stocks per allocated tranche. MSP shares are not subject to any restraints on disposal and entitle the holder to participate in dividend and subscription rights. Each tranche of allocated phantom stock is subject to a vesting period of two years and can be converted to taxable compensation upon achievement of the average exercise price. It is a mandatory condition that this compensation must be used to purchase shares in MTU. The shares are purchased at the market price on the strike date (exercise date). They must be held for two years after the strike date.

In the financial year 2011, after the average exercise price of € 49.79 per phantom stock was reached, managers for the last time converted 222,846 phantom stocks (2010: 241,794) into compensation, while members of the Board of Management for the last time converted 144,936 phantom stocks (2010: 144,936) into compensation.

##### **SHARE MATCHING PLAN (SMP)**

###### **MTU'S BOARD OF MANAGEMENT**

For a description of the SMP we refer you to the management compensation report, which forms part of the corporate governance report. At the end of the four-year PSP assessment period, the members of the Board of Management have the option to convert the payment under the Performance Share Plan (PSP) into shares of MTU Aero Engines Holding AG, which must then be held for a further three years. At the end of the vesting period, these shares are matched on the basis of a Share Matching Plan (SMP), with each Board of Management member being awarded one additional free share for every three MTU shares acquired in this way. The entitlement to additional free shares is deemed to have expired once the corresponding number of such shares has been transferred to the member of the Board of Management. The total value of the free shares allocated at the end of the vesting period is limited to three times the purchase price of the shares originally acquired through the PSP.

The number of future matching shares depends on the amount of benefits payable under the Performance Share Plan (PSP). For an explanation of the PSP we refer you to the corresponding section of Note 32. (Other provisions). In order to determine the fair value, a combined Monte Carlo simulation and Black-Scholes pricing model was used. The expected payout was determined on the basis of the exact same assumptions used to value the PSP. The payout calculated serves as a basis for valuing the SMP in accordance with the Black-Scholes pricing model. The fair value of this forward option at the time the option is granted is recognized in the balance sheet taking into account the conditions of exercise. The vesting period of the forward option is 52 months.

The number of options granted to members of the Board of Management under the SMP is determined on the basis of the performance-related compensation approved by the Supervisory Board, and must in turn be approved by the Personnel Committee. The compensation for senior managers is linked to the performance-related compensation awarded to the Board of Management. The options do not confer dividend or voting rights on the holder.

#### **SENIOR MANAGERS OF MTU**

With effect from January 1, 2011, MTU expanded the Share Matching Plan (SMP) it had introduced in the previous year for members of the Board of Management to include the top two tiers of senior managers (OFK and FK) at the company and its subsidiaries.

#### **TIER-1 SENIOR MANAGERS (OFK)**

In accordance with the conditions of the plan, tier-1 senior managers may, after expiry of each three-year PSP vesting period, use the benefits payable under the PSP (LTI) and the Annual Performance Bonus (STI) to invest in shares of MTU Aero Engines Holding AG, which must then be held for a further two years under the terms of this supplementary plan, the Share Matching Plan (SMP). At the end of this supplementary vesting period, on condition that the SMP participant is still employed by MTU, this investment is matched by a cash payment corresponding to one-third of the amount invested in MTU shares. The total investment qualifying tier-1 senior managers to receive a matching payment under the SMP is limited to a maximum of € 60,000 per eligible manager.

#### **TIER-2 SENIOR MANAGERS (FK)**

In accordance with the conditions of the plan, tier-2 senior managers may, after expiry of each two-year PSP vesting period, use the benefits payable under the PSP (LTI) and the Annual Performance Bonus (STI) to invest in shares of MTU Aero Engines Holding AG, which must then be held for a further two years under the terms of this supplementary plan, the Share Matching Plan (SMP). At the end of this supplementary vesting period, on condition that the SMP participant is still employed by MTU, this investment is matched by a cash payment corresponding to one-third of the amount invested in MTU shares. The total investment qualifying tier-2 senior managers to receive a matching payment under the SMP is limited to a maximum of € 30,000 per eligible manager.

The fair values of the forward options were determined at the grant date on the basis of the following parameters and assumptions:

**Share Matching Plan / options granted in 2011**

Measurement parameters	option tranche		
	Tranche 2 Board of Management Financial year 2011	Tranche 1b Board of Management Financial year 2010	Tranche 1a Board of Management Financial year 2010
Option period	88 Months	88 Months	88 Months
Vesting period	52 Months	52 Months	52 Months
Measurement date	Jan. 1, 2011	July 1, 2010	Jan. 1, 2010
Average share price at acquisition date	47.03	46.52	36.63
Dividend yield	1.84%	2.07%	2.44%
Fluctuation	4.00%	4.00%	4.00%
Expected volatility	51.40%	52.82%	52.08%
Risk-free interest rate	1.76%	1.37%	2.30%

The following table shows the number of performance shares that had been granted under the Share Matching Plan (SMP) at the beginning and end of the reporting period, and the number of performance shares not yet exercisable at year-end:

#### Share Matching Plan (SMP)

number of shares or value in €	Fair value at grant date	Granted performance shares			Performance shares not yet exercisable at year-end	Time to end of vesting period for performance shares
		Number at Jan. 1, 2011 shares	Acquired in 2011 shares	Number at Dec. 31, 2011 shares		
	€					Time at Dec. 31, 2011 months
<b>Board of Management</b>						
Performance shares tranche 1a granted Jan. 1, 2010	3.722	28,666		28,666	28,666	28
Performance shares tranche 1b granted July 1, 2010 <sup>1)</sup>	4.233	6,031		6,031	6,031	34
Performance shares tranche 2 granted Jan. 1, 2011	4.779		34,285	34,285	34,285	40
<b>Total / average</b>	<b>4.292</b>	<b>34,697</b>	<b>34,285</b>	<b>68,982</b>	<b>68,982</b>	<b>34</b>

Note: In the financial years 2010 and 2011, no performance shares were exercised or forfeited, nor did any lapse.

<sup>1)</sup> Adjustment of Performance Shares.

The total expense incurred in the financial year 2011 for share-based compensation settled by issuance of equity instruments amounted to € 0.4 million (2010: € 0.2 million). The total expense incurred for share-based compensation settled by cash payment is presented in Note 32. (Other provisions).

**MAP EMPLOYEE STOCK OPTION PROGRAM**

In the financial year 2011, the Board of Management of MTU Aero Engines Holding AG, Munich, again invited group employees to purchase shares under the MAP employee stock option program, which runs for a period of two years in each case. Under this program, MTU offers to match each participant's investment at the end of a two-year vesting period with a taxable cash payment of an amount corresponding to 50% of the amount invested by the employee in MTU shares at the beginning of the program.

The number of shares sold to group employees under the terms of the MAP employee stock option program since the financial year 2008 is as follows:

**MAP employee stock option program**

Issue date	Number of shares sold	Average acquisition cost (in € million)	Total proceeds of sale (in € million)	Selling price per share (in €)
June 2011	154,165	6.5	7.5	48.10
June 2010	59,096	2.7	2.5	42.58
June 2009	150,863	6.7	3.3	21.80
June 2008	192,959	8.2	4.9	25.19

The total expense for the matching exercise in connection with the MAP in the financial year 2011 amounted to € 2.1 million (2010: € 1.7 million) and was recognized in the income statement on a pro rata basis over the duration of the respective tranche. At December 31, 2011, the liability amounted to € 2.4 million (2010: € 2.0 million).

The purchase price for the fourth tranche of MTU shares distributed in the financial year 2011 was based on the lowest share price on April 13, 2011 (purchase date) and amounted to € 48.10 per share. The shares transferred to the employees, valued at the average acquisition cost, were removed from the equity item 'treasury shares'. The difference between the proceeds of the sale and the original acquisition cost amounted to a total of € 1.0 million and was allocated to capital reserves (2010: € 0.2 million deduction from capital reserves).

#### **29.5. REVENUE RESERVES**

Revenue reserves comprise the post-acquisition and non-distributed earnings of consolidated group companies.

#### **29.6. TREASURY SHARES**

##### **PURCHASE OF TREASURY SHARES IN ACCORDANCE WITH THE AUTHORIZATIONS GRANTED BY THE ANNUAL GENERAL MEETING ON APRIL 22, 2010**

The Board of Management of MTU Aero Engines Holding AG, Munich, has been authorized by resolution of the Annual General Meeting to buy back shares. These shares may be purchased on the stock market or by means of a public offering addressed to all shareholders. The purchase price paid in consideration of these shares must not exceed or undercut the market value by more than 10%, net of any supplementary transaction fees.

The authorization to buy back shares granted to the company by resolution of the Annual General Meeting on May 26, 2009 expired on November 26, 2010 and was replaced by a new authorization. Pursuant to Section 71(1) item 8 of the German Stock Corporation Act (AktG) as amended by the German Act of July 30, 2009 implementing the EU's Shareholders' Rights Directive (ARUG), the authorization may now be granted for a period of up to five years.

The Board of Management of MTU was thus authorized to purchase treasury shares with an aggregate nominal value not exceeding 10 % of the company's issued capital stock, as applicable on the date of the resolution, during the period from April 23, 2010 through April 22, 2015, pursuant to Section 71 (1) item 8 of the German Stock Corporation Act (AktG). At no point in time may the value of the acquired shares, together with other treasury shares in the company's possession or which are assigned to it pursuant to Section 71a et seq. of the German Stock Corporation Act (AktG), exceed 10 % of the company's capital stock.

##### **PURCHASE OF TREASURY SHARES**

In the financial year 2011, the company purchased 200,000 shares (2010: 300,000 shares) for a total price of € 9.4 million (2010: € 13.6 million). The average acquisition cost for the shares purchased was € 47.07 (2010: € 45.55) per share. The shares were purchased in order to meet contractual obligations attached to the convertible bond issue, to issue shares to group employees under the fifth and final tranche of the Matching Stock Program (MSP) and under the MAP employee stock option program, and to make provision for the future issue of matching shares to the Board of Management under the Share Matching Plan (SMP). The following table shows shares acquired through share buybacks in 2010 and 2011.

**Reconciliation of weighted average number of outstanding shares**

number of shares	2011			2010		
	Outstanding	Treasury shares	Outstanding	Outstanding	Treasury shares	Outstanding
<b>Balance at January 1</b>		<b>3,247,593</b>			<b>3,078,192</b>	
<b>Buyback and issue of shares</b>						
January	48,752,407		48,752,407	48,921,808		48,921,808
February	48,752,407		48,752,407	48,921,808		48,921,808
March	48,752,407		48,752,407	48,921,808	-632	48,922,440
April	48,752,407		48,752,407	48,922,440		48,922,440
May	48,752,407		48,752,407	48,922,440		48,922,440
June (conversion of convertible bond)	48,752,407		48,752,407	48,922,440	-2,020	48,924,460
June (issue MSP / MAP)	48,752,407	-260,081	49,012,488	48,924,460	-127,947	49,052,407
July (buyback)	49,012,488		49,012,488	49,052,407	60,000	48,992,407
August (buyback)	49,012,488	200,000	48,812,488	48,992,407	240,000	48,752,407
September	48,812,488		48,812,488	48,752,407		48,752,407
October	48,812,488		48,812,488	48,752,407		48,752,407
November	48,812,488		48,812,488	48,752,407		48,752,407
December	48,812,488		48,812,488	48,752,407		48,752,407
<b>Balance of treasury shares at December 31</b>		<b>3,187,512</b>			<b>3,247,593</b>	
<b>Weighted average at December 31</b>			<b>48,820,788</b>			<b>48,868,149</b>

**RECONCILIATION OF AVERAGE WEIGHTED NUMBER OF OUTSTANDING SHARES**

At December 31, 2011, MTU held 3,187,512 treasury shares (2010: 3,247,593 shares). This represents 6.1% of the company's capital stock (2010: 6.2%).

At December 31, 2011, a total of 48.812.488 MTU shares (2010: 48,752,407 shares), each with a par value of one euro, were in issue and entitled to receive a dividend.

**ISSUE OF SHARES TO EMPLOYEES UNDER EMPLOYEE STOCK OPTION SCHEMES**

In the financial year 2011, a total of 104,763 treasury shares (2010, fourth tranche: 68,086 shares) were issued to the Board of Management and other executive managers under the fifth tranche of the Matching Stock Program.

A total of 154,165 shares (2010: 59,096 shares) were sold to group employees in the financial year 2011 under the MAP employee stock option program.

### 29.7. OTHER COMPREHENSIVE INCOME (OCI)

In 2011, other comprehensive income decreased by € -11.7 million to a negative balance of € -9.0 million (2010: increased by € 5.1 million to a positive balance of € 2.7 million), principally as a result of translation differences arising from the financial statements of international subsidiaries and the change in fair value of derivative financial instruments.

The table below shows the income and expenses recognized in other comprehensive income, including fair value changes, both before and after income tax:

#### Items recognized in other comprehensive income

in € million	2011			2010		
	Income taxes			Income taxes		
	Before		After	Before		After
Translation differences	1.2		1.2	9.1		9.1
Available-for-sale financial instruments				-0.2	0.1	-0.1
Change in fair value of derivative financial instruments	-19.1	6.2	-12.9	-5.8	1.9	-3.9
<b>Income and expenses recognized in other comprehensive income</b>	<b>-17.9</b>	<b>6.2</b>	<b>-11.7</b>	<b>3.1</b>	<b>2.0</b>	<b>5.1</b>

### 29.8. DISCLOSURES RELATING TO CAPITAL MANAGEMENT

MTU strives to maintain a strong financial profile in the interests of carrying out the company's business within a flexible financing framework and in order to generate confidence on the part of its shareholders.

Consequently, the group's capital management activities are focused on optimizing the ratio between equity and net financial debt, and on improving the equity ratio.

#### Capital management

in € million	Change 2011-2010	Dec. 31, 2011	Dec. 31, 2010
EBIT (adjusted)	17.3	328.0	310.7
<b>Net financial debt</b>	-44.0	12.2	56.2
Balance-sheet total	312.5	3,738.6	3,426.1
<b>Equity</b>	<b>86.8</b>	<b>906.1</b>	<b>819.3</b>
Equity ratio		24.2%	23.9%
<b>Gearing (ratio of net financial debt to equity)</b>		<b>1.3%</b>	<b>6.9%</b>



### 30. PENSION PROVISIONS

Defined benefit and defined contribution plans are in place for MTU employees. In the case of **defined contribution plans**, the company has no further obligations beyond the payment of fixed contributions to the plan. In the case of **defined benefit plans**, the company has an obligation to fulfill commitments to current and former employees. For group companies in Germany, these benefits are financed primarily by provisions recognized in the financial statements, which are only covered to a minor extent by plan assets. In contrast, MTU Maintenance Canada Ltd., Richmond, Canada, has a fund-financed retirement benefit plan.

In some cases, it is difficult to differentiate between defined contribution and defined benefit plans. In Germany, for example, a minimum level of benefits is guaranteed for defined contribution plans, such that, even when the plan is organized via an external fund or insurance company, it is still the employer that remains liable. The so-called 'ultimate liability of employer' is governed by Section 1 (1) sentence 3 of the German Law on Retirement Pensions (BetrAVG). For financial reporting purposes, the term 'defined benefit plans' is required to be interpreted on the basis of the underlying economic substance of the arrangements. Insofar as the MTU group has no further obligations beyond its so-called ultimate liability once the contributions have been paid to state and private retirement funds, these plans are classified as defined contribution plans. Current contributions are recognized as expenses in the period in which payments are made.

#### 30.1. DEFINED CONTRIBUTION PLANS

Since January 1, 2007, no new pension benefits have been granted to new employees in Germany. Instead MTU pays contributions to a company-sponsored external fund for employees who joined the company after that date. Other plans that exist within the MTU group are direct insurance contracts funded by employee contributions.

Employer's contributions to the state pension scheme in the financial year 2011 totaled € 34.5 million (2010: € 34.1 million). In addition, contributions of € 0.1 million (2010: € 0.1 million) were made to the company-sponsored external fund.

#### 30.2. DEFINED BENEFIT PLANS

The pension obligations of MTU are measured using the projected unit credit method in accordance with IAS 19, taking account of future salary and pension increases and other adjustments expected to be made to benefits and pension plans, such as stock-flow adjustments. The provision for defined benefit plans recognized in the balance sheet corresponds to the present value of the benefits payable for current and past service (the defined benefit obligation) of beneficiaries less the fair value of plan assets at the balance sheet date and adjusted for cumulative unrecognized actuarial gains and losses. Extensive actuarial reviews and computations are carried out annually for each pension plan by independent actuaries.

Actuarial gains or losses can result from increases or decreases either in the present value of the defined benefit obligations or in the fair value of the plan assets. Causes of actuarial gains or losses include the effect of changes in the measurement parameters, changes in the assessment of risks on pension obligations and differences between the actual and expected return on plan assets. The interest rates used to calculate present values are usually determined by reference to high-quality corporate bonds with similar maturities.

Present value and funding status of the defined benefit obligation:

**Present value of the defined benefit obligation (DBO)**

in € million	Dec. 31, 2011	Dec. 31, 2010
<b>Germany</b>		
Provision-financed pension obligations	507.7	486.3
Loan-financed pension obligations	24.2	24.6
<b>Total Germany</b>	<b>531.9</b>	<b>510.9</b>
<b>Other countries</b>		
Fund-financed pension obligations	26.1	23.0
<b>Total other countries</b>	<b>26.1</b>	<b>23.0</b>
<b>Total</b>	<b>558.0</b>	<b>533.9</b>

In the financial year 2011, the current and past service cost amounted to € 14.2 million (2010: € 11.0 million), the contributions for the plan subscribers amounted to € 5.1 million (2010: € 4.8 million), and the interest cost was € 23.6 million (2010: € 24.4 million). The pension benefit payments and one-off payments made in the financial year 2011 totaled € 21.0 million (2010: € 19.1 million). Consequently, after experience adjustments of € 3.0 million (2010: € 0.3 million) to take account of the effects of the divergence between previous actuarial assumptions and actual development, the total pension obligation under defined benefit plans rose by € 24.1 million (2010: € 60.6 million) to € 558.0 million (2010: € 533.9 million). By contrast, no effects resulting from changes in actuarial assumptions had to be taken into account in the financial year 2011 (2010: € 37.9 million).

