

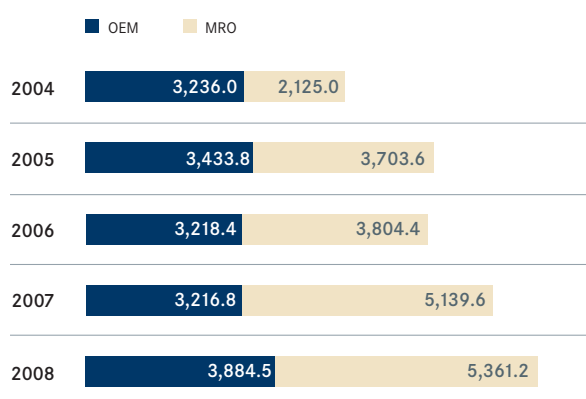
Annual Report 2008

Ahead of its time

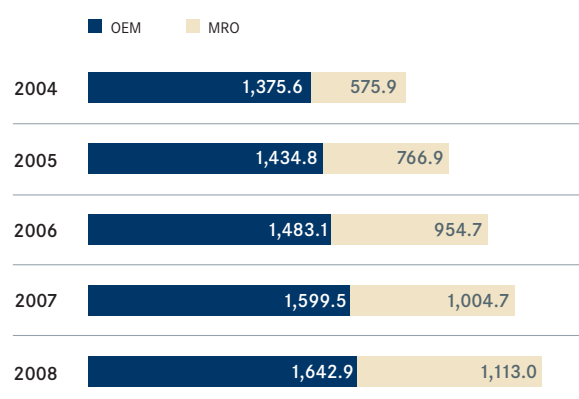
75 years of MTU history. 100 years of aviation expertise.



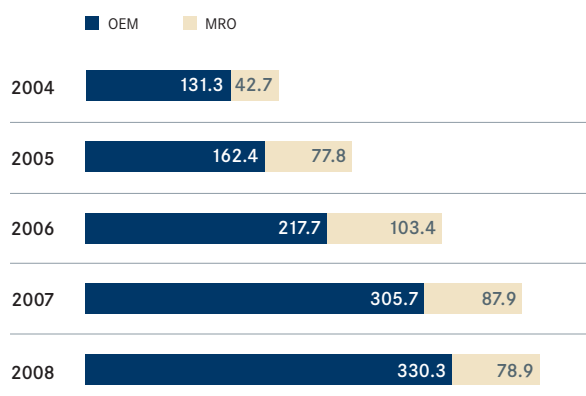
Order backlog by segments (without consolidation) in € million



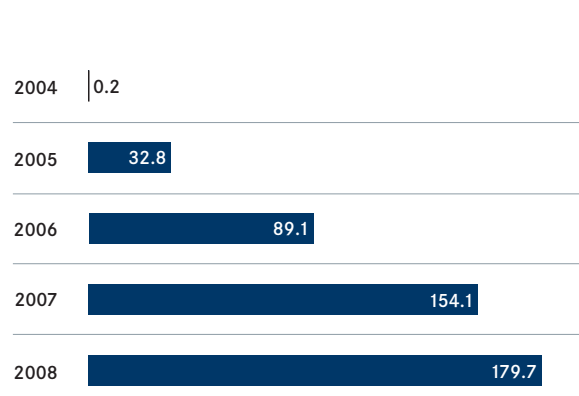
Revenues by segments (without consolidation) in € million



EBITDA adjusted by segments (without consolidation) in € million



Net profit in € million



Selected consolidated financial information and key figures at a glance

in € million (unless otherwise specified)	Change 2008 - 2007		2008	2007	2006
Revenues and earnings					
Revenues	148.4	5.8 %	2,724.3	2,575.9	2,416.2
thereof: commercial and military engine business (OEM)	43.4	2.7 %	1,642.9	1,599.5	1,483.1
thereof: commercial maintenance business (MRO)	108.3	10.8 %	1,113.0	1,004.7	954.7
Earnings before interest, tax, depreciation and amortization (EBITDA)	15.6	4.0 %	408.5	392.9	335.6
Earnings before interest and tax (EBIT)	5.0	2.1 %	248.3	243.3	183.8
Net profit	25.6	16.6 %	179.7	154.1	89.1
Earnings (adjusted)					
Earnings before interest, tax, depreciation and amortization (EBITDA adjusted)	12.8	3.3 %	405.7	392.9	318.2
Earnings before interest and tax (EBIT adjusted)	18.4	5.9 %	331.0	312.6	237.7
Balance sheet					
Total assets	110.6	3.6 %	3,196.1	3,085.5	2,986.0
Equity	55.4	9.9 %	617.4	562.0	562.3
Equity ratio in %			19.3	18.2	18.8
Net financial liabilities	31.3	14.0 %	254.7	223.4	210.2
Cash flow					
Cash flow from operating activities	169.6	71.8 %	405.8	236.2	209.8
Cash flow from investing activities	-177.7	-170.0 %	-282.2	-104.5	-94.1
Free cash flow	-8.1	-6.2 %	123.6	131.7	115.7
Cash flow from financing activities	38.4	23.2 %	-127.4	-165.8	-37.7
Number of employees at year-end					
Commercial and military engine business (OEM)	290	6.3 %	4,900	4,610	4,740
Commercial maintenance business (MRO)	117	4.6 %	2,637	2,520	2,337
Share data					
Earnings per share in €					
Undiluted earnings per share	0.69	23.4 %	3.64	2.95	1.64
Diluted earnings per share	0.71	25.1 %	3.54	2.83	1.64
Dividend per share in €			0.93	0.93	0.82
Dividend yield in %			4.7	2.3	2.3
Total dividend (€ million) ¹⁾	-1.8	-3.8 %	45.4	47.2	43.6
Outstanding common stock at Dec. 31 (million shares)	-1.9	-3.7 %	48.8	50.7	53.3

¹⁾ Proposal presented at the Annual General Meeting / previous years: resolution by the Annual General Meeting for the financial year

Ahead of its time.

For 75 years.



Today

Aircraft flying at the time ...



Airbus A380

MTU had already developed ...

Geared turbofan



75 years of MTU history.
100 years of aviation expertise.
Always ahead of its time.

75 years of MTU history

100 years of aviation expertise

To be able to make your mark on the present and shape the future, you have to be ahead of your time. MTU Aero Engines has been doing precisely that for 75 years. Its predecessor, BMW Flugmotorenbau GmbH, was founded in Munich in 1934. After changes in name and ownership, the company has meanwhile evolved into Germany's leading engine manufacturer and the world's biggest independent commercial MRO provider – a successful, globally operating, publicly owned enterprise and an established player in the realm of engines. The name MTU stands for 100 years of aviation expertise, because with its advanced technologies it will be shaping the future of aviation well into the 21st century.

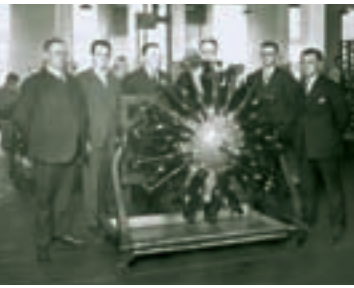
MTU and its predecessors have always played an influential role in flying. The BMW VI, RB199, PW2000 and GP7000 are outstanding examples of MTU's engineering competence. Thanks to decades of expertise and research, the company has constantly developed propulsion technologies of the future in collaboration with its partners from industry, research and science. No sooner has one engine been launched than MTU's engineers are already developing the engine of tomorrow. This still applies today. The Clean Air Engine (Claire) technology program will take full effect sometime around the year 2034 – thanks to 75 years of MTU history and 100 years of aviation expertise.



MTU chronicle

German competence in aero engines united in a single company

MTU Aero Engines is a company with a long tradition and a promising future. Its roots can be traced back to the beginnings of powered flight in the early 20th century, while its technology programs point the way far into the 21st century. The company's history has been marked by a succession of major names, events and products. Originally a subsidiary of BMW, MTU returned to building engines after the Second World



Hornet licensing agreement between Pratt & Whitney and BMW



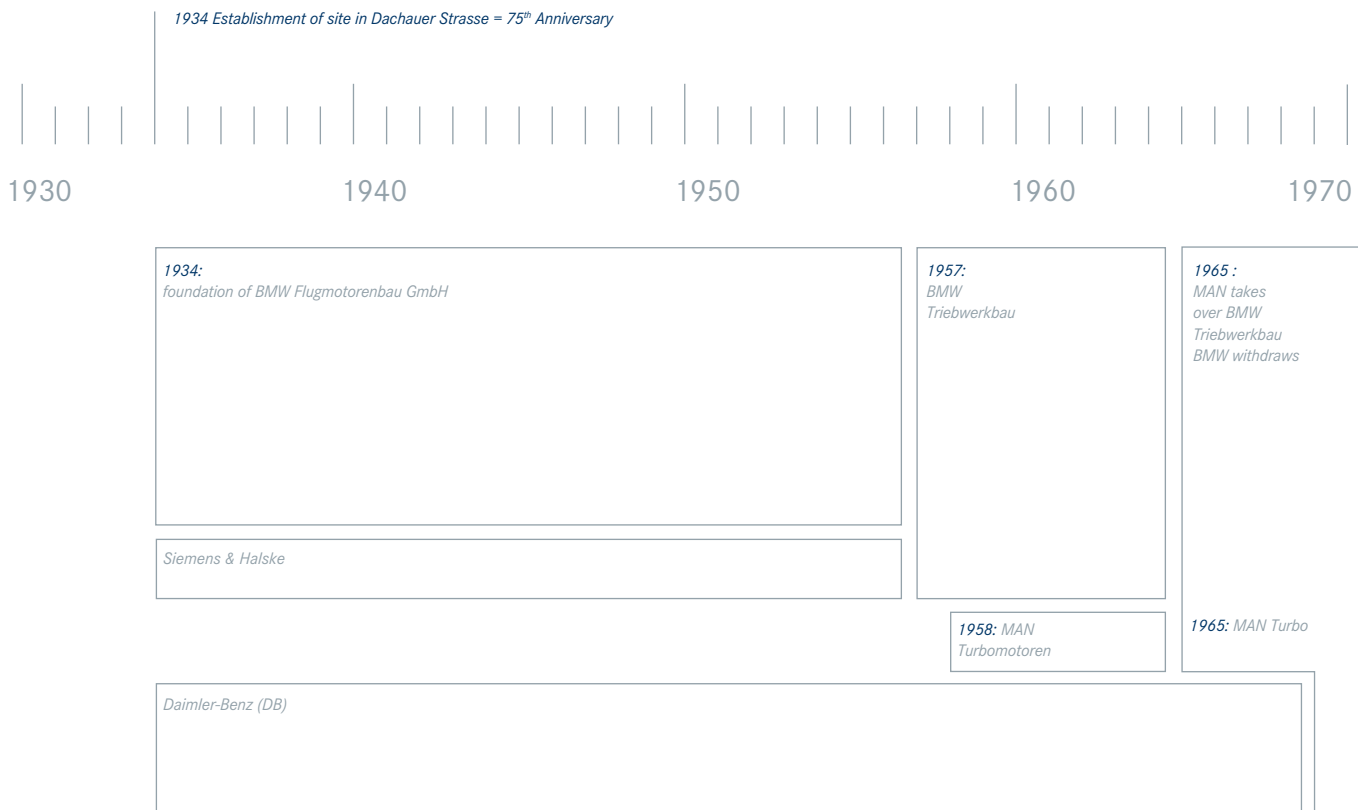
Franz Josef Popp, founder of BMW Flugmotorenbau GmbH



The factory site at Allach after the end of the Second World War



Production gets underway for the J79 Starfighter engine





War, initially for military airplanes and later also for the commercial sector. It subsequently developed into one of the world's leading engine manufacturers. MTU has been an independent company since its IPO in 2005.



The founders of MTU Motoren- und Turbinen-Union München GmbH



The RB199 Tornado engine is assembled by MTU in Munich for the German air force



The V2500, one of the most successful programs in which MTU has been involved



The IPO signaled the independence of MTU Aero Engines



1969:
 MTU:
 50% DB
 50% MAN

1985:
 DB takes over a
 50 % share of MAN
 MAN withdraws

1989:
 MTU becomes a subsidiary
 of newly established
 Deutsche Aerospace, the
 later DaimlerChrysler
 Aerospace (DASA)

2000:
 MTU becomes
 a DaimlerChrysler
 company

2004:
 DaimlerChrysler
 sells MTU to KKR

2005:
 IPO of MTU
 Aero Engines
 Holding AG

The 1930s

The piston engine for aircraft sets benchmarks



Piston engines dominated aviation in the 1930s and 1940s. They were built by, among others, MTU's predecessor, BMW Flugmotorenbau. One of the most famous examples was the BMW VI. Two of these 12-cylinder twin-bank engines propelled the Dornier Do-J IIb flying boat, known as the Greenland Whale, through the air. The BMW VI was noted for its exceptional reliability and allowed many pioneers of flight to set new records. It helped Wolfgang von Gronau to accomplish his second transatlantic flight in 1931, for example. The BMW VI also made a name for itself as a locomotive engine. Large piston aircraft engines were manufactured in Germany until the end of the Second World War.



At the time when piston engines like the BMW VI were the norm,



work was already underway on modern turbojet engines such as the DB007

The 1930s

The 1950s

The turbofan takes
the world by storm



The 1950s



While the JT8-D was conquering the world,



MTU was about to launch the RB199.



In the period after the Second World War, aviation was dominated by the turbofan engine. This propulsion technology is notable for its high performance and fuel economy. One of the engines of this type produced in the highest numbers is the JT8-D manufactured by the American company Pratt & Whitney. It is based on technologies originally developed for the DB007 turbofan engine in the 1940s as part of Daimler-Benz's aircraft engine activities, which were later integrated in MTU. The JT8-D powered commercial aircraft like the Boeing 727. As well as manufacturing parts for this engine, MTU also developed improved components to optimize its performance. The company still supplies spare parts for this best-selling engine.

The 1970s

MTU lays the groundwork for its compressors



The RB199 engine was developed exclusively for the Panavia Tornado, a European multipurpose fighter jet, in a joint project involving Germany, Italy and the United Kingdom. It is reputed for its extraordinary reliability and robustness, and has been MTU's most successful military engine program to date. It was the first time that the German engine manufacturer had been called upon to develop and build medium- and high-pressure compressors, which is the highest discipline in jet engineering. MTU also contributed the medium-pressure turbine. The swing-wing aircraft is not only deployed by the three partner nations, but also flies in Saudi Arabia.



While the RB199 was in series production,



MTU had already started work on the modern PW2000

The 1970s

The 1990s

MTU low-pressure turbines
make the grade





The PW2000 was just making its technological mark,



when MTU started collaborating on the GP7000

The 1990s

The PW2000 is one of the most advanced commercial engines of its generation, and is especially quiet and fuel-efficient. This is due in great measure to MTU, which had a stake of over 20 percent in this Pratt & Whitney engine program. For the first time in the company's history, it had been placed in charge of developing a low-pressure turbine. And with success: The PW2000 model established the company's reputation as the world's best manufacturer of low-pressure turbines. MTU continues to perform maintenance work on the PW2000. The engine is used in the Boeing 757 and C-17 aircraft.

2009

A giant arrives on the scene



The Airbus A380 mega-jumbo is the world's largest commercial airliner. Not only can it carry a record number of passengers on board, but it is also the most economical and quietest airplane in its class. This is partly attributable to the performance of its four engines. The GP7000 powerplant is supplied by General Electric and Pratt & Whitney. MTU is the third-ranking partner in this program with a workshare of over 20 percent. The company is responsible for the complete low-pressure turbine, manufactures parts for the high-pressure turbine, and contributes the turbine center frame, which represents a particular challenge in the case of such large engines.



When the GP7000 went into volume production,



MTU was already working on the geared turbofan

Today

2009 - 2034

The future begins today

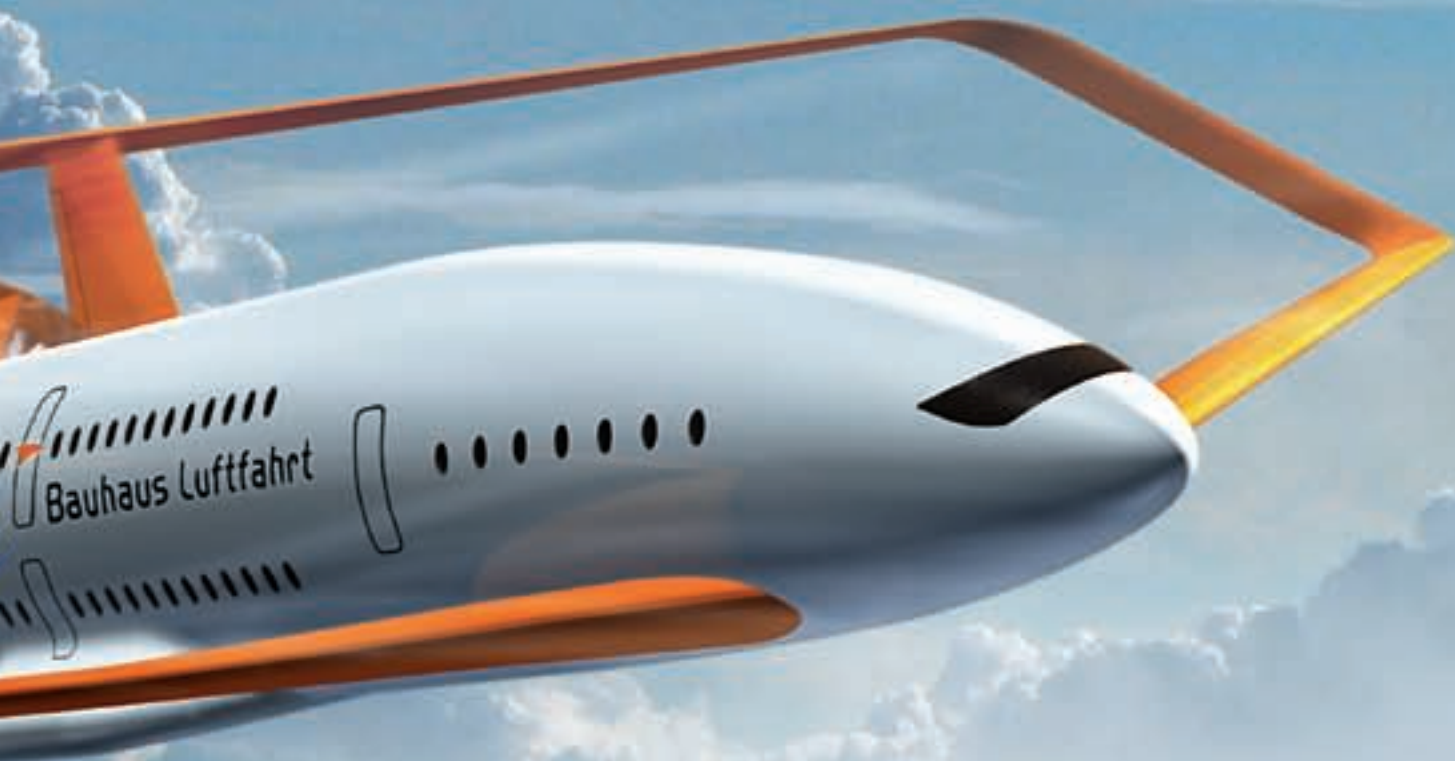




The geared turbofan technology has found its first users

But there is something even better: A counter-rotating propfan and an integrated heat exchanger will be added in the next development stages.

The future



Billions of people require mobility, and this will mean steady growth for air travel. Clean aircraft like the Claire Liner are needed to minimize the environmental impact of this trend. The only way aircraft can be operated efficiently is with a completely new type of engine: The concept for the future is the geared turbofan. MTU is developing and manufacturing the high-speed low-pressure turbine for this extremely fuel-efficient Pratt & Whitney engine. It is the key component responsible for the engine's low emissions. In addition, the company is developing an especially economical high-pressure compressor together with its American partner.

Engines for the world

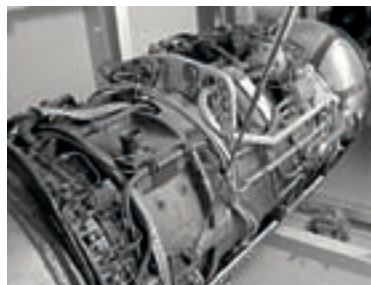
100 years of aviation expertise

1934 - 2034

MTU has been an active player in every era of powered flight. Supreme examples have been such renowned engines as the BMW 132, which carried the legendary Tante Ju aloft, and the BMW 003 of He 162 "Volksjäger" fame. Recent examples of engineering prowess are the EJ200 Eurofighter engine and the GP7000 powering the Airbus A380 mega-jumbo.



BMW132



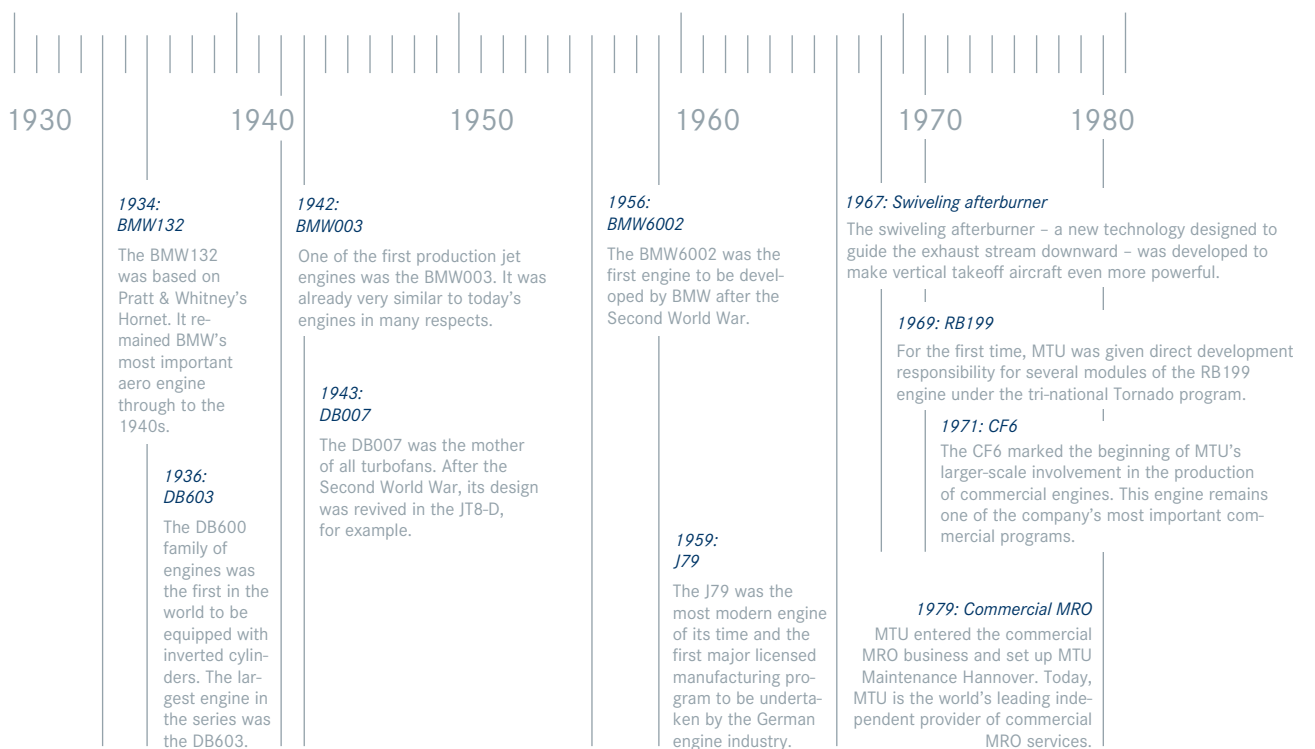
BMW003



J79



RB199



Together with its partners, the German company has always worked on new engine concepts and helped to advance the aviation industry. The engine of the future, the geared turbofan developed by Pratt & Whitney, would not be feasible without the key technologies provided by MTU. Its most fuel-efficient version is expected to enter service by around 2034.



PW2000



EJ200



GP7000



PW1000G

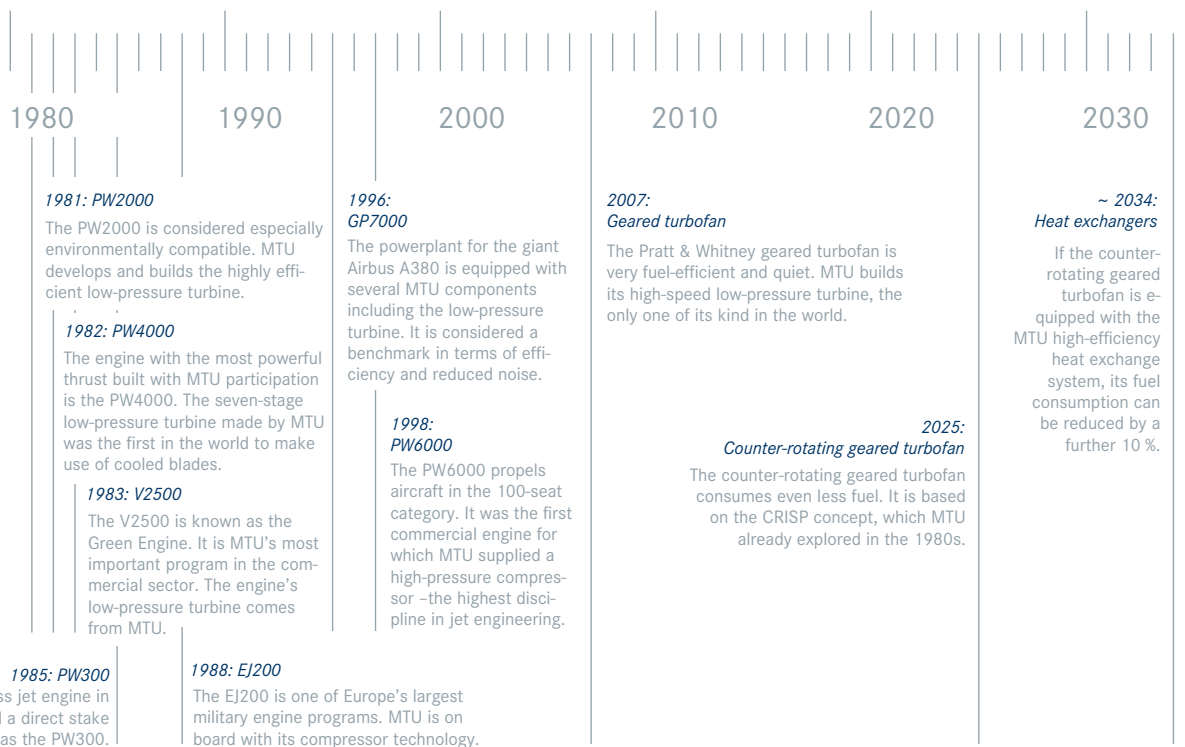


Table of contents

	To the shareholder
20	Letter to the shareholders
26	The Board of Management
28	The MTU share
	Group management report
36	The enterprise MTU
59	Economic environment
63	Financial situation
101	Subsequent events
102	Forecast
108	Risk report
118	Other disclosures
	Consolidated Financial Statements
129	Consolidated Income Statement
130	Consolidated Balance Sheet
132	Consolidated Statement of Changes in Equity
133	Consolidated Cash Flow Statement
134	Segment reporting by business segment
	Notes to the Consolidated Financial Statements
141	Accounting Policies and Principles
174	Notes to the Consolidated Income Statement
190	Notes to the Consolidated Balance Sheet
256	Other information
277	Segment Information
280	Events after the balance sheet date
281	Reconciliation of group net profit with net profit of MTU Aero Engines Holding AG
285	Statement by the legal representative
286	Independent Auditor's Report
287	Comparative overview tables
	Corporate Governance
296	Corporate Governance Report
300	Management Compensation Report
306	Report of the Supervisory Board
310	The Supervisory Board
312	Glossary of engine terms
316	Overview of engines
318	Imprint

Letter to the shareholders



Egon Behle
Chief Executive Officer
MTU Aero Engines

Dear Shareholders,

2009 is a very special year for MTU Aero Engines as it celebrates the 75th anniversary of the company's foundation. In 1934, its predecessor, BMW Flugmotorenbau GmbH, was founded on the same site in the north of Munich still occupied by MTU today. From the outset, the German engine manufacturer has marked and driven forward the fortunes of powered flight.

At every stage of its checkered history, taking in several name changes along the way, MTU has developed future generations of engines and new technologies. The likes of the Tornado RB199 engine, and the commercial PW2000 engine that powers the Boeing 757 and C-17, are testimony to MTU's aircraft engineering expertise. The very latest highlights include the GP7000 for the mega-Airbus A380 and the EJ200 for the Eurofighter.

With the development of each of these engines, MTU has devised and started to implement concepts that were the forerunners of technologies and components that would only see the light of day in the next generation of aircraft. As in its early days, MTU continues to be ahead of its time. Together with our partners we are working on tomorrow's aero engines that are required to be even quieter, cleaner and more environmentally compatible than today's models. Our Clean Air Engine (Claire) technology program foresees the development of a three-stage concept for the aero engine of the future that, by 2035, will emit 30% less CO₂ and also significantly reduce noise levels. The centerpiece of Claire is the innovative, eco-friendly geared turbofan technology. Here we are once again the technology pacesetter, not least since we will be supplying key technology such as the high-speed low-pressure turbine. The name MTU is therefore not only synonymous with 75 years of German engine manufacturing, but also with a hundred years of aviation expertise – in essence, the future of our industry.

We have mapped out the direction of our company's future. In 2008, we acquired stakes in a number of new and important programs, which promise to bring in revenues of around € 30 billion. In a single year, MTU has signed a greater volume of new program agreements than it has ever done before in its history.

Letter to the shareholders

In the commercial engine sector, these stakes include a 15-percent workshare in the new PW1000G geared turbofan family from Pratt & Whitney and the PW810 respectively, and around 6.6% in General Electric's GEnx. The new geared turbofan engines will power aircraft such as the new Mitsubishi Regional Jet and the Bombardier CSeries. This successful aero engine program is running to schedule. In the financial year 2008, flight testing got underway, with tests conducted on a Boeing 747 and an Airbus A340. The low-pressure turbines come from MTU along with the four initial stages of the high-pressure compressors. We are also supplying the same components for the PW810 engine program. This new Pratt & Whitney engine is designed for large business jets. One of the most important engines in the upper thrust-range segment will be GE's GEnx, the powerplant earmarked for the new Boeing Dreamliner 787 and the Boeing 747-8. We are also involved in building this engine for the important widebody aircraft market, taking on responsibility for producing the turbine center frame and carrying out the related development work.

We have also been successful in the military sector, securing an 18% program share in the GE38 engine for heavy-lift helicopters. We are extremely proud that for the first time we have been granted development responsibility as a risk-and-revenue-sharing partner in a U.S. engine program. Our remit involves developing and building the power turbine.

MTU is similarly well positioned in the commercial maintenance sector: We acquired many new customers in 2008 and signed additional maintenance contracts with a total value in the region of € 1 billion. These agreements concern in particular the PW2000 engine that powers the C-17, the V2500 deployed in the Airbus A320 family, the CF6 for widebody airliners such as the A330 and the Boeing 747.

Long-term engine programs have several advantages for a company. They provide a solid base for the future and also make MTU relatively immune to economic fluctuations. The effect was clearly demonstrated in 2008. Despite a weakening economy, MTU has been able to increase its revenues and earnings. Revenues increased by 5.8% to € 2.7 billion; adjusted for U.S. dollar fluctuations, the growth rate was 12.2%. Operating profit (adjusted EBITDA) increased in the same period by 3.3% to € 405.7 million. Despite the negative exchange-rate

effects and stalling economic growth, we have clearly exceeded the forecast published at the start of the year; the EBITDA margin of 14.9% was at the top end of our target range of between 14 and 15%. As our shareholders, you will also reap the benefits of this sound performance in the shape of an attractive dividend. We intend to propose a dividend payment of € 0.93 per share, as in the previous year.

Looking back, we are extremely pleased with our achievements in 2008. However, the capital markets have not rewarded our positive performance; the financial crisis and the global recession are essentially driving the stock markets. The MTU share is naturally not immune from this economic climate. Every company can expect to face major challenges this year as the impact of a contracting economy feeds through. Our industry in particular is also dogged by volatile exchange rates and the heavily fluctuating price of oil.

MTU is, however, well prepared, not least by setting up a new efficiency improvement program dubbed "Challenge 2010", which was launched in 2008. Key areas include optimizing product design costs, process optimization as well as delivering procurement savings. "Challenge 2010" does not envisage any job cuts. The targets we have set are ambitious: As early as 2010, we aim to generate savings of € 25 to 30 million; from 2011, that figure should rise to € 50 million annually. This program is intended to give us the necessary leeway to further increase the company's technology lead and thereby continue to improve our market position.


And we have the means to do just that. As the innovation leader in the global aviation market, our annual capital expenditure on research and development amounts to around 7% of revenues. Through these forward-looking investments we are laying the foundations for our company's long-term success. Our development departments are working intensively on programs for a new generation of engines. The geared turbofan, for instance, is slated to enter service as early as 2013, while we expect to see production models of the counter-rotating geared turbofan in flight from 2025. Both projects illustrate just how well MTU is currently placed to meet the challenges of the coming decade.

Letter to the shareholders

All of which is not least thanks to the knowledge and performance of our 7,500 staff worldwide. I would like to take this opportunity of thanking each and every one of them for their dedication and hard work. I would also especially like to thank our customers for their loyalty and the trust they have placed in us throughout the past business year. And I wish to thank you, our esteemed shareholders, for having faithfully supported MTU in spite of the less-than-favorable economic climate.

Our forward-looking strategy makes me optimistic that MTU will continue to perform well in what will be a difficult environment in 2009. I am confident that the next global upturn is on its way and that MTU will be better able to reap the benefits than its peers. Market researchers agree that global air traffic will once again grow strongly in this kind of environment – and MTU will benefit with its unique aviation expertise.

Dear shareholders, with your investment in MTU and your ongoing trust, you have laid the foundations for sustainable positive development. On behalf of the entire company and the Board of Management, I would like to thank you, safe in the knowledge that we will do our utmost to ensure MTU remains what it has always been – Germany's leading engine manufacturer and a tried-and-trusted player worldwide.

Sincerely yours


Egon Behle
Chief Executive Officer
MTU Aero Engines

The Board of Management



Egon Behle



Dr. Stefan Weingartner

Egon Behle (born 1955)
Chief Executive Officer
Appointed term: to December 31, 2010

Egon Behle took over the post of Chief Executive Officer at MTU Aero Engines on January 1, 2008. As well as managing the corporate departments, he is also responsible for the commercial and military programs.

An aerospace engineering graduate, he joined MTU after serving for five years as the CEO of ZF Lenksysteme GmbH. Prior to that, he had 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.

Dr. Stefan Weingartner (born 1961)
Member of the Board of Management,
President and CEO Commercial Maintenance
Appointed term: to October 31, 2010

Dr. Stefan Weingartner has directed the company's commercial maintenance operations as a member of the Board of Management since November 2007.

Prior to that date, Dr. Weingartner had headed MTU's military engine programs. The holder of a doctorate in engineering, a degree in physics and an MBA, he knows the company and the industry very well. His previous posts have included managing director of MTU Turbomeca Rolls-Royce GmbH, director and vice president of EADS Japan Co. Ltd. and managing director of DaimlerChrysler Japan Holding.



Reiner Winkler



Dr. Rainer Martens

Reiner Winkler (born 1961)
Member of the Board of Management,
Chief Financial Officer
Appointed term: to September 30, 2011

Reiner Winkler has served on the MTU Board of Management since May 2005, with responsibility for finance, human resources and IT. Up to that date, he had held similar responsibilities for four years as a member of executive management. Winkler, who has a degree in business administration, joined MTU in 2001 as Executive Vice President Finance and Human Resources.

His last post before joining MTU was as managing director finance and controlling at TEMIC Telefunken microelectronic GmbH. He has 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 Aero Engines Board of Management since April 2006, with responsibility for engineering and production.

After obtaining a doctorate in mechanical engineering, he gathered extensive knowledge of the industry in various management positions at the Airbus plants in Varel and Bremen. His last post before being appointed to the MTU Board of Management was as production manager at the Airbus site in Bremen. Prior to that, he had spent five years at the head of MTU's manufacturing center for turbine blades.

Dr. Martens started his professional career as managing director of CIM-Fabrik Hannover GmbH.

The MTU share

Tough capital markets

In 2008, the capital markets were greatly destabilized by the global financial crisis. Volatile commodity prices, a fluctuating U.S. dollar and the weakening economy dragged markets down further. Consequently, the share prices of listed companies fell virtually across the board on markets around the globe; the Dow Jones lost 34%, the DAX 40% over the course of the year.

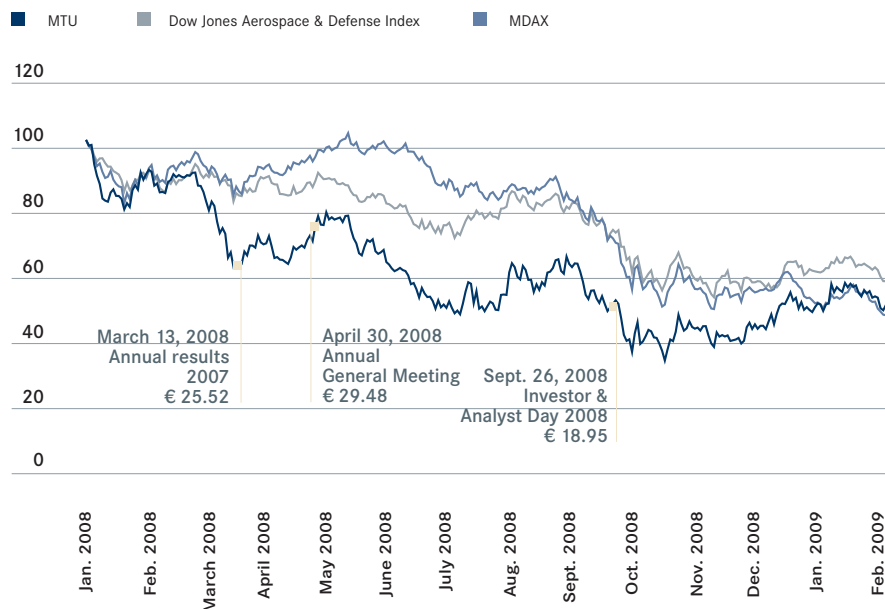
The performance of the MDAX, on which the MTU share is listed, also reflected this downturn. Whereas the German mid-cap index held up relatively well in the first half of 2008, staying above an average of 9,000 points despite the tense market situation, its value subsequently dropped below 6,000 points in the second half of the year. On December 30, 2008, the MDAX closed at 5,602 points, posting a 43% loss in value over the full year 2008.

Shares in the aerospace sector also suffered heavy losses in 2008. In the first half of the year, share prices were dragged down in particular by the high oil price and the weak U.S. dollar – the industry's key currency. The sector was also weakened by the slower rate of growth in air travel, which fed through into aircraft being taken out of service and some orders being cancelled. In the second half of the year, although the renewed decline in oil prices coupled with a stronger U.S. dollar alleviated the situation, the dismal economic outlook continued to weigh heavily on the aviation sector. The Dow Jones Aerospace & Defense Index lost 44% over the course of the year. This index includes companies such as Rolls-Royce, EADS and BAE Systems in addition to MTU.

MTU share in the wake of the financial crisis

2008 saw a decoupling of the MTU share price from operating performance: Despite an increase in revenue and earnings plus an upgraded forecast during the course of the year, the MTU share was not immune to the negative stock-market sentiment. Between the beginning of the year and the publication date of the 2007 consolidated financial statements on March 13, 2008, the MTU share lost 36% of its value. The share recovered slightly in the months that followed before suffering a further substantial loss in value from June onward – like most other shares worldwide – in the wake of the worsening financial crisis. On June 24, 2008, the MTU share closed at € 20.62, the first time it had ever fallen below its issue price of € 21.00. Despite good quarterly results, the stock markets remained in a predominantly negative mood which also affected the MTU share, driving it down to an all-time low of € 12.87 on October 28, 2008. The introduction of a new cost-reduction program „Challenge 2010“ and signs of recovery in the commercial maintenance division lifted the share price slightly higher. The year-end share price on December 30, 2008 was € 19.58 (year-end 2007 € 40.00). This represents a year-on-year decrease of 51%.

MTU share performance



Increase in trading volume

The high volatility of the capital markets translated into high trading volumes in 2008. The average trading volume of the MTU share increased year-on-year by 36% from 485,000 to 660,000 shares per day. This represents a daily trading volume of around €16 million. On peak days, up to 2.2 million MTU shares were traded on XETRA and the German floor trading systems.

At year-end 2008, MTU ranked 16th out of the 50 stocks included in the MDAX index in terms of trading volume, moving up from the 19th place it had held one year previously. In terms of market capitalization, the company once again ranked 19th, as at the end of 2007.

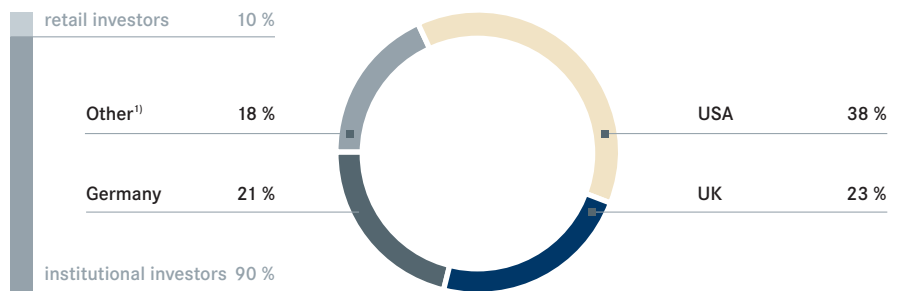
Year-on-year comparison

	2008	2007
Highest quoted share price	€ 39.38 on January 3	€ 50.93 on August 1
Lowest quoted share price	€ 12.87 on October 28	€ 31.69 on November 21
Year-end share price	€ 19.58	€ 40.00
Market capitalization at December 31	€ 1,018 million	€ 2,200 million
Earnings per share	€ 3.64	€ 2.95
Dividend per share	€ 0.93	€ 0.93

Broadly diversified shareholder structure

At December 31, 2008, MTU held a total of 6.2% of the company's capital stock in the form of treasury shares. Consequently, the free float accounted for 93.8% of MTU shareholdings: Institutional investors held approximately 90%, while the remaining 10% were owned by retail investors. Around 80% of the institutional investors are based outside Germany – primarily in the USA, the UK, France and other western European countries. MTU thus has a broadly diversified shareholder structure. At December 31, 2008, the stock-market authorities were in possession of notifications from the following investors who individually hold more than 3% of voting share rights in the company: The Boston Company Asset Management LLC. (3.1%) and Franklin Templeton Institutional LLC. (3.1%).

Shareholder structure according to institutional and retail investors



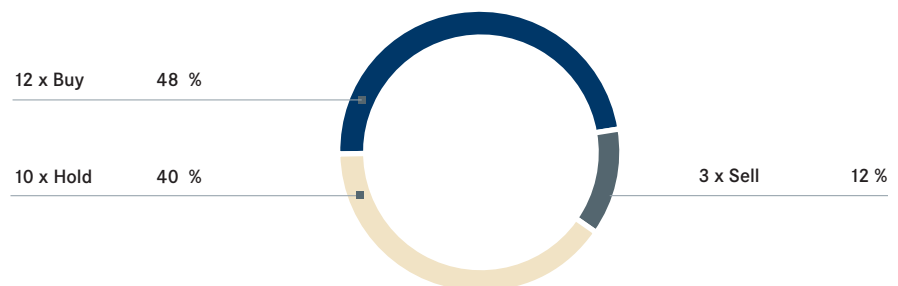
¹⁾ primarily Western Europe

MTU estimate, Status: December 31, 2008

High profile among analysts

MTU shares represent a compelling investment opportunity for institutional investors. An increasing number of analysts therefore regularly monitor the company. Commerzbank and DZ Bank analysts published studies for the first time in 2008, bringing the number of financial institutions with up-to-date analyses on MTU to 25. At the close of 2008, the assessment of the MTU share was unequivocal: 22 banks recommended the share with a buy or hold rating.