Of the total pension obligation of € 558.0 million (2010: € 533.9 million), an amount of € 531.9 million (2010: € 510.9 million) relates to group companies in Germany; this represents 95.3% (2010: 95.7%) of the total amount.

The following weighted parameters were applied to measure the pension obligations at December 31 of the respective year and to measure the pension plan expense in the respective year under review:

**Actuarial assumptions: Germany**

in %	Dec. 31, 2011	Dec. 31, 2010
Interest rate for accounting purposes	4.50	4.50
Expected return on plan assets <sup>1)</sup>	n.a.	n.a.
Salary trend	2.5	2.5
Pension trend	2.0	2.0

<sup>1)</sup> relates to one variable-interest loan subject to the 3-month Euribor rate plus 50 basis points per year (see text headed 'Loan-financed plan assets')

**Actuarial assumptions: Other countries**

in %	Dec. 31, 2011	Dec. 31, 2010
Interest rate for accounting purposes	4.00	5.00
Expected return on plan assets	6.50	7.00
Salary trend	3.0	3.0
Pension trend	2.5	2.5

The market yields on high-quality corporate bonds have fallen compared to the previous year. For this reason, obligations for pensions were discounted at December 31, 2011 using a discount rate of 4.50% as in 2010. The biometric tables issued by Prof. Dr. Heubeck (RT 2005G) were used for the purpose of measuring the obligations of pension plans in Germany. In the case of foreign group companies, up-to-date biometric assumptions for each relevant country were applied. The expected salary trend refers to the expected rate of salary increase, which is estimated depending on inflation and the length of service of employees within the group.

Employee turnover, mortality and disability rates were estimated on the basis of statistical data. For the effects of the experience adjustments, reference is made to the table showing the funding status and the experience adjustments at the end of the financial year presented near the end of this note.

Based on otherwise constant assumptions, a change of 25 basis points in the discount rate would have had the following effects on the pension obligations at the end of 2011:

**Sensitivity analysis of defined benefit obligation**

in € million	At	Interest rate sensitivity (PVBP) <sup>1)</sup>	
	Dec. 31, 2011 4,50%	+25	-25
Total amount of the defined benefit obligation (DBO)	558.0	544.6	570.4
Cumulative unrecognized actuarial losses	-78.3	-64.9	-90.7

<sup>1)</sup> Present Value of Basis Point

In the following table, the defined benefit obligation and plan assets are reconciled to the recognized pension provision:

**Reconciliation of defined benefit obligation and plan assets to recognized pension provisions**

in € million	Dec. 31, 2011	Dec. 31, 2010
<b>Total amount of the defined benefit obligation (DBO)</b>	<b>558.0</b>	<b>533.9</b>
Fair value of plan assets	-27.0	-28.9
Cumulative unrecognized actuarial losses	-78.3	-75.3
<b>Net obligation</b>	<b>452.7</b>	<b>429.7</b>
Capitalized surplus of plan assets	4.3	3.5
<b>Pension provisions recognized in the balance sheet</b>	<b>457.0</b>	<b>433.2</b>

#### FAIR VALUE OF PLAN ASSETS

The total amount of the defined benefit obligation (measured using the projected unit credit method) is reduced by the fair value of the plan assets of one fund-financed and one loan-financed pension plan amounting to € 27.0 million (2010: € 28.9 million). The expected return on the fund-financed plan assets of MTU Maintenance Canada Ltd., Richmond, Canada, amounted to € 1.3 million. The uncertainty prevailing in the capital markets gave rise to a deficit of € 1.9 million, resulting in an overall loss of € 0.6 million for the plan assets of MTU Maintenance Canada Ltd., Richmond, Canada, in the financial year 2011. The actual return on the loan-financed plan assets of MTU Aero Engines GmbH, Munich, at € 0.1 million (2010: € 0.2 million), matched the expected return, resulting in an overall loss of € 1.9 million (2010: € 0.1 million) deriving from the measurement of the fair value of these plan assets. Employer contributions raised the plan assets by € 1.2 million (2010: € 1.2 million), while pension benefit payments reduced them by € 2.9 million (2010: € 2.6 million), resulting in an overall reduction in the plan assets of € 1.9 million (2010: increase of € 2.4 million).

#### CUMULATIVE UNRECOGNIZED ACTUARIAL LOSSES

While, on the one hand, unrecognized actuarial losses attributable to amortization charges decreased by € 2.0 million in the financial year 2011, this change was offset by increases in experience adjustments amounting to € 3.0 million (2010: 0.3 million plus € 37.9 million owing to changes in actuarial assumptions), by translation differences amounting to € 0.1 million, and by the deficit of € 1.9 million (2010: 0.1 million) in the plan assets.

In total, therefore, unrecognized actuarial losses increased by € 3.0 million.

The defined benefit obligation developed as follows:

#### Calculation of the defined benefit obligation

in € million	2011	2010
<b>Defined benefit obligation at January 1</b>	<b>533.9</b>	<b>473.3</b>
Current service cost	10.4	8.7
Contributions for pension plan subscribers	5.1	4.8
Interest cost	23.6	24.4
Past service cost	3.8	2.3
Pension benefit payments	-21.0	-19.1
Plan curtailments or settlements	-1.0	-0.6
Transfers / translation differences	0.2	2.5
Actuarial gains (-) / losses (+)	3.0	37.6
<b>Defined benefit obligation at December 31</b>	<b>558.0</b>	<b>533.9</b>

The fair value of plan assets developed as follows:

#### Calculation of the fair value of plan assets

in € million	2011	2010
<b>Fair value at January 1</b>	<b>28.9</b>	<b>26.5</b>
Allocation to plan assets		
Expected return on plan assets	1.4	1.5
Actuarial gains / losses (-) from:		
Fund-financed plan assets	-1.9	-0.1
Loan-financed plan assets		
Transfers / translation differences	0.2	2.3
Employer contributions	1.2	1.2
Employee contributions to plan	0.1	0.1
Pension benefit payments	-2.9	-2.6
<b>Fair value at December 31</b>	<b>27.0</b>	<b>28.9</b>

In the financial year 2011, pension benefit payments amounting to € 2.9 million (2010: € 2.6 million) were granted out of the plan assets. Payments of € 1.4 million (2010: € 1.3 million) and € 1.5 million (2010: € 1.3 million) were made by MTU München Unterstützungskasse and by MTU Maintenance Canada respectively. The actual loss on plan assets totaled € 0.5 million in the financial year 2011 (2010: a gain of € 1.4 million).

The expense from defined benefit plans and similar obligations comprises the following components:

#### Expense from defined benefit pension plans and similar obligations

in € million	2011	2010
Current service cost	10.4	8.7
Interest cost	23.6	24.4
Expected return on fund-financed plan assets	-1.3	-1.3
Expected return on loan-financed plan assets	-0.1	-0.2
Amortization of actuarial gains (-) / losses (+)	2.0	0.5
Positive (+) / negative (-) past service cost	3.8	2.3
<b>Total expense</b>	<b>38.4</b>	<b>34.4</b>

#### FUND-FINANCED PLAN ASSETS

The fund-financed plan assets relate to MTU Maintenance Canada Ltd., Richmond, Canada, and do not include any securities pertaining to MTU group entities or any assets used by the MTU group.

The composition of plan assets to cover pension obligations is as follows at the respective balance sheet dates:

#### Composition of fund-financed plan assets

in %	Dec. 31, 2011	Dec. 31, 2010
Stocks	63.7	62.7
Fixed-income securities	28.6	28.5
Cash and cash equivalents and other assets	7.7	8.8
<b>Composition of fund-financed plan assets</b>	<b>100.0</b>	<b>100.0</b>
Expected return on plan assets	6.5 %	7.0 %

The expected return determined for each category of assets took account of generally available information concerning capital market forecasts. The future expected return on fixed-income securities is based on the maturities of securities held and on the past record of average yields achieved for these investment classes with maturities between 10 and 20 years.

The expected return on share investments reflects the long-term expectation of yields on the stock markets. An expected return of 6.5 % (2010: 7.0%) was applied to measure the fair value of fund-financed plan assets. A return of 6.5 % is assumed for the financial year 2012.

#### LOAN-FINANCED PLAN ASSETS

Loan-financed plan assets relate to a loan issued by MTU München Unterstützungskasse, Munich, to MTU Aero Engines GmbH, Munich, representing a receivable amount of € 6.5 million at December 31, 2011 (2010: € 7.8 million). The loan is subject to interest at the three-month Euribor rate plus 50 basis points.

#### FUNDING STATUS AND EXPERIENCE ADJUSTMENTS

To calculate the experience adjustments and the effects of changes to actuarial assumptions, the DBO was determined at the current balance sheet date based on the assumptions made at the beginning of the financial year. As a result, the experience adjustments correspond to the difference between the expected DBO and the DBO – with changes that had actually occurred at the balance sheet date – calculated based on the actuarial assumptions at the beginning of the year.

Unrecognized actuarial gains and losses resulting from the experience adjustments increased pension obligations by € 3.0 million in the financial year 2011 (2010: reduction of € 0.3 million). The following table shows not only the net pension obligation, but also the effects of divergences between previous actuarial assumptions and actual development over a five-year period:

#### Funding status and experience adjustments at the end of the financial year

in € million	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Defined benefit obligation	558.0	533.9	473.3	434.2	423.9
Fair value of plan assets	-27.0	-28.9	-26.5	-25.1	-29.8
<b>Net obligation</b>	<b>531.0</b>	<b>505.0</b>	<b>446.8</b>	<b>409.1</b>	<b>394.1</b>
Change in experience adjustments included in actuarial gains (+) / losses (-) (at December 31)					
Experience adjustments relative to the defined benefit obligation (DBO)	-3.0	0.3	3.3	-11.9	-8.4
Experience adjustments relative to plan assets	-1.9	-0.1	1.0	-3.5	-2.0

#### EXPECTED FUTURE PENSION BENEFIT PAYMENTS

In addition to the employer's contributions to plan assets, the company is expecting the following pension benefit payments in the coming years:

#### Expected distribution of pension payments over annual periods

in € million	2012	2013	2014	2015
Expected amount of pension payments	28.5	27.4	32.3	36.5

Employer's contributions to fund-financed plan assets for the financial years 2012–2013 are expected to amount to € 1.2 million each.

As a result of switching to the new 'MTU kapitalPlus 2006' pension plan, in place since the financial year 2006, a life-long pension to group employees was converted into an immediate cash payment. In individual cases and after consultation with the company, it is also possible to grant a ten-year payment by installments or continue to make pension payments indexed by 1% each year. The group's expectations regarding the annual spread of pension benefit payments under the new pension plan are based on the assumption that an immediate cash payment will be made as soon as the end of the contribution period is reached.

### 31. INCOME TAX PAYABLE

The income tax payable amounting to € 10.0 million (2010: € 71.2 million) comprises corporation and municipal trade tax amounting to € 7.8 million (2010: € 70.7 million) and taxes on the income of foreign group companies amounting to € 2.2 million (2010: € 0.5 million).

#### Income tax payable

in € million	2011	2010
Balance Jan. 1	71.2	12.5
Utilized	-71.2	-12.5
Allocated	10.0	71.2
<b>Balance Dec. 31</b>	<b>10.0</b>	<b>71.2</b>

The income tax liabilities are due for payment within one year.

### 32. OTHER PROVISIONS

At the balance sheet date, other provisions comprised the following items:

#### Other provisions

in € million	Total		Non-current		Current	
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Warranty obligations and risks from pending losses on onerous contracts	26.4	25.2	6.1	6.3	20.3	18.9
Personnel obligations	46.5	43.1	11.0	8.8	35.5	34.3
Contingent liabilities arising from business combinations	102.8	124.9	102.8	124.9		
Losses arising from the settlement of accounts	82.5	64.9			82.5	64.9
Other obligations	61.5	81.6			61.5	81.6
Other tax obligations	0.1	0.4			0.1	0.4
<b>Total other provisions</b>	<b>319.8</b>	<b>340.1</b>	<b>119.9</b>	<b>140.0</b>	<b>199.9</b>	<b>200.1</b>

#### WARRANTY OBLIGATIONS AND RISKS FROM PENDING LOSSES ON ONEROUS CONTRACTS

Risks from pending losses on onerous contracts primarily contain provisions for pending losses on onerous contracts, and legal disputes, and relate to current obligations in respect of probable third-party claims for which the likely expense can be reliably estimated. Provisions for warranties mainly consist of obligations in connection with product entry into service, products that have been sold and for which accounts have been settled, and a variety of other services.

In the commercial maintenance business, MTU has identified onerous contracts for the maintenance of engines for which the unavoidable costs of fulfilling contractual obligations are higher than the expected economic benefits. Expenses exceeding the economic benefits in the amount of € 26.4 million (2010: € 25.2 million) were set aside as expense and are included in the warranty obligations and risks from pending losses on onerous contracts. It was not necessary to recognize impairment losses on assets relating to the contracts in 2011 or 2010, or they were already recognized in previous financial years.



#### PERSONNEL OBLIGATIONS

The personnel obligations comprise provisions allocated for profit-sharing and performance-related bonuses amounting to € 36.6 million (2010: € 31.0 million), provisions for long-service awards amounting to € 5.3 million (2010: € 5.8 million), and provisions for restructuring measures following the introduction of single-status pay agreements (ERA) amounting to € 1.9 million (2010: € 2.8 million).

TV FlexÜ, a collective agreement on flexible transition into retirement, came into effect in the German collective bargaining regions in the financial year 2010. In addition, each of the MTU group companies in Germany entered into a supplementary agreement with the Works Council, effective until December 31, 2016, which sets down upper limits for the number of employees – both those covered by the collective agreement and those with freely negotiated contracts – who can assert a claim to a pre-retirement part-time employment contract.

Whereas all available places on the scheme at MTU Aero Engines GmbH in Munich had been taken up by the spring of 2011, the uptake at MTU Maintenance GmbH Hannover in Langenhagen was below the set limit when the closing date for applications was reached in spring 2011. The employees of MTU Maintenance Berlin-Brandenburg in Ludwigsfelde are not subject to any time limit for applications, and the set limit had not yet been reached at that location on December 31, 2011.

Implementation of the individual pre-retirement part-time working contracts concluded with employees will be spread over the period to 2016 for all German group companies. On the basis of the agreements made with group employees, provisions to cover unfunded pension liabilities amounting to € 0.7 million (2010: € 3.0 million) – net of corresponding plan assets of € 6.0 million – were recognized in the financial year 2011. Within the scope of the agreed terms for pre-retirement part-time working arrangements, agreements on top-up and severance payments were concluded with group employees. Reference is also made to Note 36.2. (Other liabilities).

#### ANNUAL PERFORMANCE BONUS (APB) FOR THE BOARD OF MANAGEMENT

For more detailed explanatory comments concerning the annual performance bonus (APB), please refer to the management compensation report in the Corporate Governance section of this Annual Report. One half of the annual performance bonus is paid in the calendar year following the financial year in which it was earned. The withheld portion of the annual performance bonus (the remaining 50%) is paid in two equal portions in the two subsequent years. The deferred components of the 2011 and 2010 annual performance bonus (APB Deferral 1 and 2) were agreed for the first time with effect from January 1, 2010. The ultimate amount to be paid depends on the level of goal achievement attained in respect of the two key performance indicators at group level and on the discretionary factor applied in the financial years 2012 and 2013.

#### ANNUAL PERFORMANCE BONUS (APB) FOR SENIOR MANAGERS

A portion of the annual performance bonus for senior managers – 70% for tier-1 (OFK) and 80% for tier-2 (FK) – is paid in the calendar year following the financial year in which it was earned. Payment of the remaining 30% (OFK) or 20% (FK) is deferred to the subsequent year. The deferred components of the 2011 annual performance bonus were agreed for the first time with effect from January 1, 2011. Here too, the ultimate amount to be paid depends on the level of goal achievement attained in respect of the two key performance indicators at group level in the financial year 2012.

**PERFORMANCE SHARE PLAN (PSP) FOR THE BOARD OF MANAGEMENT AND SENIOR MANAGERS:**

The long-term compensation awarded to members of the Board of Management and to the top two tiers of senior managers includes annual tranches granted within the framework of the Performance Share Plan (PSP).

On January 1, 2011, and on January 1, 2010 or July 1, 2010 respectively, the Board of Management and – for the first time with effect from January 1, 2011 – the top two tiers of senior managers were allotted phantom stocks of MTU Aero Engines Holding AG (so-called performance shares) on an individual basis. In the case of the Board of Management, these stocks may be converted into cash or shares after a vesting period of four years; in the case of senior managers, the vesting period is three years for the first tier and two years for the second.

The number of performance shares that may be settled in cash or shares at the end of the respective vesting period depends both on the number of performance shares initially allocated and on the MTU share price performance during the respective period compared with that of other key MDAX companies. Depending on whether the performance thresholds are reached, the participants can expect to receive a payment equivalent to between 25 % (minimum) and 150 % (maximum) of the value of the individually allocated performance shares. If the minimum performance threshold – ranking at least 45th within the peer group – is not achieved, the participants receive no payment. The amount paid out is capped at three times the individual participant's Long-Term Incentive (LTI) target amount assigned at the grant date.

The fair value of all the performance shares granted but not yet exercised was estimated at the end of the financial year. The following table shows the number of performance shares held by the participants when each PSP tranche was granted. These form the base value for calculating the performance-related payment at the end of the vesting period for the each tranche of the PSP:

The fair values of the PSP tranches were reduced to make allowance for the residual probability of expiry. The calculation therefore incorporated an assumed fluctuation rate of 4 % p.a. Given that a collective method of calculation was used, no individual departure probabilities based on age or years of service were factored in.

**Performance Share Plan**

number of shares or value in €	Average Xetra share price <sup>1)</sup>	Granted performance shares			Performance shares not yet exercisable at year-end		Time to end of vesting period for performance shares
		Number at Jan. 1, 2011 shares	Acquired in 2011 shares	Number at Dec. 31, 2011 shares	Number at Dec. 31, 2011 shares	Fair value at Dec. 31, 2011 €	
Financial year 2011	€						Time at Dec. 31, 2011 months
<b>Board of Management</b>							
Performance shares tranche 1a granted 2010	36.63	28,666		28,666	28,666	42.33	24
Performance shares tranche 1b granted 2010 <sup>2)</sup>	46.64	6,031		6,031	6,031	38.60	30
Performance shares tranche 2 granted 2011	47.03		34,285	34,285	34,285	39.84	36
<b>Total / average</b>	<b>42.67</b>	<b>34,697</b>	<b>34,285</b>	<b>68,982</b>	<b>68,982</b>	<b>40.77</b>	<b>30</b>
<b>Tier-1 senior managers (OFK)</b>							
Performance shares tranche 2 granted 2011	47.03		20,506	20,506	20,506	43.14	24
<b>Total / average</b>	<b>47.03</b>		<b>20,506</b>	<b>20,506</b>	<b>20,506</b>	<b>43.14</b>	<b>24</b>
<b>Tier-2 senior managers (FK)</b>							
Performance shares tranche 2 granted 2011	47.03		32,551	32,551	32,551	47.12	12
<b>Total / average</b>	<b>47.03</b>		<b>32,551</b>	<b>32,551</b>	<b>32,551</b>	<b>47.12</b>	<b>12</b>
<b>Total / average</b>	<b>44.57</b>	<b>34,697</b>	<b>87,342</b>	<b>122,039</b>	<b>122,039</b>	<b>42.86</b>	<b>24</b>

Note: In the financial year 2011, no performance shares were exercised or forfeited, nor did any lapse.

<sup>1)</sup> Average Xetra share price during the 30 days preceding the grant date.

<sup>2)</sup> Adjustment to performance shares.

At January 1, 2011, the fair value per performance share of the second tranche of the PSP granted for the financial year 2011 amounted to € 31.26 for the Board of Management, € 34.40 for tier-1 senior managers (OFK), and € 37.25 for tier-2 senior managers (FK), taking into account a fluctuation rate of 4%.

The comparative figures for the financial year 2010 were as follows:

**Performance Share Plan**

number of shares or value in €	Average Xetra share price <sup>1)</sup>	Granted performance shares			Performance shares not yet exercisable at year-end		Time to end of vesting period for performance shares
		Number at Jan. 1, 2010 shares	Acquired in 2010 shares	Number at Dec. 31, 2010 shares	Number at Dec. 31, 2010 shares	Fair value at Dec. 31, 2010 €	
Financial year 2010	€						Time at Dec. 31, 2010 months
<b>Board of Management</b>							
Performance shares tranche 1a granted 2010	36.63	28,666		28,666	28,666	32.35	36
Performance shares tranche 1b granted 2010 <sup>2)</sup>	46.64	6,031		6,031	6,031	30.67	42
<b>Total / average</b>	<b>38.37</b>	<b>34,697</b>		<b>34,697</b>	<b>34,697</b>	<b>32.06</b>	<b>37</b>

Note: In the financial year 2010, no performance shares were exercised or forfeited, nor did any lapse.

<sup>1)</sup> Average Xetra share price during the 30 days preceding the grant date.

<sup>2)</sup> Adjustment to performance shares.

The fair value per performance share of the first tranche of the PSP granted for the financial year 2010 amounted to € 22.96 at January 1, 2010 and € 27.13 at July 1, 2010 respectively, taking into account a fluctuation rate of 4%.

Share-based compensation gave rise to the following expenses:

**Performance Share Plan (PSP)**

in € million	Expense 2011	Balance at Dec. 31, 2011	Expense 2010	Balance at Dec. 31, 2010
Recognized expense for cash-settled share-based payment	1.8		0.3	
Carrying amount of cash-settled share-based payment liabilities		2.1		0.3
<b>Total</b>	<b>1.8</b>	<b>2.1</b>	<b>0.3</b>	<b>0.3</b>

**CONTINGENT LIABILITIES ARISING FROM BUSINESS COMBINATIONS**

The obligations arising under engine programs absorbed in the purchase price allocation relate to the amortized measurement of contingent liabilities for engine programs identified and measured in connection with the acquisition of the company by Kohlberg Kravis Roberts & Co. from the then DaimlerChrysler AG. The contingent liabilities are measured according to IFRS 3.56. Reference is made to further comments in Note 5.24. (Discretionary scope, measurement uncertainties and sensitivity) for sensitivity assumptions and other estimating parameters in respect of the measurement of contingent liabilities.

**LOSSES ARISING FROM THE SETTLEMENT OF ACCOUNTS**

Losses arising from the settlement of accounts relate to retrospective price adjustments or special conditions agreed with end customers by the consortium leader, expected cancellations by end customers leading to loss of revenues as well as disputed amounts from contracts already invoiced between the consortium leaders and end customers, and potential reimbursement claims asserted by public-sector customers.

**OTHER OBLIGATIONS**

Provisions for other obligations cover a multitude of identifiable individual risks and contingent liabilities.

**OTHER TAX OBLIGATIONS**

Other tax obligations relate to probable obligations in respect of trade taxes and other taxes on business operations, for which provisions have been allocated to cover payments due in 2011 and previous financial years.

**Non-current other provisions** developed as follows:

**Change in non-current other provisions 2011**

in € million	Balance at Jan, 1, 2011	Transferred	Utilized	Allocated	Discount reversed	Balance at Dec. 31, 2011
Warranty obligations and risk of losses on onerous contracts	6.3	-1.4		0.7	0.5	6.1
Personnel obligations	8.8		-3.0	3.8	1.4	11.0
Contingent liabilities arising from business combinations	124.9		-93.2	64.1	7.0	102.8
<b>Total non-current other provisions</b>	<b>140.0</b>	<b>-1.4</b>	<b>-96.2</b>	<b>68.6</b>	<b>8.9</b>	<b>119.9</b>

The following cash outflows are expected from the carrying amounts of non-current other provisions:

**Expected cash outflow from non-current other provisions**

in € million	Carrying amount Dec. 31, 2011	Probable cash outflow / financial year	
		2012	2013
Warranty obligations and risk of losses on onerous contracts	6.1		3.1
Personnel obligations	11.0		4.6
Contingent liabilities arising from business combinations <sup>1)</sup>	102.8	102.9	103.1
<b>Total other provisions</b>	<b>119.9</b>	<b>102.9</b>	<b>110.8</b>

<sup>1)</sup> Since the carrying amount of contingent liabilities arising from business combinations is a discounted figure, the expected cash outflows each year do not tally with the carrying amount. Furthermore, cash inflows are also expected in later years.

MTU expects that the stated personnel obligations will become due within the next one to five years.

Current other provisions developed as follows:

**Changes in current other provisions 2011**

in € million	Balance Jan. 1, 2011	Transferred	Utilized	Reversed	Allocated	Translation differences	Balance Dec. 31, 2011
Warranty obligations and risk of losses on onerous contracts	18.9	1.4	-3.6	-4.5	7.9	0.2	20,3
Personnel obligations	34.3		-32.4	-0.2	33.7	0.1	35,5
Losses arising from settlement of accounts	64.9		-23.3	-1.7	42.0	0.6	82,5
Other obligations	81.6	-41.3	-18.8	-0.4	40.0	0.4	61,5
Other tax obligations	0.4		-0.3				0,1
<b>Total current other provisions</b>	<b>200.1</b>	<b>-39.9</b>	<b>-78.4</b>	<b>-6.8</b>	<b>123.6</b>	<b>1.3</b>	<b>199,9</b>

The cash outflows resulting from the carrying amounts of current other provisions are expected to be realized in the calendar year following the reporting period.

### 33. FINANCIAL LIABILITIES

#### Financial liabilities

in € million	Total		Non-current		Current	
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
<b>Bonds</b>						
Convertible bond	152.5	148.6		148.6	152.5	
Interest liability on convertible bond	3.8	3.8			3.8	3.8
<b>Liabilities to banks</b>						
Promissory notes	25.6	25.3	11.5	24.7	14.1	0.6
Revolving credit facility (RCF)						
Other liabilities to banks	34.4	34.4	20.4	26.3	14.0	8.1
<b>Other financial liabilities</b>						
Finance lease liabilities	3.9	24.9	0.1	0.2	3.8	24.7
Derivative financial liabilities	41.4	24.9	21.4	4.9	20.0	20.0
<b>Total financial liabilities</b>	<b>261.6</b>	<b>261.9</b>	<b>53.4</b>	<b>204.7</b>	<b>208.2</b>	<b>57.2</b>

#### BONDS

On January 23, 2007, MTU Aero Engines Finance B.V., Amsterdam, Netherlands, issued a convertible bond with a par value of € 180.0 million and an effective date of February 1, 2007, guaranteed by MTU Aero Engines Holding AG, Munich. The convertible bond is divided into 1,800 units each with a par value of € 100,000 and its term to maturity runs until February 1, 2012.

The bond is convertible into registered non-par-value common shares of MTU Aero Engines Holding AG, Munich. Bondholders are entitled to exercise the conversion right at any time between March 13, 2007 and January 18, 2012 in accordance with the 'bond features' at an initial conversion price of € 49.50 fixed at the issue date. The coupon rate is 2.75% p.a., payable yearly on February 1 starting on February 1, 2008. Depending on changes in the share price, the bond features authorize MTU to proceed with the repayment of the convertible bond on or after February 15, 2010.

MTU was furthermore authorized to call all remaining outstanding units of the convertible bond for early repayment in the event that the total par value of the outstanding units of the convertible bond should at any time fall below the threshold of 10% of the total par value of the originally issued bond.

The convertible bond was split according to its substance into liability and equity components for the purpose of initial recognition in accordance with the definitions of IAS 32.11. The liability component was measured at fair value, whereby transaction costs directly attributable to the bond issue were included in the calculation. The present value of all future cash flows arising from the contractual obligation was determined by applying a discount at the market interest rate of 5.425% p.a., which corresponds to the rate that MTU would have had to pay at the bond issue date for a non-convertible bond.

In subsequent periods, the liability component was measured at amortized cost using the effective interest method, so that the expense over the life of the convertible bond agreement represents the reversal of the discounting at the applied rate.

The original equity component of the convertible bond issue was recognized directly in equity, taking deferred taxes into account. The proportionate amount of transaction costs allocated to the equity component, less the corresponding income tax reductions, was deducted from the equity component.

In the financial year 2008, MTU repurchased units of its own convertible bond on the market with a total nominal volume of € 27.2 million. The total value of these securities at that time amounted to € 21.9 million. In addition, on June 23, 2010, one holder of the convertible bond exercised their conversion option, converting a nominal amount of € 100,000 – recognized at amortized cost at the conversion date – into 2,020 shares.

Following the repurchase of units of the convertible bond in 2008 and the conversion in 2010, the associated conversion rights theoretically corresponded at the end of the financial year 2011 to approximately 3.1 million (2010: 3.1 million) non-par-value shares of conditional capital. If these conversion rights had been exercised in the financial year 2011, earnings per share would have been reduced to € 0.08 (2010: € 0.07).

More detailed explanatory comments concerning the conditional capital increase are provided in Note 29.3. (Conditional capital). Information on the dilutive effect of the potential issue of shares through the exercise of conversion rights is provided in Note 16. (Earnings per share). For information on the partial conversion of the bond in January 2012, see Part VI of these Notes (Events after the balance sheet date).

## LIABILITIES TO BANKS

### PROMISSORY NOTES

On June 3, 2009 MTU placed four promissory notes for a total nominal note amount of € 65.0 million. Through these promissory notes, consisting of four tranches with fixed maturity dates as listed below, the group aimed to further diversify its sources of financing:

#### Promissory notes

Maturity date	Type of interest	Note amount (nominal) at issue date in € million	Repurchased June 7, 2010 in € million	Repurchased Dec. 6, 2010 in € million	Remaining note amount (nominal) in € million
June 5, 2012	fixed	1.5			1.5
June 5, 2014	fixed	11.5			11.5
June 5, 2012	variable <sup>1)</sup>	27.0	15.0		12.0
June 5, 2014	variable <sup>1)</sup>	25.0	15.0	10.0	
		<b>65.0</b>	<b>30.0</b>	<b>10.0</b>	<b>25.0</b>

<sup>1)</sup> 6-month Euribor rate plus margin.

The promissory notes were recognized at their fair value on the date of acquisition, which corresponds to the nominal note amount, less transaction costs amounting to € 0.4 million. The promissory notes are measured at amortized cost.

#### REVOLVING CREDIT FACILITY

MTU meets its financing requirements in its functional currency, the euro, principally through the uptake of loans, its convertible bond issue, and credit arrangements with banks (revolving credit facility). The group has access to overdraft facilities amounting to € 100.0 million made available by two banks. On December 1, 2010 MTU renegotiated the existing revolving credit facility, extending its term by five years. Of this line of credit, a total of € 12.4 million had been drawn down as bank guarantees in favor of third parties at December 31, 2011 (December 31, 2010: € 29.0 million). Other than this, as in 2010, the group did not draw down any further funds under its revolving credit facility.

Any credit actually utilized is subject to interest at market index average rates plus an additional margin. Unused credit facilities are subject to a loan commitment fee.

#### FINANCIAL COVENANTS

MTU has undertaken to ensure that certain financial indicators (see below) remain within defined boundaries both for the revolving credit facility and throughout the contractual period of the promissory notes, and until all final amounts payable in connection with those notes have been settled in full: MTU's debt-equity ratio at the end of each quarter during the contractual period of each promissory note shall not exceed 2.5; the times interest earned ratio at the end of each quarter during the contractual period of each promissory note shall not lie below 4.0.

The financial indicators are calculated according to the following formulae:

- **Times interest earned ratio** = EBITDA adjusted / consolidated net interest expense
- **Debt-equity ratio** = Consolidated net financial debt / EBITDA adjusted  
(earnings before interest, tax, depreciation and amortization)

The financial indicators that MTU has undertaken to observe at the end of each quarter are obtained from the quarterly interim financial reports.

In the financial years 2011 and 2010, MTU met all loan repayment and other obligations arising from financing arrangements.

#### OTHER LIABILITIES TO BANKS

The other liabilities to banks amounting to € 34.4 million (2010: € 34.4 million) relate to third-party loans provided to subsidiaries.

#### OTHER FINANCIAL LIABILITIES

Finance lease liabilities represent obligations under finance lease arrangements that are capitalized and amortized using the effective interest method; see Note 20.

#### DERIVATIVE FINANCIAL LIABILITIES

Derivative financial liabilities amounting to € 41.4 million (2010: € 24.9 million) relate principally to changes in the fair value of forward foreign exchange contracts and currency option transactions.



### 34. TRADE PAYABLES

#### Trade payables

in € million	Dec. 31, 2011	Dec. 31, 2010
Trade accounts payable to:		
Third parties	493.6	331.8
Related companies		
Associated companies, joint ventures and other equity investments	92.5	84.9
Non-consolidated subsidiaries	6.6	7.8
<b>Total trade payables</b>	<b>592.7</b>	<b>424.5</b>

The total amount of trade payables is due within one year.

### 35. CONSTRUCTION CONTRACT PAYABLES

Liabilities arising from construction contracts primarily concern advance payments for construction contracts for specific engine programs.

#### Construction contract payables

in € million	Dec. 31, 2011	Dec. 31, 2010
Advance payments received for construction contracts	1,047.7	952.4
offset against:		
Construction contract receivables	-332.7	-286.1
<b>Total construction contract payables</b>	<b>715.0</b>	<b>666.3</b>

Advance payments received which exceed the amount of accounts receivable due in more than 12 months are measured at fair value by application of a discount rate.

### 36. OTHER LIABILITIES

#### Other liabilities

in € million	Total		Non-current		Current	
	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Liabilities to employees						
Social security	2.6	2.1			2.6	2.1
Pre-retirement part-time working arrangements	23.0	20.5	18.9	18.3	4.1	2.2
Other liabilities to employees	38.2	37.6	3.6	2.7	34.6	34.9
Accrued interest expense	16.6	18.7	16.6	18.7		
Outstanding maintenance work on returned operate-lease engines	4.3	8.8	4.3	8.8		
Repayment of grants toward development costs	58.0	57.3	55.3	57.3	2.7	
Sundry other liabilities	97.6	24.5	34.4	5.6	63.3	18.9
Other tax liabilities	6.5	8.6			6.5	8.6
<b>Total other liabilities</b>	<b>246.8</b>	<b>178.1</b>	<b>133.0</b>	<b>111.4</b>	<b>113.8</b>	<b>66.7</b>

#### LIABILITIES TO EMPLOYEES

Amounts due for social security principally comprise contributions to social insurance against occupational accidents amounting to € 1.9 million (2010: € 1.5 million) and amounts due to health insurers totaling € 0.7 million (2010: € 0.6 million).

TV FlexÜ, a collective agreement on flexible transition into retirement, came into effect in the German collective bargaining regions in the financial year 2010. In addition, each of the MTU group companies in Germany entered into a supplementary agreement with the Works Council, effective until December 31, 2016, which supersedes the collective bargaining agreement. Whereas all available places on the scheme at MTU Aero Engines GmbH in Munich had been taken up by the spring of 2011, the uptake at MTU Maintenance GmbH Hannover in Langenhagen was below the set limit when the closing date for applications was reached in spring 2011. The employees of MTU Maintenance Berlin-Brandenburg in Ludwigsfelde are not subject to any time limit for applications, and the set limit had not yet been reached at that location on December 31, 2011. Implementation of the individual pre-retirement part-time working contracts concluded with employees will be spread over the period to 2016 for all German group companies. Within the scope of the agreed terms for pre-retirement part-time working arrangements, agreements on top-up and severance payments were concluded with group employees. At December 31, 2011, the liabilities associated with these obligations amounted to € 23.0 million (2010: € 20.5 million). For the potential effects of amendments to IAS 19 on the accounting treatment of top-up amounts for pre-retirement part-time working agreements, please refer to Note 1.1. (Amendments to IAS 19).