Analysts' recommendations



Status: December 31, 2008

Attractive dividend

Revenue and earnings growth in 2007 enabled the company to distribute part of the year's net profit in the form of an attractive dividend of € 0.93 per share in 2008. In view of the group's good performance in 2008, the dividend is to remain at this high level. The Board of Management and the Supervisory Board intend to propose a dividend payment of € 0.93 per share, as in the previous year, at the Annual General Meeting on May 26, 2009. The dividend is expected to be paid out on May 27, 2009.

Intensive investor relations

MTU has continued to maintain its ongoing dialog with investors and analysts. Management and the investor relations team took part in numerous road-shows and investor conferences in Europe and the United States in 2008. The business model and potential of MTU were presented in around 200 personal meetings. Germany's largest aviation-industry meeting, the ILA Berlin Air Show, was also used as an opportunity to meet with large numbers of institutional investors and analysts.

The MTU Annual General Meeting, which was held in Munich on April 30, 2008, constitutes an important platform for direct dialog with shareholders. The AGM was attended by shareholders representing 42% of the share capital with voting rights.

Over 50 analysts and investors took part in MTU's annual Investor and Analyst Day, which was held at the Oberschleißheim Airfield near Munich in September 2008. The main topics dealt with included MTU's strategic objectives, a presentation of the new "Challenge 2010" cost-reduction program, business developments in the MRO segment following the organizational and process changes at MTU Maintenance Hannover, and technological innovations such as the geared turbofan.

The MTU website www.mtu.de includes full up-to-date information in the Investor Relations section, including quarterly Interim Reports, Annual Reports, presentations, and details on the MTU share and the Annual General Meeting. The investor relations team in Munich will be happy to answer your questions by phone, at + 49 89 1489-8313.

> 2009

Boeing 787 Dreamliner



Boeing's Dreamliner 787 will be the first passenger plane to be made predominantly out of composite materials. The resulting reduction in weight will help to save a considerable amount of fuel. The jet will also be outfitted with a completely new interior. All in all, this makes the 787 such an attractive proposition that over 900 aircraft have been sold before it has even taken off on its maiden flight. General Electric has specially developed a new engine for this trendsetter. The GEnx is several percent more efficient than previous engines. MTU has a roughly 6.6-percent share in this bestseller, and is supplying the turbine center frame.



Group management report

36	1. The enterprise MTU
36	Business activities and markets
38	Organization and locations
40	Corporate strategy and control
45	Research and development
51	Corporate responsibility
51	Human resources report
54	Social responsibility
57	Environmental report
59	2. Economic environment
59	General economic climate
61	Industry-specific developments in the aerospace sector
62	Overall assessment of the business situation
63	3. Financial situation
64	Operating results
65	Group
76	OEM business
78	MRO business
81	Financial situation
81	Financial analysis
86	Analysis of capital expenditure
88	Liquidity analysis
90	Net assets
97	Value added statement
99	Major events affecting business performance
99	Comparison of actual and forecast business performance
100	Overall assessment of business performance 2008
101	4. Subsequent events
102	5. Forecast
102	Future operating environment
104	Future development of the MTU group
106	Opportunities
107	Overall prognosis of future business developments
108	6. Risk report
108	Strategy and management
110	Categories of risk
117	Overall prognosis of MTU's risk exposure
118	7. Other disclosures
118	German Takeover Directive Implementation Act (Section 315 (4) of the German Commercial Code (HGB))
125	Reference to the management compensation report
125	Disclaimer

1. The enterprise MTU

MTU is Germany's leading aero engine manufacturer and the world's largest independent provider of commercial MRO services. The company's long-term growth strategy and intensive R&D efforts strengthened this position in 2008.

Business activities and markets

Development, manufacture, maintenance, repair and overhaul: MTU's support covers the engines' entire lifecycle.

MTU Aero Engines Holding AG together with its consolidated group of companies (designated below as "MTU", "the group", "the enterprise" or "the company") is Germany's leading engine manufacturer and one of the world's largest. The support it provides for commercial and military aircraft engines covers their entire lifecycle: MTU develops, manufactures and markets engines and maintains them.

The company is a technological leader in low-pressure turbines, high-pressure compressors, repair techniques and manufacturing processes. MTU is a decisive partner in all important technology programs, both national and international, 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, measured in terms of revenue. In the military sector, it has been the leading company in the national market and lead industrial partner to the German armed forces for several decades.

MTU operates in two principal segments: the OEM business (Original Equipment Manufacturing) and the MRO business (Maintenance, Repair and Overhaul).

OEM business

The OEM business covers those parts of the company's activities relating to the design and manufacture of new engines and spare parts for commercial aircraft, plus the whole of the company's military business (new engines, spare parts and maintenance).

MTU is a risk- and revenue-sharing partner in the major commercial engine programs. This means that the company carries the full responsibility for the components and modules it designs and manufactures – and also the financial risk. MTU receives a percentage of the revenues in proportion to its stake in the respective program.

MTU's products for the commercial aero engine market cover all thrust and power categories and the most important components and subsystems. The company designs and manufactures modules and components and carries out final assembly work on complete engines. The focus of MTU's work on engine modules lies on low-pressure turbines and high-pressure compressors. MTU also develops and manufactures industrial gas turbines

(IGTs). The commercial aero engine programs currently of greatest importance, alongside the long-running CF-6 and PW2000, are the GP7000 for the Airbus A380, the V2500 engine that powers the Airbus A320 family, and the business jet engines PW300 and PW500. A recent addition is the company's stake in the GEnx program for the Boeing 787 and 747-8.

In the military domain of the OEM business, MTU supplies basic technologies, develops and manufactures engine modules and components, manufactures spare parts, is responsible for engine final assembly, and carries out maintenance work. Other services include providing technical and logistical support for MTU products and training military and civilian personnel of the armed-forces. The air forces of many different nations number among the company's military customers. As lead industrial partner to the German armed forces, MTU provides service support for virtually every type of aero engine in service with the Bundeswehr. It is also the German partner in all major military engine programs at European level. Examples include the EJ200 Eurofighter engine, the TP400-D6 for the A400M military transporter, and the MTR390 engine, as well as the more powerful MTR390 Enhanced Version that powers the Tiger combat helicopter. In the U.S. military market, the largest in the world, MTU is a risk- and revenue-sharing partner in America's F414 and F404 aircraft engine and GE38 helicopter engine programs.

MRO business

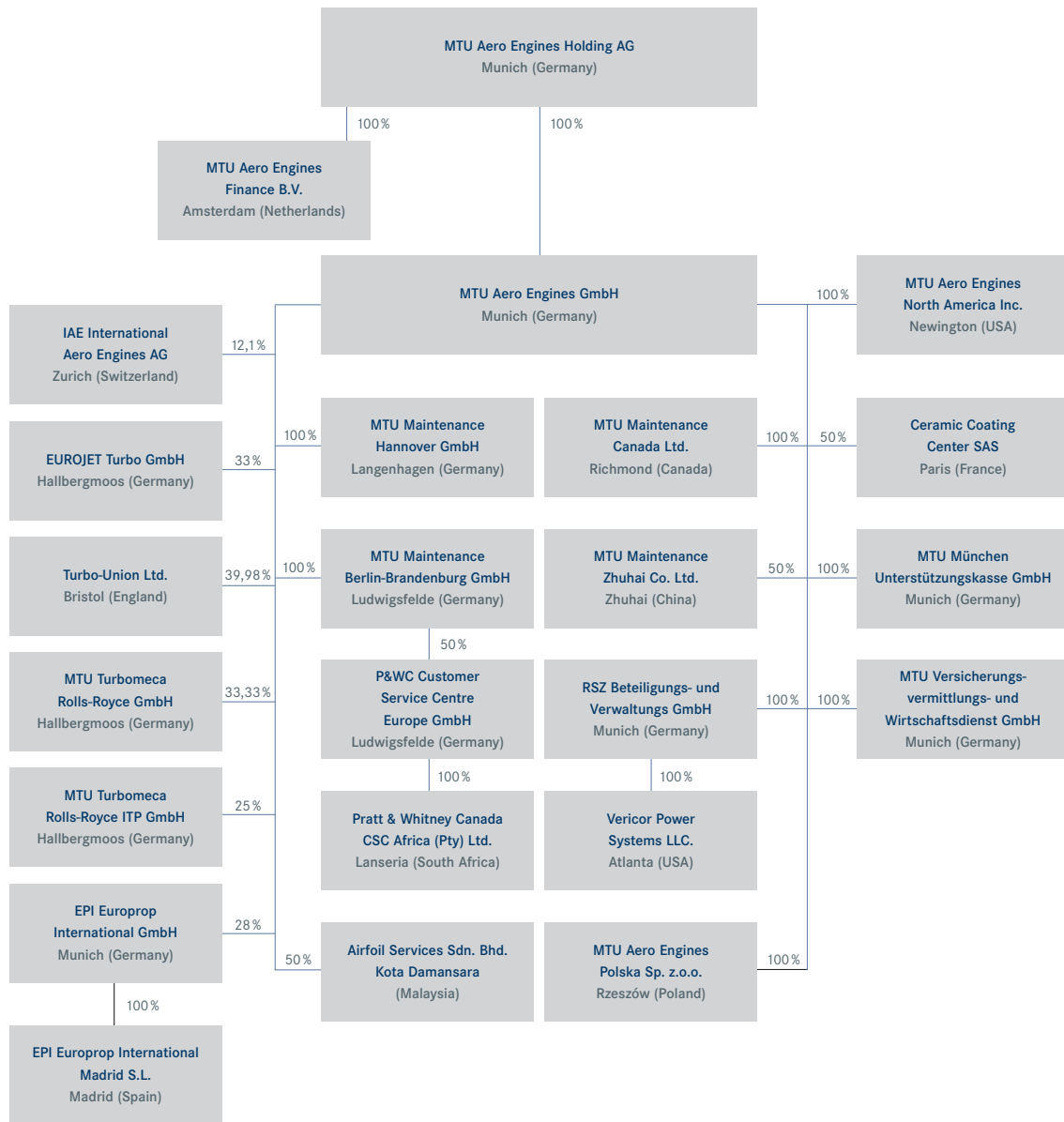
The MRO business covers all MTU's commercial maintenance activities; these are organized under the umbrella of MTU Maintenance. The MTU Maintenance companies operate facilities in all the major markets and are collectively the world's largest independent provider of commercial maintenance services. MTU Maintenance offers an extensive range of services and one-stop solutions, including the repair and overhaul of aircraft engines and industrial gas turbines. The main programs are the V2500 for the Airbus A320 family, the CF6 deployed in widebody jets such as the A330 and the Boeing 747, the CF34 business and regional jet engine, and the LM series of gas turbines. Customers include airlines and stationary gas turbine operators all over the world.

The MRO segment covers commercial maintenance, repair and overhaul. The OEM segment at MTU comprises new commercial engine business and spare parts, as well as the entire military business.

Organization and locations

MTU Aero Engines Holding AG is the parent company of the MTU group; its functions are largely those of a holding company. MTU Aero Engines Holding AG owns a 100% interest in MTU Aero Engines GmbH. MTU Aero Engines GmbH in turn holds interests in German and international affiliates. The percentage shareholdings are indicated in the chart below, which shows the structure of the group.

Structure of the MTU group



The operating activities of the MTU group are concentrated in MTU Aero Engines GmbH and the affiliated companies in which it holds a direct or indirect interest.

MTU Aero Engines Holding AG and its affiliates have a worldwide presence in all the most important markets and regions.

The global network of affiliates and associated companies, the maintenance business and the research and development activities are all controlled from the company's central offices in Munich, which is also the location of its main manufacturing site. This facility also develops, manufactures, assembles, tests and markets commercial and military engine components and modules, develops new manufacturing processes and repair techniques, and assembles and repairs military engines.

MTU is represented by its affiliates and associated companies in all major markets and regions. The company's headquarters and main manufacturing site are located in Munich.

MTU Maintenance Hannover, based in Langenhagen, is the largest plant in the MTU Maintenance network. It supports mid-sized and large commercial engines and provides services such as customer training and a 24-hour service.

Small engines and industrial gas turbines are supported by MTU Maintenance Berlin-Brandenburg. At its Ludwigsfelde site near Berlin, the company also assembles and tests the TP400-D6 production engines for the A400M military transporter.

In the fast-growing Asian market, MTU has teamed up with joint venture partners in two different countries to improve the market position: MTU Maintenance Zhuhai is a joint venture with China Southern Airlines, the country's largest airline. The 50% interest in the jointly controlled entity is proportionately consolidated in the group financial statements. The company specializes in the maintenance of V2500 and CFM56 engines. Airfoil Services Sdn. Bhd. (ASSB) in Malaysia is a 50:50 joint venture with Lufthansa Technik. It repairs low-pressure turbine blades and high-pressure compressor blades.

MTU has three affiliates in North America, the world's biggest engine market. MTU Aero Engines North America (AENA), based in Newington near East Hartford, Connecticut, develops and manufactures components for aircraft engines and industrial gas turbines. MTU Maintenance Canada, based in Richmond near Vancouver, specializes primarily in the maintenance of auxiliary units and of CF6-50 and CFM56 engines. The third American MTU affiliate, Vericor Power Systems, markets, distributes and supports aero-derivative gas turbines for marine and industrial applications from its base in Atlanta, Georgia.

MTU Aero Engines Polska was founded in May 2007. The new company will develop, manufacture and repair engine parts at the new MTU location in Rzeszów, southeastern Poland, from mid-2009 onward.

MTU Aero Engines Finance B.V. is the financing entity within the MTU group. It was through the intermediary of MTU Aero Engines Finance B.V. that MTU Aero Engines Holding AG transacted its € 180.0 million convertible bond issue in January 2007.

MTU is a member of several management consortia for engine programs. These are, in the commercial sector, the International Aero Engines AG (IAE) consortium for the V2500, and in the military sector, Turbo Union Ltd. for the Tornado's RB199 engine, Eurojet Turbo GmbH for the Eurofighter's EJ200 engine, MTU Turbomeca Rolls-Royce GmbH for the MTR390 and MTU Turbomeca Rolls-Royce ITP GmbH for the MTR390 Enhanced, and finally Europrop International GmbH (EPI) for the A400M military transporter's TP400-D6 engine.

Corporate strategy and control

Strategy

MTU's aims are unswervingly geared towards strengthening the company's strategic position and continuing to expand its lead through targeted, profitable growth. MTU is one of the world's leading engine manufacturers and the largest independent provider of commercial MRO services. Its key objective is to improve competitiveness and systematically work towards the company's projected growth targets.

Key importance is attached to strengthening the company's strategic position and continuing to expand its lead through targeted, profitable growth.



MTU pursues a long-term growth strategy in every line of business. In order to meet its set revenue and earnings targets, in both the OEM and the MRO sectors, the company systematically orients its activities towards the engine programs that offer the best opportunities for future business success.

All MTU business segments are primed for market growth – the prospects of which are by no means diminished, even though it may take longer to arrive in view of the current global economic crisis. 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.

Extension of technological leadership

In the light of progressive global warming and spiraling kerosene prices, the development of future generations of engines focuses more than ever before on environmental compatibility and cost-efficiency. MTU is closely cooperating with partners from research and industry to develop and implement innovative, environment-friendly propulsion systems; examples include the geared turbofan and the Claire engine concept. In the engine maintenance sector, too, MTU plans to extend its technological leadership by developing innovative, cost-effective repair techniques.

Participation in the fastest-growing new engine programs

Investment in large-scale programs with a high growth potential is a key factor in securing the company's profitability and competitive strength over the long term. The long lifecycles typical of the aero engine business make it essential to gain early entry to the most promising aircraft and engine programs.

The top priority for MTU's commercial engine business is to obtain a stake in the new engine programs for the successor aircraft to the A320 and B737 families and for planned long-haul airliners. Gaining entry into the GENx program is one example. MTU is already well positioned in the market for large business and regional jets with the MRJ, and at the lower-capacity end of the market for short- and medium-haul aircraft, for instance with the Bombardier CSeries. The company has made the appropriate overtures to the OEMs in question and made budgetary arrangements for the necessary funding.

In the military sector, as well as generating further export business for existing programs, MTU aims to make further investments in U.S. American programs. The breakthrough into the U.S. military market was achieved when MTU was awarded a share in the GE38 engine for the next generation of heavy-lift helicopters. The company's strategy for the military business is to compete successfully for a share in the few existing modern programs and to augment its share of the stagnating military market by offering new, innovative products.

MTU's commercial maintenance activities are concentrated on increasing the company's market share of existing, successful programs such as the V2500, PW2000, CF6, and CF34, and acquiring stakes in additional widebody airliner programs with attractive growth prospects. In the industrial gas turbine (IGT) market, the company has developed new service concepts that are meanwhile ready for market.

Improving economic competitiveness

The measures initiated by MTU in 2006 to optimize its economic competitiveness resulted in significant cost savings in 2008. Through its recently introduced Challenge 2010 program, MTU aims to generate additional annual cost savings of € 50 million from 2011 onward. The company is pressing ahead with the development of its new facilities in Poland and the introduction of local centers of competence for engine repairs. Moreover, further steps to boost productivity and optimize manufacturing processes are being taken in all sections of the company.

In 2008, MTU was able to achieve significant cost savings. Through its Challenge 2010 program the company aims to generate additional annual cost savings of € 50 million from 2011 onward.

Strengthening core activities by moving into related lines of business

MTU intends to study the options of expanding into lines of business close to its present core activities, with a view to achieving its objectives and further improving its competitive strength. As soon as profitable, expanding markets have been identified, MTU will make the necessary investments to offer corresponding products and services.

Investigating the potential for new acquisitions

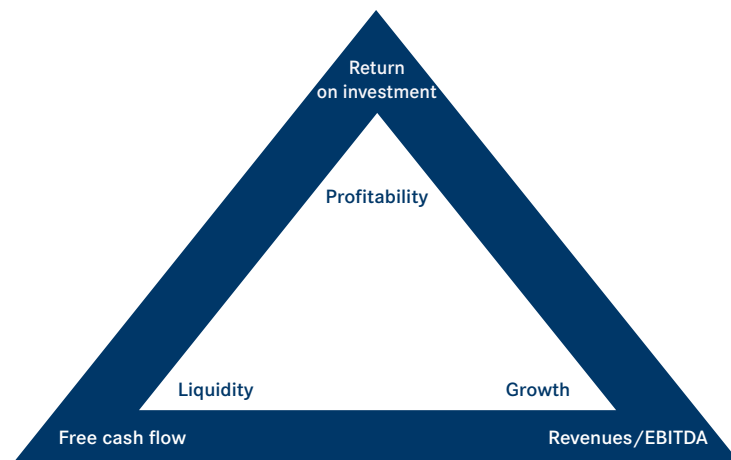
MTU regularly investigates the potential of attractive acquisition opportunities that promise to contribute towards its growth targets. Additions to the group's portfolio serve to strengthen its engine development and manufacturing activities, secure access to the requisite technologies and maintain competitiveness. A further objective is to gain entry into specific markets that will enable MTU to establish its own presence in the growth areas of the future. Through cooperation with airlines, the company also assures itself of additional avenues to profitable growth in the maintenance sector.

Group-internal control system

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

- Regular Board of Management meetings held at two-weekly intervals
- Liquidity development
- Monthly reports by the business segments
- Central committees dealing with investments, acquisitions and human resources, and group-wide committees on quality issues, health and safety, and environmental protection
- Risk and opportunity management

Return on investment, free cash flow, and revenues/EBITDA are MTU's key performance indicators.



Growth expressed as revenues and EBITDA

To increase revenues is the starting point of almost any company's performance ambitions, with the aim of achieving substantial growth.

Operating profit or EBITDA (adjusted) is the second most important performance indicator. Any increase in EBITDA is a measure of the enterprise's short-term business performance and reflects the results of the individual business segments. Another indicator monitored by the company is the EBITDA margin, which expresses the relationship between EBITDA and total revenues. This ratio makes it possible to compare the profitability of differently sized operating units.

Performance indicators revenues and EBITDA adjusted

in € million	2008	2007	2006	2005	2004
Revenues	2,724.3	2,575.9	2,416.2	2,182.7	1,918.0
EBITDA adjusted	405.7	392.9	318.2	238.7	172.2
EBITDA adjusted margin (in %)	14.9	15.3	13.2	10.9	9.0

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 (shareholder return). The expected return is measured as a function of the cost of capital, averaged to account for both debt capital and equity capital, i.e. the weighted average cost of capital (WACC). The cost of equity capital is calculated using the capital asset pricing model (CAPM), in which a risk premium to cover market risk and a beta factor derived from a peer-group analysis are added to the risk-free return. The cost of debt capital is determined on the basis of the weighted cost of borrowing, which takes into account the deductibility of the capital costs. Every investment is required to generate a return (interest) at least equivalent to the WACC. The business portfolio is optimized by concentrating on those investments that can be expected to produce the highest return in the medium term.

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 will contribute towards increasing the value of the company. Since the aim is to generate added value, this means that the group must always earn interest at least equivalent to the cost of capital.

MTU uses two indicators to monitor its performance with respect to this target: Return on capital employed (ROCE) and earnings before interest and tax (EBIT adjusted). The use of ROCE and the relative value contribution – the difference between ROCE and cost of capital – to track this target 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, obtained by comparing the average EBIT (adjusted) with the average value of its operating assets, adjusted to eliminate the effect of purchase price allocation (PPA).

ROCE and value contribution¹⁾

	2008	2007	2006
EBIT (€ million)	331.0	312.6	237.7
Capital employed (€ million)	880.4	802.6	757.7
ROCE (in %)	37.6	38.9	31.4
WACC (in %)	13.5	13.8	14.4
Relative value contribution before tax (in %)	24.1	25.1	17.0
Value contribution before tax (€ million)	212.1	201.5	128.8

¹⁾ 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. A fuller explanation of the consequences of purchase price allocation is provided in Section 3.

ROCE in 2008, at 37.6%, was lower than in the previous year (38.9%). This is attributable to the improvement in EBIT (adjusted) to € 18.4 million combined with an increase in fixed assets (an element of capital employed) due to the company's share of the development costs for the GE38 helicopter engine and the purchase of a stake in the GEnx engine program amounting to a total of € 174.1 million (2007: € 0.0 million). The generated ROCE consequently exceeded the weighted average cost of capital (WACC) of 13.5% (2007: 13.8%) by 24.1 percentage points.

The resulting contribution to the value of MTU amounts to € 212.1 million (2007: € 201.5 million), or 24.1% (2007: 25.1%) when expressed as a percentage. The calculation of the cost of capital is described in Note 40. to the consolidated financial statements.

Liquidity expressed as free cash flow

By optimizing its free cash flow, MTU ensures that it will be able to maintain its financial assets into the future.

By optimizing its free cash flow, the company ensures that it will be able to maintain its financial assets into the future. 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	2008	2007	2006	2005	2004
Cash flow from operating activities	405.8	236.2	209.8	273.3	72.9
Cash flow from investing activities	-282.2	-104.5	-94.1	-83.9	-59.8
Free cash flow	123.6	131.7	115.7	189.4	13.1

The enterprise strives to optimize free cash flow by increasing group revenues and operating profit. Additionally, a firm hand is applied in the management of the current working capital (WoC), given that MTU's business activities require high capital expenditure on plant and inventories. Working capital is hence a crucial indicator for the group: It is the balance that remains after trade payables and prepayments have been deducted from the value of inventories, trade receivables and contract production receivables. By observing changes in this indicator, it is possible to track the way in which working capital varies as a function of

business cycles. In order to ensure that these principles are firmly embodied 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 business segments.

As an incentive to business segment managers to focus their full 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.

Non-financial objectives and sustainable development key performance indicators (SD-KPIs)

In addition to its financial objectives, certain non-financial factors also play an important role in MTU's success:

- Customer satisfaction
- Quality
- A motivated, highly trained workforce
- Operative performance
- Trust and confidence
- Flight safety
- Occupational health and safety, and environmental protection

MTU has drawn up a written code of conduct that clearly defines, among other things, the basic principles to be applied when dealing with customers, suppliers, and colleagues. More information on the non-financial performance indicators employed by MTU can be found in the company's human resources report.

Research and development

Framework and objectives

The steadily growing mobility demands of billions of people, limited raw materials and the intensifying environmental problems call for innovative solutions. MTU's established technological leadership in its core competencies of low-pressure turbines, high-pressure compressors, engine control and monitoring units and high-tech manufacturing processes and repair techniques forms the basis for further development of existing engine concepts and for new engine concepts like the geared turbofan.

The Claire technology program aims to cut CO₂ emissions, reduce noise while improving engine performance, and save resources.

MTU's long-term goals with respect to the development of new engines for commercial air transport are in accordance with the European aviation industry's voluntary commitment to the ACARE 2020 targets (Advisory Council for Aeronautical Research in Europe). These targets envisage a 50% reduction in noise, 80% reduction in NO_x, along with a 50% reduction in CO₂ emissions for the aviation sector, with engines intended to provide a substantial contribution towards these cuts. MTU has launched its Claire (Clean Air Engine) technology program, a three-stage program designed, amongst other aims, to reduce CO₂ emissions by up to 30% by 2035 (see section Environmental report).

The requirements applicable to future engines for military applications are determined substantially by the specific features of propulsion systems for unmanned aerial vehicles (UAVs). Long range coupled with high thrust and low fuel consumption while operating close to the ground all call for innovative solutions.

Consequently, MTU has been playing a significant role in national and European studies, including the European Technology Acquisition Programme (ETAP). The focus of other ongoing work lies on reducing the cost of ownership and improving agility, for example through thrust-vector control.

The aim of development activities is to further enhance the added value of products and services for the customer. MTU's standard is to offer competitively priced leading technological products and to clearly differentiate itself from competition. By continuous research and development, MTU has once more increased the efficiency and quality of its products in the year under review.

Expenditure and R&D as a percentage of revenues

Expenditure on R&D amounted to € 181.6 million in 2008, slightly above the level of the previous year.

At € 181.6 million, MTU's total expenditure on research and development in 2008 was above the previous year's level (2007: € 176.4 million). R&D as a percentage of revenues, at 6.7%, remained close to the previous year's level. The following table shows research and development expenditure prior to the capitalization of development costs, together with the change in R&D as a percentage of revenues.

Research and development expenditure

in € million	2008	2007	2006
Commercial engine business	90.1	82.0	74.1
Commercial maintenance business	7.3	6.8	6.5
Commercial engine/maintenance business	97.4	88.8	80.6
Military engine business	84.2	87.6	89.3
Research and development (prior to capitalization)	181.6	176.4	169.9
R&D as a percentage of revenues	6.7%	6.8%	7.0%

Research and development expenditure and capitalized development costs

A distinction is made between company-funded and externally funded R&D expenditure. 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. It must be probable that future economic benefits will flow from the intangible asset, that it is identifiable, and that it can be assigned to a specific engine program or product. Development expenditure that meets the criteria for capitalization is amortized over the expected production output expressed as a number of units. If it is not possible to reliably estimate the number of units to be produced, the capitalized development costs are amortized over

the expected useful life of the self-created intangible asset. The amortization expense is included in the cost of sales. Company-funded expenditure is disclosed under 'Research and development expenses' in the consolidated income statement and in Note 8. to the consolidated financial statements. All costs attributable to the research phase of an engine project are expensed.

In 2008, company-funded R&D expenditure amounted to € 101.1 million and externally funded R&D expenditure to € 80.5 million. The increase in company-funded research and development expenditure relates predominantly to the OEM business and is attributable to the higher investment in new engine programs for the GE38, PW810, PW1217G and PW1524G. A total of € 6.2 million (6.1% of company-funded R&D expenditure) was recognized as capitalized development costs.

The increase in company-funded research and development expenditure is attributable to the higher investment in new engine programs.

Externally funded development expenditure relates to the military engine business and is accounted for as construction contracts in accordance with IAS 11 and disclosed under "Contract production receivables" due to the fact that the work is conducted under contract to national and international consortia on a customer-specific basis.

The following table shows company-funded R&D expenditure and the deductions made for capitalized development costs for the group as a whole and by business segment, together with the percentage of research and development costs recognized as expense and as intangible assets respectively.

Expensed and capitalized research and development costs

in € million	2008	2007	2006
Commercial engine business	90.1	82.0	74.1
Commercial maintenance business	7.3	6.8	6.5
Military engine business	3.7		
Company-funded R&D	101.1	88.8	80.6
Expenditure meeting recognition criteria for intangible assets (OEM)	-2.8		
Expenditure meeting recognition criteria for intangible assets (MRO)	-3.4	-4.3	
Utilization of R&D provision (OEM)			-16.1
Research and development costs recognized as expense	94.9	84.5	64.5
Capitalized development costs (in %)	6.1%	4.8%	

The R&D expenditure meeting recognition criteria for intangible assets in the OEM business amounting to € 2.8 million (2007: € 0.0 million) relates to company-funded development costs for the GE38 engine program incurred after the acquisition of a stake in this engine program (see additional comments under "Capitalized development costs" below). The commercial MRO business has developed special repair techniques for more cost-efficient engine maintenance, for which a total of € 3.4 million (2007: € 4.3 million) was recognized as capitalized development costs.

Capitalized development costs

In addition to the expenditure of € 6.2 million on company-funded R&D recognized as capitalized development costs, the following development assets were acquired in exchange for payment and capitalized in connection with the share of development costs resulting from MTU's investment in the GEnx (General Electric next generation) engine program:

MTU succeeded in acquiring a stake in the strategically important GEnx engine program at the close of 2008. The engine will power wide-bodied aircraft.

GEnx engine program

MTU acquired a 6.65% stake in the strategically important future-oriented GEnx engine program through a cooperation agreement dated December 19, 2008 between the General Electric Company and MTU Aero Engines GmbH. This engine will power the Boeing 787 Dreamliner, the Boeing 747-8 intercontinental airliner and the Boeing 747-8 freighter version. MTU is to manufacture and assume design responsibility for the engine's turbine center frame. The company expects to deliver the first engine components towards the end of 2009. The investment in this new engine program amounting to € 126.1 million has been recognized under program assets.

GE38 engine program

MTU's 18% stake in General Electric's GE38 helicopter engine program represents the first time that the company has been awarded full development responsibility for a module of a U.S. military engine program. The engine's first application will be in the Sikorsky CH-53K heavy-lift helicopter. MTU is supplying the power turbines and is also responsible for the maintenance, final assembly and testing of the GE38 models for the future European Heavy Transport Helicopter (HTH). The first ground trials of this 5.595 kW engine are planned for mid 2009. Development costs for this program amounting to € 45.2 million were capitalized for the first time in 2008 in respect of the military engine business. In addition to the development assets acquired in return for payment, company-funded R&D expenditure amounting to € 2.8 million (2007: € 0.0) was recognized as capitalized development costs in connection with the GE38 engine program. Consequently, a total amount of € 48.0 million (2007: € 0.0 million) was recognized as capitalized development costs in respect of MTU's share in the GE38 helicopter engine in the financial year 2008.

Non-capitalized development costs

Geared turbofan and PW810 engine family

MTU is focusing on the development of an engine family that encompasses the geared turbofan and the PW810 program. The distinctive feature of this family is that the engines employ similar modules and identical parts, which reduces development costs and ultimately manufacturing costs too. MTU is working together with Pratt & Whitney on the demonstrator engine and development programs for this new generation of commercial engines.

The advantage afforded by geared turbofans is their reduction gear, which decouples the fan from the remaining low-pressure system. This allows the components to run at different speed ranges, which up until now was not possible with conventional fans. The concept also enables the large fan to run at a slower speed and the low-pressure turbine at a higher

speed, improving the efficiency of the fan and the low-pressure turbine while reducing the noise level and halving the number of stages in the turbine.

In July 2008, an important milestone was reached for this new generation of aero engines with the first flight of the geared turbofan demonstrator engine on the Pratt & Whitney flying test bed. During the 43 hours of flight tests on a Boeing 747SP, outstanding improvements in terms of reduced fuel consumption and lower noise emissions were confirmed. When the first flight tests had been completed, the engine was reconfigured in preparation for further flight testing on an Airbus A340. The first Airbus test flight took place in October 2008, followed by extensive performance testing in Toulouse, France and acoustic measurements in Moron, Spain. The flight testing on the A340 ran without a hitch and was successfully completed in 2008 after validating the engine's target performance data.

MTU is also developing the high-speed low-pressure turbine for the production version of the geared turbofan and – in cooperation with Pratt & Whitney – a new high-pressure compressor, which successfully achieved its efficiency targets and demonstrated its operational readiness on the MTU compressor test bed in March 2008. Much of the technological groundwork for the geared turbofan originated at MTU.

Launch customer Mitsubishi Heavy Industries has selected the PW1217G geared turbofan as the exclusive engine for its new 70 to 90-seater MRJ regional jet. Bombardier intends to use a more powerful version of this engine, the PW1524G, as the sole powerplant option for its new CSeries 100 to 130-seater regional jet. Market launch of both airplanes is planned from 2013 onward. MTU has a 15% share in each of these two programs. The geared turbofan is also the optimal solution for the successors to the Boeing B737 and the Airbus A320 family in the short and medium haul category, and the distinct improvements it provides could be enhanced still further if development work were to continue on to a subsequent model.

The core engine of the geared turbofan has a third application in the PW810, a propulsion unit designed for heavy business jets with the launch customer being Cessna Citation Columbus. MTU also has a 15% share in this program. The first flight is planned for 2011 and the first deliveries for 2014.

At the close of the financial year 2008, the recognition criteria that would enable the development costs for these engines to be capitalized had not yet entirely been met, on account of the lengthy development period.

Even the engines that MTU is currently introducing to the market show clear evidence of the progress being made with respect to meeting the ACARE targets. The GP7000 engine that powers the A380, for instance, is remarkable for its extremely low noise levels and economical fuel consumption. Key components of this engine, namely the low-pressure turbine and the turbine center frame, were developed by MTU. The GP7000 engine program achieved all specified technical objectives at one go, enabling the first engines to be delivered in July 2008 to the launch customer, Emirates.

The GP7000 engine that powers the A380 is characterized by its extremely low noise levels and economical fuel consumption.

Program-independent technologies

MTU conducts research and development work on innovative, program-independent technologies for compressors, turbines, engine control and monitoring systems, manufacturing processes, and repair techniques. With few exceptions, the related R&D expenditure was ineligible for capitalization at the time it was incurred, due to the fact that the research phase could not be clearly distinguished from the development stage and the technical and commercial feasibility has not yet been adequately established.

Development expenditure on military applications

The main focus of development activities for military applications was on the TP400-D6, the most powerful turboprop engine in the Western world, built for the Airbus A400M military transporter. MTU's contribution to this three-shaft engine is the entire intermediate pressure section, comprising the IP compressor, IP turbine and spool. MTU is also developing the engine and propeller control system in cooperation with French partner Snecma. In January 2008, four engines were delivered to Airbus for flight testing. A further engine successfully completed ground tests on a Hercules C-130 that had been converted into a flying test bed. In May 2008, the TP400-D6 passed the critical "large bird strike" test, which involves a direct bird strike hitting the medium-pressure compressor. The MTU compressor did not suffer any critical damage and was safely shut down as required by the certification authorities.

Intellectual property rights

At December 31, 2008, MTU's industrial property rights portfolio contained 771 families of patents, 672 of which relate to the OEM business (turbines, compressors, engine systems, and manufacturing processes) and 99 to technologies of relevance to the commercial MRO business. Industrial property rights (patents and utility models) were registered to protect inventions and developments in essential areas of technology.

Average number of R&D employees

On average 766 MTU employees (2007: 715) were engaged in R&D activities in the financial year 2008. This represents 10.5% of the group's average total workforce (2007: 10.1%). The table below shows the changes in the average number of R&D employees.

Every tenth employee at MTU works in R&D.

R&D employment ratio

	2008	2007	2006	2005	2004
Number of employees in R&D	766	715	737	736	774
as % of average total workforce (entire group)	10.5%	10.1%	10.5%	10.4%	10.1%

MTU also studies issues concerning long-term technological developments and participates in fundamental research projects in collaboration with universities of applied science, institutes of technology, research institutions, competence centers and industrial partners.

Corporate responsibility

Human resources report

At December 31, 2008, MTU employed a total of 7,537 staff, 309 of whom were trainees and apprentices. The number of employees was 6% higher than at December 31, 2007. This increase is largely attributable to the worldwide expansion of the MRO business, targeted reinforcements in OEM business activities and the construction of the new plant in Poland. MTU's personnel expenses increased to € 503.2 million compared with € 470.9 million in 2007. Further details are provided in Note 17.2. to the consolidated financial statements.

Worldwide expansion of the MRO business and the construction of the new plant in Poland led to a 6% increase in workforce numbers.

The increase in the number of foreign employees working for MTU reflects the internationalization of the group's activities. At December 31, 2008 MTU employed a total of 804 staff in its plants and representative offices outside Germany, compared with 607 at the end of the previous year. A total of 6,733 employees (2007: 6,523) worked at German locations.

Total MTU workforce

	Change 2008 - 2007		Dec. 31, 2008	Dec. 31, 2007
MTU Aero Engines GmbH, Munich	135	3%	4,547	4,412
MTU Maintenance Hannover GmbH, Langenhagen	53	3%	1,633	1,580
MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde	22	4%	553	531
Locations in Germany	210	3%	6,733	6,523
MTU Maintenance Canada Ltd., Canada	5	3%	173	168
MTU Aero Engines North America Inc., USA	-12	-6%	186	198
Vericor Power Systems LLC., USA			34	34
MTU Aero Engines Polska, Poland	167	n/a	167	
MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China (50%)	37	18%	244	207
International locations	197	32%	804	607
Total workforce	407	6%	7,537	7,130

Training and development

It takes a well trained and highly skilled workforce to develop, manufacture and maintain aero engines. MTU therefore attaches great importance to keeping its employees' knowledge up to date and regards education as an investment in the future. Educational activities focus mainly on engineering, quality, industrial safety, protection of the environment and language skills.

Staff training measures also have an essential part to play in setting up the new production site in Rzeszów, Poland. Approximately 60 percent of the employees recruited to work at the new site have previous professional experience in the aerospace industry. This provides them with an excellent basis for obtaining the more advanced qualifications that will permit them to work as test engineers, controllers or quality engineers. 140 employees have been trained in work processes and quality standards with the help of German-Polish mentors at the three German plants.

Vocational training

The number of people to be found on the international employment market with the specialist knowledge and necessary experience for dealing with the production and maintenance of modern engines is relatively small. Training is therefore a key strategic element in MTU's structured approach to building up a future supply of qualified workers and maintaining the company's competitive edge. Increasing the number of apprenticeships in technical fields and providing employees with opportunities for further training systematically increases the availability of suitably qualified employees within the company and safeguards MTU's specialist expertise. The number of trainees pursuing technical apprenticeships and participating in dual study programs increased sharply in 2008: With a total of 301 apprentices at its German sites, MTU's apprenticeship quota reached almost 5%.

JET: Junior Entrance and Trainee program

With its Junior Entrance and Trainee program (JET), MTU has created a new instrument ensuring that new members of staff acquire the necessary skills. JET provides good prospects for people starting out on their careers because the 18-month program is based around those departments that need to recruit new staff. Before starting out on the program, a specific target post is identified for each of the participants, allowing them to make the appropriate preparations and pursue their own personal development plan until such time they take up their post.

Job satisfaction

The attractive working environment and the wide range of opportunities for further training are key reasons for the low staff fluctuation at MTU. As in previous years, the fluctuation rate for 2008 was 4.4% (overall figure for Munich, Hanover and Berlin). The number of voluntary departures by administrative employees was even lower than 1% (Munich). A clear sign of employee satisfaction is the fact that, once again, MTU was selected as one of the TOP 100 employers. In conjunction with the geva-institut, the job magazine "karriere" (published by the Handelsblatt group) carries out a comprehensive study every year to assess German employers. MTU has participated in the study since 2007 and has once again improved on its position. In the latest ratings, MTU was awarded 28.5 out of a possible 30 points, thereby reaching 13th place among the best German employers.

Employee satisfaction survey

The online employee satisfaction survey is an important source of feedback and information for MTU. The response rate of over 70% demonstrates the high degree of motivation of MTU employees. Good communication at the preparation stage and consistent support from all management levels have helped to achieve this high level of interest. The survey

Improved employee involvement increases the attractiveness of MTU as an employer. The number of voluntary departures by administrative employees was even lower than 1% (Munich).

is carried out every two years. Containing 47 questions, the questionnaire used in 2008 was similar to the one first used in 2006, thus enabling a direct comparison of results. The majority of employees gave MTU a positive rating for competitiveness and pay. Leadership and employee involvement emerged as areas for potential improvement. These findings will be incorporated into a comprehensive change process.

Profit sharing

The profit sharing scheme devised in 2007 for all categories of staff (working under collective bargaining agreements and freely negotiated contracts) was implemented for the first time in 2008. This means that a consistent system for assessing performance is now in place at all levels of the enterprise. The bonus system is based on the success of the company as a whole as well as on the individual's performance in his/her own area. The key for determining the level of bonuses is the attainment of MTU's targets, measured in terms of operating result and free cash flow. Further aspects of this important component of remuneration were agreed upon by the end of the year.

Employee stock option program

In 2008, MTU introduced its stock option program for employees as a means of promoting loyalty to the company and enhancing its attractiveness as an employer. MTU matches the amount invested by employees at a rate of 50%, subject to a vesting period of two years. The total amount invested by all employees was approximately € 4.9 million. Further information on this subject is provided in Note 30.4. to the consolidated financial statements.

Long-term human resources strategy

In the light of the developments taking place in the field of aviation, MTU attaches great importance to the long-term nature of its human resources (HR) strategy. Demographic change, the efficient organization of HR processes and the expansion of MTU are the three most important strategic factors.

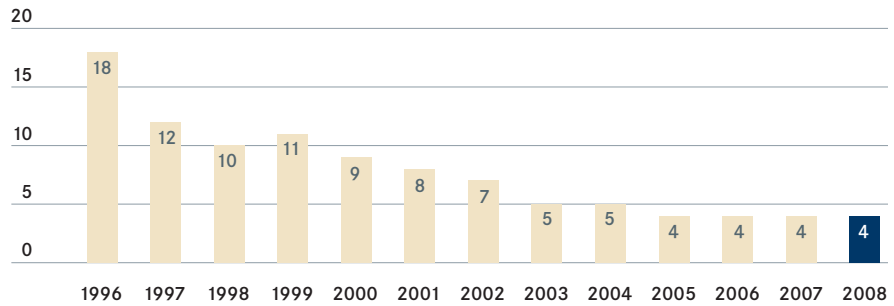
Generating added value remains the prime objective of HR activities, with the focus on enhancing MTU's attractiveness as an employer, maximizing organizational flexibility in order to be able to respond quickly to changing requirements and reducing personnel expense. Well-targeted measures helped MTU to make good progress in all of these areas in 2008.

Occupational health and safety

Well-qualified, motivated employees constitute MTU's most valuable resource and their safety and security are therefore a top priority. The objectives, measures and responsibilities relevant for health and safety at work are clearly defined within a group-wide management system. Internal and external audits are regularly performed to check the effectiveness and current status of all health and safety measures and to identify points for improvement. Thanks to these measures, the number of workplace accidents remained at the low level of 4.1 per 1,000 employees in 2008; at the end of the 1990s the figure was twice as high.

MTU constantly strives to improve health and safety at work for the benefit of its employees. This has led over the years to a low level of workplace accidents.

Workplace accidents per 1,000 employees



MTU’s health management program provides all employees with access to medical staff on site and also to counselors specializing in support with regard to social, communication and mental health issues. In addition to providing treatment in acute situations, the on-site doctors also offer a wide range of preventive healthcare measures.

Those involved in health management also permanently endeavor to make improvements. MTU has been part of the “Enterprise for Health” (EfH) network since 2004 in an effort to develop and establish a comprehensive health concept throughout the company. 19 European companies have joined forces to create networks and define benchmarks relating to health, employee motivation, a business culture based on cooperation, and economic development.

Work-life balance

MTU places great importance on the ability to combine family and career. Since 2001, the company has regularly carried out independent audits relating to this issue.

At an early stage, MTU identified the importance of being able to combine family and career as a factor influencing a company’s appeal as an employer. Since 2001, the company has allowed regular audits relating to career and family to be carried out by the Hertie-Stiftung. MTU was awarded its certificate once again in 2008. Whereas in the past the emphasis was mainly on developing and reinforcing family-friendly structures and regulations, the focus for the next three years will be directed towards encouraging more staff to take up existing offers. These objectives are especially relevant in terms of corporate culture and leadership and should enable employees to make better use of existing structures and arrangements. Further information on MTU’s human resources activities is available in the separate Human Resources Report 2007/2008.

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. MTU supports local and regional associations, organizations and institutions as a benefactor, sponsor and network participant.

For example, the company works in cooperation with schools in the areas near to its German sites. Pupils are given topics for home assignments and offered work experience

with the aim of helping young people to decide on a career and become interested in technology at an early age.

MTU has set up the “Social Step” program for its management staff. Managers spend two weeks working in a social field – for example at the railway mission or in a hospice – in order to gain valuable experience for themselves and their work.

Cooperation arrangements in scientific fields

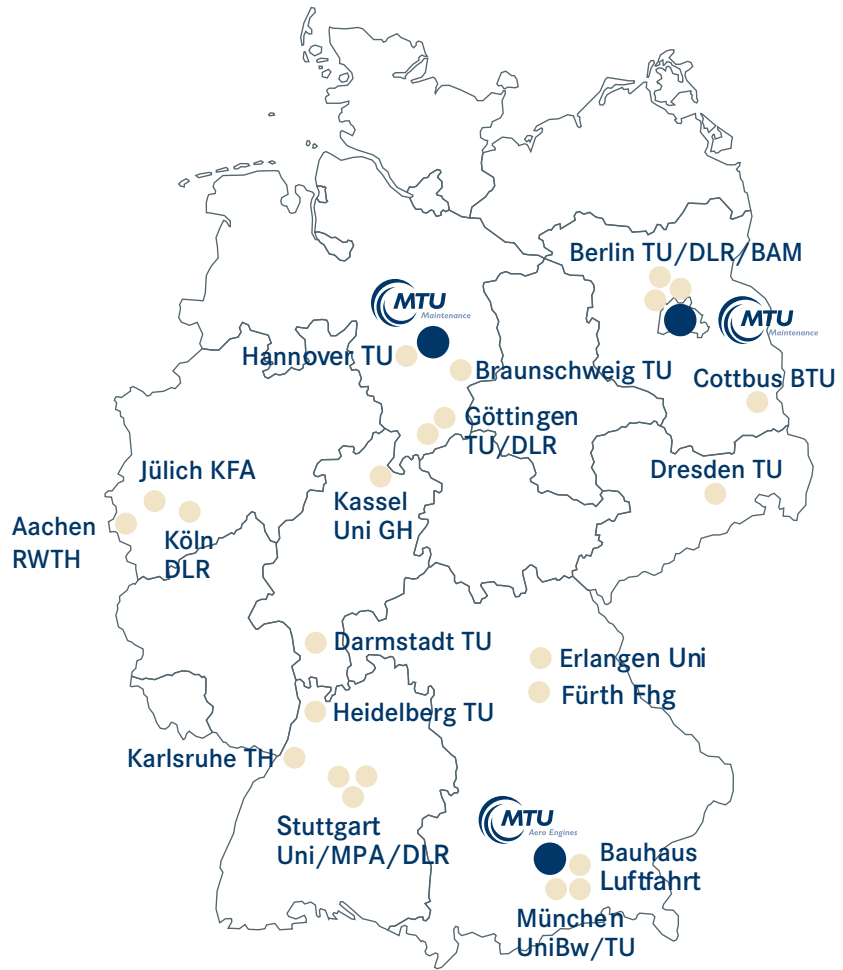
MTU is actively involved in scientific development and research. For decades, cooperation arrangements with universities and research establishments have been a major component of MTU’s research and development activities. Strategic working alliances have been built up with expert research partners in order to strengthen links with universities and safeguard MTU’s innovative capabilities. Cooperation arrangements with leading German universities and research establishments have been stepped up over the past years with the establishment of six centers of competence. Each center specializes in a particular area of research, such as compressors or repair techniques.

The promotion of education and science forms an important part of MTU’s social commitment.

MTU actively supports the networks of universities and research establishments specializing in relevant technological areas. Engine prototypes are made available to universities and colleges, MTU experts hold lectures and act as mentors for those carrying out experimental projects or writing diplomas and doctorates; students are given active support whilst carrying out their assignments and final theses. The company awards the Heilmann prize every year to a young scientist who merits recognition for achievements in engine technology.

Bauhaus Luftfahrt is a further MTU initiative. In conjunction with the Bavarian government, EADS and Liebherr-Aerospace, MTU founded this registered association in 2005. It is a think tank whose task it is to apply interdisciplinary working methods to develop concepts for aviation in the future and to strengthen cooperation between research and industry.

Cooperations with universities and research institutions



Environmental report

Environmental issues and challenges associated with the onslaught of globalization have turned environmental and resource protection into an increasingly important issue nationally and internationally. For the MTU group, responsibility for the world outside is not a compulsory exercise but part and parcel of the responsibility the company assumes for its employees, customers, partners and neighbors. Open dialog with customers, partners, government agencies and neighbors forms an integral part of the company ethos.

Protection of the environment is among its fundamental corporate goals and is firmly enshrined in the corporate philosophy. The corresponding actions are implemented by means of an integrated management system and constantly fine-tuned as part of continuous improvement. Implementation is in harmony with the other corporate goals and subject to regular Board of Management scrutiny. The responsible use of resources and materials as well as the development of eco-friendly, low-emissions aero engines remains a primary aim.

Stringent environmental criteria are applied to all processes and systems – starting with development through production to the maintenance of aero engines – that meet statutory requirements as an absolute minimum. Based on these criteria, MTU-internal standards are derived that are binding for all group locations. Their compliance is regularly checked and certified by internal and external audits in accordance with DIN EN ISO 14001 – and also in accordance with the Regulation of the European Parliament and Council EMAS (Eco Management Audit Scheme) at the German locations in Munich and Hannover. MTU's integrated management system ensures that measures to protect the environment are reviewed and enhanced as part of the process of continuous improvement. Progress with respect to targets is regularly assessed by the Board of Management and the results of these assessments are published in the sites' environmental impact statements. This commitment extends even further. For instance, MTU Aero Engines, Munich is a signatory to the Bavarian Environmental Pact and supports environmentally friendly measures adopted by the Bavarian government and the City of Munich.

One of MTU's key environmental protection aims is to save resources. Take, for example, the reuse of engine parts after repair. Thanks to new methods and processes around 70% of all engine blades are reused two, three or even four times. Standard practice includes using fewer resources by reducing the consumption of raw materials and energy through the direct recycling of materials in the original loop. In this area, too, MTU is making great efforts to combat climate change. Given the present high energy prices, these measures have the added advantage of improving MTU's cost-efficiency.

One of MTU's key environmental protection aims is to save resources.

Together with the leading aeronautical companies, MTU has committed itself to implementing the long-term environmental targets for aircraft defined by ACARE (Advisory Council for Aeronautical Research in Europe): CO₂ emissions are to be halved by 2020 (with engines expected to contribute 20%) and NO_x emissions reduced by 80%; noise levels are also to be halved.

MTU's involvement in the GP7000 engine for the Airbus A380 represents the first step towards achieving these targets. A combination of advanced aircraft design and turbofan technology has enabled a reduction in specific fuel consumption from the current average of 4.3 liters per passenger per 100 km to 2.9 liters. MTU is responsible for providing, among other things, the key component for the GP7000: the low-pressure turbine. Efficiency of over 93% has been achieved for the first time in this respect.

Through the Claire technology program, MTU aims to cut CO₂ emissions by 30% and perceived noise by 50% by 2035.

MTU's longer-term answer to the ACARE targets is the Claire (Clean Air Engine) technology program: In three stages between now and 2035, carbon dioxide emissions are to be cut by 30% and perceived noise halved. This will be achieved through a combination of counter-rotating geared turbofan and heat exchanger.

A key contribution to improving aero engine concepts will come from fine-tuning the technology used in the MTU components in order to exceed the current benchmarks for efficiency, weight and component load. Efficiency in excess of 90% and weight reduction of at least 20% have been achieved with the high-pressure compressor. And efficiency of over 93% and weight reduction of 25%-plus are sought with the IP turbine. Key technology areas include the continual improvement of 3D aerodynamics, more advanced materials and new designs. Enhanced efficiency and lower weight dramatically reduce fuel consumption.

MTU is also participating in the "eco-efficient flying" beacon program set up by the German Aerospace Industries Association (BDLI). Its aim is to make emissions-neutral flying a reality by the year 2050. The necessary technologies, including alternative fuel sources, are being defined in a coordinated action plan, and responsibilities are being allocated for different parts of the program. Air travel on terms that meet the needs of modern society will thus still be assured in an era of tightening environmental standards and depleted crude oil reserves.

The elimination of environmentally harmful production and repair processes and materials will also contribute substantially to reducing the environmental impact of future products. This includes a ban on the use of mercury, cadmium and chromate in materials used for components, joints and coatings.

2. Economic environment

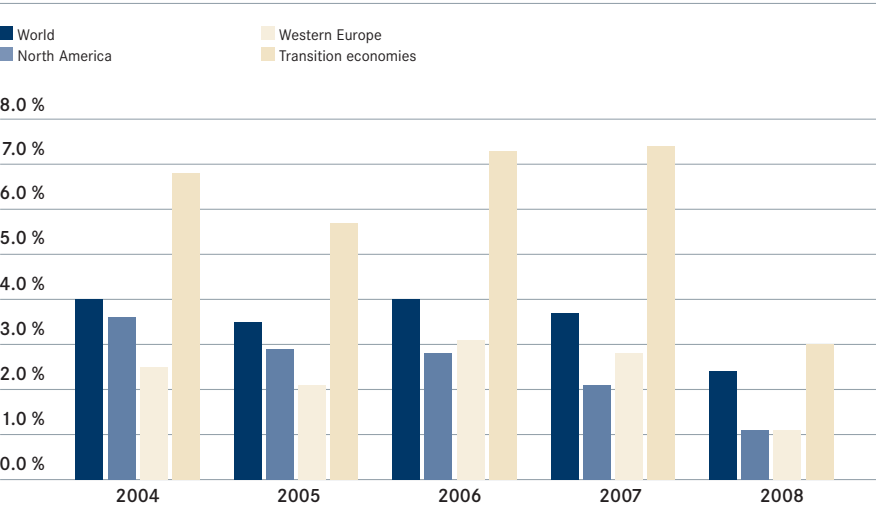
World economic growth was significantly weaker in the fourth quarter of 2008. The aeronautics industry suffered additionally from severe fluctuations in the price of oil and in the US dollar exchange rate. Despite these events, MTU’s business developed positively.

General economic climate

The global economy was still expanding in the early part of the past year, with the main agents of growth being countries outside the OECD. Then the credit market crisis in the United States started to spread to the rest of the world, sending shock waves around the globe from September 2008 onwards. The resulting heavy economic turbulence had a significant impact on international economic growth rates, pulling them down from 3.7% in 2007 to 2.4% in the 2008 business year. The regions most affected by this trend were North America (1.1%) and Western Europe (1.1%), whose economies henceforth threatened to slide into a recession. The crisis also weakened international trade in goods and services, resulting in growth rates in the developed economic regions that lay 50% below the expected levels. Whereas trade had been growing at a rate of 4.9% in 2007, it fell to 2.5% in 2008.

International economic growth rates fell from 3.7% in 2007 to 2.4% in the 2008 business year.

Change in growth rates of economic regions (in %)



Source: EIU

The euro/U.S. dollar exchange rate, which is of major importance to MTU Aero Engines’ business as an export company in the aerospace sector, passed from 1.4721 to 1.5990 in the first half of the year (national central bank fixing July 15, 2008), before finally settling at a year-end closing rate of 1.3917.

Chart of U.S. dollar exchange rate movements 2008



The price of oil was a key issue in 2008. Prices slumped after peaking mid-year at 147 US dollars per barrel.

Crude oil prices followed a similar course (WTI standard in U.S. \$ per barrel). After reaching a peak of 147 U.S. dollars per barrel in mid-year, the closing price at the end of the year lay in the region of 40 U.S. dollars per barrel, resulting in a record annual average of 100 U.S. dollars per barrel. Expenditure on fuel represents the highest single item in the operating costs of MTU's customers – the airlines.

Evolution of crude oil and kerosene prices in 2008 (in U.S. dollar/barrel)



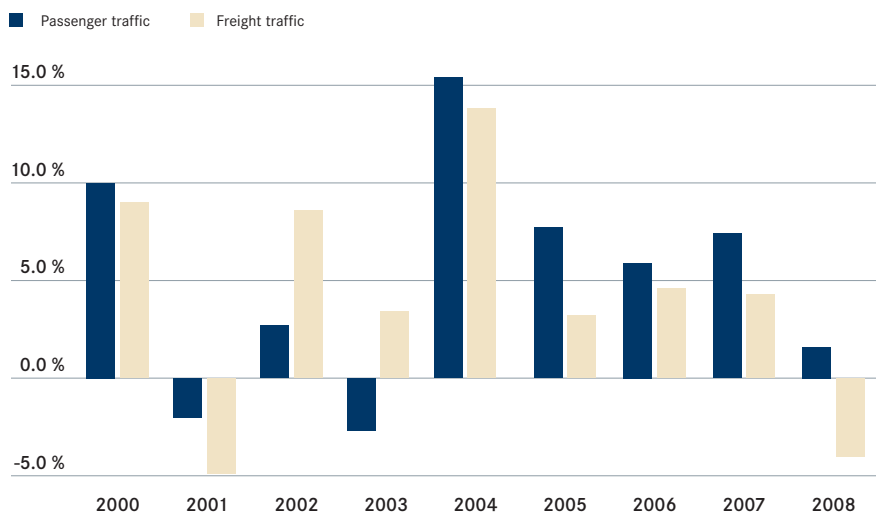
Source: US Energy Information Administration

Industry-specific developments in the aviation sector

International air traffic, in terms of revenue passenger kilometers (RPKs), increased in 2008 by no more than 1.6%. This was in line with expectations, based on global industry growth rates. Favorable conditions in the regions of Asia and North America, in particular, helped to produce an average growth rate of 5.4% in the first half of the year, but growth was considerably weakened in the second half of the year as the financial crisis subsequently spread throughout the world. Growth in the international volume of air freight lost impetus over the course of the year, closing at a level 4% below that achieved in 2007. It should be noted, however, that freighters represent no more than 10% of the worldwide fleet of aircraft.

International air traffic increased in 2008 by no more than 1.6%

Growth in the volume of international passenger and freight traffic (in %)



Source: IATA

Rising fuel costs led to heavy losses of revenue for the airlines, many of which were forced to declare bankruptcy, especially in the United States. This also resulted in an increased consolidation of the market. In order to reduce costs and maintain capacity utilization levels, airlines around the world announced fleet reduction measures that would permit them to continue operations. Altogether, the planned economy measures involve taking around 700 to 800 Airbus and Boeing passenger airliners out of service, or 4-5% of the world's entire fleet. Of these, the majority of the more recent models are likely to resume service as soon as the market regains momentum, and many of the older models have a strong chance of being able to find a new use in the air freight market. However, given that the engines employed by these aircraft represent only 2-3% of MTU's commercial OEM revenues, the overall impact of this market situation on MTU's revenues is likely to be relatively modest.

The dramatic fall in fuel prices in the second half of the year combined with the capacity reductions that became effective in the fourth quarter have had a limited effect on the airlines. Nevertheless, IATA estimates that airlines around the world will be faced with a total loss of 5.2 billion U.S. dollars.

Airbus and Boeing together delivered approximately 850 new aircraft in the early part of the year, thus failing to meet the predictions announced at the beginning of the year for deliveries of passenger aircraft, where a record of around 950 to 1000 units had been expected. In 2008, the two manufacturers fell short of their 2007 performance of 896 delivered aircraft by a modest 5%. MTU has ramped up the volume production of engines for widebody aircraft, given that its best-selling model, the V2500, is used to power the Airbus A320 family of aircraft.

Airbus and Boeing order books stood at record levels at the end of 2008, with more than 7,000 firm orders. This represents an increase of almost 10% with respect to the previous record achieved in 2007. The associated workload corresponds to the production output of 7 to 8 years. Fifty percent of these machines are scheduled for delivery in the period 2009 to 2011. The relative difference between order backlog and annual production output is less significant than during the last economic crisis, when deliveries of 3,000 aircraft had been promised up to the end of 2001 at a time when the total production capacity of Boeing and Airbus stood at 800 aircraft per year. Since then, the total size of the aircraft fleet, the main factor in the spare parts business, has risen by between 7,000 and 8,000 units.

Overall assessment of the business situation

Contrary to their effect on general economic growth, the price of crude oil and the U.S. dollar exchange rate developed favourably for the aviation industry towards the end of the year.

The fundamental, driving factor in the aerospace industry is economic growth, which started to weaken in 2008. The resulting reversal of growth in the number of air passengers had a particularly negative impact on the airlines' earnings situation, which was compromised by the high price of fuel in the first six months of 2008. These circumstances had no effect on the production figures for completion of new aircraft. Alone the strike called by Boeing staff prevented deliveries in 2008 from reaching a higher level. And the lower volume of air traffic in 2008 has not yet had any effect on the maintenance and spare parts business. Contrary to their effect on general economic growth, the price of crude oil and airline tickets had a positive impact on the aviation industry in terms of year-end results. MTU additionally benefited from the renewed strength of the U.S. dollar with respect to the euro and from the high levels of fleet capacity and orders.

3. Financial situation

Despite unfavourable overall economic conditions, MTU was able to exceed its revenue and profit forecasts for 2008. The company's revenues increased by 5.8% to € 2,724.3 million and its operating profit by 3.3% to € 405.7 million.

The following explanatory comments and analyses are derived from the audited MTU consolidated financial statements for the financial years ending December 31, 2008, 2007 and 2006, which are included in this document. The financial statements are drawn up in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board, to the extent that these have been adopted by the European Union.

In accordance with IFRS requirements, certain new or revised standards and interpretations were applied for the first time in the financial statements for 2008. This did not give rise to any changes in the company's consolidation or financial reporting principles. Consequently, no changes in the financial reporting principles or in management judgements with respect to the application of the accounting standards had any effect on the group's business activities during the period under review.

MTU Aero Engines Holding AG was created in 2004, as a result of MTU Aero Engines Erste Holding GmbH's transformation into a joint stock company, shortly before the IPO. Prior to the IPO, the company was owned by funds managed by one of the world's leading private equity firms, Kohlberg Kravis Roberts & Co. (KKR). The funds had acquired the company at the end of 2003. Until that time, it had been a wholly owned subsidiary of the then DaimlerChrysler AG. Additional amortization expenses on intangible assets and depreciation expenses on property, plant and equipment arose as a result of the acquisition with effect of January 1, 2004 and through the subsequent purchase price allocation. These expenses are recognized in the income statement. To facilitate comparison, adjustments for these depreciation and amortization items are applied when determining earnings before interest, tax, depreciation and amortization (EBITDA) and when determining earnings before interest and tax (EBIT adjusted). Because the long-established MTU only became an independently controlled company again as from the 2004 financial year, the comparative presentations in this Annual Report are limited to the years 2004 to 2008.

MTU again became an independently controlled company as from the 2004 financial year. For this reason, the comparative presentations are limited to the years 2004 to 2008.

Information on exchange rates

The financial data presented in this document are stated in euros, United States dollars, Canadian dollars, Chinese yuan renminbi, Malaysian ringgit, Polish zloty or British pounds sterling. The table below provides information on the exchange rate parity between the euro and the above-mentioned currencies for the years as listed. This information was compiled on the basis of the official exchange rates published by the European Central Bank:

Information on exchange rates

Currency	ISO code	Rate on balance sheet date			Average rate		
		Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	2008	2007	2006
1 euro =							
United States dollar	USD	1.3917	1.4721	1.3170	1.4710	1.3702	1.2556
Canadian dollar	CAD	1.6998	1.4449	1.5281	1.5589	1.4680	1.4237
Chinese yuan renminbi	CNY	9.4956	10.7524	10.2812	10.2262	10.4163	10.0076
British pound sterling	GBP	0.9525	0.7334	0.6715	0.7957	0.6842	0.6817
Malaysian ringgit	MYR	4.8048	4.8682	4.6506	4.8895	4.7079	4.6052
Polish zloty	PLN	4.1535	3.5935	3.8310	3.5098	3.7844	3.8959

Agencies' rating of MTU

MTU's credit rating is continuously monitored by the leading rating agencies Standard & Poor's (S&P) and Moody's.

Corporate rating

S&P continues to affirm a corporate credit rating of BB+ for MTU, with a stable outlook, while Moody's rates the company at an unchanged Ba1, also with a stable outlook.

Convertible bond

S&P has been evaluating MTU's convertible bond since June 2007. Its rating has improved from BB- in the financial year 2007 to BB+ in the financial year 2008.

The table below shows a year-by-year comparison of the respective credit ratings for the group (corporate) and for the convertible bond:

Comparison of MTU rating over several years

	2008 Outlook		2007 Outlook		2006 Outlook		2005 Outlook	
Standard & Poor's								
Corporate	BB+	stable	BB+	stable	BB+	stable	BB	positive
Convertible bond ¹⁾	BB+	n/a	BB-	n/a	n/a	n/a	n/a	n/a
Moody's								
Corporate	Ba1	stable	Ba1	stable	Ba2	positive	Ba2	stable

¹⁾ Issue date February 1, 2007; for explanatory comments on the development of the convertible bond, please refer to the section entitled "Financial Situation".

MTU's credit rating is continuously monitored by the leading rating agencies. Their rating has in some instances slightly improved in 2008.

Operating results

MTU Aero Engines Holding AG in its present form was created with effect of January 1, 2004 through the purchase by Kohlberg, Kravis, Roberts & Co. Ltd. (KKR) of the 100% shareholding from what is now Daimler AG. In the context of the acquisition, assets, liabilities and contingent liabilities were identified according to 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 purchase price allocation” and corresponding adjustments have been applied to the indicators presented below for the purposes of comparison.

A presentation of the nonrecurring items contained in the consolidated income statement and of the reconciliation of EBIT to EBITDA adjusted can be found on page 72.

Group

Group revenues increased by a further € 148.4 million to € 2,724.3 million, despite the unfavorable exchange rate parity with the U.S. dollar that existed up until September 2008. MTU’s operating results progressed in a similarly positive way, improving by comparison with 2007 as planned. EBITDA adjusted rose to € 405.7 million (2007: € 392.9 million) while EBIT increased by 2.1% to € 248.3 million (2007: € 243.3 million). EBT increased by 10.3% to € 197.8 million (2007: € 179.4 million). Net profit went up by 16.6% to € 179.7 million (2007: € 154.1 million). Expectations for the financial year 2008 were met both in terms of revenues and in terms of operating profit (EBITDA adjusted) and net profit.

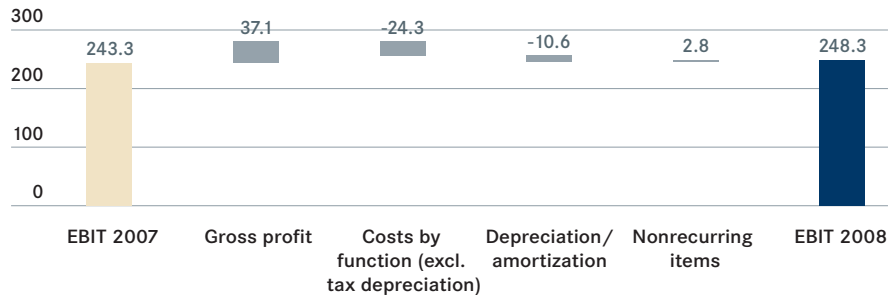
MTU increased its revenues to a total of just over € 2.7 billion in the financial year 2008.

Consolidated Income Statement

in € million	Change		2008	2007	2006
	2008 - 2007				
Revenues	148.4	5.8 %	2,724.3	2,575.9	2,416.2
Cost of sales	-111.3	-5.2 %	-2,240.8	-2,129.5	-2,063.5
Gross profit	37.1	8.3 %	483.5	446.4	352.7
Costs by function	-34.9	-17.2 %	-238.0	-203.1	-168.9
Depreciation/amortization and nonrecurring items	10.6	7.1 %	160.2	149.6	134.4
Operating profit (EBITDA adjusted)	12.8	3.3 %	405.7	392.9	318.2
Depreciation/amortization and nonrecurring items					
Current depreciation/amortization	2.8	3.5 %	-77.5	-80.3	-80.5
Write-down on assets resulting from PPA	7.1	13.0 %	-47.5	-54.6	-65.0
Impairment losses (IAS 36)	-20.5	-139.5 %	-35.2	-14.7	-6.3
Nonrecurring items	2.8		2.8		17.4
Earnings before interest and tax (EBIT)	5.0	2.1 %	248.3	243.3	183.8
Financial result	13.4	21.0 %	-50.5	-63.9	-33.3
Earnings before tax (EBT)	18.4	10.3 %	197.8	179.4	150.5
Income taxes	7.2	28.5 %	-18.1	-25.3	-61.4
Net profit	25.6	16.6 %	179.7	154.1	89.1
Undiluted earnings per share in €	0.69	23.4 %	3.64	2.95	1.64
Diluted earnings per share in €	0.71	25.1 %	3.54	2.83	1.64

For explanatory comments on depreciation/amortization and nonrecurring items, please see the table showing the reconciliation of the consolidated income statement later in this section.

Changes in MTU group EBIT 2007 to 2008 in € million

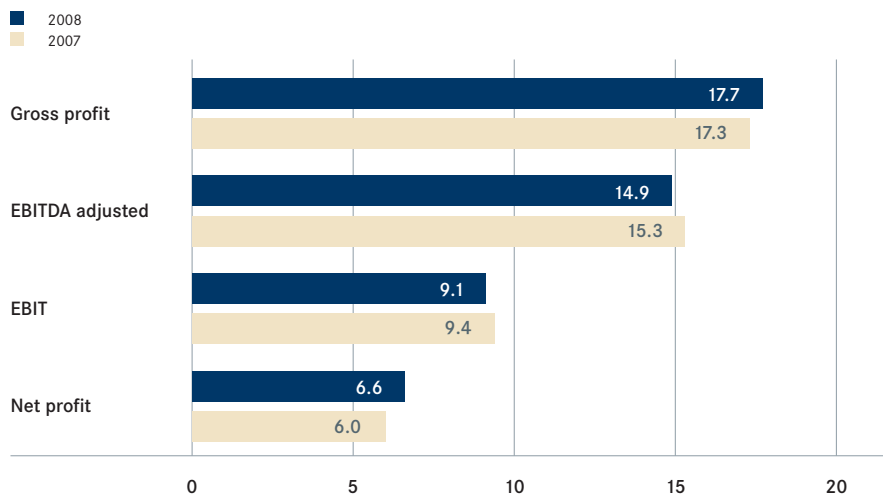


Changes in margins

The gross profit margin increased to 17.7% in the financial year 2008 (2007: 17.3%). The adjusted EBITDA margin amounted to 14.9% (2007: 15.3%) while the EBIT margin fell slightly by 0.3 percentage points to 9.1% (2007: 9.4%). The ratio of net profit to revenues (return on sales) improved by 0.6 percentage points to 6.6% (2007: 6.0%).

Changes in MTU group margins in %

MTU reported an adjusted EBITDA margin of 14.9% in 2008, following 15.3% in the previous year.

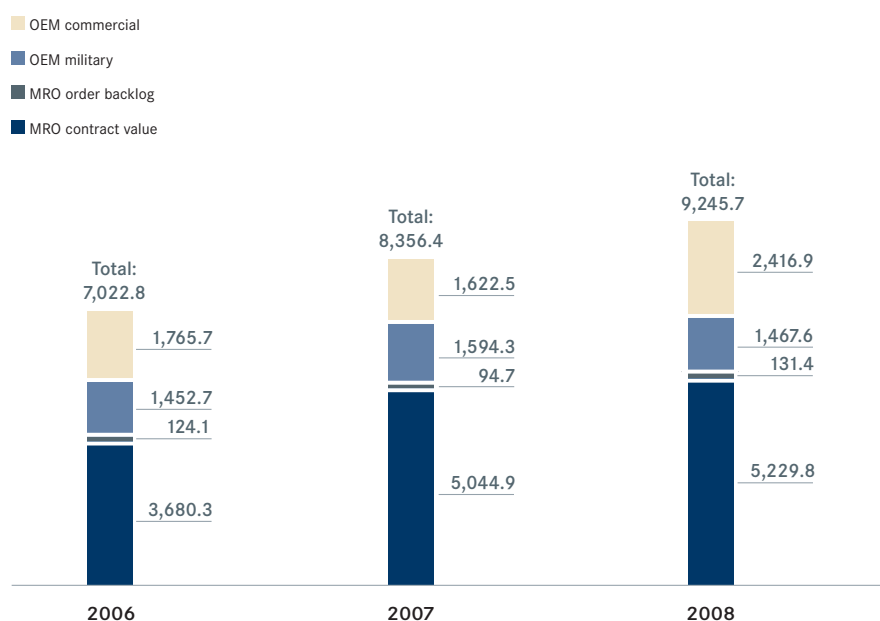


Order backlog and value of MRO contracts (order volume)

MTU's order backlog consists of firm orders placed directly by customers which commit the group to delivering products or providing services. Orders for maintenance work to be performed under the contractual terms of long-term service agreements are not included in the order backlog for the commercial MRO business. In order to obtain a picture of the economic value of the total contracted order volume and the corresponding degree of capacity utilization, the figures for the contractual value of service agreements in the commercial MRO business are stated in a separate line of the financial statements, in addition to the conventionally defined order backlog for the commercial and military engine business

(OEM) and the commercial maintenance business (MRO). Further information on the value of orders in the commercial MRO business is provided in Section “MRO business”.

Order backlog and value of MRO contracts in € million (without consolidation)



The group's total order backlog of € 9.2 billion exceeded the previous year's figure of € 8.4 billion.

At December 31, 2008, the group's total order backlog including the value of commercial MRO contracts (group order volume) amounted to € 9,245.7 million, or € 889.3 million (10.6%) above the previous year's figure of € 8,356.4 million. The majority of orders in the commercial engine business and in commercial MRO are priced in U.S. dollars. If translated at the exchange rate in effect on December 31, 2007, the group order volume would have been € 424.8 million lower (down 5.0%), bringing the total amount to € 8,820.9 million. Adjusted to eliminate the effect of the U.S. dollar exchange rate, this nevertheless represents an increase of 5.6%.

Excluding the value of contracts in the commercial MRO business, the group order backlog amounted to € 4,015.7 million, or € 704.6 million (21.3%) higher than the previous year's level, following consolidation effects amounting to € 0.2 million (2007: € 0.4 million). Applying the exchange rate parity prevailing at December 31, 2007, the group order backlog would have been € 139.2 million lower, at a total of € 3,876.5 million, which would nevertheless represent an increase of 17.1% compared with 2007.

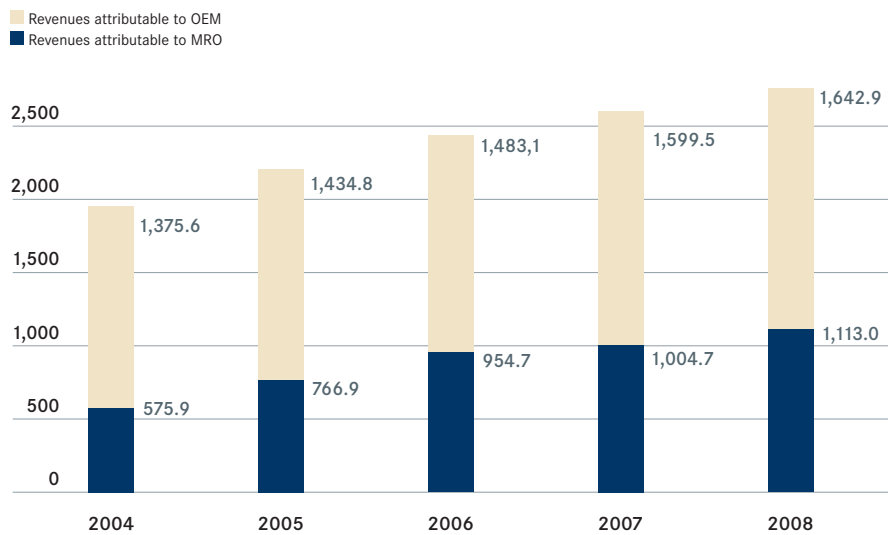
Orders in the military engine business are priced in euros. The order backlog at year-end 2008 had fallen by € 126.7 million (7.9%) to € 1,467.6 million (2007: € 1,594.3 million).

Altogether, the total volume of book orders (order value plus value of contracts) corresponds to a workload of approximately three years.

Revenues

Group revenues increased in the financial year 2008 by € 148.4 million (up 5.8%) to € 2,724.3 million. Revenues in the OEM business (commercial and military engines) increased by € 43.4 million (up 2.7% on the previous year) to € 1,642.9 million, while revenues in the commercial MRO business increased by € 108.3 million (up 10.8%) to € 1,113.0 million. MTU is thus continuing along the same positive trend that has marked previous years.

Revenues by segment in € million



Cost of sales and gross profit

Cost of sales increased by € 111.3 million (5.2%) to € 2,240.8 million. Due to the fact that cost of sales increased at a lower rate than sales revenue, gross profit rose to € 483.5 million (2007: € 446.4 million), a year-on-year increase of € 37.1 million (8.3%). The gross margin improved to 17.7% (2007: 17.3%).

Research and development expenses

Research and development costs amounted to € 94.9 million, or € 10.4 million higher than the equivalent figure in 2007.

Research and development costs recognized in the income statement amounted to € 94.9 million, or € 10.4 million higher than the equivalent figure in 2007. For a more detailed description of the composition of these expenses and their allocation to the different business segments, please refer to the section entitled "Research and development".

Selling and general administrative expenses

Selling expenses increased by € 25.2 million, principally due to the inclusion of selling expenses relating to the GE38 engine program for the Sikorsky CH-53K heavy-lift helicopter. General administrative expenses, by contrast, were reduced by € 1.6 million.

Depreciation and amortization

In 2008, total depreciation and amortization expenses included in the costs by function amounted to € 125.0 million (2007: € 134.9 million). This includes € 47.5 million resulting from the purchase price allocation (2007: € 54.6 million). In 2007, an impairment loss on intangible assets of € 14.7 million was charged as an additional amortization expense under 'cost of sales' after comparing the carrying amount of a license for CF34 repair techniques employed in commercial engine maintenance with its recoverable amount (present value of all future cash flows) and establishing that the recoverable amount was lower than the carrying amount.

Impairment losses

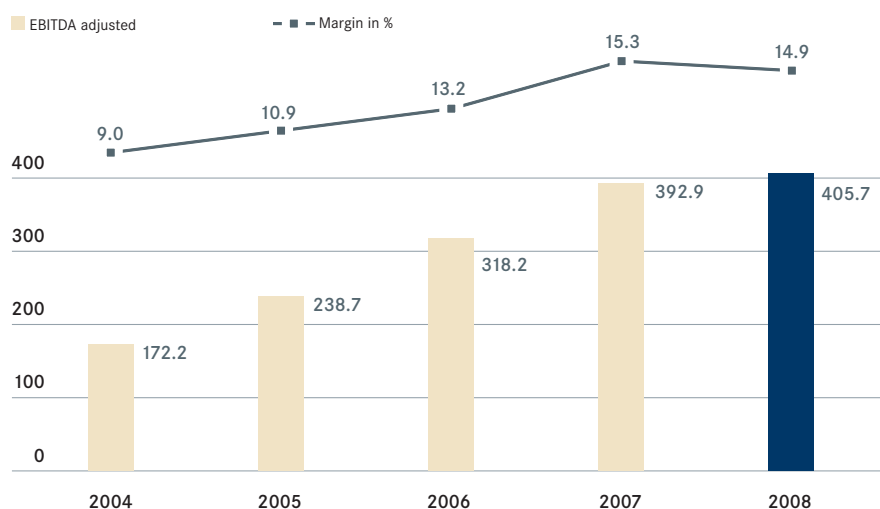
The costs by function for the financial year 2008 include impairment losses totaling € 35.2 million (2007: € 14.7 million). Explanatory comments and a more detailed breakdown of the total amount can be found under the heading "Impairment losses (IAS 36)" later in this section of the group management report.

EBITDA adjusted and EBITDA margin

Earnings before interest, tax, depreciation and amortization (EBITDA adjusted) are determined by adding scheduled depreciation/amortization and the effects of purchase price allocation arising from the company's acquisition to earnings before interest and tax (EBIT). In the year under review, an adjustment was also applied for capitalized development costs relating to the GE38 engine program, which amounted to € 2.8 million (2007: € 0.0 million). Operating profit (EBITDA adjusted) improved by 3.3% to € 405.7 million (2007: € 392.9 million). The EBITDA margin narrowed by 0.4 percentage points to 14.9% (2007: 15.3%), thus deviating only slightly from the previous year's level.

MTU was able to improve its operating profit (EBITDA adjusted) by 3.3% over the previous year to reach € 405.7 million.

Group EBITDA (adjusted) in € million (margin in %)



Reconciliation of adjusted performance indicators

Adjusted performance indicators include EBITDA and EBITDA excluding the effect of nonrecurring items as indicators of operating profit, EBITDA margin, and EBITDA margin excluding the effect of nonrecurring items, and free cash flow, gross financial liabilities and net financial liabilities as financial indicators.

The International Financial Reporting Standards (IFRSs) do not stipulate any requirements concerning adjusted performance indicators. Since other companies do not necessarily employ the same calculation methods as MTU Aero Engines Holding AG to obtain the adjusted performance indicators presented in their financial statements, the adjusted figures presented by MTU Aero Engines Holding AG can only be compared with similarly named items in the statements of other companies to a limited extent.

Consequently, the adjusted performance indicators should not be viewed in isolation as an alternative to the presented figures for EBIT, net profit, cash flow from operating and investing activities, nor to the liabilities and other indicators presented in the consolidated balance sheet for MTU Aero Engines Holding AG in accordance with IFRSs.

EBITDA and EBITDA adjusted to exclude nonrecurring items

EBITDA

EBITDA for the business segments and the group as a whole is derived from earnings before interest and tax (EBIT). EBITDA is calculated on the basis of earnings before interest and tax, and includes corrections for depreciation and amortization, including the effects of purchase price allocation on intangible assets and property, plant and equipment.

EBITDA adjusted

MTU Aero Engines Holding AG employs EBITDA adjusted for nonrecurring items as an internal performance indicator.

MTU employs EBITDA adjusted as an internal performance indicator.

A variety of nonrecurring factors have an impact on the net profit of MTU Aero Engines Holding AG and on the EBITDA of the group and its individual business segments, both in the year under review and in previous annual periods.

The main reason why adjustments are applied is to eliminate the effect of nonrecurring items which are superimposed on the results of operating activities and thus obscure the true comparability of EBITDA and other performance indicators for the group and the individual business sectors with the figures for previous years. Moreover, the inclusion of nonrecurring items imposes limits on the reliability of statements concerning future changes in EBITDA and net profit. Starting out from the unadjusted earnings figures, the respective adjusted values are obtained by adding (expenses) or subtracting (income) the nonrecurring items.

The adjustments are applied regardless of whether the income and expense items are presented as part of EBIT, the financial result, or tax expenses. The income and expense items to which the adjustments are applied are those immediately affected by the circumstances under which the nonrecurring items arose.

The table shows the reconciliation between individual lines in the consolidated income statement and the equivalent items adjusted for nonrecurring effects. It also shows how MTU Aero Engines Holding AG derives the performance indicators EBITDA and EBITDA adjusted (excluding the effect of nonrecurring items) presented in the consolidated financial statements from earnings before interest and tax (EBIT) as defined in the IFRSs. The reconciliation table presents comparative data for previous annual periods in addition to the data for the year under review.

Reconciliation of the consolidated income statement

in € million	2008			2007			2006		
	Financial year	Non-recurring items	Financial year w/o non recurring items	Financial year	Non-recurring items	Financial year w/o non recurring items	Financial year	Non-recurring items	Financial year w/o non recurring items
Revenues	2,724.3		2,724.3	2,575.9		2,575.9	2,416.2		2,416.2
Cost of sales	-2,240.8	75.6	-2,165.2	-2,129.5	63.6	-2,065.9	-2,063.5	68.6	-1,994.9
Gross profit	483.5	75.6	559.1	446.4	63.6	510.0	352.7	68.6	421.3
Research and development expenses	-94.9	4.3	-90.6	-84.5	2.3	-82.2	-64.5	-9.1	-73.6
Selling expenses	-100.2	1.5	-98.7	-75.0	2.0	-73.0	-71.2	3.4	-67.8
General administrative expenses	-44.2	1.3	-42.9	-45.8	1.4	-44.4	-45.4	1.5	-43.9
Other operating income and expenses	4.1		4.1	2.2		2.2	12.2	-10.5	1.7
Earnings before interest and tax (EBIT)¹⁾	248.3	82.7	331.0	243.3	69.3	312.6	183.8	53.9	237.7
Financial result	-50.5		-50.5	-63.9		-63.9	-33.3		-33.3
Earnings before tax	197.8	82.7	280.5	179.4	69.3	248.7	150.5	53.9	204.4
Income taxes	-18.1	-73.3	-91.4	-25.3	-75.2	-100.5	-61.4	-21.2	-82.6
Net profit	179.7	9.4	189.1	154.1	-5.9	148.2	89.1	32.7	121.8
EBIT	248.3	82.7	331.0	243.3	69.3	312.6	183.8	53.9	237.7
Depreciation/amortization of:									
Intangible assets									
Acquisition-related amortization expense (PPA)	40.1	-40.1		42.5	-42.5		42.6	-42.6	
Impairment losses according to IAS 36	35.2	-35.2		14.7	-14.7		2.5	-2.5	
Property, plant and equipment									
Acquisition-related depreciation expense (PPA)	7.4	-7.4		12.1	-12.1		22.4	-22.4	
Impairment losses according to IAS 36							3.8	-3.8	
Other nonrecurring items							-17.4	17.4	
EBIT adjusted	331.0		331.0	312.6		312.6	237.7		237.7
Depreciation/amortization of:									
Intangible assets									
Current amortization	8.6		8.6	9.7		9.7	12.7		12.7
Property, plant and equipment									
Current depreciation	68.9		68.9	70.6		70.6	67.8		67.8
EBITDA	408.5		408.5	392.9		392.9	318.2		318.2
EBITDA margin (in %)	15.0		15.0	15.3		15.3	13.2		13.2
Nonrecurring items:									
Capitalized development costs ¹⁾	-2.8		-2.8						
EBITDA adjusted	405.7		405.7	392.9		392.9	318.2		318.2
Adjusted EBITDA margin (in %)	14.9		14.9	15.3		15.3	13.2		13.2

¹⁾ The capitalized development costs of € 2.8 million (2007: € 0.0 million) included in earnings before interest and tax (EBIT) are not adjusted.

Impairment losses (IAS 36)

The impairment losses recognized in the 2008 consolidated financial statements, totaling € 35.2 million, comprise impairment losses on the fair value of old GE engine programs amounting to € 34.3 million and of old military engine programs amounting to € 0.9 million. In each case, the fair value was compared with the recoverable amount. The recoverable amount was found to be below the carrying amount of the program, necessitating an impairment charge on the recoverable amount.