Other liabilities to employees are composed of unclaimed vacation entitlements, flexitime credits, obligations arising from pre-retirement part-time working arrangements and obligations arising from efficiency-improvement programs in prior periods. This item also includes liabilities to group employees under the MAP employee stock option program amounting to € 2.4 million (2010: € 2.0 million). Additional information concerning the MAP employee stock option program is provided in Note 29.4. (Capital reserves).

#### ACCRUED INTEREST EXPENSE

Long-term advance payments received for construction contracts are discounted at the prevailing market rate over the duration of financing and recognized under 'Other liabilities' until the engine is delivered to the customer. The interest rate expenses relate to advance payments received for long-term military construction contracts amounting to € 16.6 million (2010: € 18.7 million).

#### OUTSTANDING MAINTENANCE WORK ON RETURNED OPERATE-LEASE ENGINES

These non-current liabilities relate to outstanding maintenance work on the present fleet of five operate-lease engines.

#### REPAYMENT OF GRANTS TOWARD DEVELOPMENT COSTS

In the financial years from 1976 to 1991, MTU received grants from the German Federal Ministry of Economics and Technology toward the internally generated costs of developing the PW2000 engine, which were recognized in the income statement. Once the contractually agreed sales figures of PW2000 production engines have been reached for the Boeing 757 and C-17, MTU is obliged to pay back the grants (government subsidy of development costs) within a timeframe of ten years. Owing to strong demand for engines in the C-17 military application, this threshold was reached, and a liability was recognized as an expense for the first time in 2010. This liability was amortized in the financial year 2011. In addition, the first installment of the repayment amounting to € 0.7 million was made in the financial year 2011. The second installment is expected to become due in early 2012.

**SUNDRY OTHER LIABILITIES**

The increase in sundry other liabilities to € 97.6 million is mainly attributable to external development costs incurred in connection with the PW1524G engine program for the CSeries regional jet amounting to € 19.3 million (2010: € 0.0 million), the PW1217G engine for the MRJ amounting to € 15.5 million (2010: € 0.0 million), and liabilities arising from the stake in the PW1100G program for the A320neo amounting to € 46.5 million (2010: € 0.0 million), plus a multitude of minor individual obligations.

**OTHER TAXES**

The tax liabilities amounting to € 6.5 million (2010: € 8.6 million) concern payable wage and church taxes, solidarity surcharges and transactional taxes.

**PAYMENT CASH FLOWS FOR FINANCIAL LIABILITIES**

The following tables list the contractually agreed undiscounted payments of interest and principle on the non-derivative financial liabilities and derivative financial instruments held by MTU, measured at fair value through profit or loss:

**Payment cash flows for financial liabilities 2011**

in € million	Carrying amount Dec. 31, 2011	Cash flows 2012			Cash flows 2013			Cash flows 2014			Cash flows 2015 ff.		
		Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle
Trade payables	592.7			592.7									
Bonds	156.3	4.2		152.8									
Liabilities to banks	60.0	1.0	1.6	27.5	0.9	0.6	18.1	0.9	0.1	13.8			
Other interest-bearing liabilities	111.6 <sup>3)</sup>						16.8			16.5			73.3
Other interest-free liabilities	83.5			79.2			4.0			0.3			
Derivative financial liabilities													
Derivatives without hedging relationship	11.5			5.2			0.9			2.5			2.9
Derivatives with hedging relationship	29.9			14.8			11.2			3.7			0.2
Other disclosures													
Contingent liabilities under risk- and revenue-sharing partnerships	69.7			69.7 <sup>1)</sup>									
Guarantees	41.0			41.0									
Finance lease liabilities	3.9			3.8						0.1			
Other financial liabilities, not within the scope of either IFRS 7 or IAS 39	544.1 <sup>2)</sup>			105.9			34.5			38.0			310.8

<sup>1)</sup> Relates to delay-related contingent liabilities arising from RRSP contracts.

<sup>2)</sup> Cash flows from pension provisions known only for the period to 2021, as stated in the expert assessment.

<sup>3)</sup> Including discounted cash flow valuation of interest expense.

**Payment cash flows for financial liabilities 2010**

in Mio. €	Carrying amount Dec. 31, 2010	Cash flows 2011			Cash flows 2012			Cash flows 2013			Cash flows 2014 ff.		
		Fixed interest	Vari-able interest	Prin-ciple	Fixed interest	Vari-able interest	Prin-ciple	Fixed interest	Vari-able interest	Prin-ciple	Fixed interest	Vari-able interest	Prin-ciple
Trade payables	424.5			424.5									
Bonds	152.4	4.2			4.2		152.7						
Liabilities to banks	59.7	0.9	1.8	8.1	0.9	1.4	22.1	0.9	0.4	17.7	0.9		11.5
Other interest-bearing liabilities	81.9 <sup>3)</sup>						7.5			6.9			59.1
Other interest-free liabilities	61.8			53.0			6.5			2.2			0.1
Derivative financial liabilities													
Derivatives without hedging relationship	5.4			4.1			1.2						0.1
Derivatives with hedging relationship	19.5			15.9			3.4			0.1			0.1
Other disclosures													
Contingent liabilities under risk- and revenue-sharing partnerships	71.6			71.6 <sup>1)</sup>									
Guarantees	55.0			55.0									
Finance lease liabilities	24.9			24.7						0.1			0.1
Other financial liabilities, not within the scope of either IFRS 7 or IAS 39	527.4 <sup>2)</sup>			98.8			31.6			35.3			291.8

<sup>1)</sup> Relates to delay-related contingent liabilities arising from RRSP contracts.

<sup>2)</sup> Cash flows from pension provisions known only for the period to 2020, as stated in the expert assessment.

<sup>3)</sup> Including discounted cash flow valuation of interest expense.

The statement includes all instruments in the portfolio at December 31, 2011 for which payment terms had been contractually agreed. It does not include planned estimates for future new liabilities. Amounts denominated in a foreign currency are translated at the exchange rate prevailing on the respective balance sheet date. The variable-rate interest payments on the financial instruments are based on the most recent interest rate fixed prior to December 31, 2011. Financial liabilities with no fixed repayment date and contingent liabilities are always assigned to cash flows on the basis of the earliest likely repayment dates. For further information concerning the stated carrying amounts, please refer to Note 42. (Contingent liabilities and other financial obligations).

### 37. ADDITIONAL DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

#### CARRYING AMOUNTS, MEASUREMENT/RECOGNITION METHODS AND FAIR VALUES AGGREGATED BY CATEGORY

In the following tables, the carrying amounts of financial instruments are aggregated by category, regardless of how they are recognized and irrespective of whether or not the instruments fall within the scope of IFRS 7 or IAS 39. The information presented also includes separate amounts for each category as a function of the measurement/recognition method applied. Finally, the carrying amounts are set opposite the fair values for comparison. Note 5.14. (Financial instruments) provides explanatory material on the categories of financial instruments as defined in the International Financial Reporting Standards and the accounting policies applied.

**Disclosures concerning financial instruments**

carrying amounts, measurement/recognition methods and fair values aggregated by category 2011

in € million	Category as defined in IAS 39 / Other category	Carrying amount Dec. 31, 2011	Cash reserve  Nominal value
<b>ASSETS</b>			
<b>Other assets</b>			
Loans and receivables	LaR	23.5	
Held-to-maturity investments	HTM		
Available-for-sale financial assets	AFS	50.6	
Financial assets held for trading	FAHFT		
<b>Trade receivables</b>	LaR	605.1	
<b>Construction contract receivables</b>	LaR	469.5	
<b>Derivative financial assets</b>			
Derivatives without hedging relationship	FAHFT	0.8	
Derivatives with hedging relationship	n.a.	8.9	
<b>Cash and cash equivalents</b>	Cash reserve	198.8	198.8
<b>EQUITY AND LIABILITIES</b>			
<b>Trade payables</b>	FLAC	592.7	
<b>Bonds</b>	FLAC	156.3	
<b>Liabilities to banks</b>	FLAC	60.0	
<b>Other interest-bearing liabilities</b>	FLAC	111.6	
<b>Other interest-free liabilities</b>	FLAC/n.a.	83.5	
<b>Derivative financial liabilities</b>			
Derivatives without hedging relationship	FLHFT	11.5	
Derivatives with hedging relationship	n.a.	29.9	
<b>OTHER DISCLOSURES</b>			
Contingent liabilities under risk- and revenue-sharing partnerships	Financial guarantees	69.7	
Guarantees	Financial guarantees	41.0	
<b>Thereof aggregated by category as defined in IAS 39</b>			
Loans and receivables	LaR	1,098.1	
Held-to-maturity investments	HTM		
Available-for-sale financial assets	AFS	50.6	
Financial assets held for trading	FAHFT	0.8	
Financial liabilities measured at amortized cost	FLAC	1,004.1	
Financial liabilities held for trading	FLHFT	11.5	
<b>Finance lease liabilities</b>	n.a.	3.9	
<b>Financial instruments not within the scope of either IFRS 7 (IFRS 7 B2b) or IAS 39</b>		<b>544.1</b>	

Abbreviations:

LaR = Loans and Receivables

HTM = Held-to-Maturity

AFS = Available-for-Sale Financial Assets

FAHFT = Financial Assets Held for Trading

FLAC = Financial Liabilities Measured at Amortised Cost

FLHFT = Financial Liabilities Held for Trading

Amount carried in balance sheet in accordance with IAS 39				Amount carried in balance sheet IAS 17	Financial instruments not within the scope of IAS 39 or IFRS 7	Total	Fair value Dec. 31, 2011
Measured at amortized cost	Measured at cost	Fair value recognized in equity	Fair value recognized in income statement				
23.5						23.5	23.5
	9.7	40.9				50.6	50.6
605.1						605.1	605.1
469.5						469.5	469.5
			0.8			0.8	0.8
		8.9				8.9	8.9
						198.8	198.8
592.7						592.7	592.7
156.3						156.3	156.3
60.0						60.0	60.0
111.6						111.6	111.6
79.2				4.3		83.5	83.5
			11.5			11.5	11.5
		29.9				29.9	29.9
						69.7	69.7
						41.0	41.0
1,098.1						1,098.1	1,098.1
	9.7	40.9				50.6	50.6
			0.8			0.8	0.8
999.8				4.3		1,004.1	1,004.1
			11.5			11.5	11.5
				3.9		3.9	3.9
					544.1	544.1	619.2

Financial instruments not within the scope of either IFRS 7 or IAS 39 mainly comprise pension provisions or plan assets and other liabilities arising from employee benefits accounted for in accordance with IAS 19.

The table below provides comparative information on the carrying amounts, measurement/recognition methods and fair values aggregated by category for the financial year 2010.

**Disclosures concerning financial instruments**  
**carrying amounts, measurement/recognition methods and fair values aggregated by category 2010**

in € million	Category as defined in IAS 39 / Other category	Carrying amount Dec. 31, 2010	Cash reserve  Nominal value
<b>ASSETS</b>			
<b>Other assets</b>			
Loans and receivables	LaR	17.9	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AFS	79.8	
Financial assets held for trading	FAHfT		
<b>Trade receivables</b>	LaR	531.9	
<b>Construction contract receivables</b>	LaR	424.3	
<b>Derivative financial assets</b>			
Derivatives without hedging relationship	FAHfT	4.2	
Derivatives with hedging relationship	n.a.	17.6	
<b>Cash and cash equivalents</b>	Cash reserve	111.9	111.9
<b>EQUITY AND LIABILITIES</b>			
<b>Trade payables</b>	FLAC	424.5	
<b>Bonds</b>	FLAC	152.4	
<b>Liabilities to banks</b>	FLAC	59.7	
<b>Other interest-bearing liabilities</b>	FLAC	81.9	
<b>Other interest-free liabilities</b>	FLAC/n.a.	61.8	
<b>Derivative financial liabilities</b>			
Derivatives without hedging relationship	FLHfT	5.4	
Derivatives with hedging relationship	n.a.	19.5	
<b>OTHER DISCLOSURES</b>			
Contingent liabilities under risk- and revenue-sharing partnerships	Financial guarantees	71.6	
Guarantees	Financial guarantees	55.0	
<b>Thereof aggregated by category as defined in IAS 39</b>			
Loans and receivables	LaR	974.1	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AFS	79.8	
Financial assets held for trading	FAHfT	4.2	
Financial liabilities measured at amortized cost	FLAC	780.3	
Financial liabilities held for trading	FLHfT	5.4	
<b>Finance lease liabilities</b>	n.a.	24.9	
<b>Financial instruments not within the scope of either IFRS 7 (IFRS 7 B2b) or IAS 39</b>		<b>527.4</b>	

Abbreviations:

LaR = Loans and Receivables

HtM = Held-to-Maturity

AFS = Available-for-Sale Financial Assets

FAHfT = Financial Assets Held for Trading

FLAC = Financial Liabilities Measured at Amortised Cost

FLHfT = Financial Liabilities Held for Trading



Amount carried in balance sheet in accordance with IAS 39				Amount carried in balance sheet IAS 17	Financial instruments not within the scope of IAS 39 or IFRS 7	Total	Fair value Dec. 31, 2010
Measured at amortized cost	Measured at cost	Fair value recognized in equity	Fair value recognized in income statement				
17.9						17.9	17.9
	7.8	72.0				79.8	79.8
531.9						531.9	531.9
424.3						424.3	424.3
			4.2			4.2	4.2
		17.6				17.6	17.6
						111.9	111.9
424.5						424.5	424.5
152.4						152.4	155.5
59.7						59.7	61.6
81.9						81.9	81.9
53.0				8.8		61.8	61.8
			5.4			5.4	5.4
		19.5				19.5	19.5
						71.6	71.6
						55.0	55.0
974.1						974.1	974.1
	7.8	72.0				79.8	79.8
			4.2			4.2	4.2
771.5				8.8		780.3	785.3
			5.4			5.4	5.4
				24.9		24.9	24.9
					527.4	527.4	597.1

Cash and cash equivalents, trade receivables and construction contract receivables are generally due within a relatively short time. For this reason, their carrying amounts at the balance sheet date are approximated to the fair value.

As a rule, trade payables and construction contract payables are due within a relatively short time; the amounts carried in the balance sheet are approximated to the fair value.

The fair value of the liability component of the convertible bond at December 31, 2011 is virtually identical to its present value owing to the short term remaining until conversion or repayment in January 2012.

The fair value of the convertible bond at December 31, 2010 (€ 173.3 million) was obtained by multiplying the par value of exercisable convertible bonds at that date, totaling € 152.7 million, by the factor of 113.49%, representing the quoted share price at the balance sheet date. Based on prevailing market assumptions at December 31, 2010 relating to risk-free interest rates for the remaining term of the convertible bond, on the conversion price, the share price at that date, the expected dividend payment and volatility of the MTU share, a proportional value of € 7.00 was calculated per exercised conversion option. The equity component of the convertible bond amounted to € 21.6 million, based on the then outstanding total of 3,084,849 exercisable conversion options. Accordingly, the fair value of the equity component amounted to € 151.7 million at the December 31, 2010. Taking into account the separately recognized interest of € 3.8 million accrued over the eleven months up to December 31, 2010, the fair value inclusive of interest amounted to € 155.5 million. The carrying amount inclusive of accrued interest over eleven months amounted to € 152.4 million.

#### **CLASSIFICATION OF FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS AND LIABILITIES ACCORDING TO THE FAIR VALUE HIERARCHY**

In order to evaluate the significance of the factors used as input when measuring financial assets and liabilities at their fair value, MTU assigns these assets and liabilities to three levels of a fair value hierarchy.

The three levels of the fair value hierarchy are described below, together with their utilization when measuring financial assets and liabilities:

Level 1: Quoted prices in active markets for identical assets or liabilities (unadjusted input)

Level 2: Directly observable market inputs other than Level 1 inputs, i.e. input factors that can be related directly (price) or indirectly (derived from price) to the financial assets or liabilities

Level 3: Input factors used to measure assets and liabilities that are not based on observable market data (unobservable input factors)

In the following table, financial assets and liabilities measured at fair value are allocated to the three levels of the fair value hierarchy:

**Classification of fair value measurements of financial assets and liabilities according to the fair value hierarchy for the financial year 2011**

in € million	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>				
Derivative financial instruments		9.7		9.7
Available-for-sale financial assets	30.1	10.8		40.9
<b>Total financial assets</b>	<b>30.1</b>	<b>20.5</b>		<b>50.6</b>
<b>Financial liabilities measured at fair value</b>				
Derivative financial instruments		41.4		41.4
<b>Total financial liabilities</b>		<b>41.4</b>		<b>41.4</b>

The result of applying the fair value hierarchy to the fair value measurement of financial assets and liabilities in the prior year is shown in the following table:

**Classification of fair value measurements of financial assets and liabilities according to the fair value hierarchy for the financial year 2010**

in € million	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>				
Derivative financial instruments		21.8		21.8
Available-for-sale financial assets	31.5	40.5		72.0
<b>Total financial assets</b>	<b>31.5</b>	<b>62.3</b>		<b>93.8</b>
<b>Financial liabilities measured at fair value</b>				
Derivative financial instruments		24.9		24.9
<b>Total financial liabilities</b>		<b>24.9</b>		<b>24.9</b>

#### EXPLANATORY COMMENTS RELATING TO NET GAIN/LOSS ON FINANCIAL INSTRUMENTS BY CATEGORY

The table below shows the gains/losses arising from transactions involving financial instruments, aggregated by category. Interest income and expense in connection with financial assets and liabilities, which are recognized in the income statement at fair value, are not included here.

#### Net gain/loss on financial instruments by category 2011

Aggregated by category as defined in IAS 39  in € million	from interest	from investments	from remeasurement			from disposal	Net gain / loss 2011
			at fair value		currency translation		
			recognized	unrecognized			
Loans and receivables (LaR)	2.0				11.7	-0.7	13.0
Held-to-maturity investments (HtM)							
Available-for-sale financial assets (AFS)	1.5	2.6					4.1
Financial assets held for trading (FAHFT)			12.5			2.7	15.2
Financial liabilities measured at amortised cost (FLAC)	-16.5		-3.1		1.3		-18.3
Financial liabilities held for trading (FLHFT)			-19.5			-1.2	-20.7
Financial instruments not within the scope of either IFRS 7 or IAS 39	1.9				-5.1		-3.2
<b>Total</b>	<b>-11.1</b>	<b>2.6</b>	<b>-10.1</b>		<b>7.9</b>	<b>-0.7</b>	<b>-9.9</b>

The interest component of financial instruments is recognized under net interest expense (see Note 12. Interest result). Other components of net income or loss are recorded in MTU's financial statements in the financial result on other items (Note 14. Financial result on other items), with the exception of the expense for allowances on trade receivables, which comes under the category of loans and receivables and is recognized under selling expenses, and gains/losses arising from translation differences on trade receivables and payables, which are recognized under revenues or cost of sales respectively.

#### EXPLANATORY COMMENTS RELATING TO NET INTEREST EXPENSE

The net interest expense on financial liabilities classified as financial liabilities measured at amortized cost (an expense of € 16.5 million) mainly comprises interest expenses attributable to the convertible bond, finance lease liabilities and credit agreements with banks.

**EXPLANATORY COMMENTS RELATING TO MEASUREMENT SUBSEQUENT TO INITIAL RECOGNITION****Measurement of fair value**

Financial instruments measured at fair value mainly comprise securities transactions, exchange rate gains and losses on ineffective currency hedging transactions, and losses arising from the measurement of interest rate derivatives.

**Currency translation**

Gains from the currency translation of financial instruments classified as loans and receivables amounting to € 11.7 million (2010: losses amounting to € 5.6 million) are mainly attributable to exchange rate gains and losses arising from the measurement of trade receivables.

The following table provides comparative information on the effect of transactions involving financial instruments, aggregated by category.

**Net gain/loss on financial instruments by category 2010**

Aggregated by category as defined in IAS 39	from interest	from investments	from remeasurement			from disposal	Net gain / loss 2010
			at fair value recognized	at fair value unrecognized	currency translation		
in € million							
Loans and receivables (LaR)	9.9				-5.6	-2.3	2.0
Held-to-maturity investments (HtM)							
Available-for-sale financial assets (AFS)	0.9	1.5					2.4
Financial assets held for trading (FAHFT)			13.5			0.4	13.9
Financial liabilities measured at amortised cost (FLAC)	-19.9		-9.5		0.6		-28.8
Financial liabilities held for trading (FLHFT)			-21.7			-0.5	-22.2
Financial instruments not within the scope of either IFRS 7 or IAS 39	1.4	-2.1			10.5		9.8
<b>Total</b>	<b>-7.7</b>	<b>-0.6</b>	<b>-17.7</b>		<b>5.5</b>	<b>-2.3</b>	<b>-22.9</b>

### 38. DEFERRED TAX LIABILITIES

Deferred tax assets and liabilities were created for assets and liabilities and for measurement differences on the equity component of the convertible bond, for available-for-sale assets that are not measured at fair value through profit or loss, and for derivative financial instruments. Income tax assets were also recognized for tax credits and losses available for carry-forward.

#### Changes in deferred tax assets and liabilities

in € million	Dec. 31, 2011		Dec. 31, 2011		2011	Dec. 31, 2010	
	Deferred tax assets recognized in	Deferred tax liabilities balance sheet	Deferred tax assets recognized in	Deferred tax liabilities equity	Tax income / expense (-) recognized in profit or loss <sup>1)</sup>	Deferred tax assets recognized in	Deferred tax liabilities balance sheet
<b>Assets</b>							
Intangible assets	0.6	195.0			5.5	0.2	199.9
Property, plant and equipment	2.3	61.6			11.6	3.7	74.8
Financial assets	0.1				-2.9	3.0	
Inventories	2.7	8.7			7.3	2.6	15.9
Receivables and other assets	3.8	23.0			-8.2	4.3	15.4
<b>Equity</b>							
Convertible bond <sup>2)</sup>		5.1		5.1			5.1
Available-for-sale assets not recognized at fair value	0.1		0.1			0.1	
Derivative financial instruments <sup>3)</sup>	6.8		6.8			0.6	
<b>Liabilities</b>							
Pension provisions	13.1				1.5	11.7	0.1
Other provisions	23.1	0.3			-13.0	35.9	0.1
Liabilities	24.7	2.4			-1.2	27.2	3.7
<b>Deferred tax on assets and liabilities</b>	<b>77.3</b>	<b>296.1</b>	<b>6.9</b>	<b>5.1</b>	<b>0.6</b>	<b>89.3</b>	<b>315.0</b>
Tax credits and losses available for carry-forward							
Tax credits carried forward <sup>4)</sup>	17.5				-2.3	22.2	
Tax losses carried forward <sup>5)</sup>	7.4				-2.0	9.4	
Valuation allowances and unrecognized recoverable tax payments							
Valuation allowance on tax credits	-12.8				-2.3	-11.7	
Valuation allowance on tax losses carried forward	-7.4					-7.4	
Temporary differences for which no deferred tax assets were recognized	-1.8					-1.6	
<b>Tax credits and losses carried forward</b>	<b>2.9</b>				<b>-6.6</b>	<b>10.9</b>	
<b>Deferred tax assets/liabilities before offset</b>	<b>80.2</b>	<b>296.1</b>	<b>6.9</b>	<b>5.1</b>	<b>-6.0</b>	<b>100.2</b>	<b>315.0</b>
Offset	-66.5	-66.5				-83.5	-83.5
<b>Net deferred tax assets/liabilities</b>	<b>13.7</b>	<b>229.6</b>	<b>6.9</b>	<b>5.1</b>	<b>-6.0</b>	<b>16.7</b>	<b>231.5</b>

<sup>1)</sup> Consolidated income statement.

<sup>2)</sup> Equity component.

<sup>3)</sup> Balance of assets and liabilities.

<sup>4)</sup> MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland, and Vericor Power Systems LLC., Atlanta, USA (2010 only).

<sup>5)</sup> MTU Maintenance Canada Ltd., Richmond, Canada (2010 only), MTU Aero Engines North America Inc., Newington, USA, and Vericor Power Systems LLC., Atlanta, USA.

Reference is made to Note 15. (Income taxes) for further information relating to current and deferred tax assets and liabilities resulting from the balance sheet and other items listed above and to the reconciliation between expected and actual tax expense.

Deferred tax assets and liabilities are only offset if the balances relate to income taxes levied by the same taxation authority and with similar maturities.

Deferred tax assets were recognized for deferred tax losses/credits available for carry-forward in the case of the following group companies:

**Deferred tax assets on tax losses/credits available for carry-forward at December 31**

in € million	USA 2011	Poland 2011	Total 2011	Total 2010
Unused tax losses	18.9		18.9	26.4
Tax credits available for carry-forward		17.5	17.5	22.2
<b>Potential tax impact of tax losses/credits available for carry-forward</b>	<b>7.4</b>	<b>17.5</b>	<b>24.9</b>	<b>31.6</b>
Valuation allowance on tax losses carried forward	-7.4		-7.4	-7.4
Valuation allowance on tax credits		-12.8	-12.8	-11.7
<b>Balance sheet effect of deferred tax assets on tax losses/credits available for carry-forward</b>		<b>4.7</b>	<b>4.7</b>	<b>12.5</b>

**UNITED STATES**

In the financial year 2011, MTU Aero Engines North America Inc., Newington, U.S., and Vericor Power Systems LLC., Atlanta, U.S., made no use of loss carry-forwards for tax purposes. No deferred tax assets are recognized for these companies because the unused tax losses amounting to € 18.9 million were fully written down in previous years through valuation allowances. In the United States, tax losses can be carried forward for 20 years.

**CANADA**

Since 2006, it has been possible to carry forward tax losses for a period of up to 20 years. In view of the fact that MTU Maintenance Canada Ltd., Richmond, Canada, generated positive taxable income in the financial year 2011, the loss carry-forward of € 7.4 million was fully utilized.

**POLAND**

The tax credits of € 4.7 million relate to the production site of MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland. These credits are available to the Polish company to promote business investments due to the fact that the production site is located in a free trade zone. The actual utilization of the tax credits depends on the level of investment and actual taxable profits through to the financial year 2017.

Temporary differences for which no deferred tax assets were recognized totaled € 3.6 million in the financial year 2011 (2010: € 3.5 million) and related to MTU Aero Engines North America. The resulting potential tax impact of € 1.8 million (2010: € 1.6 million) was therefore not taken into account in the computation of income tax expense.

Applying the same accounting treatment of deferred taxes as when the convertible bond was issued, the deferred tax liabilities of € 5.1 million (2010: liabilities of € 5.1 million) relating to the equity component of the convertible bond are presented in capital reserves. Deferred taxes on cash flow hedges and securities are presented in other comprehensive income.

**DEFERRED TAX LIABILITIES FOR TAXABLE TEMPORARY DIFFERENCES ARISING FROM INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES**

In accordance with IAS 12, deferred tax liabilities were not recognized for temporary differences amounting to € 147.2 million (2010 adjusted: € 109.0 million) that arose in connection with investments in subsidiaries and joint ventures. If these differences were to lead to the creation of deferred tax liabilities, they would result in a tax liability amounting to € 5.1 million (2010 adjusted: € 3.5 million), based on the current provisions of Section 8b of the German Corporate Income Tax Act (KStG).



## IV. OTHER DISCLOSURES

### 39. MEASUREMENT OF THE RECOVERABLE AMOUNT OF OPERATING SEGMENTS TO WHICH GOODWILL HAS BEEN ATTRIBUTED

The group tests the goodwill of the cash-generating units for impairment annually. At MTU, the two operating segments – commercial and military engine business (OEM) and commercial maintenance business (MRO) – are viewed as cash-generating units. The value in use of each of the two operating segments at June 30, 2011, was calculated in order to determine their respective recoverable amounts. The recoverable amount determined for each operating segment was compared with the corresponding carrying amount. The calculations are based on the following assumptions:

- The calculations are based on the planned EBIT for each of the two operating segments, from which the future free cash flows are derived (cash inflows and outflows are planned without reference to financing activities or taxation).
- An analysis of possible changes to the planned cash flows, in respect of both the amount and the timing.
- The variables that enter into the calculation of weighted average cost of capital (WACC) before tax are:
  - risk-free base interest rate;
  - entrepreneurial risk (market risk premium multiplied by a beta coefficient based on peer group analysis);
  - perpetuity divided by discount rate less growth rate;
  - costs of debt capital and
  - the group's capital structure.

The following table provides a review of the goodwill analysis, showing the projected figures and assumed values used to test goodwill:

#### Review of analysis of goodwill

	OEM Commercial and military engine business		MRO Commercial maintenance business	
	2011	2010	2011	2010
Carrying amount	€ 1,216.0 million	€ 992.0 million	€ 583.0 million	€ 574.0 million
Impairment	n.a.	n.a.	n.a.	n.a.
Carrying amount of goodwill of operating segment	€ 304.4 million	€ 304.4 million	€ 102.1 million	€ 100.8 million
Projected annual revenue growth rate for the planning period	7.8 % to 10.4 %	-1.8 % to 5.0 %	6.7 % to 11.2 %	7.8 % to 9.1 %
Projected EBITDA margin for the planning period	15.2 % to 17.2 %	17.8 % to 18.5 %	10.3 % to 10.9 %	8.4 % to 9.9 %
Projected reinvestment ratio for the planning period	2.7 % to 4.4 %	4.1 % to 5.7 %	2.5 % to 4.0 %	1.9 % to 2.2 %
Length of planning period	3 years	3 years	3 years	3 years
Annual growth premium applied for the period beyond the planning horizon (perpetuity)	1.0 %	1.0 %	1.0 %	1.0 %
Discount rate (before tax)	11.2 %	11.0 %	10.7 %	10.6 %

The WACC is taken as a basis for discount rate before tax, and is measured as a function of the cost of capital, averaged to account for both debt capital and equity capital. The cost of equity capital is first calculated after tax. For this purpose MTU in 2011 used a risk-free base interest rate of 3.8%, a market risk premium of 5% and a beta coefficient of 0.98 based on peer group analysis. The cost of debt capital was 3.3% after tax. The tax rate applied to determine the result before tax was set at 32.6%. The ratio of equity capital to debt capital was 80.4% to 19.6% (2010: 78.5% to 21.5%). The higher equity ratio is attributable to the year-on-year increase in market capitalization. A growth rate of 1.0% was subtracted from the above discount rate to determine the present value of the perpetuity.

The detailed forecasting period for the projected EBIT and cash flow figures to determine the value in use covers the three-year period from 2011 to 2013 for which detailed operating forecasts were available. The annual revenue growth rate of the perpetuity after the end of this planning period was extrapolated from these figures on the basis of sustainable cash flows. For both operating segments, these cash flows were determined with reference to projected earnings before interest and tax (EBIT) for the detailed forecasting period, assuming a sustainable reinvestment ratio for intangible assets and property, plant and equipment, and a sustainable increase in required working capital.

The calculations present no indications at the present time that could lead MTU to the conclusion that an impairment loss on goodwill for either of the operating segments is necessary.

#### **40. SENSITIVITY ANALYSIS OF GOODWILL**

The group makes estimations and assumptions relating to future events and conditions. These estimations and assumptions, which imply a significant risk in the form of possible major adjustments to the carrying amounts of assets and liabilities during the next financial year, are discussed in the following sections.

Sensitivity analyses were carried out to determine the possible impact that a sustained reduction in planned earnings before interest and tax (EBIT) might have on the goodwill amounts allocated to each of the two operating segments. This analysis included sensitivity factors affecting the calculation of the weighted average cost of capital.

Assuming an unchanged weighted average cost of capital (WACC), the sensitivity analyses concluded that there would be no necessity to recognize an impairment loss on goodwill either in the OEM or MRO operating segment, even in the event of a sustained reduction in EBIT ranging to 30% below the earnings forecast established by management.

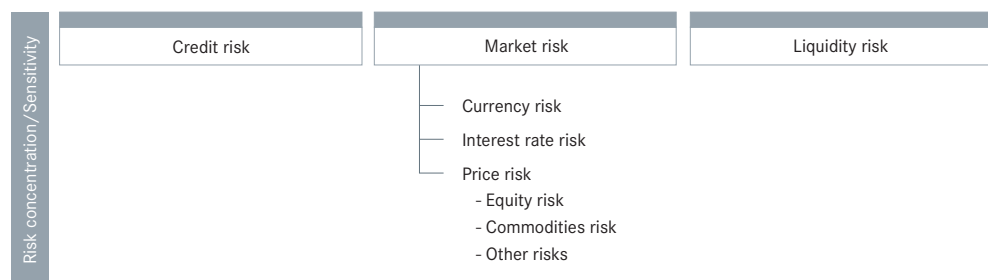
## 41. RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

### PRINCIPLES OF RISK MANAGEMENT

MTU is exposed to credit risks, market risks, and liquidity risks with respect to its assets, liabilities and forecast transactions. The objective of financial risk management is to minimize these risks by means of current financing related activities. This involves the use of selected hedging instruments, depending on the estimated degree of risk exposure. Hedging is principally used to ward off risks affecting the group's cash flow.

The group's basic financial policy guidelines are defined at annual intervals by the Board of Management and monitored by the Supervisory Board. The responsibility for implementing the agreed financial policy and performing ongoing risk management lies with the group's Treasury Board. Certain transactions require the prior approval of the Board of Management, whose members are kept regularly informed of the extent and amount of current risk exposure.

### Types of risk



#### 41.1. CREDIT RISK

MTU is exposed to a number of credit risks arising from its operating and financing activities. Outstanding payments in connection with operating activities are constantly monitored by the operating segments. Specific allowances are used to account for the risk of non-payment. The consortium leaders in the commercial engine and spare parts businesses have extensive receivables management systems in place.

In the commercial MRO business, the responsible MTU departments track open accounts receivable in short cycles. Before a deal is finalized, risks are assessed and any necessary precautions are taken.

In the case of derivative financial instruments, the group is also exposed to a credit risk which arises as a result of contract partners not fulfilling contractual agreements. In the context of financing activities, this credit risk is diminished by ensuring that business is conducted only with partners with a credit rating of investment grade (IG) or better. For this reason, the general credit risk resulting from the use of derivative financial instruments is not considered to be significant.

There are no indications of any concentrations of credit risk arising from business relations, individual debtors, or groups of debtors.

The maximum credit risk is represented on the one hand by the carrying amounts of the financial assets recognized in the balance sheet. No material agreements exist at the balance sheet date which could reduce the maximum credit risk. On the other hand, MTU is exposed to a liability risk and hence potential credit risk as a result of obligations assumed in connection with risk- and revenue-sharing partnerships and the associated contingent liability. At the balance sheet date, proportionate shares of contingent liability under risk- and revenue-sharing partnerships totaled a nominal amount of € 69.7 million (2010: € 71.6 million). In addition to these contingent liabilities, the group also held guarantees issued for group companies amounting to € 41.0 million (2010: € 55.0 million).

## **41.2. MARKET RISKS**

### **41.2.1. CURRENCY RISK**

More than 80 % of MTU's revenues are generated in U.S. dollars. Approximately half of this currency risk is offset in the normal course of business by costs incurred likewise in U.S. dollars. Most other costs are incurred in euros and in Chinese yuan renminbi, and to a lesser extent in Canadian dollars and Polish zloty. Consequently, earnings are dependent on changes in the exchange rate parity between the U.S. dollar and the cited currencies from the order date to the delivery date, in the measure to which MTU does not make use of financial instruments to hedge against its current and future net exposure. MTU makes use of hedging strategies for the exclusive purpose of minimizing the effect of U.S. dollar exchange rate volatility on EBIT.

Translation differences resulting from the translation of annual financial statements into the group's functional currency are not included.

### **HEDGING STRATEGY**

For accounting purposes, MTU designates future cash flows (forecast transactions) as hedged items to reduce the expected net currency risk exposure. As a result, postponements or cancellations of business transactions and the associated cash inflows do not affect the hedging relationship as long as the actual gross inflow of a foreign currency exceeds the hedged amount.