The impairment loss on intangible assets in the financial year 2007, amounting to € 14.7 million, related to the carrying amount of a license for CF34 repair techniques employed in commercial engine maintenance. Comparison of the license's carrying amount with its recoverable amount revealed that the latter was below the carrying amount, and hence an impairment loss was recognized to reduce the carrying amount to the level of the recoverable amount.

The calculated impairment loss on intangible assets totaling € 2.5 million accounted for in the 2006 income statement was largely attributable to the investment in the TP400-D6 engine program for the A400M military transporter. The impairment loss on property, plant and equipment in the financial year 2006, amounting to € 3.8 million, was necessitated by the fact that the carrying amounts of MTU Maintenance Canada Ltd., Canada, and MTU Aero Engines North America Inc., USA, no longer adequately reflected their respective recoverable amounts.

Nonrecurring items

The amount of € 2.8 million (2007: € 0.0 million) for capitalized development costs (OEM) relates to the GE38 engine program for the Sikorsky CH-53K heavy-lift helicopter and has been adjusted to permit comparison with the previous years' data. The company-funded development costs for special repair techniques were not adjusted when they were recognized and capitalized for the first time in 2007. Consequently, the amount of € 3.4 million (2007: € 4.3 million) presented in Note 8. to the 2008 consolidated financial statements under capitalized development costs (MRO), relating to further development costs for special repair techniques, has not been adjusted either.

Depreciation/amortization resulting from purchase price allocation

The subject of depreciation/amortization resulting from purchase price allocation is dealt with in the introductory paragraphs of Section 3. of this group management report.

Financial result

MTU's financial result improved in the year under review, decreasing by € 13.4 million to a net expense of € 50.5 million (2007: a net expense of € 63.9 million). This was mainly attributable to an improved interest result. The improvement in the interest result for 2008 compared with that for 2007 is attributable to the expense resulting from early repayment of the high yield bond amounting to € 19.1 million recognized in 2007. The financial result on other items deteriorated in the financial year 2008, increasing by € 8.5 million to a net expense of € 38.7 million (2007: a net expense of € 30.2 million). This was attributable to losses on forward commodity sales contracts for nickel amounting to € 11.7 million (2007:

MTU was able to improve its financial result in 2008, this development being positively affected by improvements in the interest result.

€ 9.7 million) and fair value losses on currency derivatives and interest rate derivatives amounting to € 1.3 million (2007: fair value gains of € 8.2 million).

*Earnings before tax (EBT)
improved to € 197.8 million,
compared with € 179.4 million in
the previous year.*

Earnings before tax (EBT)

In addition to the good operating business performance, the improved financial result also had a positive effect on earnings before tax (EBT), which increased by € 18.4 million to € 197.8 million (2007: € 179.4 million).

Income taxes

Income taxes in the financial year 2008 amounted to a total of € 18.1 million (2007: € 25.3 million). The effective group tax rate, relative to earnings before tax, thus came to 9.2% (2007: 14.1%). 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.

Impact of tax field audit

The tax field audit covering the period 2000 to 2003 was completed during the financial year 2008. Since tax pooling arrangements had been in place during that period with the company that is now Daimler AG, the tax audit findings were taken into account in tax assessments at the level of Daimler AG. Due to the contractual terms and conditions agreed by MTU and Daimler AG, the additional tax expense resulting from the tax field audit triggered a retrospective adjustment to the purchase price (originally agreed in 2003) for the MTU Group. The corresponding reductions in tax expense for the financial years 2004 to 2008 were recognized in 2008 with a positive tax effect of € 33.0 million (2007: € 0.0 million).

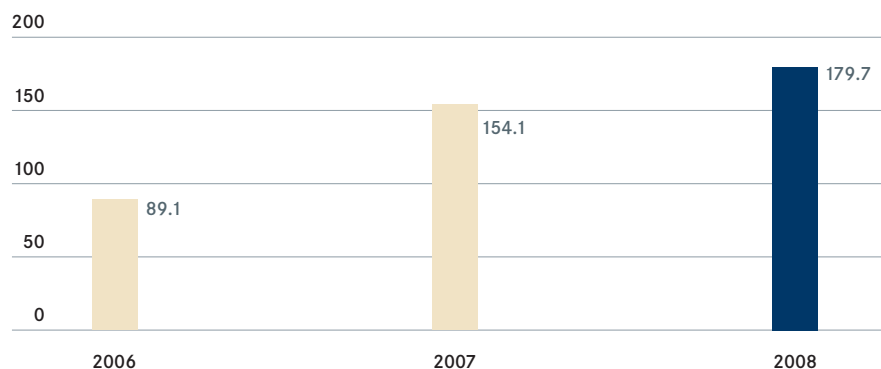
Impact of tax deductibility of write-downs on treasury shares

Unlike for IFRS accounting purposes, treasury shares acquired by MTU Aero Engines Holding AG are required to be presented for German accounting (HGB) and tax purposes within current assets measured at their average acquisition cost. Such assets are required to be written down to their "fair value" (for HGB purposes) or their "Teilwert" (for tax purposes) if lower at the end of the reporting period. Since MTU Aero Engines Holding AG is classified for tax purposes as a finance company, the write-down on treasury shares reduced taxable profit by € 36.9 million (2007: € 0.0 million).

Net profit

As a result of the good business performance in the financial year 2008, net profit increased by € 25.6 million (16.6%) to € 179.7 million (2007: € 154.1 million).

Net profit in € million



Net profit available for distribution

The net profit available for distribution to the shareholders of MTU Aero Engines Holding AG in accordance with the German Commercial Code amounted to € 45.4 million (2007: € 47.2 million). At December 31, 2008 a total of 48,770,945 shares (2007: 50,729,590 shares) were entitled to receive a dividend.

Earnings per share

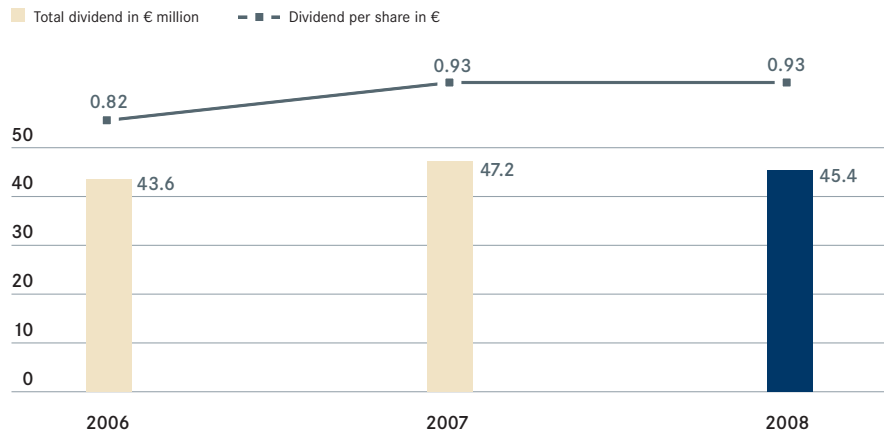
Undiluted earnings per share amounted to € 3.64 (2007: € 2.95). Potential common shares from the convertible bond diluted these earnings per share. Inclusive of this effect, diluted earnings per share amounted to € 3.54 (2007: € 2.83).

Consistently high dividend

In view of the group's good performance, the Board of Management and Supervisory Board of MTU Aero Engines Holding AG will propose to the Annual General Meeting on May 26, 2009, that a dividend of € 0.93 per share should be paid, as in the previous year. The total dividend will amount to € 45.4 million (2007 at the time of the Annual General Meeting's resolution: € 47.2 million), which corresponds to 65.8% (2007: 72.2%) of the unappropriated profit of MTU Aero Engines Holding AG available for distribution measured in accordance with the German Commercial Code, amounting to € 69.0 million. The net dividend yield for 2008, based on the share price at December 31, 2008, of € 19.58, is therefore 4.7%. The dividend is expected to be paid on May 27, 2009. A table showing the reconciliation of group net profit (IFRS) with the unappropriated profit of MTU Aero Engines Holding AG, Munich, available for distribution can be found in Section VII. of the notes to the consolidated financial statements.

The Board of Management and Supervisory Board of MTU Aero Engines Holding AG will again propose to the Annual General Meeting that a dividend of € 0.93 per share should be paid, as in the previous year.

Dividend payment in € million



OEM business

Order backlog

The order backlog for commercial and military engines (OEM business) 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 usually 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. \$ 3,363.6 million at December 31, 2008, and therefore U.S. \$ 975.1 million or 40.8% higher than in 2007, when it stood at U.S. \$ 2,388.5 million. This increase is largely attributable to the order volume for the GEnx (General Electric next Generation) engine.

The order backlog for commercial engine business in euros at year-end increased to € 2.4 billion.

The order backlog for commercial translated into euros at the year-end closing rate increased by 49.0% or € 794.4 million to € 2,416.9 million (2007: € 1,622.5 million) at the end of 2008.

In purely arithmetical terms, the order backlog in the commercial engine business corresponds to approximately 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 accounted for in euros totaled € 1,467.6 million at the end of 2008, which is € 126.7 million (7.9%) below the previous year’s amount of

€ 1,594.3 million. In purely arithmetical terms, the order backlog in the military engine business corresponds to just under three years' production capacity.

Order backlog for OEM business

in € million	Change		Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
	2008 - 2007				
Commercial engines in US-\$	975.1	40.8%	3,363.6	2,388.5	2,325.4
Commercial engines	794.4	49.0%	2,416.9	1,622.5	1,765.7
Military engines	-126.7	-7.9%	1,467.6	1,594.3	1,452.7
Total order backlog	667.7	20.8%	3,884.5	3,216.8	3,218.4

Revenues

The company generated revenues of € 1,642.9 million in its OEM business; this represents growth of € 43.4 million or 2.7% compared with 2007.

MTU generated revenues of € 1.6 billion in its OEM business.

During the year under review, MTU improved its revenues in the commercial engine business by € 44.3 million to € 1,146.3 million. This increase is largely attributable to sales of the V2500 (A320) engine, which has been in production for many years, together with an improved level of business with Pratt & Whitney Canada engines and the first production phase of the GP7000. Revenues from sales of modules and components for new engines also increased. Adjusted for the effect of the U.S. dollar exchange rate, the increase amounted to approximately 12%.

Revenues in the military engine business, at € 496.6 million, were virtually unchanged in comparison with the previous year's amount of € 497.5 million. The ongoing entry into service of the Eurofighter Typhoon assures a steady flow of revenue from the EJ200 engine, and revenues generated by the majority of other military programs have remained stable.

Revenues and EBITDA adjusted (OEM)

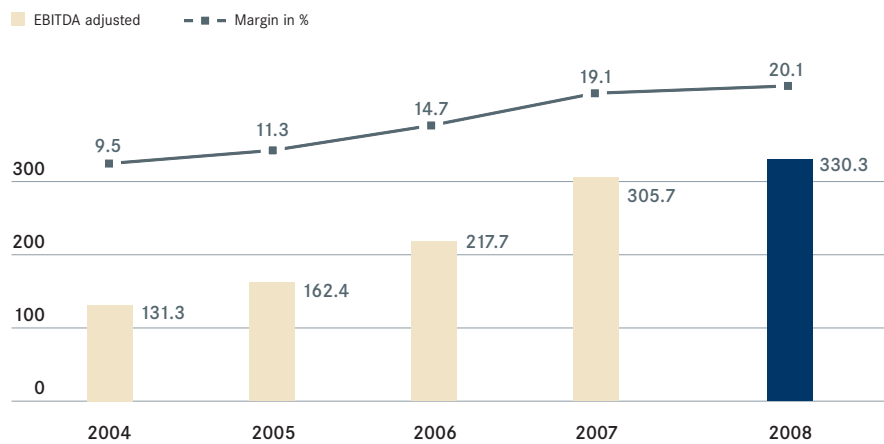
in € million	Changes		OEM business		
	2008 - 2007		2008	2007	2006
Revenues	43.4	2.7%	1,642.9	1,599.5	1,483.1
Cost of sales	-9.8	-0.8%	-1,253.9	-1,244.1	-1,245.0
Gross profit	33.6	9.5%	389.0	355.4	238.1
Gross margin in %			23.7	22.2	16.1
EBITDA adjusted	24.6	8.0%	330.3	305.7	217.7
EBITDA margin in %			20.1	19.1	14.7

EBITDA (adjusted) and EBITDA margin

Earnings before interest, tax, depreciation and amortization (EBITDA adjusted) in the OEM business increased from € 305.7 million to € 330.3 million as a result of the good business performance, and the adjusted EBITDA margin improved from 19.1% to 20.1%.

EBITDA adjusted in € million (margin in %) (OEM)

MTU over the past few years has continuously improved both its EBITDA adjusted figure and the EBITDA margin in the OEM business segment. The margin improved to 20.1% in 2008.



MRO business

Order backlog and value of contracts

The order backlog for commercial MRO consists of orders for work on engines that have been delivered to the maintenance shop and where failure analysis has been completed. When revenues are recognized from the orders, the order backlog is reduced accordingly.

Future orders under long-term service agreements, even though they form part of the contract volume, are not included in the order backlog. Consequently, the order backlog in the commercial MRO business is relatively low. For this reason, in addition to the narrowly defined order backlog, MTU also discloses in its statements the expected value of contracts for work on engines for which maintenance agreements are in place.

The short- to medium-term workload can be estimated by adding together the order backlog and the value of contracts. On a purely arithmetical basis, the sum total of order backlog and value of contracts represents a workload of just under five years. The majority of contracts in the commercial MRO business are priced in U.S. dollars. The order backlog for commercial MRO in 2008 amounted to U.S. \$ 182.9 million, which is U.S. \$ 43.5 million or 31.2% higher than the equivalent figure for 2007 of U.S. \$ 139.4 million. The value of contracts for engines for which maintenance agreements are in place decreased by 2.0% to U.S. \$ 7,278.3 million in the year under review.

Translated into euros, the order backlog and value of contracts in the commercial MRO business increased by € 221.6 million (4.3%) to € 5,361.2 million (2007: € 5,139.6 million) at the end of 2008.

Translated into euros, the order backlog and value of contracts in the commercial MRO business increased to € 5.4 billion.

Order backlog and value of contracts for commercial MRO business

in million	Change		Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
	2008 - 2007				
Commercial engine maintenance					
Order backlog MRO					
Engines delivered to shop in US-\$	43.5	31.2%	182.9	139.4	163.4
Order backlog in €	36.7	38.8%	131.4	94.7	124.1
Value of MRO contracts					
Engines for which maintenance agreements are in place in US-\$	-148.3	-2.0%	7,278.3	7,426.6	4,847.0
Value of contracts in €	184.9	3.7%	5,229.8	5,044.9	3,680.3
Total order backlog and value of contracts in €	221.6	4.3%	5,361.2	5,139.6	3,804.4

MTU's revenues in the commercial MRO business increased in 2008 to € 1.1 billion, representing a year-on increase of 10.8%.

Revenues

MTU's revenues in the commercial MRO business increased in 2008 to € 1,113.0 million (2007: € 1,004.7 million). This 10.8% increase was achieved in spite of the additional burden incurred in connection with the introduction of new software and logistics systems at MTU Maintenance Hannover and the unfavorable changes in the U.S. dollar exchange rate parity during part of the year. MTU Maintenance Zhuhai Co. Ltd., Zuhai, China, also reported an increase in revenues of € 39.2 million to € 125.9 million (2007: € 86.7 million). Adjusted to eliminate the effect of the U.S. dollar exchange rate, the increase in revenues in this specific case would have been in the order of 19%.

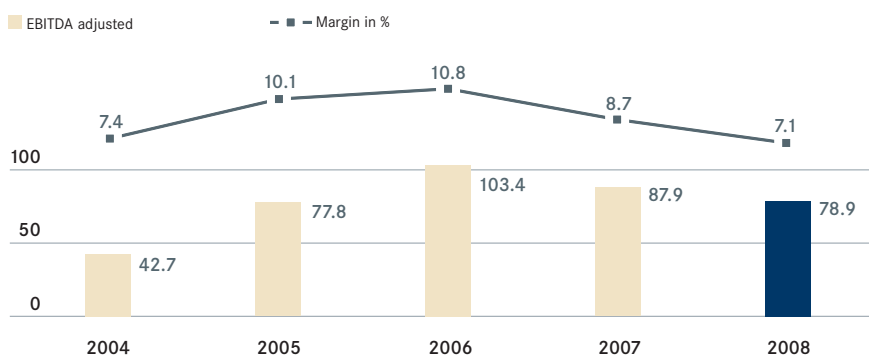
Revenues and EBITDA adjusted (MRO)

in € million	Change		MRO business		
	2008 - 2007		2008	2007	2006
Revenues	108.3	10.8%	1,113.0	1,004.7	954.7
Cost of sales	-102.5	-11.2%	-1,018.1	-915.6	-839.1
Gross profit	5.8	6.5%	94.9	89.1	115.6
Gross margin in %			8.5	8.9	12.1
EBITDA adjusted	-9.0	-10.2%	78.9	87.9	103.4
EBITDA margin in %			7.1	8.7	10.8

EBITDA (adjusted) and EBITDA margin

Earnings before interest, tax, depreciation and amortization (EBITDA adjusted) in the commercial MRO business was reduced by € 9.0 million (10.2%) to € 78.9 million. The EBITDA margin fell accordingly to 7.1% (2007: 8.7%). This reduction of the EBITDA margin by 1.6 percentage points is largely due to the unfavorable U.S. dollar exchange rate.

EBITDA adjusted in € million (margin in %) (MRO)



Financial situation

Principles and objectives of financial management

The main objective of financial management is to avoid financial risks and to secure financial flexibility. The group employs a number of different financial instruments to attain these objectives. In the financial year 2007, these included the issue of a convertible bond with a term to maturity of five years and the establishment of lines of credit giving MTU adequate headroom to meet its short-term and medium-term borrowing requirements. The revolving credit facilities (RCFs), which are utilized only to a limited extent, give MTU the necessary scope to manage its funding needs. The decisive parameters applied when choosing a financial instrument are flexibility, the nature of credit terms, the existing debt repayment schedule, and borrowing costs. The group's corporate departments manage financing arrangements on the basis of the group structure.

The group's main source of liquidity is the cash flow resulting from the operating activities of the business segments. Longer-term liquidity forecasts are based on operative planning. Short-to-medium-term forecasts are updated once a month. All group companies are included in the process. MTU utilizes cash flow surpluses generated by individual group companies to cover the funding requirements of other companies in the group. This reduces the need for external financing and optimizes net interest expenses.

The prescribed procedures for dealing with banking policy, the approval of banking relationships, loan agreements, worldwide liquidity and asset management, the management of currency and interest risks and the management of the group's internal cash flow are laid down in the treasury principles.

It is a basic principle of the group that 100% of its lines of credit are administered at corporate level. Certain of these lines of credit are passed on to affiliated companies and, if necessary in individual cases, guaranteed by the parent company. 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

Net financial liabilities

Net financial liabilities is used as a performance indicator by leading capital market analysts, and is a common reference in MTU's sector. MTU defines net financial liabilities as the difference between gross financial liabilities and current financial assets. It serves as an indicator of the MTU group's overall liquidity. Total net financial liabilities increased by € 31.3 million (14.0%) to € 254.7 million compared with the amount of € 223.4 million reported at December 31, 2007, owing to the fact that derivative financial liabilities and derivative financial receivables had deteriorated by a combined total of € 63.5 million

Total net financial liabilities increased by 14.0% compared with the previous year to € 254.7 million at December 31, 2008

(2007: improved by € 0.5 million) as a result of market fluctuations. The components of net financial liabilities changed as follows in the financial year 2008:

Net financial liabilities

in € million	Change		Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
	2008 - 2007				
Bonds					
Convertible bond	-21.9	-13.1%	145.4	167.3	
High yield bond					168.4
Financial liabilities to banks	-13.6	-14.2%	82.5	96.1	109.0
Liabilities to related companies					0.1
Finance lease liabilities	-7.7	-18.5%	34.0	41.7	48.5
Loan from the province of British Columbia to MTU Maintenance Canada	-1.4	-11.2%	11.1	12.5	12.8
Retrospective purchase price adjustment	15.0		15.0		
Derivative financial liabilities	39.5	443.8%	48.4	8.9	
Gross financial debt	9.9	3.0%	336.4	326.5	338.8
Cash and cash equivalents	2.6	3.9%	69.9	67.3	102.2
Derivative financial receivables	-24.0	-67.0%	11.8	35.8	26.4
Net financial liabilities	31.3	14.0%	254.7	223.4	210.2

Bonds

In 2008, MTU repurchased units of its own convertible bond from the market prior to their final maturity, amounting to a total nominal volume of € 27.2 million.

In the period from September 17 to October 31, 2008, MTU repurchased units of its own convertible bond from the market with a total nominal volume of € 27.2 million (approximately 15.1% of the original nominal volume of € 180.0 million) prior to their final maturity. The expense of this repurchase exercise was split into equity and liability components. The remaining outstanding units of the convertible bond with a total par value of € 152.8 million (2007: € 180.0 million) were measured at amortized cost. More detailed comments, including the calculation of the equity and liability components of the repurchased units of the bond, are provided in Note 34. to the consolidated financial statements.

Financial liabilities to banks

At December 31, 2008 the group had drawn down € 61.2 million (2007: € 69.6 million) out of bilateral banking credit facilities. Other liabilities to banks amounting to € 21.3 million (2007: € 26.5 million) relate to loans agreed by subsidiaries in favor of third parties. In total, financial liabilities to banks decreased by € 13.6 million to € 82.5 million (2007: € 96.1 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 Notes 5.6. and 19. to the consolidated financial statements.

Loan from the province of British Columbia

The loan from the province of British Columbia to MTU Maintenance Canada Ltd., Canada, is recognized at amortized cost. The change compared with 2007 is mainly attributable to movements in the exchange rate parity between the euro (€) and the Canadian dollar (CAD).

Retrospective purchase price adjustment

The tax field audit covering the period 2000 to 2003 was completed during the financial year 2008. Since tax pooling arrangements had been in place during that period with Daimler AG, the tax audit findings were taken into account in tax assessments at the level of Daimler AG. The additional tax expense resulting from the tax field audit triggered a retrospective adjustment to the purchase price (originally agreed in 2003) for the MTU group. Additional explanatory comments are provided in Note 19. to the consolidated financial statements.

Derivative financial liabilities

The increase in derivative financial liabilities by € 39.5 million to € 48.4 million (2007: € 8.9 million) derives principally from the fair values of forward foreign exchange transactions used to hedge cash flows and forward commodity sales contracts for nickel. For further details on credit and market risks arising from derivative financial liabilities, please refer to Note 42. to the consolidated financial statements (Risk management and financial derivatives).

Derivative financial receivables

The currency derivatives item mainly represents the fair values of forward foreign exchange transactions used to hedge cash flows. Derivative financial receivables decreased by € 24.0 million to € 11.8 million (2007: € 35.8 million) as a result of market-related changes in the exchange rate parity between the euro and the U.S. dollar. For further details on credit and market risks arising from derivative financial receivables, please refer to Note 42. to the consolidated financial statements (Risk management and financial derivatives).

Cash and cash equivalents

The cash and cash equivalents of € 69.9 million (2007: € 67.3 million) comprise checks, cash in hand, bank deposits, and short-term securities with an original maturity of three months or less.

Relative indebtedness

The indicator "relative indebtedness" represents the ratio of net financial liabilities to EBITDA (adjusted to eliminate the effect of nonrecurring items). It deteriorated by 5.9 percentage points to 62.8% (2007: 56.9%) compared with 2007, because of the increase in net financial liabilities due to changes in the fair value of derivative financial instruments.

Relative indebtedness

in € million	Change		Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
	2008 - 2007				
Net financial liabilities	31.3	14.0%	254.7	223.4	210.2
EBITDA (adjusted)	12.8	3.3%	405.7	392.9	318.2
Relative indebtedness (in %)			62.8	56.9	66.1

MTU meets its financing requirements through a combination of the free cash flow generated by its operating activities and through the utilization of short- to medium-term financial liabilities.

The € 180.0 million convertible bond issued in the financial year 2007 is an important financing instrument that serves as a supplement to conventional bank loans. 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 of the company corresponding to a proportionate amount (€ 1 per share) of the company's total share capital.

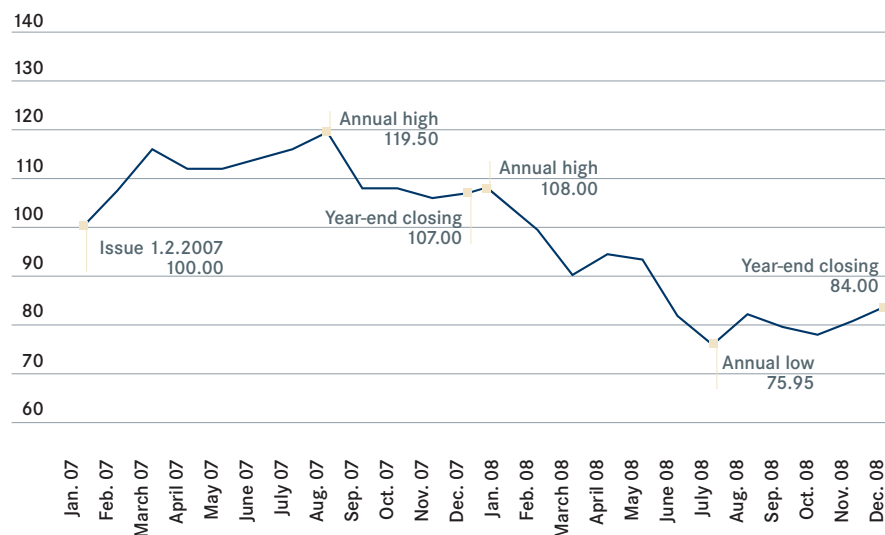
At a conversion price of € 49.50, the conversion ratio at issue date was 2,020.20 shares. The coupon rate is fixed at 2.75%, payable yearly on February 1. The issuing company is Amsterdam-based MTU Aero Engines Finance B.V., which is wholly owned by MTU Aero Engines Holding AG, Munich. The funds raised through this bond issue were used by MTU in the financial year 2007 to pay outstanding liabilities in connection with the high yield bond, including penalties for early repayment and accumulated interest.

Changes in the market price of the convertible bond

The convertible bond had a market price of 107.00 when the trading year opened on January 2, 2008, and reached its highest annual price of 108.00 on the same date. It reached its lowest annual price of 75.95 on July 17, 2008. The MTU convertible bond closed the financial year 2008 at a market price of 84.00 (2007: 107.00). The average market price of the convertible bond over the course of the year thus lay below its emission price of 100.00. Its present market price (at February 19, 2009) is 85.85.

The MTU convertible bond closed the financial year 2008 at a market price of 84.00. The market price thus lay below its emission price of 100.00.

Changes in the market price of the convertible bond



MTU bond issue data

International (ISIN)	DE000A0G5NW4
German (WKN)	A0G5NW

Repurchase of convertible bonds

In the period from September 17 to October 31, 2008, MTU repurchased units of its own convertible bond on the market with a total nominal volume of € 27.2 million (approximately 15.1% of the original nominal volume of € 180.0 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. More detailed comments, including the calculation of the equity and liability components of the repurchased units of the bond, are provided in Note 34. to the consolidated financial statements.

In 2008, repurchased a portion of its convertible bond prior to final maturity, with a nominal volume of € 27.2 million.

Borrowing capacity

MTU owes its favorable financing situation to the mix of funding sources that it employs, good earnings from operations, its sustainable free cash flow, and the financial market's positive response to the group's business strategy. The group has increased its borrowing capacity to € 250.0 million on the basis of a revolving credit facility made available by a consortium of banks in conjunction with agreements that run to March 24, 2010. Direct credit facility arrangements have been agreed with three banks, each for an amount of € 40.0 million (ancillary facilities). The funds raised through these lines of credit are intended to finance investment in production facilities and are not covered by collateral. At December 31, 2008 the group had drawn down € 61.2 million (2007: € 69.6 million) under these banking credit facilities. Of the remaining € 188.8 million (2007: € 180.4 million) available at the balance sheet date, € 16.9 million (2007: € 16.5 million) had been drawn

down as bank guarantees in favor of third parties. Any credit actually utilized is subject to interest at the Euro Overnight Index Average (EONIA) rate plus an additional margin. As of December 31, 2008, MTU and its affiliates had met all loan repayment and other obligations arising from financing arrangements. The availability of unused lines of credit increases the scope and flexibility of the group's financing opportunities.

The group's medium-term flexibility is assured by unused lines of credit amounting to € 171.9 million at the end of the financial year 2008 (2007: € 163.9 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.

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.

Analysis of capital expenditure

Capital expenditure by segment

Total capital expenditure almost tripled in the financial year 2008.

The greatest proportion was expended in the OEM segment.

Total capital expenditure in the financial year 2008 amounted to € 293.7 million (2007: € 106.1 million). Of this total amount, € 263.8 million concerned the OEM business (2007: € 68.7 million) and € 29.9 million concerned the commercial MRO business (2007: € 37.4 million).

Capital expenditure by asset category

Capital expenditure on assets of all categories was divided up as follows: € 193.8 million (2007: € 14.3 million) on intangible assets, € 99.9 million (2007: € 86.5 million) on property, plant and equipment, and € 0.0 million (2007: € 5.3 million) on financial assets.

Capital expenditure

in € million	Change		2008	2007	2006
	2008 - 2007				
OEM	176.7	1,821.6%	186.4	9.7	36.8
MRO	2.8	60.9%	7.4	4.6	0.3
Intangible assets	179.5	1,255.2%	193.8	14.3	37.1
OEM	20.4	38.0%	74.1	53.7	55.7
MRO	-7.0	-21.3%	25.8	32.8	21.3
Property, plant and equipment	13.4	15.5%	99.9	86.5	77.0
OEM	-5.3	-100.0%		5.3	
Financial assets¹⁾	-5.3	-100.0%		5.3	
Total capital expenditure	187.6	176.8%	293.7	106.1	114.1

¹⁾ As accounted for by the equity method or cost of purchase.

Capital expenditure on intangible assets

MTU acquired a 6.65% stake in the GENx engine program for the Boeing 787 and 747-8 through a cooperation agreement dated December 19, 2008 between the General Electric Company and MTU Aero Engines GmbH. The investment in this new engine program is included in the capital expenditure of the OEM business as an intangible asset valued at an amount of € 126.1 million (2007: € 0.0 million).

MTU's participation in General Electric's GE38 helicopter engine development project has enabled the company to acquire an 18% stake in the engine program for the Sikorsky CH-53K heavy-lift helicopter. Development costs amounting to € 48.0 million (2007: € 0.0 million) arising from this program share are included in the intangible assets for the OEM business, together with an amount of € 2.8 million (2007: € 0.0 million) representing related company-funded R&D expenditure.

The commercial MRO business has developed special repair techniques to reduce the cost and increase the efficiency of engine maintenance, and thereby further consolidate its technological and competitive lead. The recognition criteria for these technologies were met in the financial year 2008, allowing capitalized development costs amounting to € 3.4 million (2007: € 4.3 million) to be recognized within intangible assets.

The tax field audit covering the period up to the date on which MTU was sold by the then DaimlerChrysler AG was completed during the financial year 2008. The resulting purchase price adjustment increased the amount of goodwill by € 15.0 million, € 11.7 million of which was allocated to the commercial and military engine business (OEM) and € 3.3 million to the commercial maintenance business (MRO). Further information on the retrospective purchase price adjustment is provided in Note 19. to the consolidated financial statements.

A detailed analysis of capital expenditure on intangible assets, which amounted to a total of € 193.8 million (2007: € 14.3 million) is provided in Note 18. to the consolidated financial statements (Changes in intangible assets, property, plant and equipment, and financial assets).

Capital expenditure on intangible assets rose to a total of € 193.8 million in 2008.

Capital expenditure on property, plant and equipment

Capital expenditure on technical equipment, plant and machinery amounted to a total of € 14.7 million (2007: € 10.0 million). Newly purchased items include a welding system, a combined laser drilling and ablation system, an ultrasonic shot peening system, a tool-grinding machine, a wet-blasting plant, a wire-erosion machining plant, a vacuum furnace and a number of CNC grinding and milling machines.

Other additions to property, plant and equipment in 2008, totaling € 59.8 million (2007: € 49.6 million) and reported under 'Advance payments and construction in progress', comprise € 21.6 million for unfinished construction work on the manufacturing facilities of MTU Aero Engines Polska Sp. z.o.o., Rzeszów, Poland, € 24.7 million relating to unfinished work on technical equipment, plant and machinery for new engine programs at the German sites, and construction costs for the new engine test rig in Hannover, which amounted to € 13.5 million up to the end of the financial year 2008. This test rig will enable the company to test

large engines of the type destined to power the Airbus A380 (GP7000). Capital expenditure on property, plant and equipment furthermore includes new software and logistics systems being introduced at the Hannover site with a view to optimizing production processes and reducing manufacturing costs.

A detailed analysis of capital expenditure on property, plant and equipment, which amounted to a total of € 99.9 million (2007: € 86.5 million) is provided in Note 18. to the consolidated financial statements (Changes in intangible assets, property, plant and equipment, and financial assets).

Liquidity analysis

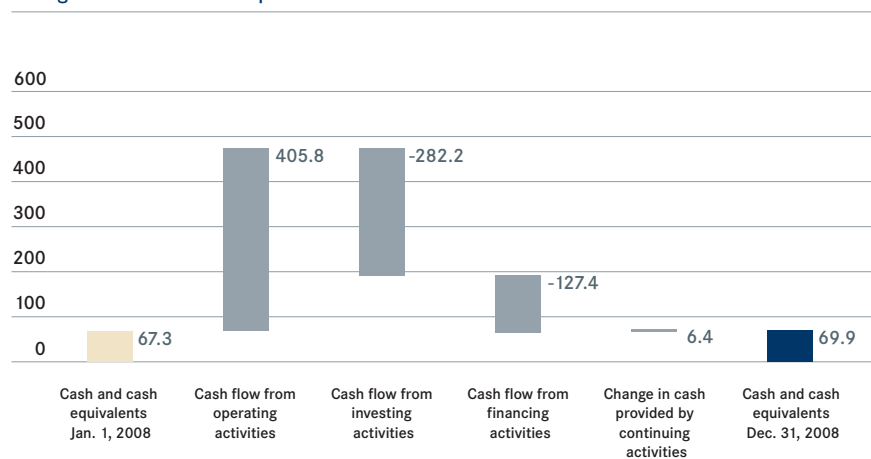
MTU utilizes free cashflow as a performance indicator to control the company's liquidity.

MTU controls its liquidity through free cash flow as a performance indicator. MTU defines free cash flow as cash flow from operating activities less capital expenditure on intangible assets, property, plant and equipment, and financial assets. This cash surplus is principally utilized for the dividend payment, the share buyback program, and the repayment of financial liabilities.

Consolidated cash flow statement (abridged)

in € million	Change		2008	2007	2006
	2008 - 2007				
Cash flow from operating activities	169.6	71.8%	405.8	236.2	209.8
Cash flow from investing activities	-177.7	-170.0%	-282.2	-104.5	-94.1
Free cash flow	-8.1	-6.2%	123.6	131.7	115.7
Cash flow from financing activities	38.4	23.2%	-127.4	-165.8	-37.7
Change in cash provided by continuing activities			6.4	-0.8	2.2
Change in cash and cash equivalents			2.6	-34.9	80.2

Change in cash and cash equivalents 2008 in € million



Cash flow from operating activities

Cash flow from operating activities in 2008 amounted to € 405.8 million, or € 169.6 million (71.8%) higher than the previous year's level of € 236.2 million. In the financial year 2008, a particularly high level of advance payments from customers was received for production contracts in the military engine business, and similarly in the commercial engine business. Working capital furthermore improved by € 98.5 million (2007: deteriorated by € 74.6 million) despite a higher workload in the commercial MRO business at the end of 2008, preparations for delivery of GP7000 engines for the Airbus A380, and ongoing development work on the TP400-D6 engine for the A400M military transporter.

Cash flow from investing activities

Cash flow from investing activities increased by € 177.7 million (170.0%) to € 282.2 million (2007: € 104.5 million) as a result of the capital expenditure described in the preceding section "Analysis of capital expenditure". Cash flow from investing activities includes proceeds from the disposal of assets amounting to € 11.5 million (2007: € 1.6 million).

Free cash flow

Free cash flow, i.e. cash flow from operating activities less cash flow from investing activities, amounted to € 123.6 million in 2008 (2007: € 131.7 million). In the financial year 2008, the majority of the free cash flow was used to purchase treasury shares under the buyback program for an amount of € 56.4 million (2007: € 113.6 million), to cover the dividend payment of € 46.3 million for the financial year 2007 (€ 43.8 million for the financial year 2006), and to repurchase units of the convertible bond at a cost of € 21.9 million (2007: € 0.0 million). MTU bought back additional treasury shares during the period after the respective balance sheet dates up to the date of the Annual General Meeting. In 2008, this reduced the amount of the dividend payment for the financial year 2007 by € 0.9 million (2007: € 0.2 million) compared with the resolution of the Annual General Meeting.

In the financial year 2008, free cash flow amounting to € 123.6 million was used primarily to purchase treasury shares, to cover the dividend payment, and to repurchase units of the convertible bond.

Further information on the utilization of the free cash flow is provided in the consolidated cash flow statement.

Performance indicator

	Change 2008 - 2007		2008		2007		2006	
	€ million	in %	€ million	as % of revenues	€ million	as % of revenues	€ million	as % of revenues
Free cash flow	-8.1	-6.2	123.6	4.5	131.7	5.1	115.7	4.8

Net assets

Total assets increased year-on-year by € 110.6 million or 3.6% to € 3,196.1 million (2007: € 3,085.5 million), while the equity ratio increased as a result of the good operating results to 19.3% (2007 18.2%).

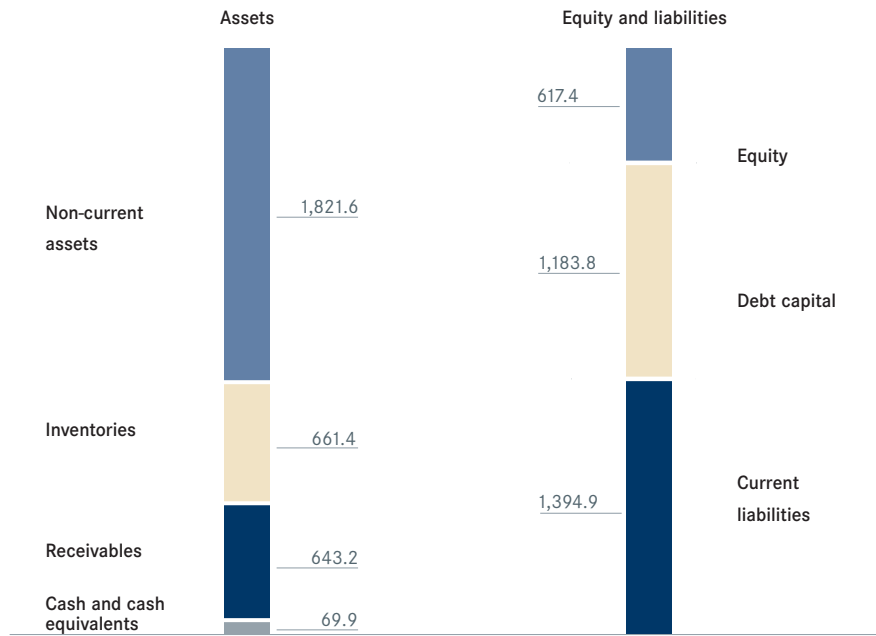
Changes in balance sheet items

The table below shows an overview of the changes in assets, equity and liabilities, giving separate figures for current and non-current items:

MTU consolidated balance sheet

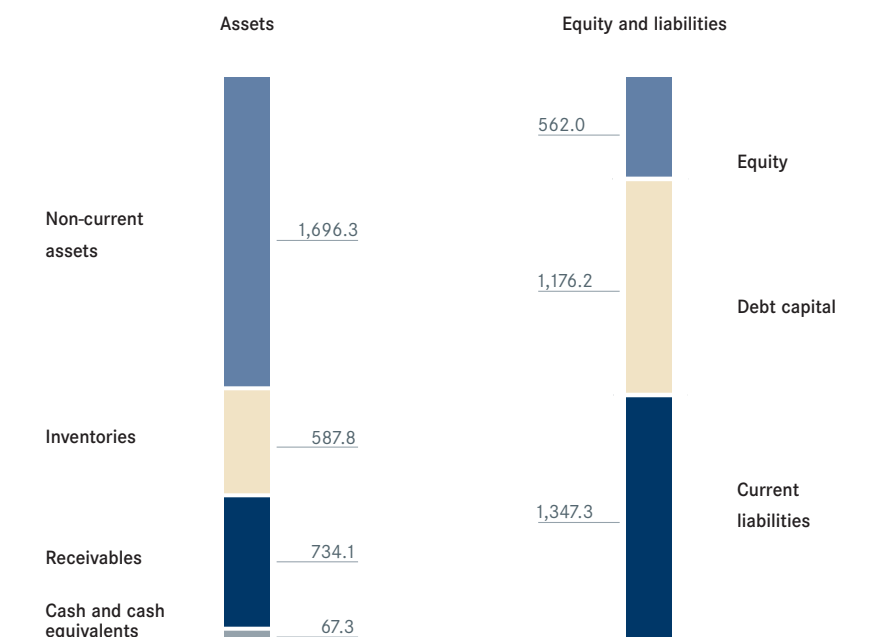
	Change		Dec. 31, 2008		Dec. 31, 2007		Dec. 31, 2006	
	€ million	in %	€ million	in %	€ million	in %	€ million	in %
Assets								
Intangible assets and property, plant and equipment	125.3	7.5	1,800.0	56.3	1,674.7	54.3	1,727.3	57.8
Other assets			21.6	0.7	21.6	0.7	25.4	0.9
Non-current assets	125.3	7.4	1,821.6	57.0	1,696.3	55.0	1,752.7	58.7
Inventories	73.6	12.5	661.4	20.7	587.8	19.0	529.0	17.7
Receivables, contract production receivables, advance payments and other assets	-90.9	-12.4	643.2	20.1	734.1	23.8	602.1	20.2
Cash and cash equivalents	2.6	3.9	69.9	2.2	67.3	2.2	102.2	3.4
Current assets	-14.7	-1.1	1,374.5	43.0	1,389.2	45.0	1,233.3	41.3
Total assets	110.6	3.6	3,196.1	100.0	3,085.5	100.0	2,986.0	100.0
Equity and liabilities								
Equity	55.4	9.9	617.4	19.3	562.0	18.2	562.3	18.8
Debt capital								
Provisions	-19.1	-3.1	595.7	18.6	614.8	19.9	638.1	21.4
Liabilities	26.7	4.8	588.1	18.4	561.4	18.2	784.7	26.3
Total debt capital	7.6	0.6	1,183.8	37.0	1,176.2	38.1	1,422.8	47.7
Non-current financing funds	63.0	3.6	1,801.2	56.3	1,738.2	56.3	1,985.1	66.5
Provisions	-2.2	-0.7	296.9	9.3	299.1	9.7	241.0	8.1
Liabilities	49.8	4.8	1,098.0	34.4	1,048.2	34.0	759.9	25.4
Current financing funds	47.6	3.5	1,394.9	43.7	1,347.3	43.7	1,000.9	33.5
Total equity and liabilities	110.6	3.6	3,196.1	100.0	3,085.5	100.0	2,986.0	100.0

Asset positions and capital structure 2008 in € million



Stable capital structure: the proportional value of non-current assets in 2008 rose slightly in comparison with the previous year, to 57%, while current assets at 43% were proportionately lower.

Asset positions and capital structure 2007 in € million



Higher equity ratio: Compared with December 31, 2007, MTU's equity capital ratio rose slightly to 19% in 2008, while the proportion of debt capital was correspondingly lower.

Assets

On the assets side, intangible assets and property, plant and equipment increased by a total of € 125.3 million or 7.5% to € 1,800.0 million (2007: € 1,674.7 million). Intangible assets increased by € 139.9 million, mainly as a result of the company's stakes in the GENx engine program and in the development program for the GE38 engine (see section Financial situation, Analysis of capital expenditure). Property, plant and equipment were reduced by € 14.6 million as a result of scheduled depreciation.