### **FORWARD FOREIGN EXCHANGE CONTRACTS**

At December 31, 2011, MTU held forward foreign exchange contracts for a contractual period up to December 2015 to sell a nominal volume of U.S. \$ 1,485.0 million (which translates to € 1,147.7 million at the exchange rate prevailing at the balance sheet date). Changes in the fair value of the forward foreign exchange contracts amounted to a loss of € 19.1 million in 2011 (2010: a loss of € 5.8 million). At December 31, 2010, MTU had hedged cash flows amounting to U.S. \$ 1,310.0 million (which translates to € 980.4 million at the exchange rate prevailing at December 31, 2010) for the financial years 2011–2015.

Out of the total nominal volume of forward foreign exchange contracts, the following amounts are expected to be used in the subsequent financial years:

#### Forward foreign exchange contracts

in U.S. \$ million	2011	2010
2011		550.0
2012	545.0	380.0
2013	510.0	150.0
2014	300.0	120.0
2015	130.0	110.0
<b>Total in U.S. \$</b>	<b>1,485.0</b>	<b>1,310.0</b>
<b>Translated into € at the exchange rate prevailing on the balance sheet date</b>	<b>1,147.7</b>	<b>980.4</b>

In the financial year 2011, a gain of € 4.6 million (2010: a loss of € 25.4 million) was realized from effective forward foreign exchange contracts and recycled from equity to revenues. The ineffective portion of the realized hedging transactions in 2011, amounting to a loss of € 0.9 million (2010: a loss of € 2.5 million), was recognized as an expense in the financial result on other items. At December 31, 2011, net of deferred taxes, fair value losses on forward foreign exchange contracts amounting to € 14.1 million (2010: fair value losses of € 1.2 million) were recognized directly in equity (see consolidated statement of changes in equity).

There were no forecast transactions for which cash flow hedges were recognized in prior periods that are not expected to occur.

As a further element of its risk management strategy, MTU employs derivative financial instruments which do not form part of a hedging relationship as defined by IAS 39.

#### CURRENCY OPTION TRANSACTIONS

These types of transaction (commonly referred to as 'plain vanilla options') enable MTU to sell a defined quantity of U.S. dollars at agreed euro exchange rates on a range of different dates. The risk of loss from these transactions is limited to the premiums that have already been paid.

In addition to plain vanilla options, the group also holds structured products as a currency hedge that allow a minimum quantity of U.S. dollars to be sold at fixed exchange rates. These products present a risk if the exchange rate falls since MTU is obliged to sell U.S. dollars at a previously agreed euro/ U.S. dollar exchange rate.

#### CURRENCY SWAPS

U.S. dollar holdings were sold during the financial year 2011 at the daily rate. The same U.S. dollar amount was repurchased after an agreed period at a previously agreed, fixed exchange rate that differed only marginally from the earlier selling rate. This swap is not material to MTU from the point of view of risk.

#### MULTI-PERIOD FADER OPTIONS

During the period July to December 2011, MTU placed contracts with Deutsche Bank AG for a notional amount of U.S. \$ 190 million in multi-period fader options, with spot conditions at the fixing dates ranging between 1.1895 euros/U.S. dollar and 1.2690 euros/U.S. dollar. The fade-in levels were set in overlapping bandwidths as follows: from 1.20 to 1.50 euros/U.S. dollar, from 1.25 to 1.55 euros/U.S. dollar, and from 1.23 to 1.53 euros/U.S. dollar. The time to expiry of the individual contracts lies between 3 years and just under 4 years. Each contract includes a predetermined trigger of 200%, which is activated when the exchange rate falls below the lowest fade-in level. If the exchange rate rises above the uppermost fade-in level, the hedging transaction ceases to be effective. Depending on the change in the U.S. dollar exchange rate over the duration of the contracts, the volume of these forward foreign exchange contracts may correspond to between 0% and 200% of the options' total notional amount at expiry. The fair value of these contracts at the balance sheet date amounted to a loss of € 5.2 million (2010: € 0.0 million). This loss was recognized in the financial result on other items and reported in the balance sheet with a corresponding entry under financial liabilities.

#### SENSITIVITY ANALYSIS

As part of the disclosures about market risk, IFRS 7 requires a sensitivity analysis showing the effects of hypothetical changes in relevant risk variables on earnings after tax and equity. The periodic effects are determined by applying the hypothetical changes in the risk variables to the financial instruments held at the balance sheet date. This implies the assumption that the holding at the balance sheet date is representative of the whole year.

A large proportion of the non-derivative financial instruments, trade receivables and payables, and finance lease liabilities are invoiced in U.S. dollars and therefore have an impact on earnings after tax and on equity, as a result of exchange rate parities. All other non-derivative financial instruments are denominated in the functional currency and are hence not included in the exchange rate sensitivity analysis.

The equity instruments held by the group are not of a monetary nature, and so consequently do not present a currency risk as defined by IFRS 7.

#### EXCHANGE RATE SENSITIVITY

If it is assumed that the exchange rate of the euro to the U.S. dollar at December 31, 2011 or at the prior year's balance sheet date had been 10% higher or lower than the actual closing rate, the sensitivity analysis based on this assumption produces the following hypothetical effects on earnings after tax (EAT) and equity:

#### Exchange rate sensitivity (€ / U.S. \$)

in € million	2011		2010	
	-10%	+10%	-10%	+10%
Closing exchange rate Dec. 31, 2011: 1,2939 (Dec. 31, 2010: 1,3362)	1.16	1.42	1.20	1.47
<b>Earnings after tax (EAT)</b>	<b>-13.1</b>	<b>4.8</b>	<b>3.5</b>	<b>-4.0</b>
<b>Equity<sup>1)</sup></b>	<b>-67.2</b>	<b>55.0</b>	<b>-57.1</b>	<b>46.6</b>
of which: hedge reserve (fair value) <sup>1)</sup>	-85.1	69.7	-72.9	59.6

<sup>1)</sup> net of taxes.

**41.2.2. INTEREST RATE RISK**

MTU is exposed to interest rate risk principally in the euro zone, and to a lesser extent in Canada, China, Poland and the United States. To minimize the effects of interest rate fluctuations in these regions, MTU manages interest rate risk separately for net financial liabilities denominated in euros, Canadian dollars, Chinese yuan, Polish zloty and U.S. dollars.

**U.S. dollar interest rate swaps / U.S. dollar caps**

The purpose of interest rate swaps is to reduce exposure to interest rate fluctuations. These are purely financial transactions, and consequently present no additional currency risk, even if they do present a minor interest rate risk.

At December 31, 2011, the company held one interest rate cap with a nominal value of € 10 million and a maturity date of June 5, 2014, which fixes a ceiling of 4% on floating-rate loans on which interest is payable at the 6-month Euribor rate plus an additional margin.

**Sensitivity analysis**

IFRS 7 requires the presentation of interest rate risk in the form of a sensitivity analysis. This demonstrates the effects of changes in market interest rates on interest payments, interest income and expense, other income statement items, earnings after tax, and equity. The interest rate sensitivity analysis is based on the following assumptions:

Changes in the market interest rate of non-derivative financial instruments bearing interest at a fixed, normal rate only have an effect on earnings after tax and equity if these financial instruments are classified as 'at fair value through profit or loss' or were so designated at initial recognition. Consequently, all fixed-interest financial instruments measured at amortized cost have no effects on earnings after tax and equity that must be accounted for.

Changes in the market interest rate of financial instruments that have been designated as hedging instruments for the purposes of a cash flow hedge to reduce exposure to variations in payment due to interest rates have an impact on the hedge reserve in equity and are therefore included in the sensitivity analysis. Consequently, financial instruments that do not form part of a hedging relationship as defined by IAS 39 have an effect on the 'financial result on other items' (adjustment of fair value of derivative instruments). These effects are taken into account in the income-related sensitivity analysis.

**Interest rate sensitivity**

In the financial year 2011, an average of 89% (2010: 80%) of the group's financial liabilities denominated in euros was subject to interest at a fixed rate. This average is representative for the whole year.

If it is assumed that the market interest rate at December 31, 2011 had been 100 basis points lower or higher, the sensitivity analysis based on this assumption produces the following hypothetical effects on earnings after tax for the year:

**Interest rate sensitivity in basis points**

in € million	2011		2010	
	-100	+100	-100	+100
<b>Earnings after tax (EAT)</b>	<b>-0.6</b>	<b>1.0</b>	<b>-0.2</b>	<b>0.5</b>

#### 41.2.3. PRICE RISK

In connection with the presentation of market risk, IFRS 7 also requires disclosure of the effects that hypothetical changes in risk variables relating to prices and the fair value of financial instruments might have on earnings after tax for the year and on equity. The risk variable of most relevance in this context is forward commodity sales contracts for nickel alloys.

##### Forward commodity sales contracts

To minimize the risk associated with increasing commodity prices for the necessary quantity of nickel, at December 31, 2011 MTU held forward commodity sales contracts with banking institutions for a total of 680 metric tons of nickel (2010: 490 metric tons) over the period 2012 to 2014. The contracted fixed prices for nickel range between U.S. \$ 15.7 and 24.9 thousand per metric ton (2010: between U.S. \$ 10.9 and 21.6 per metric ton).

If the market price for nickel on the respective due date exceeds the agreed fixed price, MTU will receive a payment for the difference from the bank with which the contract was concluded. In the opposite case, MTU is obligated to compensate the bank. No effective hedging relationship as defined in IAS 39 has been established for these transactions. The fair value losses amounting to € 2.4 million (2010: fair value gains of € 3.3 million) arising from these forward commodity sales contracts are recognized in the financial result on other items (see Note 14. Financial result on other items).

If it is assumed that the market price of forward commodity sales contracts for nickel had been 10% higher or lower, the effect on earnings after tax would have been € 0.7 million higher or lower, respectively (2010: € 0.7 million).

#### 41.3. LIQUIDITY RISK

Liquidity risk management is the responsibility of the Treasury Board. The controlling process is based on an analysis of all future cash flows. The process includes the monitoring and limitation of aggregated cash outflow and cash borrowing. Observed parameters include diversification effects and customer concentration. To guarantee MTU's solvency and financial flexibility at all times, a liquidity reserve consisting of lines of credit and cash and cash equivalents is kept available. Transactions in connection with financing activities are conducted exclusively with partners who have an excellent credit rating. Outstanding payments in connection with operating activities are monitored on an ongoing basis. Specific allowances are used to account for the risk of non-payment (see Note 23. Trade receivables).

The group's lines of credit consist of a revolving credit facility for an amount of € 100.0 million made available by two banks in conjunction with agreements that run to December 1, 2015. The funds raised through these lines of credit are generally intended to finance capital expenditure on operating equipment and are not covered by collateral. At December 31, 2011, the group had not drawn down any funds through these lines of credit. However, of the € 100.0 million available at the balance sheet date, € 12.4 million (2010: € 29.0 million) had been drawn down as bank guarantees in favor of third parties. The availability of the unused lines of credit amounting to € 87.6 million (2010: € 71.0 million) increases the scope and flexibility of the group's financing opportunities. As of December 31, 2011, MTU and its affiliates had met all loan repayment and other obligations (covenants) arising from financing agreements.

The maximum credit risk is represented by the carrying amounts of the financial assets recognized in the balance sheet. Irrespective of existing collateral, the amount stated for the financial assets specifies the maximum default risk pertaining to the case in which a customer is unable to meet its contractual payment obligations. In order to minimize default risk, payment arrangements are secured by collateral, credit rating information is obtained, or historical data from the existing business relationship (and in particular payment patterns) are used.



MTU is also exposed to default risk through contingent liabilities and other financial obligations (see Note 42. Contingent liabilities and other financial obligations).

## 42. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

### Contingent liabilities

in € million	Dec. 31, 2011	Dec. 31, 2010
I. Contingent liabilities under risk- and revenue-sharing partnerships with:		
IAE International Aero Engines AG	48.0	49.3
Pratt & Whitney Aircraft Company	19.8	20.4
General Electric Company	1.9	1.9
<b>Total contingencies</b>	<b>69.7</b>	<b>71.6</b>
II. Guarantees and other contingent liabilities	39.6	52.1
III. Contingent liabilities arising from pre-retirement part-time working arrangements		1.5
IV. Obligations arising from equity investments in joint ventures	1.4	1.4
<b>Total contingent liabilities</b>	<b>110.7</b>	<b>126.6</b>

No provisions were allocated for contingent liabilities in 2011, as the risk of their being invoked is considered very unlikely.

When MTU enters into risk- and revenue-sharing agreements, the company assumes obligations with respect to the sales financing of engines for selected airlines. The means of providing sales financing are generally secured through access rights granted by the consortium leader in an engine program. MTU additionally benefits from safeguarding clauses drawn up by the leader of the engine consortium, which take the imputed risks and legislative framework into consideration. MTU is of the view that the estimated market value of the financed engines is sufficient to offset potential losses arising from financing transactions.

Guarantees and other contingent liabilities relate primarily to service agreements for gas turbine maintenance and guarantee obligations arising from maintenance agreements amounting to € 13.0 million (2010: € 16.9 million), and investment grants amounting to € 20.7 million (2010: € 28.9 million).

The liabilities arising from equity investments in joint ventures relate to accorded loans recognized in proportion to the interest in the joint venture and totaled € 1.4 million (2010: € 1.4 million). MTU does not have any capital obligations toward the partner company itself.

### 42.1. OTHER FINANCIAL OBLIGATIONS

#### 42.1.1. OBLIGATIONS ARISING FROM OPERATING LEASE ARRANGEMENTS

Apart from liabilities, provisions and contingent liabilities, the company has additional other financial obligations, particularly pertaining to rental and lease contracts for buildings, machines, tools, office and other equipment.

The rental and lease contracts for buildings, machines, tools, office and other equipment have terms of one to ten years and in certain cases contain extension and purchase options and/or price adjustment clauses. With regard to rental and lease agreements, payments of € 18.8 million (2010: € 18.2 million) were expensed in the financial year 2011.

The nominal total of future minimum lease payments arising from non-terminable operating lease agreements is as follows (based on due payment dates):

**Nominal total of future minimum lease payments**

in € million	Dec. 31, 2011	Dec. 31, 2010
Due in less than one year	11.2	11.1
Due in more than one and less than five years	16.5	16.7
Due in more than five years	3.8	2.5
<b>Total future minimum lease payments</b>	<b>31.5</b>	<b>30.3</b>

The increase in the nominal total of future minimum lease payments from € 30.3 million in 2010 to € 31.5 million at December 31, 2011 is mainly attributable to rental agreements in the commercial maintenance business. In 2011, the accessory shop at MTU Maintenance Canada Ltd., Richmond, Canada relocated to a new building. The ten-year rental agreement for this new building was not included in the comparative figures for 2010. Rental agreements for other, existing buildings were also renewed in 2011.

In addition to payments for operate-lease engines and for the rented buildings occupied by MTU Maintenance Canada Ltd., Richmond, Canada, attributable to the MRO segment and totaling € 18.0 million (2010: € 14.9 million), other major individual obligations, totaling € 11.0 million (2010: € 13.5 million), comprise the future lease payments for an office building occupied by MTU Aero Engines GmbH, Munich, and for the building at the air base in Erding as part of a cooperative arrangement with the German Air Force, and rental payments for industrial trucks.

At December 31, 2011, 88% of the leasing contracts, in arithmetical terms, are due to expire within 5 years. 12% are valid for more than 5 years, while a small number of leasing contracts have no definite expiration date.

**42.1.2. OBLIGATIONS ARISING FROM FUTURE MINIMUM PAYMENTS ON RENTAL AGREEMENTS FOR SUBLET PROPERTY**

**Nominal total of future minimum payments arising from rental agreements for sublet property**

in € million	Dec. 31, 2011	Dec. 31, 2010
Total minimum receivable rental income from property subletting agreements	1.8	1.8
Total future minimum rental payments under property subletting agreements	-1.8	-1.8
<b>Surplus amount</b>		

**42.1.3. ORDER COMMITMENTS FOR FINANCIAL OBLIGATIONS**

At December 31, 2011, other financial obligations comprised order commitments for the purchase of intangible assets, totaling € 0.2 million (2010: € 0.1 million), and financial obligations for the purchase of property, plant and equipment, totaling € 33.2 million (2010: € 29.9 million). These financial obligations were thus within normal limits.

**43. RELATIONSHIPS WITH RELATED COMPANIES AND PERSONS**

**43.1. RELATED COMPANIES**

MTU maintains normal business relationships with non-consolidated, related subsidiaries. Transactions between group companies and joint ventures or associated companies were, without exception, conducted in the context of their normal business activities and made on terms equivalent to those that prevail in arm's length transactions.

Business transactions between companies included in the consolidated financial statements were eliminated in the course of consolidation and are therefore not subject to any further separate disclosure in these notes.

#### 43.1.1. BUSINESS WITH RELATED COMPANIES

During the course of the business year, companies within the group conducted transactions among themselves (intragroup sales). The following business transactions were carried out with non-consolidated related companies in the financial year 2011 and in 2010:

##### Receivables due from related companies

in € million	Outstanding balance		Value of business transactions			
	Receivables		Revenues/income/sales		Expenses/purchases	
	Dec. 31, 2011	Dec. 31, 2010	2011	2010	2011	2010
<b>Current receivables</b>						
Eurojet Turbo GmbH, Munich <sup>1)</sup>	21.7	25.3	230.5	243.6	-2.1	-1.5
MTU Turbomeca Rolls-Royce GmbH, Hallbergmoos <sup>1)</sup>		1.2		10.3		-0.7
MTU Turbomeca Rolls-Royce ITP GmbH, Hallbergmoos <sup>1)</sup>	1.1	0.5	8.1	1.4	-0.9	-0.4
Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde	1.2	1.1	36.0	33.6	-0.1	
Ceramic Coating Center S.A.S., Paris, France	0.3	0.4			-3.3	-3.2
Turbo Union Ltd., Bristol, England <sup>1)</sup>	3.4	3.7	60.3	68.8		-0.1
Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia		0.8		0.5		-2.7
Middle East Propulsion Company Ltd., Riyadh, Saudi Arabia		0.5	0.1	0.5	-0.6	-0.2
Gesellschaft zur Entsorgung von Sondermüll in Bayern GmbH, Munich					-0.2	-0.2
<b>Total</b>	<b>27.7</b>	<b>33.5</b>	<b>335.0</b>	<b>358.7</b>	<b>-7.2</b>	<b>-9.0</b>

<sup>1)</sup> Associated companies.