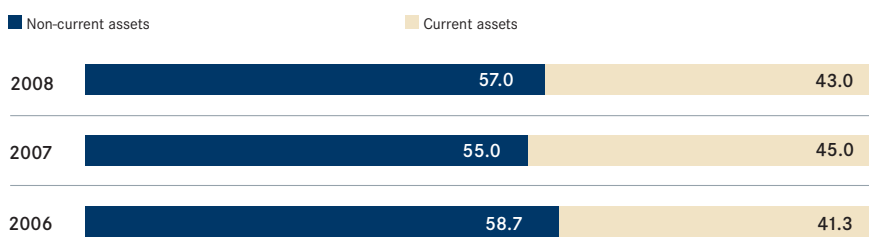
Inventories increased in the year under review by € 73.6 million or 12.5% to € 661.4 million (2007: € 587.8 million). While inventories of raw materials and supplies rose by € 47.6 million to € 311.5 million (2007: € 263.9 million), work in progress increased by € 7.7 million to € 322.2 (2007: € 314.5 million) and advance payments increased by € 18.3 million to € 27.7 million (2007: € 9.4 million). In total, inventories accounted for 20.7% of net assets (2007: 19.0%). Inventory turnover expressed as a percentage of revenues decreased only slightly from 4.6 to 4.4. Trade receivables, contract production receivables (after deducting advance payments) and other assets including advance payments decreased year-on-year by € 90.9 million (12.4%) to € 643.2 million. Of these, trade receivables fell by € 38.8 million (7.8%) to € 460.4 million. Contract production receivables, net of the corresponding advance payments, reduced by € 32.2 million (18.8%) compared with the previous year to € 138.9 million.

Cash and cash equivalents rose slightly at the balance sheet date to € 69.9 million.

Cash and cash equivalents amounted to € 69.9 million (2007: € 67.3 million) at the balance sheet date. Expressed as a percentage of total assets, this item remained at the previous year's level of 2.2%.

In terms of the structure of assets, the proportion of non-current assets increased by 2.0 percentage points to 57.0% (2007: 55.0%). The chart below shows a comparison of the relative proportions of current and non-current assets at the end of 2008 and the two previous years:

Structure of assets in %



Group equity

The next table shows details of the changes in group equity:

Changes in group equity

in € million	2008	2007	2006
Equity at January 1	562.0	562.3	528.0
Other comprehensive income			
Change in derivative financial instruments	-29.1	2.1	30.5
Translation differences	3.4	-3.6	-3.6
Net profit for the year	179.7	154.1	89.1
Equity portion of convertible bond	-1.3	11.7	
Dividend payment to shareholders of MTU Aero Engines Holding AG	-46.3	-43.6	-40.2
Purchase of treasury shares	-56.4	-113.6	-42.7
Capital reduction due to withdrawal of shares			
Capital reduction	-3.0		
Transfer to capital reserves	-101.4		
Transfer from reserves for treasury shares	104.4		
Share-based compensation MSP	0.5	-7.4	1.2
Share-based compensation MAP	4.9		
Equity at December 31	617.4	562.0	562.3

Positive changes in group equity

The overall increase in group equity in 2008 of € 55.4 million (2007: reduction of € 0.3 million) is mainly attributable to the net profit generated in the financial year, which amounted to € 179.7 million (2007: € 154.1 million). Individual positive changes in equity include an amount of € 0.5 million relating to the fair value measurement of the Matching Stock Program (MSP) share-based payment scheme and an amount of € 4.9 million relating to shares issued to employees under the MAP stock option program. A more detailed description of the components of the share-based payment arrangements is provided in Note 30.4. to the consolidated financial statements. The positive balance of currency translation differences recognized in equity in 2008, amounting to € 3.4 million (2007: negative balance of € 3.6 million), is mainly attributable to MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China.

Negative changes in group equity

Negative changes in group equity include an amount of € 29.1 million relating to the fair value measurement of cash flow hedges (2007: positive change of € 2.1 million), an amount of € 46.3 million for the dividend payment to shareholders of MTU Aero Engines Holding AG for the financial year 2007 (€ 43.6 million for the financial year 2006), and an amount of € 56.4 million for the purchase of treasury shares (2007: € 113.6 million). MTU bought back additional treasury shares during the period after the respective balance sheet dates up to the date of the Annual General Meeting. In 2008, this reduced the amount of the dividend

Group equity at December 31, 2008 amounted to € 617.4 million, an increase of € 55.4 million compared with the previous year.

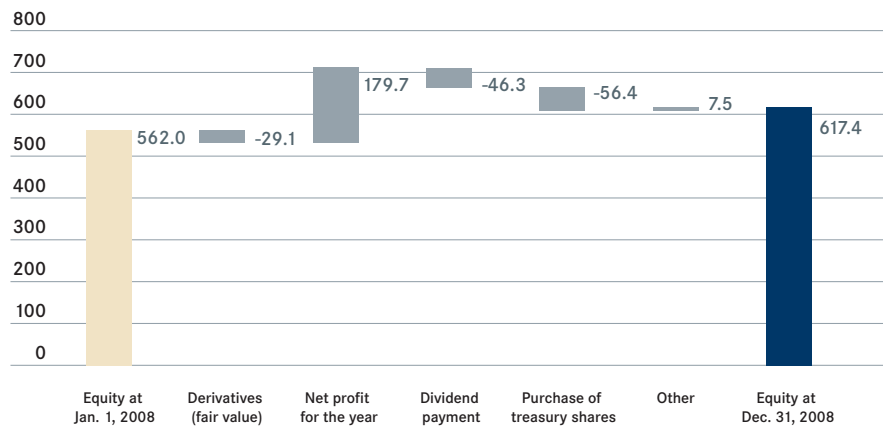
payment for the financial year 2007 by € 0.9 million (2007: € 0.2 million) compared with the resolution of the Annual General Meeting.

Neutral changes in group equity

The capital reduction due to withdrawal of shares comprises a reduction of € 3.0 million in the share capital and a transfer from capital reserves amounting to € 101.4 million authorized at the time the shares were purchased under the terms of section 272, paragraph 2(4) of the German Commercial Code (HGB) in the interests of safeguarding the company's market capitalization. The original acquisition cost of the withdrawn shares amounted to € 104.4 million, which was transferred to the capital reserves for the purchase of treasury shares.

The following chart illustrates the changes in group equity in the financial year 2008:

Changes in group equity 2008 in € million



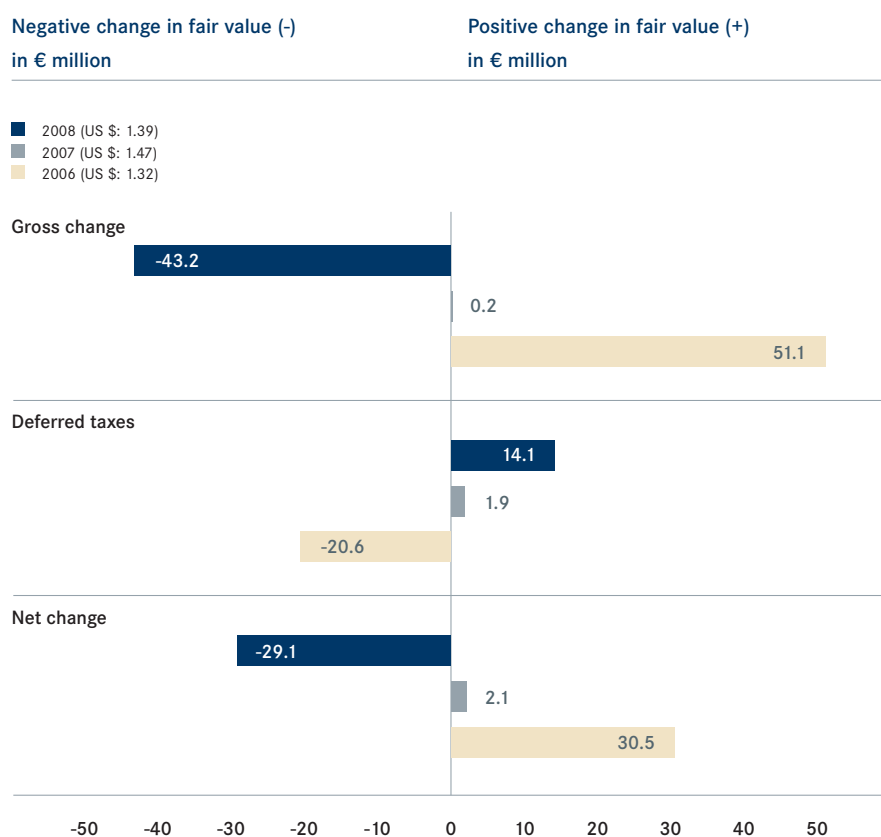
Changes in the fair value of derivative financial instruments recognized under other comprehensive income (OCI)

MTU uses cash flow hedges as a safeguard against exchange rate risks. The higher €/USD exchange rate of 1.39 prevailing at the balance sheet date, resulted in a lower fair value for these financial instruments.

At December 31, 2008, the nominal amount of the outstanding portfolio of hedging instruments classified as cash flow hedges in accordance with IAS 39 amounted to U.S. \$ 880 million, serving as a hedge against changes in the exchange rate parity between this currency and the euro. Measurement of the fair value of the MTU cash flow hedge portfolio at the end of 2008, based on the €/USD exchange rate of 1.39 prevailing at the balance sheet date, resulted in a negative change in the fair value recognized under other comprehensive income (OCI) of € 29.1 million compared with December 31, 2007. In the previous year, the measurement based on the €/USD exchange rate of 1.47 prevailing at the balance sheet date had resulted in a positive change in the fair value recognized under OCI of € 2.1 million compared with December 31, 2006. 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).

The following chart illustrates the changes in the fair value of cash flow hedges recognized under other comprehensive income over the past three years.



The negative change in the fair value of cash flow hedges in 2008 resulted in a reduction of € 29.1 million in the fair value of the net assets (after deduction of taxes) recognized under other comprehensive income, whereas in 2007 the fair value of these net assets had increased by € 2.1 million.

Financial debt

Medium- to long-term loans increased by € 7.6 million (0.6%) to € 1,183.8 million. Their proportion of total equity and liabilities fell by 1.1 percentage points to 37.0% (2007: 38.1%). This figure includes pension provisions amounting to € 371.7 million (2007: € 359.5 million). Pension provisions increased as expected by € 12.2 million (3.4%). Contingent liabilities recognized in the balance sheet for uncompleted engine programs identified in

The ratio of medium- to long-term loans to total equity and liabilities, at 37.0%, was slightly lower.

connection with the purchase price allocation have fallen by € 27.5 million to a remainder of € 208.7 million.

Non-current liabilities totaling € 588.1 million (2007: € 561.4 million) principally comprise financial liabilities amounting to € 58.9 million (2007: € 66.8 million), contract production liabilities amounting to € 273.0 million (2007: € 200.6 million), and deferred tax liabilities amounting to € 227.6 million (2007: € 269.8 million).

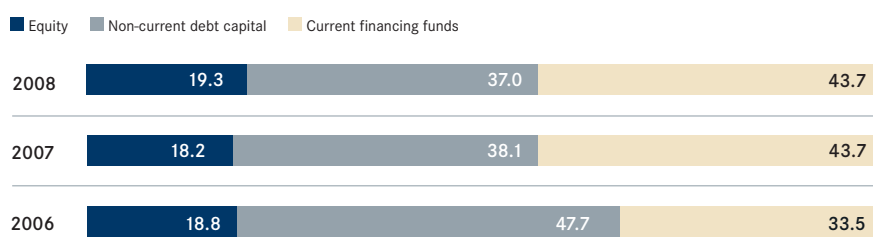
Non-current (i.e. medium- and long-term) financing funds increased in the financial year 2008 by € 63.0 million (3.6%) to € 1,801.2 million (2007: € 1,738.2 million). This means that 98.9% (2007: 102.5%) of the company's non-current assets are matched by financing funds available on a medium- to long-term basis.

Current (i.e. short-term) financing funds increased by € 47.6 million (3.5%) to € 1,394.9 million, including a reduction in provisions of € 2.2 million (0.7%) to € 296.9 million.

These provisions include pension provisions amounting to € 18.5 million (2007: € 17.1 million). Current liabilities increased by € 49.8 million (4.8%) to € 1,098.0 million. These include obligations towards employees totaling € 40.6 million (2007: € 52.6 million), financial liabilities amounting to € 277.5 million (2007: € 259.7 million), trade payables amounting to € 495.7 million (2007: € 462.9 million), accounts payable for contract production after deduction of the corresponding receivables amounting to € 247.6 million (2007: € 239.1 million), and sundry other identifiable obligations. The chart below shows a comparison of the relative proportions of equity, non-current and current financing funds in 2008 and the two previous years:

Structure of equity and financial debt in %

The equity ratio increased in 2008, to 19.3%.



Within the structure of equity and financial debt, the equity ratio increased by 1.1 percentage points from 18.2% to 19.3% compared with the previous year, while non-current provisions decreased by 1.3 percentage points. Overall, the relative proportions of non-current debt capital and current financing funds in 2008 remained unchanged compared with 2007.

Gearing

The ratio of net financial liabilities to equity (gearing) increased by 1.5 percentage points to 41.3% (2007: 39.8%). While net financial liabilities increased by a total of 14.0% compared with the previous year (€ 31.3 million), principally as a result of the increase in liabilities arising from derivative financial instruments (€ 39.5 million) and the decrease in derivative financial receivables (€ 24.0 million), equity increased by only 9.9% (€ 55.4 million) relative to the previous year.

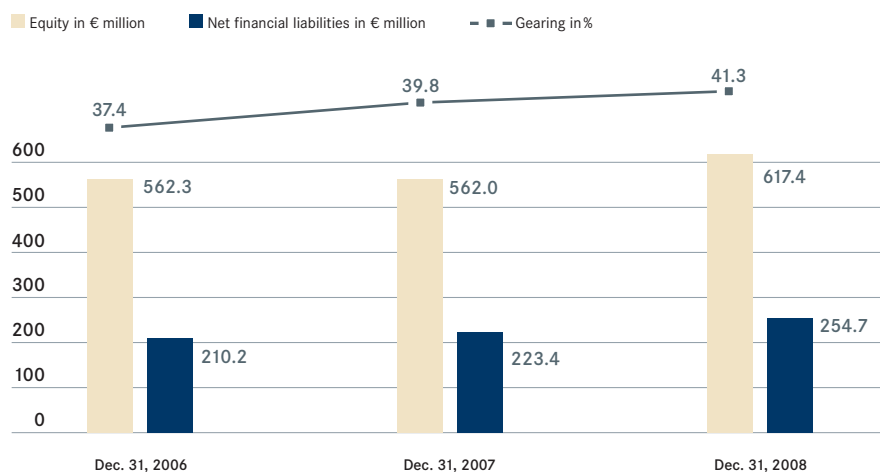
Gearing¹⁾

in € million	Change		Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
	2008 -2007				
Net financial liabilities	31.3	14.0%	254.7	223.4	210.2
Equity	55.4	9.9%	617.4	562.0	562.3
Gearing (in %)			41.3	39.8	37.4

¹⁾ Ratio of net financial liabilities to equity

The chart below illustrates the changes in the ratio of net financial liabilities to equity (gearing) over the past three years.

Gearing (Ratio of net financial liabilities to equity)



The ratio of net financial liabilities to equity (gearing) shows a slight increase of 1.5 percentage points in 2008, reaching 41.3%.

Value added statement

The value added statement reflects the wealth created by MTU in the course of the financial year after deduction of purchased materials and services. The net method of calculating value added considers depreciation/amortization, cost of materials and other expenses as purchased materials and services. Under the incomes received method, the part of the value creation process attributable to each party is made visible. The gross value added

method regards depreciation/amortization as a component of the value chain, which would otherwise be accounted for as internal financing under the incomes received method.

In 2008, MTU's gross value added increased by 4.7% to € 878.4 million (2007: € 838.7 million). This increase compared with 2007 is mainly attributable to the increase in revenues of € 148.4 million, against which it was necessary to offset an increase of € 91.1 million in the cost of purchased materials and services occasioned by the expansion of business operations. On balance, the respective increases in value created by company activities and the cost of purchased materials and services more or less canceled each other out. Depreciation and amortization expenses rose by a relatively high amount, mainly as a result of impairment losses recognized in respect of legacy GE and military engine programs. As a result of these effects, net value added increased by a further 4.2% to € 718.2 million (2007: € 689.1 million).

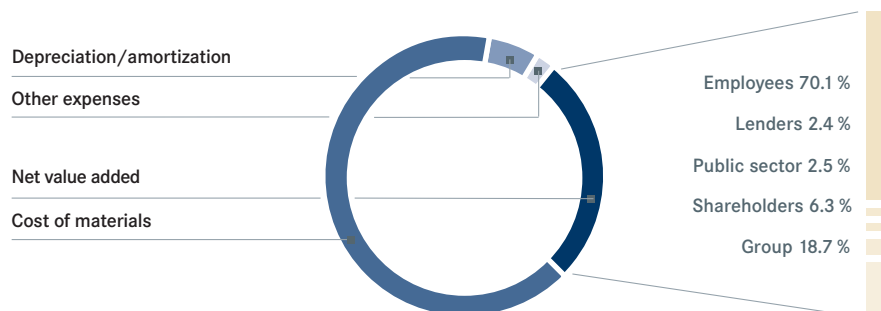
The company's employees were the beneficiaries of the major part of the net value added, namely 70.1% (2007: 68.3%). The portion received by lenders fell by 55.7% to 2.4% (2007: 5.7%). The public sector received 2.5% (2007: 3.7%), including deferred tax liabilities. The shareholders' portion of the net value added was slightly lower than the previous year's level, at 6.3% (2007: 6.8%). The remaining 18.7% of the net value added (2007: 15.5%) has been retained by the group for the financing of future business activities.

MTU value added statement

in € million	Change		2008		2007		2006	
	2008 - 2007							
Value creation								
Revenues	148.4	5.8%	2,724.3	100.9%	2,575.9	100.2%	2,416.2	97.4%
Financial income/expense (-)	-24.7	-149.7%	-41.2	-1.5%	-16.5	-0.6%	32.3	1.3%
Other income	7.1	65.7%	17.9	0.6%	10.8	0.4%	31.9	1.3%
Value created by company activities	130.8	5.1%	2,701.0	100.0%	2,570.2	100.0%	2,480.4	100.0%
Cost of materials	74.3	4.4%	1,766.0	65.4%	1,691.7	65.8%	1,562.7	63.0%
Other expenses	16.8	42.2%	56.6	2.1%	39.8	1.6%	43.3	1.7%
Purchased materials and services	91.1	5.3%	1,822.6	67.5%	1,731.5	67.4%	1,606.0	64.7%
Gross value added	39.7	4.7%	878.4	32.5%	838.7	32.6%	874.4	35.3%
Depreciation/amortization	10.6	7.1%	160.2	5.9%	149.6	5.8%	151.8	6.1%
Net value added	29.1	4.2%	718.2	26.6%	689.1	26.8%	722.6	29.2%
Distribution								
Employees	32.3	6.9%	503.2	70.1%	470.9	68.3%	524.8	72.6%
Lenders	-21.6	-55.7%	17.2	2.4%	38.8	5.7%	47.3	6.6%
Public sector	-7.2	-28.5%	18.1	2.5%	25.3	3.7%	61.4	8.5%
Shareholders	-1.8	-3.8%	45.4	6.3%	47.2	6.8%	43.6	6.0%
Group	27.4	25.6%	134.3	18.7%	106.9	15.5%	45.5	6.3%
Net value added	29.1	4.2%	718.2	100.0%	689.1	100.0%	722.6	100.0%

Net value added increased in 2008 by 4.2% to € 718.2 million. Employees were the beneficiaries of the major part of the net value added.

Value added 2008



Major events affecting business performance

Earnings for the financial year 2008 were not affected by any significant nonrecurring factors. Fluctuations in the U.S. dollar exchange rate, and its more recent recovery, did not have a significant impact due to the fact that MTU had hedged the larger part of its U.S. dollar surplus with the aid of forward currency transactions.

Comparison of actual and forecast business performance

Revenue forecast

In the outlook for 2008 presented by the Board of Management in the Annual Report 2007, it was anticipated that it would be possible to generate revenues on a slightly higher level than in 2007 (approximately € 2,576 million), based on an expected U.S. dollar exchange rate of 1.50 to the euro.

In its third-quarter interim report issued on October 23, 2008, MTU published a revised full-year estimate of the revenues it expected to generate in 2008, with a forecast of € 2,650 million. This forecast was mainly based on the improved exchange rate parity between the U.S. dollar and the euro. At year-end, MTU had exceeded this forecast by approximately 3%, having generated revenues of € 2,724.3 million.

Earnings forecast for operating profit (EBITDA adjusted)

During the presentations on September 30, 2008 in connection with the publication of the third-quarter interim report, MTU forecast that operating profit (EBITDA) would rise 2.6% higher than the originally planned result to € 400 million, producing an operating margin of 15.1%. This forecast was moderately exceeded, with a year-end EBITDA adjusted of € 405.7 million.

MTU slightly exceeded the operating profit forecast by the Board of Management.

Earnings forecast for net profit and earnings per share

The forecast presented by the Board of Management in the Annual Report 2007 expected group net profit to increase in 2008 by 20% to around € 180 million, on condition that it would not be necessary to take further measures involving derivatives to reduce exposure to U.S. dollar exchange rate risk. This forecast was reaffirmed in the third-quarter interim report at September 30, 2008. The actual year-end result precisely matched the expected result.

Free cash flow

Free cash flow in 2008 was forecast to lie in the region of € 100 million, both in the group management report in the Annual Report 2007 and again in the third-quarter interim report at September 30, 2008. The actual result of € 123.6 million exceeded the forecast result.

Forecast and actual results

in € million	Actual 2007	Forecast March 13, 2008	Forecast October 23, 2008	Actual 2008
Revenues	2,575.9	2,600	2,650	2,724.3
EBITDA adjusted	392.9	390	400	405.7
EBITDA margin adjusted (in %)	15.3	15.0	15.1	14.9
Net profit for the year	154.1	180	180	179.7
Earnings per share (in €)	2.95	3.50	3.50	3.64
Free cash flow	131.7	100	100	123.6

Overall assessment of business performance 2008

MTU holds a positive view of results achieved in the financial year 2008.

Business performance in the financial year 2008 was once again positive. MTU improved on the already-outstanding results it had achieved in the previous year, generating even higher revenues and a slightly higher operating profit (EBITDA adjusted). The good operating results are attributable to stable earnings in the military market and a strong spare parts business, which outweighed the negative effect of the significantly poorer U.S. dollar exchange rate.

4. Subsequent events

MTU has made a good start in 2009. Revenues and earnings are within the expected range, laying the foundations for another successful year.

On July 16, 2008, a share purchase agreement was signed with United Technologies International Corporation, East Hartford, USA for the purpose of acquiring shares in a company domiciled in the Kingdom of Saudi Arabia. The terms of this share purchase agreement were amended on December 16, 2008. Under the provisions of the agreement, MTU Aero Engines GmbH will acquire 125,450 shares with a nominal value of 12,545,000 Saudi Arabian rial (SAR) corresponding to an interest of 19.3% in the share capital of the Saudi Arabian company. Ownership of the shares is to be transferred after closing, probably at the end of April 2009. MTU has no shareholder rights or other rights of control until the date of transfer of ownership.

MTU has made a successful start to the new year, with revenues and earnings within the expected range.

There were no changes in the legal structure of the group in the first two months of 2009, nor were any equity investments acquired.

MTU made no significant capital expenditure in the first two months of 2009.

With respect to January and February 2009, MTU was in the possession of the following notifications concerning the voting rights of capital investments as stipulated by the Transparency Directive Implementation Act (TUG) and pursuant to Section 21, paragraph 1(1) of the German Securities Trading Act (WpHG):

Platinum Investment Management Limited, Sydney, Australia, exceeded the threshold of 3% of the voting rights on January 29, 2009.

Boston Company Asset Management LLC., Boston, USA, MAM (DE) Trust, Greenville, Delaware, USA, MAM (MA) Holding Trust, Boston, Massachusetts, USA, and Bank of New York Mellon Corporation, USA each fell below the threshold of 3% of the voting rights on January 21, 2009. Franklin Templeton Institutional, LLC., New York, USA, fell below the threshold of 3% of the voting rights on January 12, 2009.

Overall prognosis

A good start has been made to the financial year 2009, with revenues and earnings within the expected range. MTU has thereby laid the foundations for another successful year.

5. Forecast

MTU expects that its business will develop positively despite global recession. The company predicts a high level of free cashflow and earnings.

Future operating environment

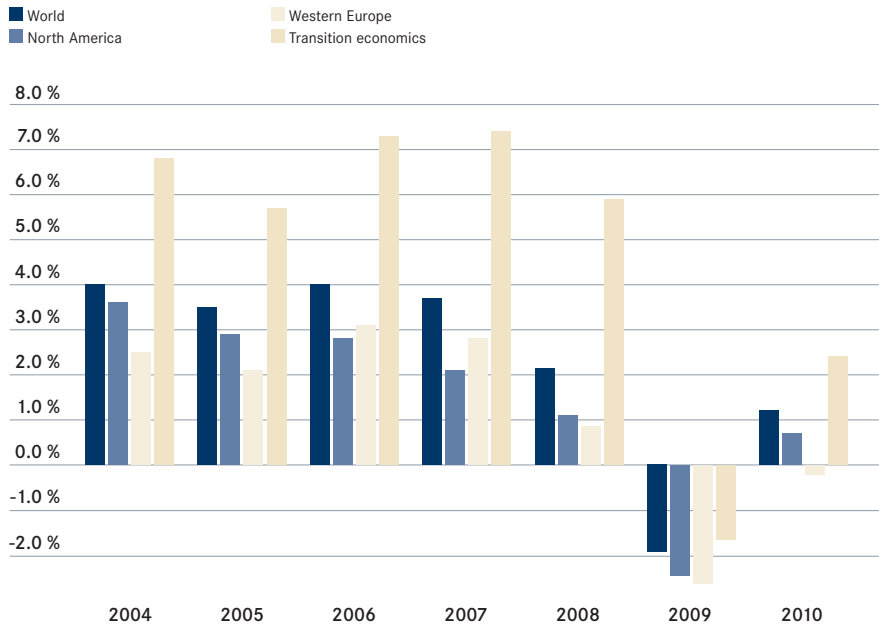
Experts expect the world economy to regress by 1.9% in 2009.

Experts predict that the world economy will lose a great deal of impetus in 2009. The crisis affecting the financial markets will slow down economic development. After having seen the world economy growing at a rate of 2.2% in 2008, experts at the Economist Intelligence Unit (EIU) now expect it to regress by 1.9% in 2009. This means that the world economy would be going through a period of recession.

The industrialized nations are already in the grip of a severe recession, despite the stimulating factor of low commodity prices. The crisis affecting the housing market in the United States is persisting, and the problems of the financial markets are spreading their effect to industry, as the weakening labor market indicates. The euro area continues to struggle against numerous adversities, including scarce funding resources, the strength of the euro, and the beginnings of a property market crisis in Spain, Ireland and the UK. The developing countries of the world will, of course, also be affected by the turbulence in the banking sector and the decreasing volumes of trade. Eastern Europe will also suffer, whereas Latin America is likely to be less vulnerable thanks to the structural improvements that have been made in recent years. The region continuing to make a substantial contribution to the growth of the global economy will be the dynamic economies of Asia.

While the International Monetary Fund (IMF) takes a less dramatic view of the developing situation than the Economist Intelligence Unit (EIU), neither expect to see any improvement before 2010. The many complex factors that play a role in the crisis make it extremely difficult to assess which way the economy will go from now on. But given that the risk of inflation appears to have been banished and that oil prices are expected to remain at an equivalent level to 2004/2005, there is great optimism in business and industrial circles that the generous economic stimulus packages being launched in the industrialized nations will have a positive impact and soon help to bring about a recovery.

Progression of world economic growth rates (in %)



Source: EIU

Industry-specific environment

IATA anticipates a significant weakening of the aviation market in 2009, as the January statistics already indicate – passenger traffic down by 5.6% and freight traffic down by 23.2% compared with the same month a year earlier. For 2009 as a whole, the volume of passenger traffic is expected to reduce by more than 3% and freight traffic by more than 5%. The airlines may have to face even greater losses, despite the preventive measures already being implemented to optimize fleet and capacity utilization, reduce costs on a sustainable basis, and stabilize the price of air tickets at the present internationally relatively high level.

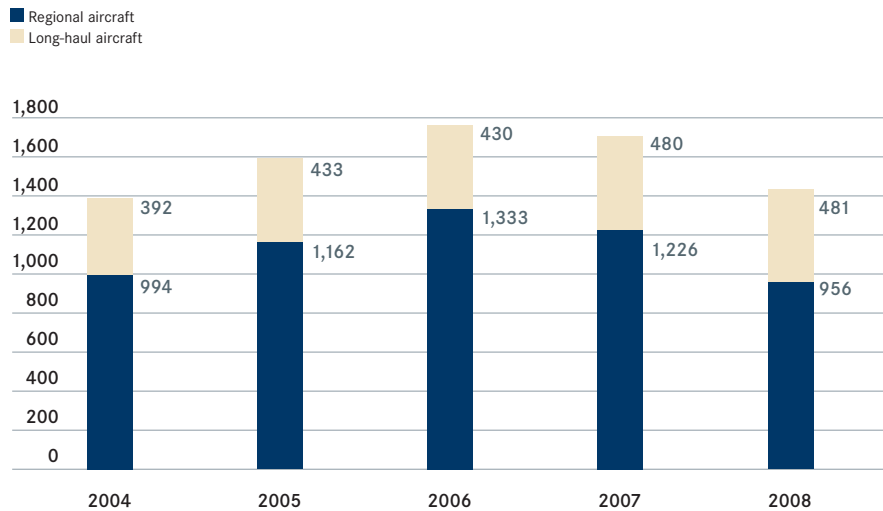
Airlines and leasing companies are finding it much more difficult than in previous years to obtain the funds they need to purchase aircraft. This is likely to result in a considerable number of orders scheduled for delivery in 2009 and 2010 being postponed to a later date, and an increase in the number of customers canceling orders or failing to exercise options.

Despite the many adverse market factors, Airbus and Boeing reported their fourth-best-ever volume of orders in 2008. Although the level of orders is expected to fall significantly in 2009, order backlogs are sufficiently high to keep the manufacturers busy until well beyond the predicted end of the crisis. Production rates at Airbus and Boeing in 2009 are likely to remain at roughly the same level as in 2008.

The International Air Transport Association IATA anticipates a significant weakening of the aviation market in 2009.

The situation is much worse for manufacturers of business jets. The financial and economic crisis is forcing them to cut back production rates to well below their previous levels, and many have already announced job cuts.

Orders received for Airbus and Boeing commercial aircraft programs (orders)



Source: Airclaims' CASE Databank

Future development of the MTU group

MTU forms part of risk- and revenue-sharing partnerships with the world's top engine manufacturers and is the largest independent provider of maintenance services for commercial aircraft. The company is therefore inevitably exposed to all changes taking place in the global air transportation sector. Nevertheless, thanks to a business model with activities covering the entire lifecycle of commercial and military aero engines, MTU is well positioned to claim a substantial share of the market even in difficult times.

It is difficult to assess the possible effects of the global financial and economic crisis. The statements below are based on the knowledge available at the beginning of 2009 and possess a significantly higher degree of uncertainty than forecasts made in previous years. Under these circumstances, it is not possible to make any concrete predictions extending beyond the horizon of 2009.

Planned changes in business policy

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

New products and services

In 2008, MTU joined several new engine programs that will account for a predominant share of revenues in the decades to come. The company estimates the market volume of these programs to be worth a total of approximately € 30 billion over their entire projected lifetime. These programs are: The PW810 engine for heavy business jets, the PW1217G geared turbofan engine for the new Mitsubishi Regional Jet and the PW1524G for the Bombardier CSeries, the GE38 engine for heavy-lift helicopters, and the GENx program for the Boeing 787 and 747-8. MTU is also partnering General Electric on two versions of its LM6000 industrial gas turbine.

In 2008, MTU joined several new engine programs. The company estimates the market volume of these programs to be worth a total of approximately € 30 billion.

Revenues

In view of the level of existing orders retained by the market, MTU expects revenues to reach approximately € 2,800 million in the financial year 2009.

Revenues by business segment

The revenue forecasts for the commercial and military engine business (OEM) and the commercial maintenance business (MRO) in the financial year 2009 are based on the following assumptions:

- After adjustments to eliminate the effect of the U.S. dollar exchange rate, MTU expects revenues from the volume production of commercial engines to decrease slightly, predominantly as a result of lower production rates in the business jet sector and in spare parts for commercial engines, owing to negative market trends.
- In 2009, the military side of the OEM business can expect to generate revenues of a similar magnitude to those in 2008.
- Revenues in the commercial maintenance business are expected to remain constant in 2009, excluding the effect of the U.S. dollar exchange rate.

Operating profit (EBIT adjusted)

MTU expects its profitability to remain at a consistently high level in 2009, with an EBIT margin (adjusted) in the region of 10%. The estimated roughly 2% lower margin compared with 2008 is mainly a consequence of lower sales of spare parts for commercial engines, increased investments in new engine programs, and the startup phase of the new site in Poland, offset by improved earnings in the MRO business. There is a risk of failing to meet the set EBIT target if the U.S. dollar exchange rate and the general economic climate continue to deteriorate.

MTU expects a high level of profitability in 2009, with an EBIT margin (adjusted) in the region of 10%.

Starting in the financial year 2009, the group intends to use EBIT (adjusted) as a measure of operating profitability (instead of EBITDA adjusted in prior periods up to December 31, 2008), to enable results to be more easily compared with members of its peer group and other capital-market-oriented companies. In the reconciliation table, depreciation and amortization expenses arising principally from the company's acquisition by Kohlberg Kravis Roberts & Co. (KKR) from DaimlerChrysler AG are added to EBIT and adjusted for nonrecurring items (EBIT adjusted).

MTU expects a net profit in 2009 of around € 140 million.

Net profit and earnings per share

In view of the planned forward-looking investments, MTU expects a reduced net profit in 2009 of around € 140 million. Other factors that might substantially change this projected result, apart from those with a direct impact on operating profit, include unpredictable events affecting the financial result, in particular the high volatility of the U.S. dollar exchange rate and changes in the fair value of forward commodity sales contracts.

Dividend payment

Every year since the MTU share was accepted for trading on the Frankfurt stock exchange on June 6, 2005, the company has paid a dividend to its shareholders. The dividend for the financial year 2005 amounted to € 0.73 per share. In subsequent years, the dividend per share increased progressively to € 0.83 for 2006 and € 0.93 for 2007 and 2008.

In the years to come, MTU will continue to apply a policy of continuity in the level of its dividend payments based on the generation of profit. Investors can always expect the MTU share to yield a substantial return. Consequently, future dividend payments will follow the progression of the group's net profit, based on the German Commercial Code's interpretation of net profit available for distribution.

Capital expenditure, funding resources and free cash flow

There will be no significant change in the structure of MTU's funding resources in 2009. The company will be able to cover its financing needs through cash flow for many years to come – both for current operations and for essential items of capital expenditure such as the expansion of the plant in Poland or research and development costs in connection with the GTF and GENx programs. Despite increased research and development expenses, MTU expects free cash flow to remain within the range of € 80 million to € 100 million in 2009. Moreover, the company's existing lines of credit and authorized capital provide a further, not yet utilized source of flexible funding options.

Legal structure

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

Employees

Notwithstanding the recruitment of new staff for MTU Aero Engines Polska and the creation of additional engineering posts to meet the development capacity needs of the new engine programs, MTU expects the total number of employees to remain more or less constant in the financial year 2009.

Opportunities

Opportunities presented by changes in the operating environment

The current decline in the volume of air traffic has not yet had any serious repercussions on MTU's business activities. So far, the spare parts business has remained relatively stable. The temporary withdrawal of aircraft from service has affected MTU to a lesser extent than other industry players, thanks to the modernity of its engine portfolio. The older engine models that are most severely affected by airline fleet economy measures only account for

a minor, single-digit percentage of MTU's revenues in the commercial engine business. At the present time, the percentage of parked aircraft powered by engines belonging to MTU's portfolio lies several points below the industry average.

The global aviation market is expected to enter a new growth phase after the end of the worldwide recession. This will be accompanied by a greater emphasis on more fuel-efficient and quieter engines. The geared turbofan and a considerable number of other innovations place MTU in an excellent position in this context.

The MRO business will be able to seize new opportunities arising from the growth of air traffic in the newly industrialized nations and from the tendency of airlines to narrow their focus onto their core business, a trend that will lead to wider-scale outsourcing of maintenance activities. MTU will be able to benefit from this trend in the coming years as the world's largest independent provider of commercial maintenance services.

Opportunities presented by the company's business performance

MTU's technological edge and solid funding basis promise to open the way to additional stakes in new engine development programs in the years to come.

In the financial year 2008, the strength of the euro inhibited the growth of MTU's revenues. 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.

Even under the present austere economic climate, MTU has identified opportunities that will enable the company to expand its business.

Overall prognosis of future business developments

Despite the present difficulties facing the economy in general, MTU is optimistic that it will be able to profitably expand its business activities. The recently concluded partnership agreements will be a major contributory factor, in addition to the ongoing programs, despite the considerable short-term up-front investments that they require. Stable earnings from military contracts and anticipated improvements in the MRO sector will help to reinforce this positive trend. Consequently, MTU expects free cash flow and earnings to remain at a correspondingly high level, enabling the company to offer the prospects of an attractive dividend yield to its shareholders.

Despite the present difficulties facing the economy in general, MTU is optimistic that its business activities will develop positively.

6. Risk report

In order to secure its competitiveness in the long term, MTU regularly analyzes and evaluates the risks inherent to 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 in comparison with 2007.

MTU's long-term market success depends on the company's ability to recognize and manage the risks inherent to its day-to-day business. This is why the Board of Management has set up an integrated risk management system, which is linked to the group's value-oriented performance indicators and its present organizational structure. The system ensures compliance with statutory requirements and is based on the internationally recognized COSO II Enterprise Risk Management (ERM) Framework and on the recommendations concerning opportunity and risk management standards issued by COSO's German counterpart RMA (Risk Management Association e.V.). In accordance with the stipulated requirements, opportunities are dealt with in a separate section of the Annual Report: Please refer to the earlier section entitled "Opportunities".

Strategy and management

Risk management is documented in a risk management manual that is valid throughout the group.

The risk management policy of MTU Aero Engines Holding AG is documented in a risk management manual that is valid throughout the group and in which the Board of Management's prescribed strategy for dealing with risks is described in the form of a set of compulsory rules. These rules form the basis for uniform and appropriate treatment of risks and for communicating them within the group.

Risk management ensures responsible behavior

MTU regards risk management as a continuous, end-to-end process to ensure responsible behavior when dealing with:

- specific risks at business unit level,
- general risks affecting several business units or the entire group, or risks which need to be assessed on a wider scale (projects, U.S. dollar, changes in commodity prices).

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 once a quarter, at dates allowing them to be reviewed together with the quarterly financial results.

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

The members of the Risk Management Board, which is made up of managers from all functional departments, meet once a quarter to verify the details of aggregated risks which could potentially raise or lower the performance indicators EBIT adjusted or free cash flow by at least € 5 million at group level, and to discuss and propose the appropriate corrective action. The Risk Management Board furthermore examines risks with a potential impact on the whole group, which are difficult to assess at business unit level.

Once each quarter, aggregated risks are assessed which could have a negative impact of at least € 5 million on performance indicators EBIT adjusted or free cash flow.

The Board of Management receives a risk report once a quarter informing its members of the group's current risk situation. The so-called Top Risk Map for the group is included once every three months in the regular monthly reports submitted to the Board of Management and Supervisory Board.



A systematic approach to risk management is of vital importance to the MTU group given the long-term nature of its business model, and serves as a fundamental basis for value-oriented controlling functions and continuous business success.

With its end-to-end risk management system, MTU has created the necessary transparency to deal with risks in a responsible manner. It enables the group to identify high-risk developments and potential risks at an early stage and introduce targeted measures for dealing with and minimizing these risks. The MTU risk management process is integrated into the existing control systems and coordinated with them.

This ensures firstly that balanced measures to reduce exposure to risks can be integrated in planning activities, taking into account both risks and future opportunities, and secondly that the controlling department can take timely countermeasures and arrange for provisions to be allocated by agreement with the treasury department where appropriate.

The internal auditing department and management review the risk management system at regular intervals. Additionally, the system employed for the early recognition of risks is verified by the auditor during the auditing of the annual financial statements. From an organizational point of view, MTU has put in place all the instruments required to manage risks on a proactive basis and communicate the necessary information to the group's decision-making and supervisory bodies.

Categories of risk

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. MTU generates a high proportion of its revenues in the commercial engine business and in commercial MRO. This market depends heavily on the volume of commercial air traffic, and is subject to cyclical fluctuations which depend on factors such as the general economic situation. The volume of commercial air traffic in both the passenger and the freight sectors is following a distinctly negative trend, which shows no signs of leveling off at the present time. The slowdown in economic growth and the difficulties being encountered by certain companies is moreover changing patterns of use in the existing fleet of business jets and reducing the quantity of orders for new air transportation capacity. Other risks affecting industry in general include rising energy costs, the unavailability of suppliers, and delays in deliveries from suppliers. Overall, from the present point of view, there are no identifiable risks to the substance of MTU arising from general economic trends.

Risks inherent to the aerospace industry

Because engines have long product lifecycles, extending from development through volume production to the supply of spare parts, 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. MTU counters the risks inherent to the aerospace industry with a constantly advancing level of cutting-edge technology.

MTU is active in various sectors of the market and in different thrust ranges, thus spreading the risk in line with the market.

Because air traffic is so dependent on economic factors – but also due to crisis situations – 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 the airlines. MTU operates in various sectors of the market and in different thrust ranges, thus spreading the 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, particularly in the OEM segment, is based on long-term processes. Many years may pass between the decision to invest in a new engine and the breakeven point, separated by a long period of development and the preparatory phases leading to volume production. The risk is that the original economic and technological parameters on which the decision was based might change substantially over the course of time, and also that the customers, i.e. the airlines, might change their mind 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 appropriate risk assessment on the basis of a variety of different scenarios. The company's wide product portfolio – comprising engines in all thrust classes – helps to spread the risk and minimize the dependency on individual engine programs. At the present time, MTU has not identified any strategy risks that might endanger the substance of the company.

The company's wide product portfolio helps to spread the risk and minimize its dependency on individual engine programs.

Operational risks: Market risk

The customers in the military engine business 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. This tends to have a limiting effect on risks because the partners work together to protect their common interests. Because government offices more and more frequently attempt to settle accounts for military engines on the basis of negotiated fixed prices, new military programs face an increasing risk that the technical, economic and market-related assumptions on which the contract is based may deviate from the actual conditions, thus also affecting the attainable return on investment. 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.

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. MTU is involved in the leading engine programs of the major engine manufacturers in the context of these partnerships. 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.

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

Operational risks: Development risk

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

Moreover, 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; they can only be renewed after further tests have been carried out. The production and repair processes are documented in detail to ensure compliance with all regulations.

As a general rule, MTU's business plans for new engines are drawn up to cover a long period. They tend to assume long repayment terms, with the result that the investments in the development phase and the production run-up are only gradually amortized over a long period of time. Due to the long period under consideration, the actual conditions may deviate from the technical, economic and market-related assumptions on which the calculations were based, thus also affecting the attainable return on investment.

Operational risks: Procurement and purchasing risks

In order to strengthen its independence from individual suppliers, MTU strives to secure the services of several, equally qualified vendors.

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.

Operational risks: Program risk

Besides the general business risks, MTU has specifically identified risks in the TP400-D6 engine program for the new Airbus military transporter A400M. MTU is a member of a consortium comprising four European companies. Each partner is required to finance unexpected additional development and manufacturing costs using its own resources, in proportion to its share in the program. A provision has been allocated for anticipated contractual obligations to cover part of this possible future expense.

Currency risk, credit risk and hedging transactions

MTU makes use of hedging strategies to control and minimize the effect of currency exchange rate volatility on EBIT.

More than 80% of MTU's revenues are generated in U.S. dollars (USD) (translated amounting to approximately € 2,250 million in 2008). On the other hand, a large proportion of costs is likewise invoiced in U.S. dollars, providing a "natural hedge". Most other costs are incurred in euros (€) and, to a lesser extent, in Polish zloty (PLN), Chinese yuan renminbi (CYN) and Canadian dollars (CAD). 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. In line with MTU's 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, used to hedge U.S. dollar cash flows. The net risk is calculated by subtracting the part of the currency risk balanced by costs invoiced in U.S. dollars (the "natural hedge") from the total currency risk (i.e. revenues denominated in U.S. dollars). The hedge portfolio accounts for the majority of the group's hedging transactions.

For accounting purposes, MTU prudently only designates a portion of its hedged future cash flows (forecast transactions) as hedged items to reduce the expected net currency risk exposure. As a result, postponements or cancellations of underlying transactions (cash inflows) do not affect the hedging relationship as long as the actual gross inflow of a foreign currency (per month) exceeds the hedged amount. Forward foreign exchange contracts are used principally as hedging instruments.

At December 31, 2008, MTU held forward foreign exchange contracts for a contractual period up to May 2011 to sell a nominal volume of U.S. \$ 880.0 million (which translates to € 632.3 million at the exchange rate prevailing at the balance sheet date) at futures rates for a total of € 619.9 million. Changes in the fair value of the forward foreign exchange contracts amounted to a loss of € 29.1 million in 2008 (2007: a gain of € 2.1 million). Further explanatory comments concerning financial instruments are provided in Note 42. to the consolidated financial statements (Risk management and derivative financial instruments).

The unsteady fluctuation in the exchange rate parity between the euro and the U.S. dollar makes it impossible at the present time to predict with any certainty how the exchange rate is likely to develop in the near future. Exchange rate disparities amplify currency risk, with a possible adverse impact on MTU's earnings. The company's long-term hedging strategy makes currency risks manageable.

Nonpayment risk

In the commercial engine business and commercial MRO, airlines are indirect and direct customers of MTU. These carriers may find themselves facing financial difficulties, with the result that they may plan or carry out restructuring measures or mergers, or apply to be placed under bankruptcy protection. Their situation affects the receivables management processes 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, MTU tracks its open accounts receivable in short cycles in cooperation with the sales department. Before a deal is finalized, potential risks are assessed and any 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

Before a contract is finalized, MTU assesses potential risks and determines what possible precautions should be taken. The company also makes use of Hermes coverage to protect itself against political and credit risk.

cannot be calculated. Hence MTU considers nonpayment risks to be transparent and manageable.

Liability risk

In the aviation industry, accidents can never be completely ruled out 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 liabilities, especially in the commercial engine business, are covered by comprehensive insurance policies; this includes aircraft liability insurance. Other risks that could threaten the continued existence of the company, such as fire and interruption of business operations, are covered as well. No insurance cover has been taken out for the risk of terrorist attacks because of the excessively high premiums. By limiting liability risks and taking out insurance cover, the risks are transparent and manageable.

Dependence on 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 jointly, there is always a risk of differences of opinion when the company's own interests do not coincide with those of its partners.

Personnel risks

MTU has drawn up guidelines and a code of conduct that are valid for all of its employees throughout the world, by means of which the company 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, performance-related compensation, mentoring schemes and early preparation for promotion.

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. MTU minimizes the associated risks by means of fast-track professional training and development programs, performance-related compensation, mentoring schemes and early preparation for promotion. In view of the development challenges facing the company as it embarks on new engine programs, there is a need to build up the corresponding human resources to provide the requisite development capacity.

MTU is meeting this challenge by setting up new development centers in Munich and at its new site in Poland, and by collaborating with universities. Insurance policies are in place to limit potential liability risks that might be caused by individuals employed by the company. The overall level of personnel risk is estimated to be low.

IT risks

The loss of confidential data due to espionage or to system failure is the principal risk in the realm of information technology. Because it conducts business with military customers, MTU takes an especially precautionary approach in the way it handles and protects restricted data, operating a highly advanced system for the protection of data and classified information. The introduction of new IT systems is a further occasion on which interruptions in the workflow can occur. Particularly in the commercial MRO business, with its complex workflows, the introduction of new IT systems represents a special challenge. MTU keeps such risks to a minimum by employing highly trained experts and a professional project management system. The risks in this area are manageable.

Environmental risks

MTU's business activities are subject to numerous laws and regulations on the protection of the environment. Any tightening of the applicable environmental requirements may give rise to additional investment costs, particularly in connection with the use of chemicals in manufacturing and test rig emissions. Further information can be found in the section "Environmental report". MTU requires special certification in order to operate certain production facilities such as test rigs and electroplating plants. 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.

Other risks: Risks arising from general and tax legislation

In June 2007, the European Commission approved Germany's request to prolong the period during which tax reductions could be granted to particularly energy-intensive businesses to the end of 2009. This concerns the capping of the German ecotax for the most energy-intensive users (the so-called "Spitzenausgleich"). The Commission's decision makes provision for the application of the tax cap to be further extended to the end of 2012 on condition that German industry meets the agreed voluntary environmental targets. If the further extension beyond 2009 is not approved, German industry will face the burden of additional energy taxes, which could have an adverse effect on the international competitiveness of MTU's domestic production facilities. MTU estimates the resulting additional tax expense to be of moderate proportions. Other than this, there are no important risks arising from (tax) legislation that could have a significant impact on the company's net assets, financial situation or operating results.

Other risks: Organizational risks

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

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

Strengths

- Technological leadership
 - **OEM:** Excellence in engine modules: low-pressure turbines, high-pressure and IP compressors
 - **MRO:** Excellence in advanced repair techniques
- Balanced mix of production and after-market business, covering all stages from development and manufacturing to maintenance
- Focus on high-profit-margin engine business
- Presence in fast-growing Asian market (MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China)
- Long-term contracts in the OEM business, involvement in consortia and cooperative ventures
- Quality and on-time delivery form basis for reliable partnerships
- Proximity of MRO sales network to customers
- Solid financing structure opens up opportunities for M&A activities and program investments

Weaknesses

- High dependency on U.S. dollar
- Cyclic business
- Small company by comparison with OEMs

Opportunities

- Market environment of business units on a long-term growth trend
- Increasing technological complexity of future engines
- Good market opportunities for fuel-efficient engine designs (geared turbofan) in the event of steadily rising oil prices
- Solid financing structure and technological leadership open the way to program investments, M&A activities, and a leading role in European tier-1 consolidation
- Growth of MRO in newly industrializing countries
- Airline outsourcing in order to concentrate on core activities offers additional opportunities for MRO business
- Greater exploitation of synergies between areas of commercial business
- Positive changes in U.S. dollar exchange rate

Threats

- Effects of financial crisis not yet foreseeable
 - Low, volatile profitability on the part of end customers (airlines); possible spending cuts in the event of an economic downturn
 - Negative changes in U.S. dollar exchange rate
 - Inherent risk of advanced technology development with regard to estimated schedules and costs
 - 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
-

Overall prognosis of MTU's risk exposure

There have been no substantial changes in MTU's risk exposure compared with December 31, 2007. 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 unsteady fluctuation in exchange rates and the global financial market crisis make it impossible at the present time to predict with any certainty how exchange rates and general economic trends are likely to develop in the near future.

Overall, 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.

There have been no substantial changes in MTU's risk exposure in 2008.

7. Other disclosures

MTU reports on requirements relevant to a takeover, such as is mandatory according to §315 Section 4 of the German Commercial Code (HGB). The requirements reported concern those which customarily apply to listed companies and do not serve the purpose of presenting obstacles to any takeover attempt.

German Takeover Directive Implementation Act (Section 315 (4) of the German Commercial Code (HGB))

The Board of Management has issued the following disclosures pursuant to Section 315 (4) of the German Commercial Code (HGB):

Composition of subscribed capital

The Board of Management and the Supervisory Board resolved with effect of March 18, 2008 to withdraw 3,000,000 shares and to reduce the company's stock capital to € 52.0 million.

At the Annual General Meeting on April 27, 2007, the Board of Management was 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 withdraw part of all of the purchased treasury shares. Their withdrawal 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 withdrawal may be limited to a defined fraction of the purchased shares. 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. By a resolution of the Board of Management and the Supervisory Board with effect of March 18, 2008, the authorization was exercised to withdraw 3,000,000 shares and to reduce the company's stock capital of € 55.0 million by € 3.0 million to € 52.0 million.

At December 31, 2008, the capital stock of MTU Aero Engines Holding AG amounted to € 52.0 million, divided into 52 million registered non-par shares. Each share is entitled to one vote.

Restrictions concerning voting rights and the transfer of share ownership

At December 31, 2008, MTU held 3,229,055 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

Pursuant to the German Securities Trading Act (WpHG), any investor whose shareholding reaches, exceeds or falls below a given percentage of the voting rights, as a result of purchase or sale or in any other manner, is obliged to notify this fact to MTU and to

the German Financial Supervisory Authority (BaFin). The lowest threshold at which such notification is required is 3%. MTU has no knowledge of any direct or indirect investments exceeding 10% of the voting rights.

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 chairman of the Supervisory Board has two votes but the deputy chairman is not entitled to a second vote.

The Supervisory Board has the right to refuse the appointment of a member or chairman 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)). 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

At December 31, 2008, MTU had available authorized capital amounting to € 24,75 million, which will remain authorized until May 29, 2010.

Authorized capital

At the Annual General Meeting on May 30, 2005, the Board of Management was authorized to increase the company's capital stock by issuing new registered shares in return for cash contributions, or in return for non-cash contributions in the case of Authorized Capital II. At December 31, 2008, MTU Aero Engines Holding AG had available authorized capital amounting to € 24,75 million, which will remain authorized until May 29, 2010.

Authorized capital I

The Board of Management is authorized until May 29, 2010 to increase the company's capital stock by up to € 5.5 million, with the prior approval of the Supervisory Board, by issuing, either in a single step or in several steps, new registered shares in return for cash contributions.

Authorized capital II

The Board of Management is furthermore authorized until May 29, 2010 to increase the company's capital stock by up to € 19.25 million, with the prior approval of the Supervisory Board, by issuing, either in a single step or in several steps, new registered shares in return for cash and/or non-cash contributions.

Convertible bonds and bonds with warrants

The Annual General Meeting has authorized the Board of Management until May 29, 2010 to issue certain securities in one or several steps, with the prior approval of the Supervisory Board.

At the Annual General Meeting on May 30, 2005 the Board of Management was authorized until May 29, 2010 to issue, with the prior approval of the Supervisory Board, registered or bearer convertible bonds, bonds with warrants, certificates of beneficial interest or income bonds, or any combination of these instruments (collectively referred to as "securities"), with or without maturity date, with a total nominal value of up to € 750 million, and to grant the owners or creditors of convertible bonds and/or bonds with warrants the right or option to convert them into registered shares of the company representing a share of equity of up to € 19.25 million under the conditions established for the issue of convertible bonds or bonds with warrants. These securities 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 Aero Engines Holding AG holds a direct or indirect interest. 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 or option to convert them into new registered shares of MTU Aero Engines Holding AG.

At the Annual General Meeting on May 30, 2005, it was clarified that the provision made in the above-mentioned resolution authorizing affiliated companies in which MTU Aero Engines Holding AG holds a direct or indirect interest to issue securities, solely and exclusively permits such securities to be issued by group companies in the interests of securing financial resources for the benefit of the group, as defined in Section 18 of the German Stock Corporation Act.

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 30, 2008, a resolution was passed by a majority of votes representing 99.8% 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:

- a) The company is authorized to purchase treasury shares with a par value of up to 10 percent of the company's capital stock, as applicable on the date of the resolution, during the period from May 2, 2008 through October 30, 2009, pursuant to Section 71 (1) item 8 of the German Stock Corporation Act (AktG).
- b) 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.
- c) 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 a public offering addressed to all shareholders if the treasury shares are sold to program participants in conjunction with the company's Matching Stock Program 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 Matching Stock Program, the Supervisory Board is authorized to transact this issue, which is not conducted through the stock exchange or by means of a public offering addressed to all shareholders. The subscription rights of existing shareholders in respect of these treasury shares are thereby effectively excluded.
- d) 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 business, parts of business or equity investments. The subscription rights of existing shareholders in respect of these treasury shares are thereby effectively excluded.
- e) The Board of Management is also authorized, with the prior approval of the Supervisory Board, to use the purchased treasury shares to discharge obligations relating to convertible bonds, bonds with warrants, certificates of beneficial interest or income bonds (or combinations of such instruments) that the company has issued or intends to issue on the basis of the resolution passed by the Annual General Meeting on May 31, 2005. The subscription rights of existing shareholders in respect of these treasury shares are thereby effectively excluded.

MTU is authorized to purchase up to 10 percent of the company's capital stock as treasury shares.

- f) 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 withdraw part or all of the treasury shares from circulation. Their withdrawal 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 withdrawal may be limited to a defined fraction of the purchased shares. The authorization to withdraw 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.
- g) The above-stated authorizations may be exercised on one or more occasions, partially or wholly, singly or in combination. They may also be exercised by group companies as defined by Section 17 of the German Stock Corporation Act (AktG).
- h) The previous authorization to purchase treasury shares granted to the company on April 27, 2007 is revoked in favor of the new authorization which came into effect on April 30, 2008, the date on which the corresponding resolution was adopted at the Annual General Meeting. The authorization to use the treasury shares purchased under the terms of the above-mentioned earlier resolution dated April 27, 2007, remains in force.

Other rulings

Section 5 of the articles of association stipulates that the Supervisory Board must draw up rules of procedure for the Board of Management, including an appended list of actions that the Board of Management is only permitted to undertake with the prior approval of the Supervisory Board.

Significant agreements relating to change of control subsequent to a takeover bid

Group holding company (MTU Aero Engines Holding AG)

The convertible bond issued by the company in the financial year 2007 has given rise to the following agreements relating to change of control subsequent to a takeover bid:

The convertible bond with a total par value of € 180.0 million is divided into 1,800 registered units, each with identical rights.

The convertible bond with a total par value of € 180.0 million issued by MTU Aero Engines Finance B.V., Amsterdam, a limited company established under Netherlands law (bond debtor), is divided into 1,800 registered units, each with identical rights. The securities are evidenced by means of a single global certificate to bearer without interest coupons. This certificate remains deposited until the bond debtor has met all obligations arising from the securities and until MTU Aero Engines Holding AG, Munich (guarantor) has met all terms of the formal obligation.

In the event of a change of control (as defined below), the bond debtor or the 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 collectively acting group of individuals acquires a controlling interest in the guarantor. The merger of one of the guarantor's subsidiaries with the guaran-

tor itself and the transfer of rights from the former to the latter is under no circumstances considered to be a change of control.

Diverging from 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 conditions means:

- direct or indirect legal or commercial ownership defined by Section 22 of the German Securities Trading Act (WpHG) as 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 the 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.

"Individual" in this context refers to any natural person, society, company, association, firm, partnership, joint venture, undertaking, business combination, organization, fund, nation state or state body, irrespective of whether or not the individual in question has a separate legal personality, but excluding companies directly or indirectly affiliated with the bond debtor or the guarantor.

In the event of a change of control, the following agreements form part of the bond issuance conditions:

- **Early repayment at the request of the bondholder**

If the bond debtor notifies the bondholders that a change of control has taken place in accordance with the bond issuance conditions, every bondholder has the right to demand that the bond debtor should proceed with repayment of part or all of the bond units held by the bondholder at par value plus accrued interest, on condition that the attached conversion rights have not yet been exercised and that the bond units have not yet been redeemed for the purposes of repayment. This demand takes the form of a **repayment request**, which must be received by the paying agency at least 20 days prior to the control record date.

In the event of a change of control every bondholder has the right to demand that the bond debtor should proceed with repayment of part or all of the bond units held by the bondholder at par value.

- **Repayment request**

The prescribed form for submitting a repayment request is that the bondholder should deliver a written request to the paying agency in person or by registered letter, enclosing a certified statement by the bondholder's depository bank proving that he or she is the owner of the securities in question on the date of the request. Repayment requests are irrevocable.

■ **Adjustment of the conversion price due to change of control**

If, after the bond debtor or the guarantor has notified the bondholders of a change of control, bondholders exercise their conversion rights during the period up to the control record date, the conversion price shall be reduced (in certain cases after adjustment in accordance with Section 10 of the bond issuance conditions) by the following percentages:

From February 1, 2009 to January 31, 2010 (both dates inclusive)	10,4%
From February 1, 2010 to January 31, 2011 (both dates inclusive)	5,2%
From February 1, 2011 to January 18, 2012 (both dates inclusive)	0,0%

Adjustment of the conversion price must not result in a conversion price that is lower than the proportional amount of the guarantor's total share capital represented by each share.

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

Group companies

A change of control can have indirect consequences on contracts governing participation in engine programs.

It is possible that the group holding company might nevertheless be indirectly affected by a change of control, given that its consolidated subsidiary, MTU Aero Engines GmbH, Munich, is party to a number of agreements in the OEM business that forbid the group company to invest in programs that stand in competition to the engine programs in which it has engaged (or which involve comparable thrust categories), or that forbid the company to supply components to competing engine programs. Examples include the general collaboration agreement with Pratt & Whitney and other risk- and revenue-sharing agreements with other OEMs. In a risk- and revenue-sharing partnership (RRSP), each partner contributes its own resources – human and financial (risk) – to an engine program and in return receives a proportion of the revenues corresponding to their percentage share in the program.

Other contracts concluded by group subsidiaries in the context of both the OEM and the MRO business might also have an indirect impact on the group holding company, MTU Aero Engines Holding AG, Munich. These contracts contain change-of-control clauses that entitle the other party to terminate the agreement in the event that a third party should acquire a controlling interest in the company. A certain number of the company's agreements, for instance, entitle the other party to terminate the agreement if one of that party's competitors should acquire a given percentage of the company's voting rights (usually 25 - 30% of the capital stock or 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.

Reference to the management compensation report

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.

Disclaimer

In addition to information relating to past events, this report also contains forward-looking statements. Such passages can generally be identified through the use of such terms as "expect", "estimate", "intend", "plan", "anticipate", "predict", "will", "believe", "is likely to", "might" and similar phrases, or through the fact that they are presented in the context of a strategy. Forward-looking statements relate to future expectations, developments, trends, and business strategies, and are based on analyses or predictions of MTU's future business performance and estimates of figures that cannot be affirmed with any certainty at the present time. These forward-looking statements merely reflect MTU's current outlook at the time the statements were made, and MTU does not accept any responsibility for updating forward-looking statements except in cases where it is a statutory requirement. The forward-looking statements contained in this report involve known and unknown risks, uncertainties, and other factors that may result in an actual future outcome based on real events, developments and performances that deviates significantly from the content of the statements presented here. These factors include changes in the general economic climate and business environment, exchange rate fluctuations, in addition to the factors enumerated in the "Risk report" section of this document.

> 2009

Cessna Citation Columbus





The Citation Columbus developed by American aircraft manufacturer Cessna is a completely new type of heavy business jet. It is one of the most advanced, economical and clean aircraft in its class and the only one capable of flying 7,400 kilometers at Mach 0.8 without stopping to refuel. The Citation Columbus is powered by two fuel-efficient PW810 engines that have the added advantage of low manufacturing and lifecycle costs. MTU is significantly involved in this Pratt & Whitney engine program, contributing the low-pressure turbine, helping to build the high-pressure compressor, and taking charge of MRO tasks.

Consolidated Financial Statements

Consolidated Income Statement

in € million	Note	2008	2007	2006
Revenues	(6.)	2,724.3	2,575.9	2,416.2
Cost of sales	(7.)	-2,240.8	-2,129.5	-2,063.5
Gross profit		483.5	446.4	352.7
Research and development expenses	(8.)	-94.9	-84.5	-64.5
Selling expenses	(9.)	-100.2	-75.0	-71.2
General administrative expenses	(10.)	-44.2	-45.8	-45.4
Other operating income and expenses	(11.)	4.1	2.2	12.2
Earnings before interest and tax		248.3	243.3	183.8
Interest result	(12.)	-10.8	-31.4	-19.9
Interest income		6.4	7.4	27.4
Interest expenses		-17.2	-38.8	-47.3
Profit/loss of companies accounted for using the equity method	(13.)	-1.0	-2.3	
Financial result on other items	(14.)	-38.7	-30.2	-13.4
Financial result		-50.5	-63.9	-33.3
Earnings before tax		197.8	179.4	150.5
Income taxes	(15.)	-18.1	-25.3	-61.4
Net profit		179.7	154.1	89.1
Earnings per share in €				
Undiluted	(16.)	3.64	2.95	1.64
Diluted	(16.)	3.54	2.83	1.64

Consolidated Balance Sheet – Assets

Assets in € million	Note	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Non-current assets				
Intangible assets	(19.)	1,274.9	1,135.0	1,189.5
Property, plant and equipment	(20.)	525.1	539.7	537.8
Financial assets	(21.)	12.6	12.4	12.7
Financial assets accounted for using the equity method	(21.)	3.6	4.6	7.2
Other assets	(25.)	4.0	3.9	4.1
Deferred tax assets	(28.)	1.4	0.7	1.4
Total non-current assets		1,821.6	1,696.3	1,752.7
Current assets				
Inventories	(22.)	661.4	587.8	529.0
Trade receivables	(23.)	460.4	499.2	400.0
Contract production receivables	(24.)	138.9	171.1	139.8
Income tax claims	(27.)	1.0	2.7	12.5
Financial assets	(21.)	4.0	33.5	18.7
Other assets	(25.)	35.6	22.6	21.9
Cash and cash equivalents	(26.)	69.9	67.3	102.2
Prepayments	(29.)	3.3	5.0	9.2
Total current assets		1,374.5	1,389.2	1,233.3
Total assets		3,196.1	3,085.5	2,986.0

Consolidated Balance Sheet – Equity and Liabilities

Equity and liabilities in € million	Note	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Equity				
Subscribed capital		52.0	55.0	55.0
Capital reserves		354.5	460.0	455.7
Revenue reserves		325.3	191.9	81.4
Treasury shares		-100.1	-156.3	-42.7
Other comprehensive income		-14.3	11.4	12.9
Total equity	(30.)	617.4	562.0	562.3
Non-current liabilities				
Pension provisions	(31.)	371.7	359.5	377.1
Other provisions	(33.)	224.0	255.3	261.0
Financial liabilities	(34.)	58.9	66.8	249.6
Contract production payables	(36.)	273.0	200.6	212.5
Other liabilities	(37.)	28.6	24.2	15.4
Deferred tax liabilities	(39.)	227.6	269.8	307.2
Total non-current liabilities		1,183.8	1,176.2	1,422.8
Current liabilities				
Pension provisions	(31.)	18.5	17.1	17.8
Income tax liabilities	(32.)	23.0	38.8	1.2
Other provisions	(33.)	255.4	243.2	222.0
Financial liabilities	(34.)	277.5	259.7	89.2
Trade payables	(35.)	495.7	462.9	378.5
Contract production payables	(36.)	247.6	239.1	199.0
Other liabilities	(37.)	77.2	86.5	93.2
Total current liabilities		1,394.9	1,347.3	1,000.9
Total equity and liabilities		3,196.1	3,085.5	2,986.0

Consolidated Statement of Changes in Equity

	Subscribed capital	Capital reserves	Revenue reserves	Treasury shares	Other comprehensive income			Total
					Translation differences	Derivative financial instruments	Subtotal	
in € million								
Balance at Jan. 1, 2006	55.0	454.5	32.5		1.0	-15.0	-14.0	528.0
Financial instruments (forward foreign currency contracts)						30.5	30.5	30.5
Translation differences					-3.6		-3.6	-3.6
Income and expense items recognized directly in equity					-3.6	30.5	26.9	26.9
Net profit			89.1					89.1
Total income and expense items recognized in the reporting period			89.1		-3.6	30.5	26.9	116.0
Total dividend payment			-40.2					-40.2
Purchase of treasury shares				-42.7				-42.7
Matching Stock Programm (MSP)		1.2						1.2
Balance at Dec. 31, 2006/Jan. 1, 2007	55.0	455.7	81.4	-42.7	-2.6	15.5	12.9	562.3
Financial instruments (forward foreign currency contracts)						2.1	2.1	2.1
Translation differences					-3.6		-3.6	-3.6
Income and expense items recognized directly in equity					-3.6	2.1	-1.5	-1.5
Net profit			154.1					154.1
Total income and expense items recognized in the reporting period			154.1		-3.6	2.1	-1.5	152.6
Equity component of convertible bond		11.9						11.9
Transaction costs (net of tax)		-0.2						-0.2
Total dividend payment			-43.6					-43.6
Purchase of treasury shares				-113.6				-113.6
Matching Stock Programm (MSP)		-7.4						-7.4
Balance at Dec. 31, 2007/Jan. 1, 2008	55.0	460.0	191.9	-156.3	-6.2	17.6	11.4	562.0
Financial instruments (forward foreign currency contracts)						-29.1	-29.1	-29.1
Translation differences					3.4		3.4	3.4
Income and expense items recognized directly in equity					3.4	-29.1	-25.7	-25.7
Net profit			179.7					179.7
Total income and expense items recognized in the reporting period			179.7		3.4	-29.1	-25.7	154.0
Equity component of convertible bond ¹⁾		-1.3						-1.3
Total dividend payment			-46.3					-46.3
Purchase of treasury shares				-56.4				-56.4
Capital reduction subsequent to withdrawal of shares	-3.0	-101.4		104.4				
MAP employee stock option program		-3.3		8.2				4.9
Matching Stock Programm (MSP)		0.5						0.5
Balance at Dec. 31, 2008	52.0	354.5	325.3	-100.1	-2.8	-11.5	-14.3	617.4

¹⁾ After partial repurchase in September and October 2008

Consolidated Cash Flow Statement

in € million	Note	2008	2007	2006
Net profit		179.7	154.1	89.1
Amortization of intangible assets and depreciation of property, plant and equipment		160.2	149.6	151.8
Profit/loss of companies accounted for at cost		-1.5	-1.3	-1.2
Profit/loss of companies accounted for using the equity method		1.0	2.3	
Gains/losses on the disposal of assets		-1.0	-0.4	-9.8
Increase/decrease in pension provisions		13.6	-18.3	17.1
Increase/decrease in other provisions		-19.2	15.5	36.3
Other non-cash items		12.1	-3.8	-7.3
Increase/decrease in working capital ¹⁾		98.5	-74.6	-57.8
Interest result		10.8	31.4	19.9
Income taxes		18.1	25.3	61.4
Income tax received/paid		-60.3	-18.3	-73.2
Dividends received		1.5	1.6	3.4
Interest paid		-14.1	-34.3	-47.3
Interest received		6.4	7.4	27.4
Cash flow from operating activities	(41.)	405.8	236.2	209.8
Capital expenditure on:				
Intangible assets		-193.8	-14.3	-37.1
Property, plant and equipment		-99.9	-86.5	-77.0
Financial assets			-5.3	
Proceeds from disposal/repayment of:				
Intangible assets				
Property, plant and equipment		11.5	1.5	20.0
Financial assets			0.1	
Cash flow from investing activities	(41.)	-282.2	-104.5	-94.1
Free cash flow²⁾		123.6	131.7	115.7
Proceeds from issue of convertible bond ³⁾			176.7	
Repurchase of convertible bond		-21.9		
Repurchase of high yield bond			-165.0	
Increase in current financial liabilities		17.1	1.6	58.9
Repayment of current financial liabilities		-9.8		
Repayment of non-current financial liabilities		-15.0	-21.7	-13.7
Total dividend payment		-46.3	-43.6	-40.2
Purchase of treasury shares		-56.4	-113.6	-42.7
Sale of shares under the MAP employee stock option program		8.2		
Other		-3.3	-0.2	
Cash flow from financing activities	(41.)	-127.4	-165.8	-37.7
Translation differences		1.1	-0.8	2.2
Addition of cash and cash equivalents MTU Aero Engines Polska		5.3		
Other changes in cash and cash equivalents		6.4	-0.8	2.2
Change in cash and cash equivalents		2.6	-34.9	80.2
Cash and cash equivalents at beginning of financial year		67.3	102.2	22.0
Cash and cash equivalents at end of financial year	(41.)	69.9	67.3	102.2

¹⁾ Changes to inventories, trade receivables and contract production receivables, trade payables and contract production payables, as well as changes to other assets, advance payments and other liabilities.

²⁾ Cash flow from operating activities less cash flow from investing activities

³⁾ After deduction of transaction costs

Segment reporting by business segment at December 31, 2008

Primary segment information 2008 in € million	Commercial and military engine business (OEM)	Commercial maintenance business (MRO)	Consolidation/ reconciliation	Group
External revenues	1,624.6	1,099.7		2,724.3
Commercial	1,128.0	1,099.7		2,227.7
Military	496.6			496.6
Intersegment revenues	18.3	13.3	-31.6	
Commercial	18.3	13.3	-31.6	
Military				
Total revenues	1,642.9	1,113.0	-31.6	2,724.3
Commercial	1,146.3	1,113.0	-31.6	2,227.7
Military	496.6			496.6
Cost of sales	-1,253.9	-1,018.1	31.2	-2,240.8
Gross profit	389.0	94.9	-0.4	483.5
Earnings before interest and tax (EBIT)	202.1	49.7	-3.5	248.3
Depreciation and amortization	131.0	29.2		160.2
Earnings before interest, tax, depreciation and amortization (EBITDA)	333.1	78.9	-3.5	408.5
Earnings before interest, tax, depreciation and amortization adjusted (EBITDA adjusted)	330.3	78.9	-3.5	405.7
Interest result and financial result on other items	-13.2	3.3	-39.6	-49.5
Profit/loss of companies accounted for using the equity method		-1.0		-1.0
Internal allocation	-6.3	6.3		
Earnings before tax (EBT)	182.6	58.3	-43.1	197.8
Capital expenditure on intangible assets and property, plant and equipment	260.5	33.2		293.7
Segment assets	2,823.7	858.5	-486.1	3,196.1
thereof: goodwill	308.0	100.2		408.2
thereof: investments in companies accounted for using the equity method		3.6		
Segment liabilities	2,028.7	459.7	90.3	2,578.7
Significant non-cash expenses	64.8	8.4		
Number of employees (annual average)	4,681	2,582		7,263
Industrial staff	1,841	1,386		3,227
Administrative staff	2,444	761		3,205
Employees on temporary contracts	122	227		349
Trainees	132	149		281
Students on work experience projects	142	59		201
Key segment data:				
Gross profit in %	23.7	8.5		17.7
EBIT in %	12.3	4.5		9.1
EBITDA adjusted in %	20.1	7.1		14.9

Segment reporting by business segment at December 31, 2007

Primary segment information 2007 in € million	Commercial and military engine business (OEM)	Commercial maintenance business (MRO)	Consolidation/ reconciliation	Group
External revenues	1,582.0	993.9		2,575.9
Commercial	1,084.5	993.9		2,078.4
Military	497.5			497.5
Intersegment revenues	17.5	10.8	-28.3	
Commercial	17.5	10.8	-28.3	
Military				
Total revenues	1,599.5	1,004.7	-28.3	2,575.9
Commercial	1,102.0	1,004.7	-28.3	2,078.4
Military	497.5			497.5
Cost of sales	-1,244.1	-915.6	30.2	-2,129.5
Gross profit	355.4	89.1	1.9	446.4
Earnings before interest and tax (EBIT)	204.1	39.9	-0.7	243.3
Depreciation and amortization	101.6	48.0		149.6
Earnings before interest, tax, depreciation and amortization (EBITDA)	305.7	87.9	-0.7	392.9
Earnings before interest, tax, depreciation and amortization adjusted (EBITDA adjusted)	305.7	87.9	-0.7	392.9
Interest result and financial result on other items	-38.1	-6.6	-16.9	-61.6
Profit/loss of companies accounted for using the equity method		-2.3		-2.3
Internal allocation	-6.2	6.2		
Earnings before tax (EBT)	159.8	37.2	-17.6	179.4
Capital expenditure on intangible assets and property, plant and equipment	63.4	37.4		100.8
Segment assets	2,640.5	890.5	-445.5	3,085.5
thereof: goodwill	296.3	95.2		391.5
thereof: investments in companies accounted for using the equity method		4.6		
Segment liabilities	1,866.7	517.3	139.5	2,523.5
Significant non-cash expenses	67.6	9.0		
Number of employees (annual average)	4,645	2,447		7,092
Industrial staff	1,841	1,307		3,148
Administrative staff	2,487	678		3,165
Employees on temporary contracts	49	286		335
Trainees	128	126		254
Students on work experience projects	140	50		190
Key segment data:				
Gross profit in %	22.2	8.9		17.3
EBIT in %	12.8	4.0		9.4
EBITDA adjusted in %	19.1	8.7		15.3

Segment reporting by business segment at December 31, 2006

Primary segment information 2006 in € million	Commercial and military engine business (OEM)	Commercial maintenance business (MRO)	Consolidation/ reconciliation	Group
External revenues	1,469.4	946.8		2,416.2
Commercial	979.8	946.8		1,926.6
Military	489.6			489.6
Intersegment revenues	13.7	7.9	-21.6	
Commercial	13.7	7.9	-21.6	
Military				
Total revenues	1,483.1	954.7	-21.6	2,416.2
Commercial	993.5	954.7	-21.6	1,926.6
Military	489.6			489.6
Cost of sales	-1,245.0	-839.1	20.6	-2,063.5
Gross profit	238.1	115.6	-1.0	352.7
Earnings before interest and tax (EBIT)	119.0	67.7	-2.9	183.8
Depreciation and amortization	116.1	35.7		151.8
Earnings before interest, tax, depreciation and amortization (EBITDA)	235.1	103.4	-2.9	335.6
Earnings before interest, tax, depreciation and amortization adjusted (EBITDA adjusted)	217.7	103.4	-2.9	318.2
Interest result and financial result on other items	2.6	-5.1	-30.8	-33.3
Profit/loss of companies accounted for using the equity method				
Internal allocation	-5.8	5.8		
Earnings before tax (EBT)	115.8	68.4	-33.7	150.5
Capital expenditure on intangible assets and property, plant and equipment	92.5	21.6		114.1
Segment assets	2,757.7	801.1	-572.8	2,986.0
thereof: goodwill	296.3	96.2		392.5
thereof: investments in companies accounted for using the equity method		7.2		
Segment liabilities	2,042.1	449.4	-67.8	2,423.7
Significant non-cash expenses	98.4	7.5		
Number of employees (annual average)	4,765	2,238		7,003
Industrial staff	1,836	1,277		3,113
Administrative staff	2,564	642		3,206
Employees on temporary contracts	84	144		228
Trainees	138	132		270
Students on work experience projects	143	43		186
Key segment data:				
Gross profit in %	16.1	12.1		14.6
EBIT in %	8.0	7.1		7.6
EBITDA adjusted in %	14.7	10.8		13.2

Secondary segment reporting (by geographical region)

The following table provides a breakdown by geographical region of revenues, capital expenditure on intangible assets and on property, plant and equipment, and assets. Additional explanatory comments relating to the segment information are provided in Note 46.2.

Secondary segment information 2008

in € million	Revenues	Capital expenditure	Assets
Germany	506.9	268.4	2,832.4
Europe	314.0	22.7	211.2
North America	1,525.2	2.1	54.4
South America	87.7		
Africa	7.3		
Asia	259.8	0.5	94.5
Australia/Oceania	23.4		
Financial assets accounted for using the equity method			3.6
Total	2,724.3	293.7	3,196.1

Comparative tables of segment information by geographical region for the financial years 2007 and 2006:

Secondary segment information 2007

in € million	Revenues	Capital expenditure	Assets
Germany	495.7	98.2	2,760.7
Europe	267.3		186.5
North America	1,391.5	2.1	49.7
South America	69.2		
Africa	10.1		
Asia	316.8	0.5	84.0
Australia/Oceania	25.3		
Financial assets accounted for using the equity method			4.6
Total	2,575.9	100.8	3,085.5

Secondary segment information 2006

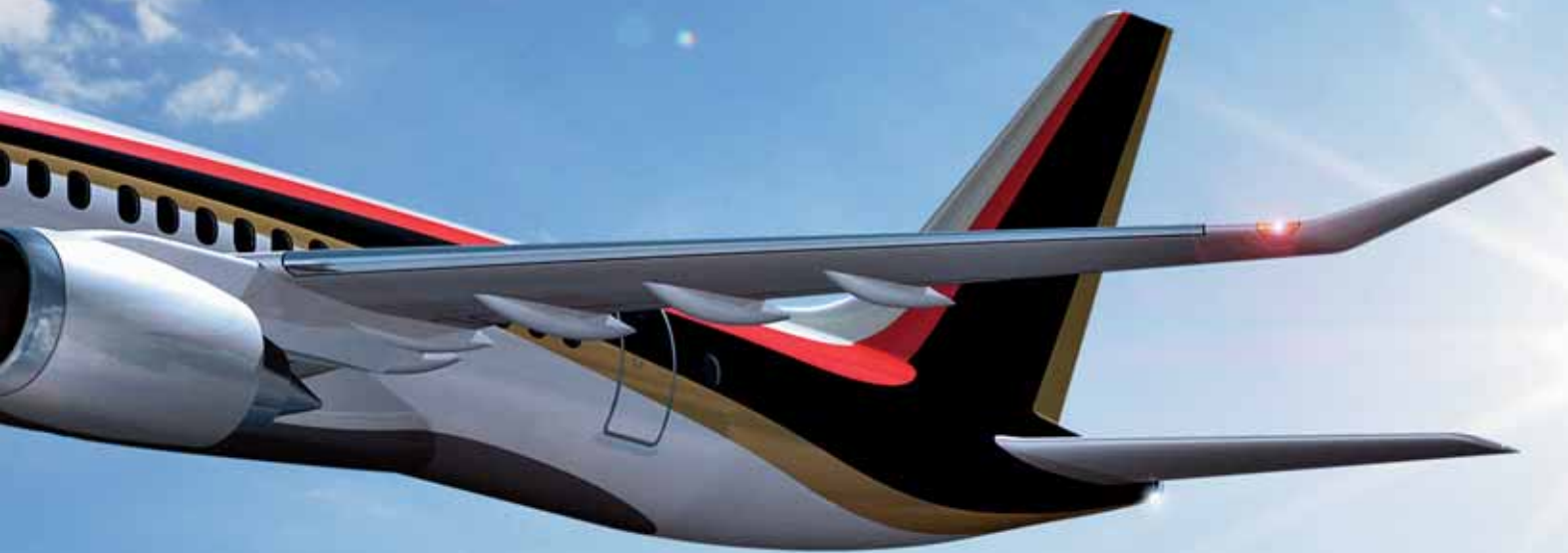
in € million	Revenues	Capital expenditure	Assets
Germany	453.9	110.8	2,840.7
Europe	269.6		
North America	1,311.5	2.5	55.5
South America	72.3		
Africa	10.4		
Asia	286.2	0.8	82.6
Australia/Oceania	12.3		
Financial assets accounted for using the equity method			7.2
Total	2,416.2	114.1	2,986.0

> 2009

Mitsubishi Regional Jet



This is a first for Mitsubishi: The new regional jet with a maximum seating capacity of 90 passengers is the largest aircraft ever built by the Japanese company. It is expected to enter scheduled service in 2013. In addition to new, extra-lightweight materials, it also features a new type of engine: the PW1217G geared turbofan. This model is quieter and more efficient than its present-day counterparts and is the forerunner of the even more efficient engines of the next-but-one generation. Its constructors are Pratt & Whitney and MTU. Germany's leading engine manufacturer has a 15-percent share in the program and is responsible for the high-speed low-pressure turbine and the first stages of the high-pressure compressor.



Notes to the Consolidated Financial Statements

I. Accounting Policies and Principles

1. General information

MTU Aero Engines Holding AG and its subsidiary companies (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's activities focus on two 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 segment 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 on February 19, 2009.

1.1. Basic 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) which 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 term IFRS used in this document thus refers to both sets of standards.

The consolidated financial statements and group management report as at December 31, 2008 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 two preceding years are shown for significant items 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: production, development, selling and general

administration. The consolidated financial statements have been drawn up in euros. All amounts are stated in millions of euros (€ million), unless otherwise specified.

The financial statements prepared by MTU Aero Engines Holding AG and its subsidiaries are included in the group 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 in 2008

The statements for the financial year 2008 were based on International Financial Reporting Standards (IFRSs) and recommendations of the International Financial Reporting Interpretations Committee (IFRIC) that are effective for annual periods beginning on or after January 1, 2008.

The following standards and interpretations – insofar as they are relevant to MTU’s business activities – were applied for the first time in the financial year 2008:

- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7: “Financial Instruments: Disclosures”
- IFRIC 11 “IFRS 2: Group and Treasury Share Transactions”
- IFRIC 12 “Service Concession Arrangements”
- IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

These standards and interpretations have been applied in compliance with the respective effective dates and recommendations for early adoption. Unless another form of presentation is explicitly required by individual standards or interpretations, their application is retrospective, i.e. the statements are presented as if the new accounting and measurement methods had always been applied in this way. Amounts stated in respect of previous periods are adjusted accordingly.

The application of the following standards and interpretations had an impact on MTU’s consolidated financial statements in respect of the relevant periods as described below:

Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”

On October 13, 2008, the IASB issued amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”. These amendments to IAS 39 and IFRS 7 permit certain financial instruments to be reclassified out of the “available-for-sale” category into another category under “rare” circumstances. The financial crisis affecting the money and capital markets qualifies as one of these “rare” circumstances, and would justify the decision by entities to make use of this option. To this end, the requirements of IAS 39.50 have been modified and paragraphs 50B–50F and 103G have been added. Related changes have been made to IFRS 7, where section 7.12 has been modified and paragraphs 12A and 44E have been added. According to the published amendments to IAS 39 and IFRS 7, entities are permitted to reclassify certain financial instruments with effect from July 1, 2008.

In view of the financial crisis and the fact that certain financial instruments are no longer being traded or that the corresponding markets are no longer active or are in danger of closing, the IASB and the EU have voiced their opinion that the new amendments ought to be made effective as of October 15, 2008, enabling certain financial instruments to be reclassified retrospectively in Q3 financial statements for the quarter ending September 30, 2008. MTU has not made use of this option.

Update to amendments to IAS 39

On November 27, 2008, the IASB published an update to the amendments to IAS 39 concerning the reclassification of financial instruments that had been published on October 13, 2008. In the slightly modified version of the amended IAS 39, the transitional provisions, which had led to some confusion in practice, were formulated more clearly. It was clarified that reclassifications made on or after November 1, 2008 become effective from the reclassification date, and that it is not permitted to apply them retrospectively. For reclassifications made prior to November 1, 2008, an earlier effective date can be chosen, but no earlier than July 1, 2008 and no later than October 31, 2008. Even though these modifications have not yet been adopted in European law, they should nevertheless be used as a reference if doubts should arise about the interpretation of the presently worded requirements concerning the effective date. The IASB published the meanwhile incorporated modifications almost immediately in the October issue of the IASB Update and, in any case, the modifications do not stipulate any new requirements but simply clarify the requirements already adopted in European law.

IFRIC 11 “IFRS 2: Group and Treasury Share Transactions”

This interpretation addresses two issues: The first concerns the question of whether certain transactions should be accounted for as settled by means of equity instruments or as cash-settled share-based payments, under the requirements of IFRS 2. The second issue concerns share-based payment transactions involving two or more entities of the same group. This interpretation first became effective for annual periods beginning on or after March 1, 2007. The first-time application of this interpretation had no impact on the MTU consolidated financial statements, because MTU had already been using the accounting methods specified in IFRIC 11 before the interpretation became effective.