##### Liabilities to related companies

in € million	Outstanding balance		Value of business transactions			
	Liabilities		Revenues/income/sales		Expenses/purchases	
	Dec. 31, 2011	Dec. 31, 2010	2011	2010	2011	2010
<b>Current liabilities</b>						
IAE International Aero Engines AG, Zurich, Switzerland	70.7	75.0	524.1	468.1	-367.7	-430.1
MTU Turbomeca Rolls-Royce GmbH, Hallbergmoos <sup>1)</sup>	1.0		5.5		-0.7	
MTU Versicherungsvermittlungs- und Wirtschaftsdienst GmbH, Munich					-9.3	-9.1
EPI Europrop International GmbH, Munich <sup>1)</sup>	16.8	8.1	2.0	2.0	-1.5	-6.6
MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China	3.6	1.8	1.5	1.6	-27.1	-13.5
MTU München Unterstützungskasse GmbH, Munich	6.5	7.8			-0.1	-0.1
Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia	0.4		0.3		-4.6	
MTU Maintenance Dallas Inc., Grapevine, USA	0.1				-0.2	
<b>Total</b>	<b>99.1</b>	<b>92.7</b>	<b>533.4</b>	<b>471.7</b>	<b>-411.2</b>	<b>-459.4</b>

<sup>1)</sup> Associated companies.

### 43.1.2. MAJOR SHAREHOLDINGS

The list of major shareholdings shows MTU's capital share in each company together with the equity that this represents at December 31, 2011, and the profit or loss generated by each company in the financial year 2011:

#### List of shareholdings

Name and registered office of entity	Consolidation method <sup>9)</sup>	Shareholding in % Dec. 31, 2011	Equity in € 000 Dec. 31, 2011	Profit/loss in € 000 2011
<b>I. Investments in subsidiaries</b>				
MTU Aero Engines Finance B.V., Amsterdam, Netherlands	full	100.00	2,447	95
MTU Aero Engines GmbH, Munich	full	100.00	733,132	12,106 <sup>8)</sup>
MTU Maintenance Hannover GmbH, Langenhagen	full	100.00	65,470	2)
MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde	full	100.00	88,620	2)
MTU Aero Engines North America Inc., Newington, U.S.A.	full	100.00	4,827 <sup>3)</sup>	894 <sup>5)</sup>
MTU Maintenance Canada Ltd., Richmond, Canada	full	100.00	12,449 <sup>3)</sup>	10,294 <sup>5)</sup>
Vericor Power Systems LLC., Atlanta, U.S.A.	full	100.00	21,821 <sup>3)</sup>	2,026 <sup>5)</sup>
RSZ Beteiligungs- und Verwaltungs GmbH, Munich	full	100.00	13,431	
MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland	full	100.00	39,341 <sup>3)</sup>	-248 <sup>5)</sup>
MTU Versicherungsvermittlungs- und Wirtschaftsdienst GmbH, Munich	at cost	100.00	26	2)
MTU München Unterstützungskasse GmbH, Munich	<sup>10)</sup>	100.00	6,534	
MTU Maintenance Service Centre Ayutthaya Ltd., Ayutthaya, Thailand	at cost	100.00	4)	4)
MTU Maintenance Dallas Inc., Grapevine, USA	at cost	75.00	4)	4)
<b>II. Investments in associated companies</b>				
Turbo Union Ltd., Bristol, England	at cost	39.98	295 <sup>1)</sup>	-14 <sup>1)</sup>
EUROJET Turbo GmbH, Hallbergmoos	at cost	33.00	2,725 <sup>1)</sup>	427 <sup>1)</sup>
EPI Europrop International GmbH, Munich	at cost	28.00	472 <sup>1)</sup>	419 <sup>1)</sup>
MTU Turbomeca Rolls-Royce GmbH, Hallbergmoos	at cost	33.33	88 <sup>1)</sup>	50 <sup>1)</sup>
MTU Turbomeca Rolls-Royce ITP GmbH, Hallbergmoos	at cost	25.00	65 <sup>1)</sup>	38 <sup>1)</sup>
<b>III. Equity investments in joint ventures</b>				
MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China	proportionate	50.00	108,856 <sup>3)</sup>	24,158 <sup>5)</sup>
MTU Maintenance Hong Kong Ltd., Hong Kong, China <sup>11)</sup>	at cost	50.00	12 <sup>3)</sup>	11 <sup>5)</sup>
Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde	equity method	50.00	2,798	3,690
Ceramic Coating Center S.A.S., Paris, Frankreich	at cost	50.00	5,669 <sup>1)</sup>	1,119 <sup>1)</sup>
Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia	at cost	50.00	6,163 <sup>1/6)</sup>	2,007 <sup>1/7)</sup>
<b>IV. Other equity investments</b>				
IAE International Aero Engines AG, Zurich, Switzerland	at cost	12.10	44,626 <sup>1/6)</sup>	-507 <sup>1/7)</sup>
Middle East Propulsion Company Ltd., Riyadh, Saudi Arabia	at cost	19.30	23,965 <sup>1/6)</sup>	3,480 <sup>1/7)</sup>

<sup>1)</sup> Date for previous year, actuals not available.

<sup>2)</sup> Profit/loss for German GAAP purposes (HGB) transferred under profit and loss transfer agreement 2011.

<sup>3)</sup> Translated at closing exchange rate, Dec. 31, 2010.

<sup>4)</sup> Figures not yet available.

<sup>5)</sup> Translated at annual average rate for 2011.

<sup>6)</sup> Translated at closing exchange rate, Dec. 31, 2010.

<sup>7)</sup> Translated at monthly closing exchange rates 2010.

<sup>8)</sup> Excluded from net profit available for distribution, pursuant to Section 268(8) of the German Commercial Code (HGB).

<sup>9)</sup> full = fully consolidated.

at cost = measured at acquisition cost, because fair value cannot be reliably determined.

at equity = carrying amount of investment increased or reduced to reflect changes in equity of group's percentage interest.

proportionate = consolidated in the same proportion as the group's interest.

<sup>10)</sup> Plan assets according to IAS 19.

<sup>11)</sup> Indirect shareholding.

**43.2. RELATED PERSONS**

No group company has conducted any business subject to disclosure requirements with members of the group's Board of Management or Supervisory Board or with any other individuals holding key management positions, or with companies in which these persons hold a seat on the managing or supervisory board, with the exception of the transactions presented in Note 43.2.4. (Other related party transactions). This is also applicable for close family members of this group of persons. For information concerning the purchase of shares and share options by members of the Board of Management and the Supervisory Board, please refer to Note 43.2.4. (Other related party transactions).

**43.2.1. MEMBERS OF THE BOARD OF MANAGEMENT**

At December 31, 2011, the MTU Board of Management comprised the following members:

**Board of Management**

<b>Egon Behle</b> Chief Executive Officer of MTU Aero Engines Holding AG, Munich	Munich
<b>Dr. Rainer Martens</b> Chief Operating Officer of MTU Aero Engines Holding AG, Munich	Munich
<b>Dr. Stefan Weingartner</b> President Commercial Maintenance of MTU Aero Engines Holding AG, Munich	Munich
<b>Reiner Winkler</b> Chief Financial Officer of MTU Aero Engines Holding AG, Munich	Munich

#### 43.2.2. BOARD OF MANAGEMENT COMPENSATION

The members of the Board of Management were awarded total compensation amounting to € 6.4 million (2010: € 8.1 million) in the financial year 2011 for their services as board members. This total amount can be broken down into the following components:

##### Board of Management compensation

	2011		2010	
	in € million <sup>1)</sup>	in %	in € million <sup>1)</sup>	in %
<b>Short-term employee benefits</b>				
Non-performance-related components	2.2		2.4	
Performance-related components excluding long-term incentive <sup>2)</sup>	1.3		1.6	
Performance-related components with long-term incentive effect <sup>3/5)</sup>	0.9			
<b>Total short-term employee benefits</b>	<b>4.4</b>	<b>68.8</b>	<b>4.0</b>	<b>49.4</b>
<b>Post-employment benefits</b>				
Service cost / past service cost	0.8		3.1	
<b>Total post-employment benefits</b>	<b>0.8</b>	<b>12.5</b>	<b>3.1</b>	<b>38.3</b>
<b>Share-based payment benefits</b>				
Performance-related components with long-term incentive effect <sup>4/6)</sup>	1.2		1.0	
<b>Total share-based payment benefits</b>	<b>1.2</b>	<b>18.7</b>	<b>1.0</b>	<b>12.3</b>
<b>Total compensation</b>	<b>6.4</b>	<b>100.0</b>	<b>8.1</b>	<b>100.0</b>

<sup>1)</sup> Benefits awarded to members of the Board of Management for active board service in the stated years.

<sup>2)</sup> Annual Performance Bonus for the financial year 2011; payable in the financial year 2012.

<sup>3)</sup> Deferral 1 from the financial year 2010 is payable in the financial year 2012.

<sup>4)</sup> Fair value at grant date.

<sup>5)</sup> Previous-year adjustment; performance-related components with long-term incentive effect are included when the target is achieved (Deferral 1 from financial year 2010).

<sup>6)</sup> Previous-year adjustment; performance-related share-based payment benefits with long-term incentive effect are included at fair value in the total compensation for the financial year in which they were granted.

The pension obligations to former members of the Board of Management have changed as follows:

**Provisions established to cover current and future pension obligations to former Board members**

in € million	Dec. 31, 2011	Dec. 31, 2010
<b>Total</b>	<b>4.6</b>	<b>4.5</b>

More detailed information on the compensation system introduced in the financial year 2010 and the effects of the amended pension plan contracts for MTU's Board of Management is provided in the management compensation report in the Corporate Governance section of this Annual Report.

Members of the Board of Management did not receive any compensation for mandates on boards of the group's own companies. No loan facilities have been granted by the company to members of the Board of Management.

At December 31, 2011, as in the previous year, no loan facilities or advances were granted to members of the Board of Management. Similarly, as in the previous year, no contingent liabilities were assumed by the company in favor of members of the Board of Management.

**43.2.3. MEMBERS OF THE SUPERVISORY BOARD**

As in the previous year, the members of the Supervisory Board did not receive any additional compensation for supervisory board mandates over and above that received for their supervisory board mandate with MTU Aero Engines Holding AG, Munich. Compensation for active members of the Supervisory Board amounted to € 0.7 million (2010: € 0.7 million).

At December 31, 2011, as in the previous year, no loan facilities or advances were granted to members of the Supervisory Board. Similarly, as in the previous year, no contingent liabilities were assumed by the company in favor of members of the Supervisory Board.

For details of the compensation awarded to individual members of the Supervisory Board, and other related information, please refer to the management compensation report in the Corporate Governance section of this Annual Report.

**43.2.4. OTHER RELATED PARTY TRANSACTIONS**

As in the previous year, MTU shares and options bought or sold by members of the Board of Management and the Supervisory Board in the financial year 2011 were bought and sold under normal market conditions. The transactions were published in the commercial registry and posted on the MTU website at [www.mtu.de/en](http://www.mtu.de/en) under Investor Relations – Corporate Governance – Directors' Dealings.

## V. SEGMENT INFORMATION

### 44. SEGMENT REPORTING

MTU reports on two operating segments: the commercial and military engine business (OEM) and the commercial maintenance business (MRO). Segmentation is based on classifications used in the internal organizational structure and reporting system, and takes into account the risks and returns to which the segments are subject.

#### COMMERCIAL AND MILITARY ENGINE BUSINESS (OEM)

In the commercial and military engine business, the group develops, manufactures, assembles and delivers commercial and military engines and components. Maintenance, repair and overhaul of military engines is also included in this segment.

#### COMMERCIAL MAINTENANCE BUSINESS (MRO)

In the commercial maintenance business, the group maintains, repairs and overhauls aircraft engines and industrial gas turbines. Activities encompass full engine maintenance and repair, the complete overhaul of engine modules and special repairs.

#### PROFIT/LOSS OF COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount and the share in profit/loss of consolidated group companies accounted for using the equity method are included in reporting by operating segment if such companies can be directly allocated to an operating segment.

#### SEGMENT ASSETS

Segment assets and liabilities comprise all assets and liabilities that can be allocated to specific operating activities and whose positive or negative operating results have an impact on earnings before interest and tax (EBIT/EBIT adjusted). Assets are allocated to the operating segment in which they are used to generate business. The positive consolidation/reconciliation amount of € 1,360.7 million (2010: € 1,378.1 million) in the segment assets line relates to the consolidation of the fair value of subsidiaries (financial assets) and of accounts receivable from intersegment sales.

#### SEGMENT LIABILITIES

Liabilities are allocated to the operating segment that bears the legal obligation for their settlement. In the segment information, the liabilities amount of € 298.4 million (2010: € 316.6 million) in the 'consolidation/reconciliation' column relates to internal liabilities of the group companies that were reconciled with financial liabilities of the holding company.

#### SEGMENT CAPITAL EXPENDITURE

Segment capital expenditure relates to additions to intangible assets and to property, plant and equipment.

#### CONSOLIDATION/RECONCILIATION COLUMN

The amounts in the 'consolidation/reconciliation' column for earnings before interest and tax (EBIT/EBIT adjusted) are used to eliminate revenues from intersegment sales from group revenues.

#### SEGMENT INFORMATION BY GEOGRAPHICAL AREA

An analysis by geographical area is provided for external revenues, for capital expenditure on intangible assets and property, plant and equipment, and for non-current assets. The geographical areas are defined as the regions in which MTU is active: Germany, Europe (excluding Germany), North America, South America, Africa, Asia, and Australia/Oceania. North America consists of the United States and Canada.

Capital expenditure on intangible assets and property, plant and equipment, and non-current assets are allocated to the geographical areas according to the location of the asset in question. The non-current assets mainly consist of intangible assets and property, plant and equipment. External revenues are allocated according to the customer's country of domicile.



## VI. EVENTS AFTER THE BALANCE SHEET DATE

Holders of the convertible bond exercised their conversion option in January 2012. Of the nominal amount of € 152.7 million still outstanding on December 31, 2011, a total nominal amount of € 90.1 million was converted into MTU stocks. As a result, the company's equity will rise in the first quarter of 2012. Above and beyond this, no events of material importance with any significant impact on the financial situation, net assets or operating results of the MTU group occurred at the end of the reporting period.

## VII. RECONCILIATION OF GROUP EARNINGS AFTER TAX (EAT) TO THE NET PROFIT AVAILABLE FOR DISTRIBUTION

Unlike the consolidated financial statements, which are based on the IFRSs issued by the IASB, the annual financial statements of MTU Aero Engines Holding AG, Munich, are prepared in accordance with the German Commercial Code (HGB) and German Stock Cooperation Act (AktG). The IFRS rules are also applied in the separate financial statements where it is permissible and fitting to do so. In numerous cases, the accounting policies applied in the annual financial statements of MTU Aero Engines Holding AG, Munich, and those of the German subsidiaries differ from the accounting policies applied in the consolidated financial statements.

The following reconciliation table contains the major differences between group earnings after tax and the net profit available for distribution by MTU Aero Engines Holding AG, Munich:

<b>Reconciliation</b>		
in € million	<b>2011</b>	2010
Earnings after tax (EAT) (IFRS)	158.2	142.2
Income taxes	-72.6	-85.0
<b>Earnings before tax (EBT)</b>	<b>230.8</b>	<b>227.2</b>
Elimination of share in profit/loss of group companies outside Germany	-25.6	-16.9
+/- Deviations from German Commercial Code (HGB)		
Construction contract receivables / PoC	-5.5	22.0
Amortization of goodwill	-11.0	-11.0
Non-capitalized development costs	-13.7	-19.1
Earnings and measurement differences arising from the capitalization of development costs	-1.8	
Exclusion of self-created intangible assets recognized in the balance sheet <sup>3)</sup>	-12.1	
Recognition of special tax reserves		13.0
Dividend payment of MTU Maintenance Zhuhai Ltd., China	5.2	23.1
Adjustment of the carrying amount of MTU AENA, USA		-11.4
Other deviations	-9.1	-15.1
<b>Earnings before tax of MTU Aero Engines Holding AG (HGB)</b>	<b>157.2</b>	<b>211.8</b>
Income taxes	-56.0	-80.3
<b>Net profit of MTU Aero Engines Holding AG (HGB)</b>	<b>101.2</b>	<b>131.5</b>
Reduction in net profit due to first application of German Accounting Law Modernization Act (BilMoG)		-37.4
Appropriation of net income		
Allocation to revenue reserves to other reserves <sup>1)</sup>	-40.0	-40.5
<b>Distributable net profit of MTU Aero Engines Holding AG (HGB)</b>	<b>61.2</b>	<b>53.6</b>
Allocation to revenue reserves		
Proposed profit distribution <sup>2)</sup>	61.2	53.6

<sup>1)</sup> In accordance with a resolution by the Board of Management and Supervisory Board.

<sup>2)</sup> Proposal by the Board of Management and Supervisory Board to the Annual General Meeting.

<sup>3)</sup> No deferred taxes are taken into account, because the entity liable for taxes and the subsidiary recognizing the asset are not identical.

**EXPLANATORY COMMENTS RELATING TO KEY ITEMS IN THE RECONCILIATION TABLE****Construction contract receivables / PoC**

Contrary to the provisions of the German Commercial Code (HGB), the international financial reporting standards (IFRSs) prescribe the use of the percentage-of-completion (PoC) method under certain conditions when accounting for construction contracts according to IAS 11. MTU satisfies the requirements for recognizing a proportion of the profits from certain of its engine projects, which must consequently be eliminated in the reconciliation between IFRS and HGB statements. Further information on the relevant accounting policies is provided in Note 5.10. (Inventories) and Note 24. (Construction contract receivables).