IFRIC 12 “Service Concession Arrangements”

Service concession arrangements are arrangements in which a government or other public-sector body concludes contracts for the supply of public services, such as the construction of roads, airports or hospitals, with private operators. The public sector retains the rights to the constructed asset, while the operator has a contractual obligation to construct, operate, or maintain this asset. IFRIC 12 distinguishes between two types of service concession arrangement. In the first case, the operator receives a contractual right to receive cash or another financial asset from the government in return for supplying the public service. In this case, the service concession arrangement is accounted for as a financial asset. In the second case, the operator is granted the right to charge for use of the public service. In this case, it is accounted for as an intangible asset.

If the operator has both types of contractual right – to receive cash or another financial asset, and to charge for use of the public service – then a financial asset is recognized for the amount of the contractual right to receive cash or another financial asset, and an intangible asset is recognized for the expected usage charge payments. This interpretation is effective for annual periods beginning on or after January 1, 2008. In the absence of transactions of this nature, the interpretation in question did not have any impact on the MTU consolidated financial statements.

IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

IFRIC 14 provides general guidelines prescribing how and to what extent a surplus arising from the measurement of pension provisions according to IAS 19 should be recognized as an asset.

IFRIC 14 furthermore addresses ways in which the accounting treatment of pension provisions (or a potential asset arising from a defined benefit plan) can be influenced by statutory or contractual minimum funding requirements. By issuing the interpretation IFRIC 14, the IFRIC aims to harmonize existing accounting practices and ensure that companies apply uniform rules when accounting for assets arising from the measurement of pension benefits. This

interpretation is effective for annual periods beginning on or after January 1, 2008. This interpretation did not have any impact on the MTU consolidated financial statements.

Issued but not yet effective standards, interpretations and amendments/revisions

The following IASB accounting standards, which have been issued but were not yet effective for the financial year 2008, have not been applied in advance of their effective date:

IFRS 8 “Operating Segments”

IFRS 8 was issued by the IASB in November 2006. This standard replaces IAS 14 and, in particular, prescribes the application of a “management approach” when reporting on the business performance of segments. An operating segment is a component of an entity whose operating results are reviewed regularly by a chief decision-maker to serve as a basis for decisions concerning the allocation of resources to the segment, and for which discrete financial information is available. Certain additional disclosures are required in the notes. The standard is effective for annual periods beginning on or after January 1, 2009. Earlier application is permitted. MTU expects the standard to have a negligible impact, with only minor additional disclosures required.

Revisions to IAS 23 “Borrowing Costs”

The main change in this standard is the removal of the option that permitted borrowing costs directly attributable to the acquisition, construction or production of a qualified asset to be immediately recognized as an expense. Entities are now required to capitalize borrowing costs that form part of the cost of the qualified asset. In this context, a qualified asset is defined as an asset that takes a substantial period of time to get ready for sale or its intended use. The revised standard does not require the borrowing costs to be capitalized for assets measured at fair value, or for inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale.

The revised version of IAS 23 applies to borrowing costs relating to qualified assets for which the commencement date for capitalization is on or after January 1, 2009. For MTU, this will have an impact on the measurement of contract costs for production contracts according to IAS 11.18. The effect of including borrowing costs in the contract costs, as required from 2009 onward, will be to increase the contract costs and contract revenues of construction contracts accounted for using the zero-profit method, thus improving the financial result. EBIT will thereby remain unchanged and net profit will improve by the amount of the improvement in the financial result. In the case of construction contracts accounted for using the percentage-of-completion method, the financial result will be improved and EBIT reduced by an equivalent amount, resulting in an unchanged net profit. In view of MTU’s good financing structure and hence the secondary importance of borrowing costs in general, the company believes that the capitalization of borrowing costs will have an insignificant overall impact.

Revisions to IAS 1 “Presentation of Financial Statements”

The revised IAS 1 “Presentation of Financial Statements” was issued by the IASB on September 6, 2007. The publication of the revised IAS 1 marks the completion of the first phase of the IASB’s joint project with the U.S. Financial Accounting Standards Board (FASB) to review and harmonize the presentation of financial statements, with the aim of narrowing down the differences between IFRS and US-GAAP requirements. One of the changes brought about by the revised IAS 1 is the introduction of a so-called “statement of comprehensive income” to replace or supplement the income statement in IFRS financial statements. The aim of this statement, which recognizes income and expenses directly in equity, is to enable readers to distinguish between changes in the company’s equity resulting from transactions with owners and non-owner changes. Companies are given the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals or in two separate statements (an income statement and a separate statement of “other

comprehensive income”). Other changes introduced by the revised IAS 1 include the renaming of certain constituent parts of the financial statements. The balance sheet will become a “statement of financial position” and the cash flow statement will become a “statement of cash flows”. The revised standard is effective for annual periods beginning on or after January 1, 2009. Earlier application is permitted. Application of the revised standard will lead to the inclusion of the above-mentioned presentation elements for the first time.

Revisions to IFRS 3 “Business Combinations” and IAS 27 “Consolidated and Separate Financial Statements”

On January 10, 2008, the IASB concluded the second phase of its long-running, much-debated “Business Combinations” project and published two revised standards:

- IFRS 3 Business Combinations (rev. 2008)
- IAS 27 Consolidated and Separate Financial Statements (rev. 2008)

The revised standards contain substantial amendments concerning the accounting treatment of business combinations, transactions with companies in which the entity holds a non-controlling interest, and loss of control of a subsidiary. IFRS 3(2008) is a particularly lengthy document, which deals with many complex accounting issues.

The standards were jointly reviewed by the IASB and its U.S. counterpart, the FASB. The aim was to achieve a convergence between IFRS and US-GAAP requirements in this specific area. IFRS 3(2008) is the first major standard to have been drawn up in collaboration with the FASB. Despite these harmonization efforts, the two bodies were unable to concur on all issues. As a result, IFRS 3(2008) is not entirely identical with its American equivalent, the new SFAS 141 standard (revised 2007) issued on December 4, 2007. Significant differences still remain between the two revised standards, notably with respect to their scope, the definition of fair values, and the accounting treatment of contingent liabilities and employee benefit payments.

IFRS 3

The most significant changes in the revised IFRS 3 concern the measurement of non-controlling interests, where entities now have two options, which can be exercised on a transaction-by-transaction basis. They can either apply the purchased goodwill method, which apportions identifiable net assets between the two parties in an acquisition, or apply the full goodwill method, in which the totality of the goodwill of the acquired entity, including those parts attributable to non-controlling interests, is recognized by the acquirer. IFRS 3(2008) is effective for annual periods beginning on or after July 1, 2009. The transitional provisions call for a prospective application of the revised standard. For entities whose financial year is the calendar year, this means that IFRS 3(2008) must be applied to all business combinations with an acquisition date of January 1, 2010 or later. Earlier application is permitted. Notwithstanding this ruling, entities whose financial year is the calendar year may not apply IFRS 3(2008) in respect of annual periods beginning prior to January 1, 2008. In each case, if an entity makes use of IFRS 3(2008) before the effective date, then IAS 27(2008) must be applied concurrently.

IAS 27

The amendments to IAS 27 primarily concern the accounting treatment of non-controlling interests. In future such investments must be fully accounted for in consolidated losses, and the profit or loss resulting from transactions leading to loss of control in a subsidiary must be accounted for in the income statement. By contrast, the profit or loss derived from the sale of investments in subsidiaries that does not involve loss of control must be recognized directly in equity. IAS 27 (2008) is effective for annual periods beginning on or after July 1, 2009. Whereas the transitional provisions require the retrospective application of the published amendments, they allow for prospective application in the above-mentioned case. Consequently, there is no change in the accounting treatment of assets and liabilities contracted in this way prior to the effective date of the amended standard.

The changes resulting from the first-time application of IFRS 3 and IAS 27 depend on the nature of the business transactions that might have been effectuated (e.g. the acquisition or sale of entities or parts of entities that previously formed part of the business combination). Since there is no way of planning or forecasting what transactions this might involve in the future, it is not possible to estimate the anticipated effect of applying this standard for the first time in respect of future transactions at the present juncture. Added to which, MTU has not yet reached a decision concerning utilization of the option allowing the application of the full goodwill method as defined in IFRS 3. What can be said is that the application of the full goodwill method, and its effect on the accounting treatment of any subsequent acquisitions, coupled with the requirement to account for consideration received at the time of acquisition, is likely to have led to a higher valuation of goodwill. The amendment of this standard has no impact on the MTU consolidated financial statements from the present point of view, since MTU has no plans for relevant transactions at the time of reporting.

Amendments to IFRS 2 “Share-based Payment”

On January 17, 2008, the IASB published final amendments to IFRS 2 “Share-based Payment”. These amendments are based on the exposure draft concerning vesting conditions and cancellations that was published in February 2006. The amended version of IFRS 2 clarifies the definition of “vesting conditions” and specifies the circumstances under which share-based payments may be cancelled by a party other than the entity. According to the amended IFRS 2, the only acceptable types of vesting conditions are service conditions, which require a given length of service before payment is granted, and performance conditions, which require given performance targets to be reached. Other features of a share-based payment are not vesting conditions.

In response to numerous queries, added material to help with the decision of whether or not a vesting condition exists has been inserted in the implementation guidance for IFRS 2 (including a decision tree and an overview chart of the conditions). A cancellation of the share-based payment by a party other than the entity, for instance by an employee, shareholder or other party, should receive the same accounting treatment as a cancellation by the entity. The amendment to IFRS 2 is effective for annual periods beginning on or after January 1, 2009. Earlier application is permitted. As things stand at present, the amendment to this standard does not affect the MTU consolidated financial statements, because the accounting methods used in the past already accorded with the clarifications in the new implementation guidance.

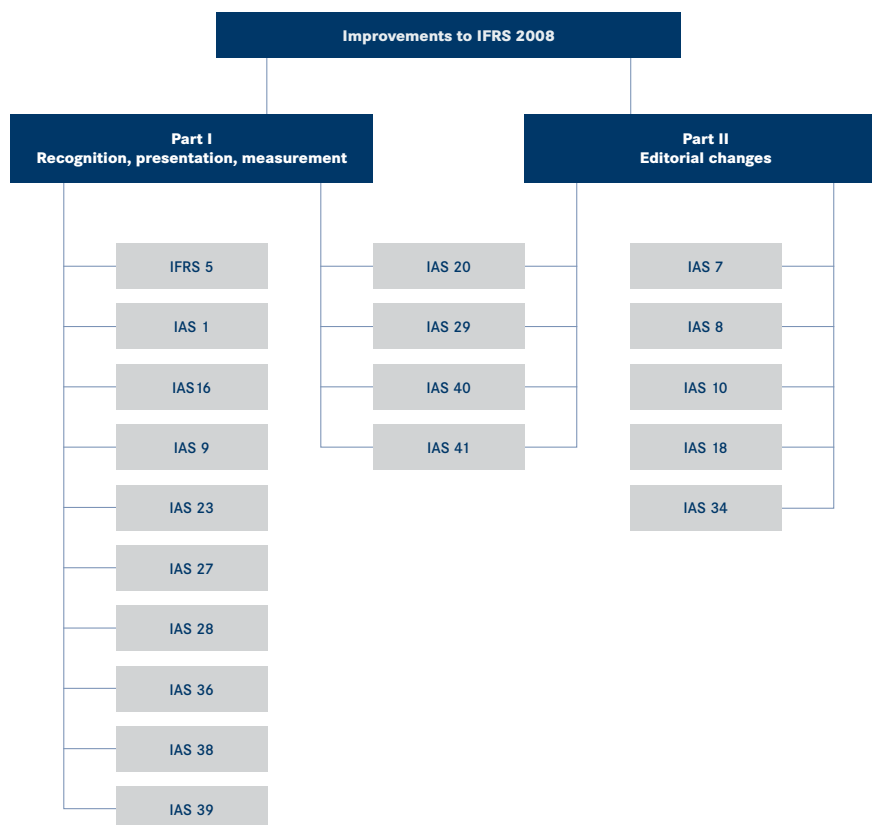
Amendments to IAS 32 “Financial Instruments: Presentation”

An amended version of IAS 32 “Financial Instruments: Presentation” was issued by the IASB on February 14, 2008. This standard is of central importance to drawing a distinction between equity capital and debt capital. By issuing this amendment, the IASB has responded to the objections raised by certain companies in Germany, among others, that the share capital of legal entities and partnerships ought to be classified as a liability in view of shareholders’ rights to withdraw this capital. The amended version of the standard allows puttable financial instruments to be classified as equity under certain defined conditions. These defined conditions have been substantially modified since the original exposure draft was published by the IASB in the summer of 2006, as a result of extensive consultation with the German Accounting Standards Committee DRSC. The amended standard will allow German legal entities and partnerships, as a general rule, to classify their share capital as equity capital in IFRS financial statements. The revised standard is effective from January 1, 2009. Voluntary early application is accepted. The amendment of this standard has no impact on the MTU consolidated financial statements at the present time, given that the MTU group does not currently hold any financial instruments of the type affected by the amendments to IAS 32.

Improvements to IFRSs – a collection of amendments to various different International Financial Reporting Standards (IFRSs)

On May 22, 2008, the International Accounting Standards Board (IASB) issued a standard entitled Improvements to International Financial Reporting Standards 2008 – a collection of amendments to various different IFRSs. These amendments are the result of the IASB's first annual improvements process (AIP) project. The AIP project was launched by the IASB in July 2006 as a means of dealing with minor, non-urgent but necessary changes to existing standards, which are not covered by another, larger project. The IASB's aim in this context is to reduce the workload for all concerned by issuing such amendments in a single, comprehensive document instead of repeatedly releasing individual amendments. The collection of amendments is divided into two parts:

Part I contains amendments to individual standards that result in accounting changes affecting the recognition, measurement or presentation of specific transactions. The amendments in Part II can be regarded as relatively immaterial, since they relate to terminological or editorial changes. In total, amendments were made to 19 standards. Four of these are found in both Part I and Part II (see chart below).



Unless otherwise specified in the standard, the amendments are effective for annual periods beginning on or after January 1, 2009. However, the amendments to IFRS 5 have an effective date of July 1, 2009. Early application of the amendments to the various standards is permitted. Given the large number of individual amendments involved, it is not really possible to make any definitive statement about any expected impact they might have. On the basis of the information we have on hand at the present time, we assume that the amendments concerning the following standards may have an impact on the consolidated financial statements:

Amendment to IAS 1 – “Presentation of current financial assets and liabilities”:

An amendment in IAS 1 “Presentation of Financial Statements” (revised 2007) clarified the point that financial assets and liabilities classified as held-for-trading in accordance with IAS 39 “Financial Instruments: Recognition and Measurement” do not automatically lead to their presentation under current assets or liabilities (IAS 1.68 and 1.71). The existing wording had led to some confusion, especially in the case of stand-alone derivatives. The factor that determines whether a financial asset or liability is considered to be non-current or current is whether it is held by the company for more or less than 12 months. The classification as “held-for-trading” in accordance with IAS 39.9 thus only determines the measurement, and not the presentation of the financial instruments in question.

Amendment to IAS 19 – Curtailments

A change has been introduced in the accounting treatment of defined benefit plans with respect to past service costs. These arise when a company introduces a defined benefit plan for the first time under which benefits are granted for past periods of service, or when a company changes its retirement benefit plan. The new requirement added under the annual improvements process concerns the treatment of a negative past service cost. In the past, the IASB had rejected proposals to differentiate between negative past service cost and curtailments, estimating that it was improbable that such a differentiation would result in a significant material effect (IAS 19.BC62). This assumption has proven to be incorrect in practice. According to IAS 19.97, a negative past service cost is incurred when changes to a plan lead to a reduction in the present value of the defined benefit obligation (DBO). The newly added IAS 19.111A clarifies the point that, in cases where changes to a plan result in a reduction in benefits, only the effect of the reduction for future services should be treated as a curtailment according to IAS 19.109ff. All other effects are to be treated as (negative) past service cost, because they are related to the benefits for past service. This distinction has an impact on financial statements, because curtailments are recognized immediately in the income statement whereas past service cost is spread over the period up to the date on which it becomes non-forfeitable.

Amendment to IAS 20 - Accounting for government loans at below-market rates of interest

Prior to the amendment, IAS 20.37 stated that the benefit of a government loan with a below-market rate of interest should not be quantified on the basis of the calculated interest. This is inconsistent with IAS 39.43 “Financial Instruments: Recognition and Measurement”, which requires financial liabilities to be measured at fair value at first recognition, i.e. including the interest benefit of a below-market rate of interest. IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” has therefore been amended accordingly. Paragraph 37 has been deleted and replaced by a new paragraph 10A, which makes it mandatory to recognize and measure government loans with a below-market rate of interest according to the requirements of IAS 39. The difference between the proceeds received and the initial carrying amount of the loan must be accounted for as a loan benefit according to the requirements of IAS 20.

Amendment to IAS 23 - Components of borrowing costs

The amendment to IAS 23 “Borrowing Costs” involves the replacement of paragraphs 6(a)-(c) in the list of possible components of borrowing costs with a reference to the guidance in IAS 39 “Financial Instruments: Recognition and Measurement” on the calculation of interest expense using the effective interest method. This amendment averts the risk of possible inconsistencies between the methods applied when calculating borrowing costs according to IAS 23 and IAS 39 respectively. For more general information on the possible impact of amendments to IAS 23 on EBIT, financial result and net profit, please refer back to the earlier section on revisions to IAS 23.

Amendment to IAS 39 – Reclassification of financial instruments

The amendments to IAS 39 “Financial Instruments: Recognition and Measurement” concern exceptions to the basic principle specified in IAS 39.50 – relaxed slightly in October 2008 – that prohibits the reclassification of financial instruments out of the “at fair value through profit or loss” category into any other category for as long as they are held. It has now been clarified in IAS 39.50A that cases where a financial instrument classified in the FVTPL category is designated for the first time as a cash flow hedge derivative, or where it becomes necessary to end the cash flow hedging relationship because the purpose for which it was designated no longer applies, are not considered to be reclassifications for this purpose.

Amendments to IFRS 5 – Non-current assets held for sale and discontinued operations

The amendment to IFRS 5 concerning non-current assets held for sale and discontinued operations relates to situations in which a company is committed to a planned sale of part of its interest in a subsidiary involving a loss of control while retaining a non-controlling interest. IFRS 5 now clearly states that, in such situations, all assets and liabilities of the subsidiary must be classified as “held for sale” if the planned sale meets the criteria set out in IFRS 5. The amendment is founded on the circumstance that the company will no longer have a controlling interest in the company after the planned sale. If, on the other hand, the planned sale does not involve a loss of control, the requirements of IFRS 5 do not apply. In this case, the assets and liabilities of the subsidiary representing the part of the company’s interest that it intends to sell should be recognized and measured in accordance with the relevant existing IFRSs.

To our current knowledge, the other amendments to IFRS 5 have no impact on the MTU consolidated financial statements, either because the issues addressed are not relevant or because MTU has already been employing the accounting treatment prescribed by the IASB.

Revised versions of the standards IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 27 “Consolidated and Separate Financial Statements”

On May 22, 2008, the International Accounting Standards Board (IASB) published revised versions of the standards IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 27 “Consolidated and Separate Financial Statements”. It thereby reached the end of a project launched in March 2006 to simplify the measurement of investments when drawing up a single set of financial statements according to IFRSs for the first time. The simplifications in the revised version of the standards particularly relate to the initial recognition at fair value of subsidiaries, joint ventures and associated companies, or alternatively the recognition of their carrying amounts derived from previous financial reporting. A further simplification has been achieved by removing the definition of the “at cost” accounting method from IAS 27. This eliminates the need for painstakingly dividing earnings into separate components for before and after the acquisition. IAS 27 now required dividends to be entirely recognized as income. Another modification relates to the restructuring of an existing business combination. The revised version of IAS 27 makes provision for the carrying amount at the acquisition date of an existing parent company by a newly created holding company to be taken as the acquisition cost. The changes to these standards have no impact on the MTU consolidated financial statements because the subject of IFRS 1 is of no relevance to MTU and the modifications to IAS 27 are not applicable to MTU either.

Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”

On July 31, 2008, the IASB issued an amendment to IAS 39 “Financial Instruments: Recognition and Measurement” entitled “Eligible hedged items”. The IASB’s amendments to this standard focus on guidance on basic hedge accounting issues. The amendments to IAS 39 firstly specify the exposures that qualify for hedge accounting, and secondly provide clarification of the cases in which an entity is permitted to designate a portion of the cash flows of financial instrument as a hedged item. The amendment does not involve any changes to the existing requirements, but merely adds new paragraphs in the application guidance to provide additional clarification. The amendments to IAS 39 are effective for annual periods beginning on or after July 1, 2009, with early adoption permitted. As things stand at present, the amendment to this standard does not affect the MTU consolidated financial statements, because the accounting methods used in the past already accorded with the clarifying guidance.

Restructured version of IFRS 1 “First-time Adoption of International Financial Reporting Standards”

On November 27, 2008, the IASB published a restructured version of IFRS 1 “First-time Adoption of International Financial Reporting Standards”. The changes only affect the structure of IFRS 1 and not its substance, aiming to make the standard easier to read and understand and improve its design so that future changes can be better accommodated. No changes were made to the requirements concerning the first-time adoption of IFRSs set out in IFRS 1. The standard has absorbed numerous amendments and additions since it was first issued in 2003. As a result, its structure has become rather complex. Already in 2007, the IASB had proposed that the structure of IFRS 1 should be improved as part of its annual improvements project, but this proposal was then removed to a separate project. The restructured version of IFRS 1 is effective for annual periods beginning on or after January 1, 2009. Early adoption is permitted. Amendments to this standard have no impact on the MTU consolidated financial statements because the subject of IFRS 1 is of no relevance to MTU.

IFRIC 13 (“Customer Loyalty Programs”)

This interpretation provides guidance on the accounting treatment of customer loyalty programs. These marketing tools are designed to promote the customer’s loyalty to the company by awarding points or other forms of bonus to customers who purchase goods or services, which can be redeemed for free or discounted goods or services. Until now there were no specific IFRS requirements concerning the accounting treatment of customer loyalty programs, with the result that in practice such programs were accounted for in divergent ways. The consequent objective of IFRIC 13 was to provide uniform rules for the accounting treatment of customer loyalty programs. IFRIC 13 now requires that customer loyalty programs be accounted for in accordance with IAS 18.13, in other words as multi-component transactions. This interpretation is effective for annual periods beginning on or after January 1, 2008. In the absence of transactions of this nature, the interpretation in question will not have any impact on the MTU consolidated financial statements.

IFRIC 15 (“Agreements for the Construction of Real Estate”)

IFRIC 15 “Agreements for the Construction of Real Estate” was published on July 3, 2008 and derives from the draft interpretation IFRIC D21 “Real Estate Sales” issued on July 5, 2007. IFRIC 15 is designed to provide guidance on the accounting treatment of real-estate sales in which revenue has to be recognized by the developer before construction has been completed (“off-plan” sales). IFRIC 15 provides interpretation guidance on how to determine whether an agreement for the construction of real estate lies within the scope of IAS 11 “Construction Contracts” or IAS 18 “Revenue” for accounting purposes and, accordingly, when revenue from the construction should be recognized. IFRIC 15 specifies that IAS 11 may only be applied in respect of agreements that meet the definition of a construction contract according to IAS 11.3. As further clarification, IFRIC 15.11 states that this definition only applies if the buyer is able to specify the major structural elements of the design of the real estate before construction begins, and/or specify major structural changes once construction is in progress, whether or not this ability is exercised. Agreements for the construction of real estate that do not fully provide this ability, e.g. merely allow the buyer to choose among predefined elements, must be accounted for according to IAS 18. IFRIC 15 is effective for annual periods beginning on or after January 1, 2009. Early adoption is permitted. MTU does not anticipate any impact from this interpretation on its consolidated financial statements, given its lack of relevance to the group’s business model.

IFRIC 16 (“Hedges of a Net Investment in a Foreign Operation”)

IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” was published on July 3, 2008 and derives from the draft interpretation IFRIC D22 issued on July 19, 2007. IFRIC 16 clarifies the following accounting issues:

- To which exposures may an entity apply hedge accounting and how should the hedged items be designated: Transaction risk arising from foreign currency exposure to the functional currency of the foreign operation, or currency risk arising from translation differences between the functional currency of the foreign operation and the presentation currency of the parent entity’s consolidated financial statements?
- Which entity within a group can hold the hedging instrument?
- How are the amounts to be reclassified from equity to profit or loss when the entity disposes of the investment?

The IFRIC 16 interpretation is as follows:

- Translation into the presentation currency does not constitute an exposure to which an entity may apply hedge accounting. Hedge accounting may only be applied to transaction risks.
- The hedging instrument may be held by any entity in the group.
- Concerning the reclassification and measurement on disposal of the investment, IAS 39 must be applied in respect of the hedging instrument and IAS 21 in respect of the hedged item.

IFRIC 16 is effective for annual periods beginning on or after October 1, 2008. Voluntary early application is permitted. The interpretation must be applied prospectively, i.e. IAS 8 is not applicable. MTU does not anticipate any impact of this interpretation on its consolidated financial statements, given that hedging strategies of this nature have not been implemented up to now.

IFRIC 17 (“Distributions of Non-cash Assets to Owners”)

The International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 17 “Distribution of Non-cash Assets to Owners” on November 27, 2008. IFRIC 17 is derived from the draft interpretation IFRIC D23 issued on January 17, 2008 and applies to the distribution of dividends in the form of non-cash assets. Until now, there were no defined IFRS requirements determining how an entity should account for dividends paid to shareholders in another form than cash or cash equivalents. In practice, such payments are therefore accounted for in widely divergent ways. In some cases the carrying amount is used to recognize the distributed non-cash assets, and in other cases the fair value. By way of clarification, IFRIC 17 concludes that:

- a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity (which, depending on relevant national legislation, may be the resolution date or the notification date of the proposed dividend payment);
- the entity should measure the dividend payable at the fair value of the net assets to be distributed to owners (shareholders);
- the difference between the fair value and the carrying amount of the net assets distributed to shareholders as a dividend should be recognized in profit and loss;
- additional disclosures must be provided if the net assets to be distributed to owners meet the definition of a discontinued operation, and thus qualify for classification as “held-for-sale”.

IFRIC 17 applies to pro rata distributions of non-cash assets but does not apply to common control transactions. IFRIC 17 is to be applied prospectively and is effective for annual periods beginning on or after July 1, 2009. Early adoption is permitted. MTU does not anticipate any impact of this interpretation on its consolidated financial statements, given that the company has no current plans to distribute dividends in the form of non-cash assets.

IFRIC 18 (“Transfers of Assets from Customers”)

The International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 18 “Transfers of Assets from Customers” on January 29, 2009. IFRIC 18 provides supplementary guidance on the accounting treatment of transfers of assets from customers and is above all relevant to the energy sector. The interpretation clarifies the requirements of IFRSs for agreements in which an entity receives an item of property, plant and equipment from a customer that the entity must then use either to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services. This interpretation must be applied prospectively and is effective for annual periods beginning on or after July 1, 2009. Limited provision is nevertheless made for retrospective application in specific cases. MTU does not anticipate that this interpretation will have any impact on its consolidated financial statements.

MTU does not intend to apply any of these standards and interpretations in advance of their effective date.

1.2. Invocation of Section 264 (3) of the German Commercial Code (HGB)

MTU Aero Engines GmbH, Munich, which is a consolidated affiliated company 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, has invoked the provision of Section 264 (3) of the German Commercial Code (HGB) exempting the company from the obligation to prepare disclosure notes and a management report. The official notice of the company’s invocation of the exemption has been published in the electronic version of the Federal Gazette (Bundesanzeiger) in the name of MTU Aero Engines GmbH, Munich.

1.3. Shareholder structure

The following table presents the evolution of the shareholder structure and the corresponding equity investments:

Shareholder structure

Shareholder	Dec. 31, 2008		Dec. 31, 2007		Dec. 31, 2006	
	Shares	in %	Shares	in %	Shares	in %
Free float	48,770,945	93.79	50,729,590	92.24	53,349,117	97.00
Treasury shares	3,229,055	6.21	4,270,410	7.76	1,650,883	3.00
Total	52,000,000	100.00	55,000,000	100.00	55,000,000	100.00

1.4. Notes relating to changes in the reporting of the consolidated financial statements

- Starting in the financial year 2007, the disclosures relating to Supervisory Board compensation pursuant to Section 315a (1) in conjunction with Section 314 (1) no. 6 of the German Commercial Code (HGB) are individually presented in the management compensation report.
- From the financial year 2008 onward, in the interests of greater clarity, particularly with respect to the application of IAS 12, actual tax obligations and tax refund claims have been removed from the items “Other provisions” and “Other assets” respectively and included in the items “Income tax claims” and “Income tax liabilities”.

- For greater clarity, receivables from derivative financial instruments have been removed from the item “Other assets” and transferred to the item “Financial assets”. By contrast, derivative financial liabilities are still included in “Financial liabilities”.
- In the interests of providing a more transparent overview, the reporting statements relating to the primary and secondary business segments have been placed immediately in front of the notes to the consolidated financial statements. This enables to segment information to be compared more easily with the consolidated income statement by way of the reconciliation tables.
- From the financial year 2008 onward, a separate reporting line has been presented in the notes to the consolidated financial statements for the fund-financed plan assets of MTU Maintenance Canada Ltd., Canada, amounting to € 13.7 million (2007: € 19.0 million). These plan assets were measured at fair value and reported on the face on the balance sheet under a separate item to pensions and similar obligations (DBO). Consequently, additional items for the expected return on plan assets, effective losses arising from fund-financed plan assets, employer and employee contributions and retirement benefit payments out of plan assets were added to the changes in the group’s plan assets. Additionally, Note 31. provides explanatory comments on pension obligations supplemented by a breakdown of fund-financed plan assets by asset category and an estimate of the plan asset yield expected in the current financial year.
- To provide a more accurate picture of their economic importance, contract production receivables and payables have been removed from the formerly combined item “Trade and contract production receivables” and the item “Other liabilities” and are now presented in separate items for “Contract production receivables” and “Contract production payables”. Prepayments are included as an offset in “Contract production payables”. Prepayments that can be directly attributed to contract production receivables are transferred from “Contract production payables” (Note 36.) to “Contract production receivables” (Note 24.).
- Any adjustments or modifications applied in the financial year 2008 have been applied similarly to the comparative data for previous years.

2. Group reporting entity

2.1. Change in composition of group reporting entity

MTU Aero Engines Polska Sp. z.o.o., Rzeszów, Poland, which was created with effect of July 20, 2007, was included as a fully consolidated company in the financial statements for the first time in 2008. It was not included in 2007 because its impact was not material. As a result of its consolidation, the amount of cash and cash equivalents at January 1, 2008 increased by €5.3 million.

2.2. Subsidiaries

The consolidated financial statements of MTU Aero Engines Holding AG include all significant companies in which MTU Aero Engines Holding AG holds a controlling interest by virtue of holding the majority of voting rights in those subsidiaries. Entities are con-solidated as from the date on which control arises and are deconsolidated when control comes to an end.

2.3. Associated companies

Associated companies are companies in which MTU has a significant influence and which are neither subsidiaries nor joint ventures. Entities corresponding to this definition over whose financial and operating policies MTU directly or indirectly has significant influence are accounted for using the equity method or – if non-significant – at cost. Significant influence is assumed to exist if MTU Aero Engines Holding AG, directly or indirectly, owns 20% or more of the voting stock of an entity.

2.4. 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 group financial statements are either consolidated proportionately or accounted for using the equity method in these statements.

2.5. 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.

2.6. Consolidated and non-consolidated companies

As in 2007, equity investments in five joint ventures, five associated companies and one other entity are included in the consolidated financial statements. Of these, one joint venture is accounted for using the equity method and one joint venture is proportionately consolidated at 50%. The equity investments in the remaining joint ventures and associated companies and the one other entity are measured at amortized cost owing to their insignificant value to the group, as are the equity investments in two subsidiaries.

Consolidated and non-consolidated companies referred to in the Annual Report

	Consolidation method ¹⁾	Interest in %
Investments in subsidiaries		
MTU Aero Engines Finance B.V., Amsterdam, Netherlands	full	100.00
MTU Aero Engines GmbH, Munich	full	100.00
MTU Maintenance Hannover GmbH, Langenhagen	full	100.00
MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde	full	100.00
MTU Aero Engines North America Inc., Newington, USA	full	100.00
MTU Maintenance Canada Ltd., Richmond, Canada	full	100.00
Vericor Power Systems LLC., Atlanta, USA	full	100.00
RSZ Beteiligungs- und Verwaltungs GmbH, Munich	full	100.00
MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland	full	100.00
MTU Versicherungsvermittlungs- und Wirtschaftsdienst GmbH, Munich	at cost	100.00
MTU München Unterstützungskasse GmbH, Munich	³⁾	100.00
Investments in associated companies		
Turbo-Union Ltd., Bristol, England	at cost	39.98
EUROJET Turbo GmbH, Hallbergmoos	at cost	33.00
EPI Europrop International GmbH, Munich	at cost	28.00
MTU Turbomeca Rolls-Royce GmbH, Hallbergmoos	at cost	33.33
MTU Turbomeca Rolls-Royce ITP GmbH, Hallbergmoos	at cost	25.00
Equity investments in joint ventures		
MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China	proportionate	50.00
Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde	at equity	50.00
Ceramic Coating Center S.A.S., Paris, France	at cost	50.00
Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia	at cost	50.00
Pratt & Whitney Canada CSC Africa (Pty.) Ltd., Lanseria, South Africa ²⁾	at cost	50.00
Other equity investments		
IAE International Aero Engines AG, Zurich, Switzerland	at cost	12.10

¹⁾ full = fully consolidated

at cost = measured at fair value, which here corresponds to acquisition cost

at equity = carrying amount of investment increased or reduced to reflect changes in equity of group's percentage interest

proportionate = full consolidation of the group's interest

²⁾ indirect investment

³⁾ plan assets as defined in IAS 19

The following additional assets, liabilities, expenses and income are recognized in the consolidated accounts 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 2008	50% share 2007	50% share 2006
Disclosures relevant to the income statement			
Income	143.1	97.7	60.5
Expenses	-131.9	-92.0	-57.5
Result	11.2	5.7	3.0
Disclosures relevant to the balance sheet			
Non-current assets	36.5	34.6	39.7
Current assets	58.0	49.4	42.9
Total	94.5	84.0	82.6
Equity	54.1	37.5	33.4
Non-current liabilities	10.8	18.0	26.3
Current liabilities	29.6	28.5	22.9
Total	94.5	84.0	82.6

MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China, at December 31, 2008 employed a staff of 487 employees (2007: 413).

3. Consolidation principles

All business combinations are accounted for using the acquisition method as defined in IFRS 3. Under the acquisition method, the acquired identifiable assets, liabilities, and contingent liabilities are measured initially by the acquirer at their fair values at the acquisition date and recognized separately. 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 goodwill) is immediately recognized in the income statement – after remeasurement as required by IFRS 3.56.

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.

Investments in joint ventures – with the exception of MTU Maintenance Zhuhai Co. Ltd., China – are accounted for using the equity method from the date of acquisition and are recognized initially at cost. Any difference arising at the acquisition date between the acquisition cost and fair values of the identified assets, liabilities and contingent liabilities is recognized as goodwill. MTU Aero Engines Holding AG's share of an investee's profits or losses is recorded in the income statement.

MTU's 50% share in the jointly controlled entity MTU Maintenance Zhuhai Co. Ltd., China, is proportionately consolidated in the group financial statements. Consequently, an equivalent proportion of the jointly controlled assets and liabilities, income and expenses attributable to MTU Maintenance Zhuhai Co. Ltd., China, is included in the consolidated financial statements. The figures in the table presented under Note 2.6. include the corresponding portion of the joint venture's assets, liabilities, expenses and income.

Program management and coordination companies are associated companies, and consequently accounted for at cost. With regard to the special accounting treatment of these investments, please refer to Note 5.7.2.

All other equity investments (non-consolidated subsidiaries and other equity investments) are measured at their fair value. If the fair value cannot be reliably determined, these investments are stated at cost (see explanatory comments in Notes 5.7.1., 5.7.3. and 5.7.4.).

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 equity and do not have any impact on the net profit/loss for the year.

5. Accounting policies

The financial statements of MTU Aero Engines Holding AG and of its German and foreign 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 the revenues and costs can be measured reliably. The company's customers are trading partners from risk- and revenue-sharing programs, original equipment manufacturers (OEMs), cooperation entities, public-sector contractors, airlines and other third parties.

Revenues from contractual maintenance (time and material, Fly-by-Hour, Power-by-the-Hour contracts) in the commercial MRO business are recognized when the maintenance service has been performed and the criteria for recognizing revenues on overhauled engines have been met. In the case of long-term commercial maintenance agreements and military development and production contracts, revenues are recognized by reference to the percentage of completion in accordance with IAS 11 and IAS 18. 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 “contract production receivables” (Note 24.) or under “contract production payables” (Note 36.). Further explanation of the measurement of percentage of completion is given in work in progress (Note 5.8.).

Revenues are reported net of trade discounts and concessions and customer loyalty awards.

The group’s forward 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 in equity (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 depreciation of the production installations, 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 expenses

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 contract production 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 have 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. Government grants are deducted from the capitalized development costs. Capitalized development costs are amortized on a scheduled basis over the expected product life cycle from the start of production onwards.

The **development costs** for engine programs that had reached the production and spare-parts phase at the date of January 1, 2004, when the company was acquired by Kohlberg Kravis Roberts & Co. (KKR) from the then Daimler-Chrysler AG, were allocated to the individual engine programs and recognized at their fair value as part of the identification of assets and the subsequent purchase price allocation. The development costs comprise all costs directly attributable to the development process. Borrowing costs are not capitalized. Program assets are amortized on a scheduled basis over the expected product life cycle (maximum of 30 years).

Both capitalized development costs, as well as previously capitalized development projects that have not been completed by the end of the financial year, are subjected once a year to an impairment test. An impairment charge is only then recognized when 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 attributable to 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.

With the exception of goodwill, technology assets, customer relations and capitalized program assets, intangible assets are generally amortized over a period of 3 years. Program assets 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.

In accordance with IFRS 3, **goodwill** with an **indefinite useful life** is subjected to an impairment test at least once a year. Consistent with the distinction made for segment reporting purposes, the commercial and military engine business (OEM) and the commercial MRO business are viewed as cash-generating units (CGUs). Goodwill was attributed to each of the two segments as of January 1, 2004. The present value of each cash-generating unit's future net cash flows (recoverable amount) is compared with the carrying amount of the corresponding assets (including goodwill). If the recoverable amount is lower than the carrying amount of the respective cash-generating unit, an impairment loss is recognized initially on goodwill. If the amount estimated for an impairment loss is greater than the goodwill, the remaining difference is allocated pro rata to the remaining assets of the respective cash-generating unit.

A test is conducted at each balance sheet date to determine whether the reasons for impairment losses recognized in prior periods still exist. There is a requirement to reverse an impairment loss if the recoverable amount of the asset (other than goodwill) has increased. The recoverable amount is the higher amount of the present value less costs to sell and the expected value in use. The upper limit of the impairment loss reversal is determined by the acquisition cost less the accumulated scheduled depreciation that would have been recorded if no impairment loss had been recognized. The reversal of an impairment loss is recorded in the appropriate income statement line items by function. By contrast, an impairment loss recognized on goodwill is not reversed in a subsequent period. No reasons for recognition of impairment loss on goodwill existed in the financial year 2008, nor in previous periods. For impairment losses recognized on other assets in the financial year 2007, please refer to Note 7.

5.5. Public sector grants and assistance

Public sector grants and assistance are recognized in accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance) 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 which 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 as income 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 scheduled depreciation. Such assets are depreciated using the straight-line method in line with the pattern of usage. If there are any indications of impairment, property, plant and equipment is subjected to an **impairment test**. An impairment loss is recognized immediately in the income statement if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is calculated as the higher of an asset's fair value less costs to sell and its value in use.

If the reason for recognizing an impairment loss in prior periods no longer exists, the impairment loss is reversed with income statement effect up to an amount not exceeding the asset's amortized cost. So-called low-value business assets (individually costing less than € 150) are expensed in the year of acquisition. On the other hand, assets with a purchase price exceeding € 150 but less than € 1,000 are amortized on a straight-line basis over a period of five years, in accordance with German taxation rules (pool measurement).

Scheduled depreciation is based on the following useful lives:

Useful lives of 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 cost of items of **self-constructed plant and equipment** comprises all costs directly attributable to the production process and an appropriate proportion of production-related overheads, including depreciation and pro rata administrative and social security costs. Borrowing costs are not recognized as a component of acquisition or construction cost.

The beneficial ownership of leased assets is attributed to the contracting party in the lease arrangement that bears the substantial risks and rewards incidental to the ownership of that asset. If the lessor retains the substantial risks and rewards (**operating lease**), the leased asset is recognized in the lessor's income statement, and is measured according to the accounting requirements applicable to that asset. 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 incidental to the 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 measured at its fair value at the date of acquisition, or at the present value of future minimum lease payments if lower, and depre-

ciated over its estimated useful life, or the contract duration if shorter. The depreciation expense is recognized in the income statement. 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 reduce and amortize the lease liability.

Impairment losses on intangible assets and on property, plant and equipment are calculated 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 ultimately responsible for the asset. At each balance sheet date, the asset must be tested for indications of impairment. If impairment is indicated, the recoverable amount of the asset or of the cash-generating unit is remeasured. If the reasons for impairment losses recognized in a prior period no longer exist, the impairment on these assets is reversed.

The recoverable amount of a cash-generating unit is usually determined using a discounted cash flow (DCF) technique. 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.

Available-for-sale financial assets are classified as such if their carrying amount can only be realized by sale and not through continued use. Assets corresponding to this description are measured at the lower of their carrying amount or their fair value less costs to sell, and are classified as available-for-sale financial assets. Such assets are not recognized at amortized cost. Impairment losses are not recognized for this category of asset unless their fair value less costs to sell is lower than the carrying amount.

If the fair value less costs to sell should increase in a later period, the previously recognized impairment loss is reversed. This reversal is limited to the amount of the impairment loss previously recognized for the asset in question. If measures or marketing activities in connection with non-current assets are introduced after the balance sheet date but before the financial statements are published, disclosures relating to the available-for-sale financial assets are included in the notes to the financial statements. The assets are not classified as available-for-sale in the consolidated financial statements for the financial year in question, and their scheduled depreciation/amortization is continued.

5.7. Financial assets

The group's share of profits or losses of joint venture 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 a separate line item for "profit/loss of companies accounted for using the equity method".

5.7.1. Investments in non-consolidated subsidiaries

All **investments in non-consolidated subsidiaries** reported as non-current financial assets are measured at their fair value. If a quoted market price in an active market is not available and if a fair value cannot be reliably measured, investments in non-consolidated subsidiaries are carried at cost – with appropriate adjustments for impairment loss where necessary.

5.7.2. Investments in associated companies

Investments in associated companies that are not accounted for using the equity method in accordance with IAS 28 are measured at their fair value in accordance with IAS 39. If a fair value is not available or cannot be reliably measured, investments in associated companies are carried at cost – with appropriate adjustments for impairment loss where necessary.

5.7.3. Equity investments in joint ventures

Equity investments in joint ventures that are not accounted for using the equity method are measured at their fair value or proportionately consolidated in accordance with IAS 39. They are carried at cost – with appropriate adjustments for impairment loss where necessary – if a quoted market price in an active market cannot be reliably measured.

5.7.4. Other equity investments

Other equity investments are measured at fair value in accordance with IAS 39. If a quoted market price in an active market is not available and if a fair value cannot be reliably measured, these investments are carried at cost – with appropriate adjustments for impairment loss where necessary.

5.7.5. Asset-based loans

Asset-based loans based on financial assets are classified as loans and receivables, and hence carried at amortized cost – with appropriate adjustments for impairment loss where necessary.