**Amortization of goodwill**

Group earnings before tax (EBT) do not include any impairment of goodwill (IAS 36). The goodwill arising from the acquisition of the company is reported in the HGB balance sheet and is subject to scheduled amortization over 15 years in accordance with Section 246 (1) sentence 4 in combination with Section 253 (3) of the German Commercial Code (HGB).

**Non-capitalized development costs**

In the annual financial statements prepared in accordance with the German Commercial Code, a total amount of € 13.7 million (2010: € 19.1 million) was recognized as an expense for internally generated development costs incurred for the GENx and GE38 engine programs (in the OEM segment) and for improved repair techniques (in the MRO segment).

**Earnings and measurement differences arising from the capitalization of development costs**

When capitalizing the development costs of the PW1100G engine for the A320neo, measurement differences arose because different components of the construction costs were capitalized differently.

**Exclusion of self-created intangible assets recognized in the balance sheet**

Self-created intangible assets amounting to € 12.1 million (2010: € 0.0 million) were recognized in the HGB balance sheet of MTU Aero Engines GmbH, Munich, for the PW1100G engine program. Pursuant to Section 301 of the German Stock Corporation Act (AktG) in conjunction with Section 268 (8) of the German Commercial Code (HGB), this capitalization of assets must be excluded from the net profit available for distribution, provided the free reserves remaining after distribution are at least equal in value to the capitalized assets. No deferred taxes had to be taken into account as the entity liable for taxes, MTU Aero Engines Holding AG, Munich, and the subsidiary recognizing the asset, MTU Aero Engines GmbH, Munich, are not identical.

That portion of the fair value of plan assets held for obligations in respect of pensions and pre-retirement part-time working arrangements that exceeds the acquisition costs of around € 30.000 (2010: € 0.0) – is included in the other deviations totaling € 9.1 million (2010: € 15.1 million).

**Dissolution of the special tax reserve**

In the financial year 2006, proceeds from the sale of land and buildings amounting to € 13.0 million were recognized uniquely in the HGB financial statements in a special tax reserve, with no impact on the net profit/loss for the year. Since no transfer to other assets had taken place in the period up to December 31, 2010, it was necessary to dissolve the special tax reserve and reclassify it to profit or loss.

#### **Dividend payment of MTU Maintenance Zhuhai Ltd., China**

In December 2011, in accordance with a decision taken by its board of directors, MTU Maintenance Zhuhai Ltd., Zhuhai, China, distributed a dividend of € 5.2 million (2010: € 23.1 million) to each of its two shareholders, China Southern Airlines and MTU Aero Engines GmbH. This event is eliminated in the consolidated financial statements.

#### **Adjustment of the carrying amount of MTU Aero Engines North America Inc.**

In the financial year 2010, the carrying amount of MTU Aero Engines North America Inc. was compared with its recoverable amount. This resulted in a write-down of € 11.4 million, which was recognized in the HGB financial statements. This event is eliminated in the consolidated financial statements.

#### **Reduction in net profit due to first application of German Accounting Law Modernization Act (BilMoG)**

Expenses amounting to € 140.9 million for deferred tax liabilities that were to be recognized for the first time in the HGB financial statements as of the financial year 2010 were deducted from revenue reserves in accordance with Section 274 of the German Commercial Code (HGB) in combination with Article 66 (3) of the Introductory Act to the German Commercial Code (EGHGB). The remaining deferred tax liabilities amounting to € 37.4 million were recognized as a reduction in net profit at January 1, 2010.

#### **Allocation to revenue reserves**

In accordance with Section 58 (2) of the German Stock Corporation Act (AktG), a total of € 40.0 million of the 2011 net profit was allocated to other reserves by the Board of Management and the Supervisory Board of MTU Aero Engines Holding AG. In 2010, the Board of Management and the Supervisory Board had allocated a total of € 40.5 million of the 2010 net profit to other reserves after deducting deferred tax liabilities under the first application of the German Accounting Law Modernization Act (BilMoG).

#### **Proposed profit distribution**

At the Annual General Meeting on May 3, 2012, the Board of Management and the Supervisory Board of MTU Aero Engines Holding AG, Munich, intend to recommend that a dividend of € 1.20 (2010: € 1.10) per share be distributed for the financial year 2011 after transfers to other reserves. On condition that this proposal is accepted by the Annual General Meeting, the total dividend payment for the 50,632,685 shares entitled to a dividend – including the 1,820,197 treasury shares issued in January 2012 in connection with partial conversion of the convertible bond – will amount to € 60.8 million. Based on the quoted share price at the close of 2011 of € 49.44 (2010: € 50.61), this is equivalent to a dividend yield of 2.4 % (2010: 2.2 %).

Pending approval by the Annual General Meeting, the dividend for the financial year 2011 is to be paid on May 4, 2012.

**Electronic version of the Federal Gazette (Bundesanzeiger)**

The annual financial statements of MTU Aero Engines Holding AG, Munich, which were granted an unqualified audit certificate by Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Munich, are published in the Electronic Federal Gazette (elektronischer Bundesanzeiger). Print copies can be obtained on request from MTU Aero Engines Holding AG, 80995 Munich, Germany.

**Declaration of conformity with the German Corporate Governance Code**

The declaration of conformity by the Board of Management and Supervisory Board of MTU Aero Engines Holding AG pursuant to Section 161 of the German Stock Corporation Act (AktG) is published in the MTU Annual Report 2011 and also permanently available to shareholders on the MTU website at [www.mtu.de](http://www.mtu.de).

**Statement by the legal representative**

We hereby affirm that, to the best of our knowledge, the consolidated financial statements present a true and fair view of the group's net assets, financial position and operating results in accordance with the applicable financial reporting standards, and that the group management report provides a faithful and accurate review of the group's business performance, including operating results and situation, and outlines the significant risks and opportunities of the group's likely future development.

Munich, February 10, 2012



Egon Behle  
Chief Executive Officer



Dr. Rainer Martens  
Chief Operating Officer



Dr. Stefan Weingartner  
President Commercial Maintenance



Reiner Winkler  
Chief Financial Officer

## INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by MTU Aero Engines Holding AG, Munich, comprising Consolidated Income Statement and Consolidated statement of comprehensive income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Group segment reporting and Notes to the Consolidated Financial Statements, together with the Group Management Report for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB, are the responsibility of the company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of MTU Aero Engines Holding AG, Munich, comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, February 23, 2012

Deloitte & Touche GmbH  
Wirtschaftsprüfungsgesellschaft

(Prof. Dr. Plendl)  
German Public Auditor

(Prosig)  
German Public Auditor

To our shareholders

Corporate Governance

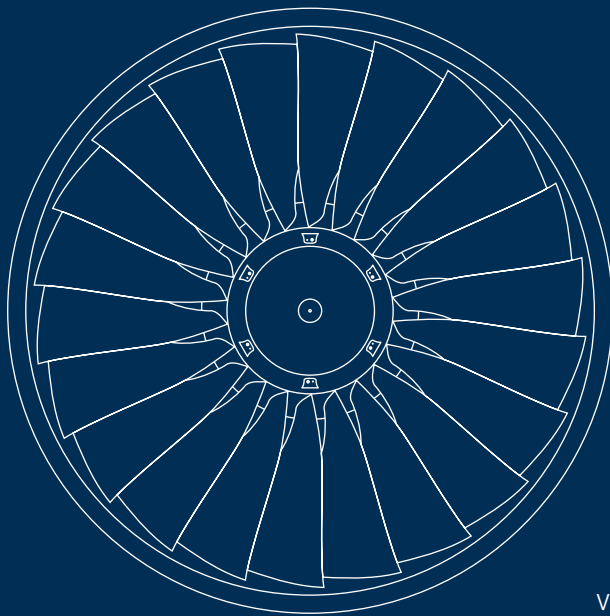
Group management report

» Independent Auditor's Report  
**Notes to the Consolidated  
Financial Statements**

Additional information

# 110% in ten years

The V2500 powering the Airbus A320 family stands in a class of its own. The “green engine” – which is constantly being enhanced – has become a bestseller. It is also of enormous importance to MTU, which not only holds a stake in the engine production program, but also leads the world in V2500 maintenance services: over the past ten years, MTU Maintenance has registered an increase of 110% in the number of shop visits accounted for by the V2500.



V2500



## ADDITIONAL INFORMATION

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# GLOSSARY OF ENGINE TERMS

## ACARE 2020

In its Strategic Research Agenda, published in 2002, the Advisory Council for Aeronautical Research in Europe (ACARE) set out the goals it hopes to see achieved by 2020: air traffic should consume 50% less fuel, emit 50% less CO<sub>2</sub> and 80% less NO<sub>x</sub>, and the perceived noise level should be reduced by half. For the engines this means that by 2020, fuel consumption must be cut by 20%.

## COMBUSTOR

A combustor or combustion chamber consists of an outer casing and a flame tube or 'can' in which the actual combustion takes place. Inside, the compressed air flowing into the chamber is mixed with fuel, which is then ignited and burns at a temperature of over 2,000 degrees Celsius. Due to the high temperatures involved, combustors require special thermal barrier coatings.

## COMPRESSOR

The task of the compressor is to ingest air and compress it before it is fed into the combustor. Compressors consist of bladed disks (rotors) that rotate at very high speed between stationary guide vanes (stators). In order to achieve a compression ratio of over 40:1, which is standard in all modern two-shaft engines, it is necessary to use multi-stage low-pressure and high-pressure compressors rotating at different speeds on dual concentric shafts. These are driven by the corresponding turbines.

## FAN

The first rotor of the low-pressure compressor is called the fan. It accelerates the bypass stream flowing aftward and provides the engine's main thrust. It is driven by the low-pressure turbine via the low-pressure shaft.

## GEARED TURBOFAN

Geared turbofan engines consume far less fuel and generate significantly less noise than today's engine types. They therefore have every chance of becoming the standard type for use in future aircraft. Normally, an engine's fan, low-pressure compressor and low-pressure turbine are all rigidly connected to one shaft. In contrast, the geared fan is 'decoupled' from the low-pressure section by means of a reduction gear unit. This enables the low-pressure turbine and the low-pressure compressor to run at their optimum high speeds, while the fan rotates at a much lower speed (in a ratio of approx. 3:1). This results in significantly improved overall engine efficiency and greatly reduced noise levels.

## INDUSTRIAL GAS TURBINES

The operating principle of an industrial gas turbine is essentially the same as that of an aero engine. However, instead of the customary low-pressure turbine used in aircraft, industrial gas turbines have a power turbine. This turbine delivers the power, either directly or via a gear unit, to an additional attached power unit such as a pump or generator. Nearly all industrial gas turbines of the lower and intermediate power classes are aero-engine derivatives.

## MRO BUSINESS

MRO stands for maintenance, repair and overhaul. At MTU, the term 'MRO business' is also used more specifically to designate one of the company's two business segments, where it refers to maintenance services for commercial engines, or commercial MRO.

## OEM BUSINESS

At MTU, the original equipment manufacturing – or OEM – business segment refers to the development, manufacture and assembly of (new) commercial and military engines. Spare parts for (in-service) commercial and military engines and maintenance services for military engines are also included in this business segment.

## RISK- AND REVENUE-SHARING PARTNERSHIP

In a risk- and revenue-sharing partnership, each partner contributes a certain share of the resources needed for a specific engine program (work capacity and funding), thus carrying part of the risk. In return, each partner is entitled to a corresponding percentage of the overall sales revenue from that program.

## SUBSYSTEM

A complete aircraft engine is made up of a number of subsystems. These include the high-pressure and low-pressure compressors, the combustor, the high-pressure and low-pressure turbines and the engine control system.

## THRUST CLASS

Jet engines are generally grouped into three thrust classes: engines with a thrust of between 2,500 and around 20,000 pounds (around 10 – around 90 kN), engines with a thrust of between 20,000 and approximately 50,000 pounds (around 90 – around 225 kN), and engines with a thrust ranging from 50,000 to more than 100,000 pounds (around 225 – around 450 kN).

## TURBINE

In a turbine, the energy contained in the gases emerging at high pressure and velocity from the combustor is converted into mechanical energy. Like the compressor, the turbine is subdivided into a high-pressure and a low-pressure section, each of which is directly connected to the corresponding compressor via the respective shaft. The turbine has to withstand much higher stresses than the compressor, as it has to deal not only with the high gas temperatures but also with extreme centrifugal forces of several tons acting on the outer rim of its disks.

## TURBINE CENTER FRAME

The turbine center frame connects the high-pressure to the low-pressure turbine. It has to be able to withstand the high mechanical and thermal loads. The center frame includes struts to support the shaft bearings, clad with an aerodynamic fairing, and the air and oil supply lines.

## TURBOFAN ENGINE

The turbofan is an advancement of the turbojet principle, the main difference being its enlarged first compressor stage, the fan. While in turbojet engines, all of the ingested air flows consecutively through the compressor, the combustor and the turbine, turbofans separate the air stream behind the fan. A fraction of the air reaches the combustor via a number of further compressor stages and is burned. The rest, however – which constitutes a much larger fraction – is channeled around the inner components. The ratio between these two airflows is known as the bypass ratio. In modern commercial engines, this ratio can be higher than 10:1. The greater the bypass ratio, the more economical, environmentally compatible and silent the engine. Turbofans are far more fuel-efficient than turbojets.

## TURBOPROP ENGINE

The most noticeable external feature of a turboprop is its propeller. Inside, however, the engine differs only slightly from the turbojet and the turbofan. The turbine is larger, and drives not only the compressor but also the propeller, the latter via a gear unit. Consequently, more energy has to be drawn from the exhaust gas stream in the turbine of a turboprop than in that of other engine types. Over 90 percent of the energy is required for the compressor and the propeller. Turboprop airplanes can only achieve flight speeds of up to 800 km/h. They are thus slower than turbojets or turbofans, but they do have the advantage of consuming far less fuel. This predestines them for use in roles where speed is less important, such as on shorthaul routes or for air freight.

## TURBOSHAFT ENGINE

Turboshaft engines are used in helicopters and are similar to turboprops.

# OVERVIEW OF ENGINES

## Commercial Engines

Type	Thrust range	Application
GE90Growth*	490 – 512 kN	Boeing 777-200LR, 777-200F, 777-300ER
PW4000Growth	340 – 440 kN	Boeing 777
GP7000	315 – 380 kN	Airbus A380
GErx	235 – 333 kN	Boeing 787, 747-8
CF6	180 – 320 kN	Airbus A300, A310, A330, Boeing 747, 767, DC-10, MD-11
PW2000	170 – 190 kN	Boeing 757, C-17
CFM56*	82 – 154 kN	Boeing 737, Airbus A318 - A321
V2500	100 – 150 kN	Airbus A319, A320, A321, Boeing MD-90
PW1000G	67 – 146 kN	Mitsubishi Regional Jet, Bombardier CSeries, Irkut MS-21, Airbus A320neo
PW6000	98 – 106 kN	Airbus A318
JT8D-200	90 – 100 kN	Boeing MD-80-series
CF34*	41-91 kN	business- and regional jets
PW300	18 – 30 kN	medium-weight business and regional jets
PW500	13 – 20 kN	light and medium-weight business jets
PT6A*	500 – 2.000 shp	business- and cargo-props
PW200*	500 – 1.000 shp	light-to-medium weight twin-engined helicopters

\*MRO only

## Industrial Gas Turbines

Type	Original engine; Thrust	Application
LM6000	CF6-80; up to 44,000 kW	Electrical power stations
LM5000	CF6-50; up to 34,000 kW	Electrical power stations, mechanical power systems, oil and gas industry
LM2500/LM2500+	CF6-6; to 22,000/30,500 kW	Electrical power stations, mechanical power systems, oil and gas industry, power systems for ships
ASE/TF 40/50	up to 4,100 kW	Electrical power systems, power systems for ships, mechanical power systems, generator sets

## Military Engines

Type	Description; Thrust	Application
F110	Two-spool turbofan engine with afterburner; 122 – 145 kN	Lockheed F-16, Boeing F-15K
F404/F414	Two-spool turbofan engine with afterburner; 80 – 97 kN	Boeing F/A-18 Hornet, amongst others
EJ200	Two-spool turbofan engine with afterburner, 90 kN	Eurofighter
RB199	Three-spool turbofan engine with afterburner and thrust reverser; 70 – 80 kN	Panavia Tornado
J79	Single-shaft turbojet engine with afterburner; 70 – 80 kN	F-4 Phantom
Larzac04	Two-spool turbofan engine; 14 kN	Alpha Jet
TP400-D6	Three-spool engine; 8,000 kW	Airbus A400M
GE38	Turboprop engine; 5,500 kW	Sikorsky CH-53K
Tyne	Turboprop engine; 3,955 kW power range	Breguet Atlantic und Transall C-160
T64	Turboshaft engine; 3,000 kW	Sikorsky CH-53G
MTR390/MTR390 Enhanced	Enhanced Turboshaft engine; 950 kW	Eurocopter Tiger
RR250-MTU-C20B	Turboshaft engine; 310 – 340 kW	PAH 1, Bo 105 and others

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## FINANCIAL CALENDAR

April 25, 2012	Interim Report as at March 31, 2012
	Conference calls with journalists, analysts and investors
May 3, 2012	Annual General Meeting
July 25, 2012	Interim Report as at June 30, 2011
	Conference calls with journalists, analysts and investors
October 23, 2012	Interim Report as at September 30, 2011
	Conference calls with journalists, analysts and investors
November 27, 2012	MTU Investor and Analyst Day

## MTU SHARE INDICATORS

Number of shares	52 million shares of no-par stock
Type of share	Registered shares
Equity capital	€ 52 million
Voting rights	One vote per share
German Securities Identification Number (WKN)	A0D9PT
International Securities Identification Number (ISIN)	DE000A0D9PT0
Stock exchange symbol	MTX
Trading segment	Prime Standard
Stock-market segment	MDAX
Financial year	Identical with calendar year
Accounting rules	IFRS
Designated sponsor	Goldman Sachs
Official notices	Electronic version of the Federal Gazette (Bundesanzeiger)

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