5.8. Inventories

Raw materials and supplies

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

Work in progress is measured at the lower of manufacturing cost and net realizable value. Manufacturing cost comprises all costs directly attributable to the production process as well as an appropriate proportion of production-related overheads, including depreciation on production-related assets and production-related administrative costs.

Borrowing costs of inventories

Borrowing costs of inventories are not included in the cost of inventories.

Contract production

The group uses the **percentage-of-completion (PoC) method** to recognize all production contracts. If the outcome of a specific production 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 production contract, the construction costs determined using the PoC method, taking profit sharing into account where relevant, are recognized as future contract receivables in the balance sheet and as revenues arising from production 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 production contracts are recognized separately from trade receivables in the balance sheet under the item "contract production receivables". If advance payments received from customers are lower than the amount of receivables, the difference is deducted from the amount of contract production receivables and accounted for as an asset. If the advance payments received are higher than the contract production receivables, the negative balance of the production contracts is recognized under contract production payables. Projects with an assets surplus are not offset against other projects with a liabilities surplus.

Long-term production contracts carried as assets or as liabilities are discounted at the appropriate market rate. In the case of programs carried as assets, the discounted revenues arising from long-term production contracts are recognized in the income statement under revenues. When the product is delivered, this interest component is derecognized via the financial result. If, on the other hand, the long-term production contract is financed by means of long-term advance payments received, the economic benefit arising from the present value received up to delivery of the engine is recognized under other liabilities. The accrued interest receivable is transferred to revenues at the delivery date of the engine.

5.9. 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. Financial assets include, in particular, cash and cash equivalents, trade receivables, loans and other receivables, financial investments held to maturity, and nonderivative and derivative financial assets held for trading. 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 instruments are always recognized as soon as MTU becomes a party to the contractual provisions of the instrument. In the case of regular way purchases or sales (purchases or

sales under contractual terms that provide for delivery of the asset within a certain period, which is normally determined by regulations or conventions in the respective market), however, the trade date – the date on which the asset is delivered to or by MTU – is of importance to the asset’s initial recognition and derecognition.

Financial assets are measured in accordance with their classification according to IAS 39. MTU makes a distinction between these financial assets on the basis of their intended purpose as follows: “fair value through profit or loss”, “held to maturity”, “loans and receivables” and “available for sale”. The assignment of an asset to a category, which moreover has implications for measurement subsequent to initial recognition, is performed at the time of acquisition and is primarily determined by the purpose for which the financial asset is held.

At initial recognition, **financial assets** are measured at their fair value. This includes transaction costs directly attributable to the acquisition in the case of assets not to be subsequently measured at fair value through profit or loss. As a rule, the fair value recognized in the balance sheet corresponds to the financial asset’s quoted market price. The measurement of a financial asset subsequent to initial recognition depends on the category to which it was assigned at the time of acquisition. The accounting treatment of each category is described in greater detail below:

Fair value through profit or loss (FVtPL)

FVtPL financial instruments are measured at fair value through profit or loss. This category has two subcategories: “held for trading” and “designated at fair value through profit or loss”. To date, MTU has not made any use of the option allowing financial instruments to be designated 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. The measured value of FVtPL financial instruments at the balance sheet date may lie above the original acquisition costs. Changes in fair value are recognized in the income statement for the current reporting period. This also applies to interest and dividends paid on the asset.

Held to maturity (HtM)

There are certain financial investments where it is both intended and can be reasonably expected on the basis of economic assessment that they will be held to maturity. This category of financial assets is measured at amortized cost using the effective interest method. To date, the group has not made any investments that can be classified as “held to maturity”.

Loans and receivables (LaR)

Financial assets classified as “loans and receivables” are measured at amortized cost less impairment, using the effective interest rate where appropriate. The impairment losses, which are recognized as specific allowances, are adequately matched to the expected credit risk. When actual credit losses are incurred, the corresponding receivables are written off. Financial assets that are individually assessed and for which impairment is potentially indicated are grouped with other financial assets with similar credit risk characteristics and collectively assessed for impairment. If deemed necessary, impairment loss is also recognized for the other assets (as a flat-rate general allowance).

When determining the expected future cash flows for a portfolio in this context, past experience with credit losses is taken into account along with the contractually agreed payment flow. 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.

Available for sale (AfS)

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. This does not apply in the case of significant or long-lasting impairment to the fair value of an equity instrument carried at below its acquisition cost, or in the case of fair value changes in debt instruments due to foreign exchange gains or losses. These impairments are recognized in the income statement. The cumulative gain or loss that was recognized in equity in connection with the measurement of fair value is not recognized as profit or loss in the income statement until the financial asset is derecognized. 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 evidence of impairment (such as significant financial difficulties on the part of the debtor, a high probability that insolvency proceedings will be brought against the debtor, the closure of an active market for the financial asset, significant negative changes in technological, economic, legal or market conditions affecting the issuer, a persistent decline in the fair value of the financial asset below its amortized cost). The amount of the **impairment loss**, which is indicated if its fair value is lower than its carrying amount, is recognized in the income statement. Any impairment losses relating to the fair value of available-for-sale financial assets previously recognized in equity are recycled from equity to the income statement to the amount of the assessed impairment loss.

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 appropriate amount of the previously recognized impairment loss is reversed through profit and loss. Impairment losses affecting available-for-sale equity instruments (or equity instruments not quoted in an active market that are accounted for at cost) are not allowed to be reversed. 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.

5.10. Cash and cash equivalents

Cash and cash equivalents, which include current accounts and short-term bank deposits, are due within three months and are measured at amortized cost.

5.11. Financial liabilities

Financial liabilities are measured at their fair value at the time of acquisition, which is normally equivalent to the acquisition cost. Transaction costs directly attributable to the acquisition have the effect of reducing the acquisition cost of all financial liabilities that are not measured at fair value 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.

To date, MTU has not made any use of the option allowing financial liabilities to be **designated at fair value through profit or loss** at initial recognition.

Measurement of financial liabilities subsequent to initial recognition

Subsequent to initial recognition, all financial liabilities – with the exception of derivative financial instruments – are measured at amortized cost using the effective interest method (“**financial liabilities measured at amortized cost; FLAC**”).

5.12. 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 equivalent to the market price, which can be positive or negative. If no quoted market price is 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. It is calculated on the basis of the relevant exchange rates, interest rates and credit standing of the contractual partners at the balance sheet date.

When measuring derivative financial instruments, it must be determined 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. If the fair value is negative, they are recognized under **financial liabilities** (“**financial liabilities held for trading; FLHfT**”).

Hedge accounting (hedging relationships)

Changes in fair value in the context of hedge accounting are recorded either as profit or loss in the income statement or directly in equity, depending on whether or not the derivative financial instrument forms part of an effective hedging relationship as defined in IAS 39. If a derivative financial instrument does not qualify as a cash flow hedge, changes in the fair value must be recognized in the income statement immediately (see “held for trading” instruments, above). If, on the other hand, an effective hedging relationship as defined in IAS 39 does exist, it is permitted to account for the economic hedging relationship as such in an appropriate way.

MTU applies 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 and loss. In doing so, MTU complies with the strict requirements of IAS 39 concerning hedge accounting. 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 directly in equity (as a hedge reserve under other comprehensive income), including deferred taxes, until such time as the outcome of the hedged transaction has been recorded.

The effective hedge is recycled to the income statement as soon as the hedged transaction affects profit or loss. The ineffective portion of the change in value of the hedging instrument is recognized immediately in the financial result. If, contrary to standard practice at MTU, an instrument does not qualify for hedge accounting, then the change in fair value of the hedging transaction is recognized in the income statement.

5.13. Deferred taxes

Deferred tax assets and liabilities are recognized on temporary differences between the tax bases of assets and liabilities and their carrying amount in the balance sheet ("balance sheet liability method"), and for losses carried 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. The taxation rules in force or officially announced at the balance sheet date are applied when measuring deferred tax assets and liabilities. Deferred tax assets and liabilities are offset, insofar as this meets the requirements of IAS 12.74.

5.14. Pension obligations

Pension provisions are accounted for using the projected unit credit method in accordance with IAS 19 (Employee Benefits). 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. Measurement is based on actuarial reports. Actuarial gains and losses are recognized using the so-called corridor method. This means that they are not recognized in profit or loss until they fall outside a range of 10% (target corridor) of the defined benefit obligation. In this case, they are recognized over the average remaining working lives of the employees participating in the relevant plans. The expense attributable to unwinding the interest on pension obligations is included in the financial result. All other expenses attributable to pension obligations are recorded in the appropriate income statement line items by function.

5.15. 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. For the purposes of measuring provisions involving services to be performed by the group, especially in connection with warranties and costs to complete, all cost components included in inventories are taken into account. Non-current provisions due in more than one year are measured on the basis of their settlement amount, discounted to the balance sheet date. Provisions for part-time early retirement working arrangements and long-service awards are measured on the basis of actuarial reports prepared in accordance with IAS 19.

5.16. Contingent liabilities and contingent assets

Contingencies (contingent liabilities and assets) are potential obligations or assets 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 resulting from past events 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 measure 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.

Contingent assets are not recognized. Disclosure of contingent liabilities is provided in the notes to the consolidated financial statements if an outflow of economic benefits is not improbable. The same applies to contingent assets if an inflow is probable.

5.17. Share-based payment transactions

Share options (share-based payment transactions settled by the issuance of equity instruments) are measured at fair value at the grant date. The fair value of the obligation is recognized during the vesting period as a personnel expense and in equity. Exercise conditions that are not tied to market conditions are included in the assumptions concerning the number of options that are expected to be exercised. If there are modifications during the vesting period, the incremental amount of the fair value corresponding to the services received from the modification date to the date on which the modified equity instrument becomes exercisable is recognized in addition to the amount based on the fair value of the original equity instrument at the grant date, which is recognized throughout the remaining part of the original vesting period. The expenses are recognized over the vesting period. The fair value is obtained using the internationally recognized Black-Scholes pricing model.

5.18. Dividend payment and profit distribution

The claims of shareholders to **dividend payments and profit distribution** are recognized as a liability in the period in which the corresponding resolution is passed.

5.19. Discretionary choice of applied accounting rules and management estimates and judgements

Discretionary choice of applied accounting rules

The drawing-up of consolidated financial statements in accordance with IFRSs requires a certain measure of discretionary decision-making. All discretionary choices are reviewed at frequent intervals and are based on past experience and expected future events which, under the given circumstances, would appear to be appropriate. This is especially the case in the following circumstances:

- Certain contractual obligations require that a decision be made to classify them as contingent liabilities or as financial liabilities.
- Financial assets have to be classified in one of the categories “held-to-maturity investments”, “loans and receivables”, “available-for-sale financial assets” or “financial assets at fair value through profit or loss”.
- When measuring pension provisions and similar obligations, different methods can be applied to determine actuarial gains and losses. The method used by MTU is the so-called corridor method (applying a corridor of 10%).

Management estimates and judgements

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. Actual amounts may deviate from those estimated. 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.

The measurement of property, plant and equipment, intangible assets and financial assets comprising a carrying amount at the end of the financial year of € 1,808.4 million (2007: € 1,689.4 million) involves the use of estimations to determine the fair value at the acquisition date. 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 present 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, present replacement costs, purchase prices paid in comparable transactions, and other general changes providing evidence of impairment.

As a rule, recoverable amounts and fair values are determined using the discounted cash flow method, which includes reasonable assumptions derived from other market players (peer group). The identification of indications of impairment, the estimation of future cash flows and the determination of the fair value of an asset (or a group of assets) require a variety of judgments that management has to make with respect to the identification and verification of signs of impairment, anticipated cash flows, the appropriate discount rate, the relevant useful life, and residual values. In particular, the estimation of cash flows on which the fair values of new engine programs in both the commercial and military engine business are based 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 an impairment loss to reflect the investment's fair value. This could in turn have negative repercussions on operating results.

The determination of the **recoverable** amount for the commercial and military engine business, amounting to € 1,660.0 million (2007: € 1,440.0 million), and commercial MRO, amounting to € 786.0 million (2007: € 907.0 million) involves estimations on the part of management. The recoverable amount is determined using the discounted cash flow method. One of the key sets of assumptions on which management bases its estimation of the recoverable amount thus concerns the cash flows of the cash-generating units. These estimations, including the method used to obtain them, may have a significant impact on the determined recoverable amount and ultimately on the amount of the impairment loss recognized on goodwill.

Management creates **allowances for doubtful accounts** in order to account for estimated losses arising from the insolvency of customers. Management bases its judgment of the appropriateness of allowances for doubtful accounts 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, 2008, impairment losses of € 10.4 million (2007: € 8.4 million) were recognized in respect of trade receivables. If the customer's financial situation should deteriorate, the volume of the allowances that actually 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. The percentage of completion is determined on the basis of the total contract costs. Management regularly reviews all estimates made in connection with these production 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. This information provides an adequately reliable basis on which to estimate the corresponding revenues.

Income taxes have to be estimated for each tax jurisdiction in which the group operates. The current income taxes have to be calculated for each taxable subject, 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. Management judgments come into play in the calculation of current taxes and deferred taxes.

A total of € 1.4 million (2007: € 0.7 million) in deferred tax assets were accounted for at December 31, 2008. 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 period 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 must be written down. Temporary differences which were not recognized as deferred tax assets totaled € 12.3 million for the financial year 2008 (2007: € 11.6 million).

The discount rate is an important factor when determining what provisions must be allocated for pensions and similar obligations. An increase or decrease of one percentage point in the discount rate can lower or raise the amount of pension obligations by approximately € 40 million. Given that actuarial gains and losses are only recognized if they exceed the higher of the amount of total obligations or the fair value of plan assets by 10%, 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 MTU 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., Canada and MTU München Unterstützungskasse GmbH. The existing plan assets are offset against the pension obligations. If the respective plan assets should 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 expense from pension obligations.

The recognition and measurement of other provisions amounting to € 479.4 million (2007: € 498.5 million) and net contingent liabilities amounting to € 140.3 million (2007: € 112.6 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 judgements 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 mainly 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:

Revenues			
in € million	2008	2007	2006
Commercial engine business	1,146.3	1,102.0	993.5
Military engine business	496.6	497.5	489.6
Commercial and military engine business (OEM)	1,642.9	1,599.5	1,483.1
Commercial maintenance business (MRO)	1,113.0	1,004.7	954.7
Consolidation	-31.6	-28.3	-21.6
Total revenues	2,724.3	2,575.9	2,416.2

A more detailed presentation showing external revenues and inter-segment revenues is provided in the section headed "Segment reporting by business segment".

7. Cost of sales

Cost of sales			
in € million	2008	2007	2006
Cost of materials	-1,695.9	-1,629.7	-1,521.3
Personnel expenses	-373.1	-350.2	-384.2
Depreciation and amortization	-146.4	-137.1	-142.9
Other cost of sales	-25.4	-12.5	-15.1
Total cost of sales	-2,240.8	-2,129.5	-2,063.5

Cost of sales includes a reduction of € 1.3 million (2007: an increase of € 7.1 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. Cost of sales also includes impairment losses on intangible assets amounting to € 35.2 million (2007: € 14.7 million). The table below classifies the impairment losses by business segment and asset category:

Classification of impairment loss

in € million	2008			2007			2006		
	OEM	MRO	Total	OEM	MRO	Total	OEM	MRO	Total
The following asset categories and business segments have been affected by impairment loss:									
Intangible assets									
MTU Maintenance Canada Ltd.							0.1		0.1
TP400-D6 engine program							2.4		2.4
Legacy GE engine programs	34.3		34.3						
Legacy military programs	0.9		0.9						
CF34 license					14.7	14.7			
Total intangible assets	35.2		35.2		14.7	14.7	2.4	0.1	2.5
Property, plant and equipment									
MTU Maintenance Canada Ltd.							0.5		0.5
MTU Aero Engines North America Inc.							3.3		3.3
Total property, plant and equipment							3.3	0.5	3.8
Total	35.2		35.2		14.7	14.7	5.7	0.6	6.3

The impairment losses recognized in the 2008 income statement, totaling € 35.2 million, comprise impairment losses on the fair value of old GE engine programs amounting to € 34.3 million and on old military engine programs amounting to € 0.9 million. In each case, the fair value was compared with the recoverable amount. The recoverable amount was found to be below the fair value, and hence an impairment loss was recognized to match the carrying amount to the recoverable amount.

The impairment loss on intangible assets in the financial year 2007, amounting to € 14.7 million, related to the carrying amount of a license for CF34 repair techniques employed in commercial engine maintenance. Comparison of the license's carrying amount with its recoverable amount revealed that the latter was below the carrying amount. Hence an impairment loss of € 14.7 million, representing the full carrying amount of the CF34 license, was recognized in costs of sales and thus reduced the net profit of the commercial maintenance business.

Total impairment losses in the financial year 2006 amounted to € 6.3 million. The impairment loss on property, plant and equipment in the financial year 2006, amounting to € 3.8 million, was necessitated by the fact that the carrying amounts of MTU Maintenance Canada Ltd., Canada, and MTU Aero Engines North America Inc., USA, no longer adequately reflected their respective recoverable amounts. The impairment loss on intangible assets totaling € 2.5 million accounted for in the same year comprised € 0.1 million attributable to MTU Maintenance Canada Ltd., Canada, and € 2.4 million attributable to the investment in the TP400-D6 engine program for the A400M military transporter. In each case the carrying amount no longer adequately reflected the respective recoverable amount. An allocation was also made to provisions.

8. Research and development expenses

Internally generated, company-funded research and development expenditure was expensed or capitalized as follows:

Research and development expenses

in € million	2008	2007	2006
Cost of materials	-36.9	-37.0	-26.3
Personnel expenses	-56.1	-45.9	-48.6
Depreciation and amortization	-8.1	-5.9	-5.7
	-101.1	-88.8	-80.6
Capitalized development costs (OEM)	2.8		
Capitalized development costs (MRO)	3.4	4.3	
Utilization of R&D provision			16.1
Total research and development expenses	-94.9	-84.5	-64.5

Development costs for the GE38 engine program amounting to € 2.8 million, incurred in connection with the risk- and revenue-sharing agreement with the General Electric Company (GE), were capitalized. In addition to these self-created development costs, the cost of development services purchased from GE amounting to € 45.2 million was also capitalized. In total, therefore, capitalized development costs for the GE38 engine program amounted to € 48.0 million. The expenditure on the purchased development services was recognized directly as an intangible asset, and is included in the analysis of changes in intangible assets, property, plant and equipment and financial assets presented in Note 18.

Development costs for special repair techniques for use in engine maintenance, amounting to € 3.4 million, were also capitalized (2007: € 4.3 million), given that they met the recognition criteria for intangible assets according to IAS 38. The research costs were not capitalized.

Consequently, out of the total € 101.1 million (2007: € 88.8 million) company-funded research and development expenditure generated internally, a total of € 6.2 million (2007: € 4.3 million) was recognized as self-created intangible assets. These assets will be amortized over the useful economic life of the corresponding engine program or technology from the time at which it becomes ready for sale or use.

Externally funded development expenditure relates to the military engine business and is accounted for as construction contracts. This expenditure is disclosed under “Contract production receivables” and “Contract production payables” due to the fact that the work is conducted under contract to national and international consortia on a customer-specific basis.

9. Selling expenses

Under the terms of the risk- and revenue-sharing agreement with the General Electric Company (GE), MTU acquired sales and supply rights amounting to € 27.6 million in respect of the GE38 engine program. However, this expenditure does not yet meet the recognition criteria for intangible assets. For this reason, "Other selling expenses" increased from € 14.7 million in 2007 to € 42.0 million in 2008.

Apart from this, selling expenses are mainly comprised of expenses for marketing, advertising and sales personnel, valuation allowances and write-downs on trade accounts receivable.

Selling expenses

in € million	2008	2007	2006
Cost of materials	-10.1	-14.1	-9.7
Personnel expenses	-45.1	-42.5	-46.3
Depreciation and amortization	-3.0	-3.7	-1.8
Other selling expenses	-42.0	-14.7	-13.4
Total selling expenses	-100.2	-75.0	-71.2

10. General administrative expenses

General administrative expenses are expenses incurred in connection with administrative activities unrelated to development, production or sales activities.

General administrative expenses

in € million	2008	2007	2006
Cost of materials	-5.2	-8.2	-4.6
Personnel expenses	-27.1	-26.4	-28.2
Depreciation and amortization	-2.7	-2.9	-1.4
Other administrative expenses	-9.2	-8.3	-11.2
Total general administrative expenses	-44.2	-45.8	-45.4

11. Other operating income and expenses

In 2008, other operating income did not include any government grants (2007: € 0.3 million).

Other operating income and expenses

in € million	2008	2007	2006
Income			
Income from the disposal of property, plant and equipment	4.3	0.8	11.1
Insurance claims	2.9	2.8	2.6
Sundry other operating income	4.5	2.9	2.1
Total other operating income	11.7	6.5	15.8
Expenses			
Losses from the disposal of property, plant and equipment	-3.3	-0.4	-0.9
Insurance claims	-2.7	-2.7	-2.0
Sundry other operating expenses	-1.6	-1.2	-0.7
Total other operating expenses	-7.6	-4.3	-3.6
Result	4.1	2.2	12.2

12. Interest result

The improved interest result in 2008 compared with the financial year 2007 is attributable to the previous year's expense resulting from early repayment of the high yield bond amounting to € 19.1 million.

Interest result

in € million	2008	2007	2006
Interest income	6.4	7.4	27.4
Convertible bond	-8.6	-7.9	
Expense resulting from early repayment of high yield bond		-19.1	
Bank interest	-4.7	-4.8	-28.9
Loan interest		-2.1	-13.6
Finance lease interest expense	-2.2	-2.5	-2.8
Interest expense attributable to non-consolidated companies	-0.6	-0.3	-0.4
Other interest expenses	-1.1	-2.1	-1.6
Interest expenses	-17.2	-38.8	-47.3
Interest result	-10.8	-31.4	-19.9
Thereof: on financial instruments classified according to IAS 39 as:			
Loans and receivables (LaR)	3.6	2.3	0.7
Available-for-sale financial assets (AFS)		0.1	
Financial liabilities measured at amortized cost (FLAC) ¹⁾	-15.0	-35.3	-44.1
Financial instruments not within the scope of IFRS 7 or IAS 39	0.9	4.4	23.2

¹⁾ Interest expense calculated using the effective interest method

The interest income on financial instruments not within the scope of IFRS 7 or IAS 39, amounting to € 0.9 million (2007: € 4.4 million), is attributable to cash and cash equivalents.

13. Profit/loss of companies accounted for using the equity method

Profit/loss of companies accounted for using the equity method comprises the operating loss of the joint venture Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde. The operating loss of €1.0 million (2007: €2.3 million) was a result of the continuing difficult market conditions which were negatively affected by the exchange rate parity between the U.S. dollar and the euro.

Profit/loss of companies accounted for using the equity method

in € million	2008	2007	2006
Profit/loss of companies accounted for using the equity method	-1.0	-2.3	

14. Financial result on other items

The financial result on other items deteriorated in the financial year 2008. The net expense increased by € 8.5 million to € 38.7 million (2007: € 30.2 million). This was attributable to expenses in connection with forward commodity sales contracts for nickel amounting to € 11.7 million (2007: € 9.7 million) and to fair value losses on derivative financial instruments totaling € 1.3 million (2007: fair value gains of € 8.2 million). Further explanatory comments on derivative financial instruments are provided in Note 42. (Risk management and financial derivatives).

Financial result on other items

in € million	2008	2007	2006
Profit/loss of related companies accounted for at cost			
Military program coordination and management companies	0.4	0.4	0.3
Other related companies	1.1	0.9	0.9
Losses on disposal of investments in affiliated companies			-0.3
Total	1.5	1.3	0.9
Effects of currency translation			
Exchange rate gains/losses on currency holdings	-4.8	-14.8	-5.4
Exchange rate gains/losses on financing transactions	1.7	1.7	1.0
Exchange rate gains/losses on finance leases	-1.3	2.0	2.4
Fair value gains/losses on derivatives			
Gains/losses on currency derivatives and interest rate derivatives	-1.3	8.2	7.1
Losses on forward commodity sales contracts	-11.7	-9.7	
Results from other financial instruments	6.5	-1.2	0.3
Interest portion included in measurement of receivables, provisions, liabilities and advance payments from customers	-29.3	-17.7	-19.7
Total	-40.2	-31.5	-14.3
Financial result on other items	-38.7	-30.2	-13.4
Thereof: on financial instruments classified in accordance with IAS 39 as:			
Financial assets at fair value through profit or loss - held for trading (FAHFT)	40.1	17.8	10.2
Financial liabilities at fair value through profit or loss - held for trading (FLHFT)	-51.7	-20.5	-2.5

Financial result on other items groups together the profit/loss of related companies accounted for at cost, totaling € 1.5 million (2007: € 1.3 million) with all other income and expense items, including interest income and expenses on financial instruments classified as “held for trading” in accordance with IAS 39. Interest rate gains or losses from derivative financial instruments (interest rate swaps) accrued with respect to subsequent accounting years are balanced against the corresponding expenses per contract and the net amount is recognized as income or expense. The net interest expense is classified on the basis of the type of underlying transaction.

Effects of currency translation

Exchange rate losses on currency holdings in 2008 amounted to € 4.8 million (2007: € 14.8 million) and are attributable to the unfavorable exchange rate parity between the U.S. dollar and the euro that existed for part of the year. Exchange rate gains/losses on finance leases relate to engines carried as capitalized assets in the MRO segment, which are leased to airlines for the duration of maintenance work on their own engines, permitting the aircraft to continue flight operations. Finance lease liabilities derive from contracts priced in U.S. dollars, which are translated into euros at the exchange rate prevailing on the balance sheet date.

Fair value gains/losses on derivatives

Fair value losses on derivative financial instruments amounting to € 1.3 million (2007: € 8.2 million) and losses on forward commodity sales contracts for nickel amounting to € 11.7 million (2007: € 9.7 million) resulted in a total year-on-year increase in the fair value loss on derivatives of € 11.5 million (2007: € 8.6 million).

The group holds a structured product as a currency hedge that allows a defined quantity of U.S. dollars to be sold at a fixed exchange rate or, if the exchange rate parity between the U.S. dollar and the euro falls below a defined limit, obliges the group to sell. This transaction covers a total future currency swap volume of up to U.S. \$ 240.0 million. Because this product does not form part of a direct hedging relationship, the negative change in its fair value of € 7.5 million (2007: € 1.4 million) was recognized directly in the income statement under "Financial result on other items".

At December 31, 2008, MTU held contractual obligations arising from three interest-rate swaps. One of the interest-rate swaps with a nominal value of € 10.0 million reaches maturity in 2013. Both of the two other interest rate swaps are cross-currency swaps with a total nominal value of U.S. \$ 73.0 million that reach maturity before the end of 2009. The fair value loss on these swap transactions, amounting to € 0.3 million (2007: € 0.0 million), is included in the financial result on other items.

To minimize exposure to rising commodity prices for nickel, at December 31, 2008 MTU had taken out forward commodity sales contracts for nickel with banks for a total of 1,210 metric tons of this essential raw material, covering the period from 2009 to May 2011. These transactions have no designated hedging relationship for accounting purposes. The financial result on other items includes an amount of € 11.7 million (2007: € 9.7 million) for the fair value losses on these forward commodity sales contracts.

Results from other financial instruments

In the period from September 17 to October 31, 2008, MTU repurchased units of its own convertible bond on the market with a total nominal volume of € 27.2 million (approximately 15.1% of the original nominal volume of € 180.0 million at the issue date) prior to their final maturity. Out of the effective amount of the repurchase exercise in September and October 2008, amounting to € 21.9 million, € 20.0 million was allocated to the liabilities component and € 1.9 million to the equity component, net of taxes. The difference between the fair value of the liability component and its value measured at amortized cost, amounting to € 5.0 million (2007: € 0.0 million), was recognized in the income statement under 'Results from other financial instruments' in accordance with IAS 32.AG34. More information on the repurchase transactions for the convertible bond is provided in Note 34. (Financial liabilities).

Interest portion included in measurement of receivables, provisions, liabilities and advance payments from customers

This line of the financial result on other items mainly comprises the reversal of the discount on pension obligations amounting to € -21.7 million (2007: € -19.8 million), expected income from fund-financed and loan-financed plan assets amounting to € 1.8 million (2007: € 1.6 million), and the amortized cost of other provisions and prepayments representing a total expense of € 9.4 million (2007: a total income of € 0.5 million).

15. Income taxes

Income tax expense comprises the following:

Income taxes

in € million	2008	2007	2006
Current tax expense	-46.3	-65.8	-26.5
Deferred tax expense	28.2	40.5	-34.9
Total income taxes	-18.1	-25.3	-61.4

Tax reconciliation

At December 31, 2008 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%. 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 in accordance with the liability method. Based on MTU Aero Engines Holding AG's good earnings in the past and positive earnings forecasts for the future, it is probable that the taxable profit of MTU Aero Engines Holding AG and other group companies will be sufficient to recover recognized deferred tax assets.

The corporation tax rate in Germany for the financial year 2008 was 15% plus a solidarity surcharge of 5.5% on the calculated corporation tax expense, giving an applicable corporation tax rate of 15.8%. Municipal trade tax was levied at 16.8%, resulting in an applicable group tax rate of 32.6%.

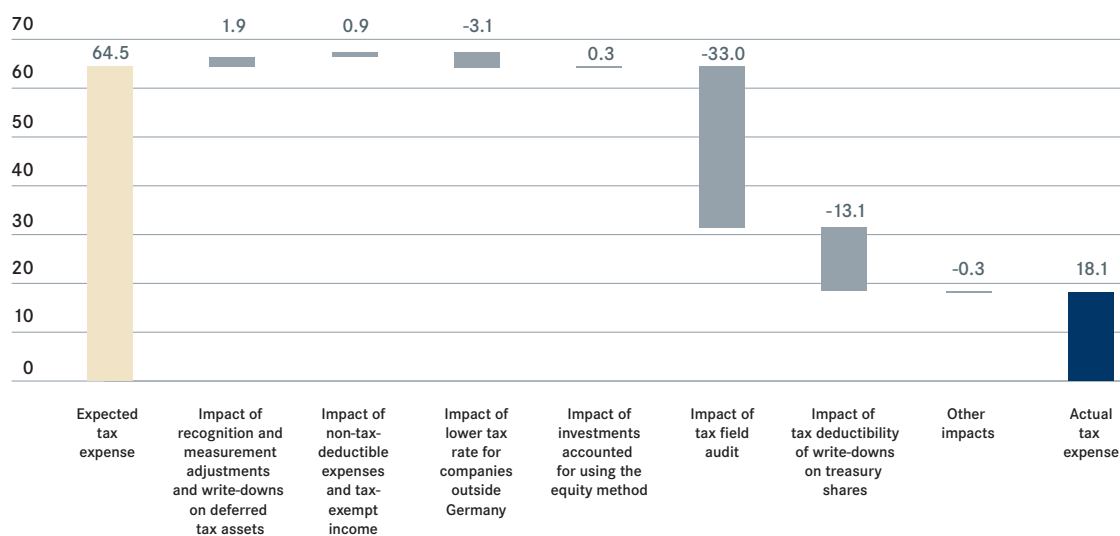
The actual tax expense for the year amounted to € 18.1 million (2007: € 25.3 million). This was € 46.4 million (2007: € 47.2 million) lower than the expected group tax expense of € 64.5 million (2007: € 72.5 million) which would have arisen if the applicable group tax rate had been applied. Overall, the effective group tax rate for the financial year 2008 was 9.2% (2007: 14.1%). Excluding the impact of a tax field audit and before tax reimbursement claims relating to the write-down of treasury shares, the effective group tax rate for 2008 would have been 32.5% or 0.1 percentage point lower than the applicable group tax rate of 32.6%.

Further information relating to the impact of the tax field audit and the deductibility of write-downs on treasury shares is provided below.

Reconciliation of expected tax expense to actual tax expense

in € million	2008	2007	2006
Earnings before tax	197.8	179.4	150.5
Income tax rate (including municipal trade tax)	32.6%	40.4%	40.4%
Expected tax expense	-64.5	-72.5	-60.8
Impact of recognition and measurement adjustments and write-downs on deferred tax assets	-1.9	0.3	-1.6
Impact of non-tax-deductible expenses and tax-exempt income	-0.9	-1.8	1.4
Impact of lower tax rate for companies outside Germany	3.1	2.3	1.3
Impact of investments accounted for using the equity method	-0.3	-0.9	-0.1
Impact of tax field audit	33.0		
Impact of tax deductibility of write-downs on treasury shares	13.1		
Impact of business tax reform in Germany on deferred tax assets and liabilities		46.8	
Other impacts	0.3	0.5	-1.6
Actual tax expense	-18.1	-25.3	-61.4

Reconciliation of expected tax expense to actual tax expense 2008 in € million



Impact of tax field audit

The tax field audit covering the period 2000 to 2003 was completed during the financial year 2008. Since tax pooling arrangements had been in place during that period with the company that is now Daimler AG, the tax audit findings were taken into account in tax assessments at the level of Daimler AG. Due to the contractual terms and conditions agreed by MTU and Daimler AG, the additional tax expense resulting from the tax field audit triggered a retrospective adjustment to the purchase price (originally agreed in 2003) for the MTU group. The purchase price adjustment was recognized as additional goodwill without impact on profit or loss. Further information is provided in Note 19. Most of the tax audit findings relate to items that will result in lower taxable profits in subsequent years. The corresponding reductions in tax expense for the financial years 2004 to 2007 were recognized in 2008 with a positive tax effect of € 33.0 million (2007: € 0.0 million). The tax-relevant result for financial year 2008 is included in income tax expense for that year.

Impact of tax deductibility of write-downs on treasury shares

Unlike for IFRS accounting purposes, treasury shares acquired by MTU Aero Engines Holding AG up to December 31, 2008 are required to be presented for German accounting (HGB) and tax purposes within current assets measured at their average acquisition cost. Such assets are required to be written down to their “fair value” (for HGB purposes) or their “Teilwert” (for tax purposes) if lower at the end of the reporting period. Since MTU Aero Engines Holding AG is classified for tax purposes as a finance company, the write-down on treasury shares reduced taxable profit by € 36.9 million (2007: € 0.0 million). Reference is made to Note 30.6. for further information on the average acquisition cost of treasury shares.

The average acquisition cost of shares sold to group employees in conjunction with the Employee Stock Program (MAP) originally totaled € 8.2 million. The loss of € 3.3 million resulting from the difference between sale proceeds and the original average cost was set off against taxable profit as a tax deductible expense.

The total benefit of the deductibility of write-downs on treasury shares in the financial year 2008 was € 13.1 million (2007: € 0.0 million).

Impact of business tax reform in Germany on deferred tax assets and liabilities

The actual tax expense for the financial year 2007 was reduced by €46.8 million as a result of revaluing cumulative deferred tax and liabilities using the reduced tax rate applicable after enactment of the German Business Tax Reform 2008. After taking account of this impact, the effective group tax rate in 2007 was 14.1%.

The Business Tax Reform 2008 legislation came into force on January 1, 2008. The previous corporation tax rate of 25% was reduced to a uniform rate of 15% for all corporations, irrespective of whether profits are retained or distributed. The basic tax rate for municipal trade tax was reduced from 5.0% to 3.5%, whereby municipal trade tax at that stage ceased to be deductible for corporation tax purposes.

As a result, the combined tax rate for corporation tax and municipal trade tax relevant for the group parent company, MTU Aero Engines Holding AG, Munich, applied up to December 31, 2007, was reduced with effect from January 1, 2008 from 40.4% to 32.6%. Deferred tax liabilities – most of which relate to the acquisition of the business by Kohlberg Kravis Roberts & Co. (KKR), London, from DaimlerChrysler AG on January 1, 2004 – were measured during the financial year 2007 using the expected future uniform group tax rate of 32.6% (applicable rate up to December 31 2007: 40.4%) based on the reduced tax rate valid from January 1, 2008. The overall tax benefit of €46.8 million relating to future reductions in tax expense was recognized in profit in the financial year 2007.

The balance sheet items to which deferred tax assets and liabilities relate are disclosed in Note 39. The carrying amounts of deferred tax assets and liabilities and changes during the period under report are also disclosed in Note 39.

16. Earnings per share

The potential issue of common stock in connection with the convertible bond issue in the financial year 2007 had a dilutive effect on earnings per share in the financial year 2008. There was no similar effect resulting from the potential issue of common shares under the Matching Stock Program (MSP) at the end of the financial year 2008, because the option conditions for the not-yet-exercised tranches had not been met. A description of the exercise conditions for the Matching Stock Program is provided in Note 30.4.

The computation of diluted earnings per share involves adding the maximum number of common shares that could be issued through the exercise of conversion rights to the average weighted number of outstanding shares. At the same time, group earnings are adjusted in respect of the interest expense (net of taxes) on the convertible bond. The table on page 186 shows earnings per share together with the dilutive effect of the potential issue of common stock in connection with the convertible bond.

There was no dilutive effect from the employee Matching Stock Program (MSP) on earnings per share in the financial year 2008, since prerequisites for the exercise of tranches still remaining were not fulfilled.

In the period from September 17 to October 31, 2008, MTU repurchased units of its own convertible bond from the market with a total nominal volume of € 27.2 million (approximately 15.1% of the original nominal volume of € 180.0 million) prior to their final maturity. The total repurchase price 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 reduced the number of common shares entering into the calculation of undiluted earnings per share to 3,086,869 (2007: 3,636,364 shares). The interest expense of € 8.6 million (2007: € 7.9 million) has been reduced by the amount of interest that would otherwise have had to be paid on the repurchased units of the convertible bond at the time of acquisition. More information on the repurchase of the convertible bond and its accounting treatment is provided in Note 34.

In the financial year 2007, the potential issue of common shares under the Matching Stock Program (MSP) launched on June 6, 2005 had a further dilutive effect on earnings per share, in addition to that of the potential issue of common stock in connection with the convertible bond issue.

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 Matching Stock Program for 2007, the year in which the convertible bond was issued.

The dilutive effect in the financial year 2006 was due solely to the Matching Stock Program (MSP), given that the convertible bond was not issued until the following year.

Undiluted and diluted earnings per share 2008

	Jan. 1 to Dec. 31, 2008	Reconciliation of financial instruments			Jan. 1 to Dec. 31, 2008
	Undiluted earnings per share	Interest expense convertible bond/shares	Current and deferred taxes	Matching Stock Program/ shares	Diluted earnings per share
Net profit in € million	179.7	8.6	-2.8		185.5
Weighted average number of outstanding shares (shares)	49,353,648	3,086,869		n/a	52,440,517
Earnings per share in €	3.64				3.54

Undiluted and diluted earnings per share 2007

	Jan. 1 to Dec. 31, 2007	Reconciliation of financial instruments			Jan. 1 to Dec. 31, 2007
	Undiluted earnings per share	Interest expense convertible bond/shares	Current and deferred taxes	Matching Stock Program/ shares	Diluted earnings per share
Net profit in € million	154.1	7.9	-3.2		158.8
Weighted average number of outstanding shares (shares)	52,295,450	3,636,364		106,826	56,038,640
Earnings per share in €	2.95				2.83

Undiluted and diluted earnings per share 2006

	Jan. 1 to Dec. 31, 2006	Reconciliation of financial instruments			Jan. 1 to Dec. 31, 2006
	Undiluted earnings per share	Interest expense convertible bond/shares	Current and deferred taxes	Matching Stock Program/ shares	Diluted earnings per share
Net profit in € million	89.1				89.1
Weighted average number of outstanding shares (shares)	54,216,897			165,851	54,382,748
Earnings per share in €	1.64				1.64

17. Additional disclosures relating to the consolidated income statement

17.1. Reconciliation of EBIT to EBITDA adjusted, depreciation / amortization expense, and non-recurring items

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 depreciation/amortization and impairment losses, the following intermediate results are obtained:

Reconciliation of EBIT to EBITDA adjusted, depreciation/amortization expense, and non-recurring items

in € million	2008	2007	2006
Earnings before interest and tax (EBIT)	248.3	243.3	183.8
Scheduled depreciation/amortization of:			
Intangible assets			
Current amortization	8.6	9.7	12.7
Acquisition-related amortization expense (PPA)	40.1	42.5	42.6
Property, plant and equipment			
Current depreciation	68.9	70.6	67.8
Acquisition-related depreciation expense (PPA)	7.4	12.1	22.4
Total scheduled depreciation/amortization	125.0	134.9	145.5
Impairment losses on:			
Intangible assets	35.2	14.7	2.5
Property, plant and equipment			3.8
Total impairment loss	35.2	14.7	6.3
Total depreciation/amortization and impairment loss	160.2	149.6	151.8
EBITDA¹⁾	408.5	392.9	335.6
Utilization of R&D provision			-16.1
Capitalized development costs	-2.8		
Restructuring expenses			20.0
Allocation to contingent liabilities			-10.8
Sale of land			-10.5
EBITDA adjusted	405.7	392.9	318.2

¹⁾ Earnings before interest, tax, depreciation and amortization

The impairment losses recognized in 2008, totaling € 35.2 million, relate to the carrying amounts of legacy GE engine programs amounting to € 34.3 million and of old military engine programs amounting to € 0.9 million. In each case, the fair value was compared with the recoverable amount. The recoverable amount was found to be below the fair value, and hence an impairment loss was recognized to match the carrying amount to the recoverable amount.

The impairment loss on intangible assets in the financial year 2007, amounting to € 14.7 million, related to the carrying amount of a license for CF34 repair techniques employed in commercial engine maintenance. Comparison of the license's carrying amount with its recoverable amount revealed that the latter was below the carrying amount. Hence an impairment loss of € 14.7 million, representing the full carrying amount of the CF34 license, was recognized in costs of sales and thus reduced the net profit of the commercial maintenance business.

The impairment loss on property, plant and equipment in the financial year 2006, amounting to € 3.8 million, was necessitated by the fact that the carrying amounts of MTU Maintenance Canada Ltd., Canada, and MTU Aero Engines North America Inc., USA, no longer adequately reflected their respective recoverable amounts. The impairment loss on intangible assets totaling € 2.5 million accounted for in the same year was mainly attributable to the investment in the TP400-D6 engine program for the A400M military transporter.

The amount of € 2.8 million (2007: € 0.0 million) for capitalized development costs in the engine business relates to the GE38 engine program for the Sikorsky CH-53K heavy-lift helicopter and has been adjusted to permit comparison with the previous years' data. The company-funded development costs for special repair techniques were not adjusted when they were recognized and capitalized for the first time in 2007. Consequently, the amount of € 3.4 million (2007: € 4.3 million) presented in Note 8. to the 2008 consolidated financial statements under capitalized development costs (MRO), relating to internally generated development costs for special repair techniques, has not been adjusted in the financial year 2008 either.

17.2. Personnel expenses

Costs by function include the following personnel expenses items:

Personnel expenses

in € million	2008	2007	2006
Wages and salaries	408.9	400.1	425.1
Social security, pension and other benefit expenses	94.3	70.8	99.7
Total personnel expenses	503.2	470.9	524.8

Pension benefits account for € 27.9 million (2007: € 4.7 million) of these expenses. The employer's share of social security contributions, which is recognized as an expense, amounted to € 66.4 million (2007: € 66.1 million).

The interest portion of the expense attributable to pension expenses and income arising from the plan assets are recognized under "Financial result on other items".

17.3. Disclosures relating to the average number of employees

The average number of persons employed during the financial year 2008, broken down into groups, is as follows:

Average number of employees

	2008	2007	2006
Industrial staff	3,227	3,148	3,113
Administrative staff	3,205	3,165	3,206
Employees on temporary contracts	349	335	228
Trainees	281	254	270
Students on work experience projects	201	190	186
Total average number of employees	7,263	7,092	7,003

17.4. Cost of materials

Costs by function include the following cost of materials items:

Cost of materials

in € million	2008	2007	2006
Cost of raw materials and supplies	918.3	892.7	800.5
Cost of purchased services	847.7	799.0	762.2
Total cost of materials	1,766.0	1,691.7	1,562.7

17.5. Fees paid to the auditor

The expense attributable to fees paid in the financial year 2008 to the accounting firm Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft for the auditing of the consolidated financial statements pursuant to Section 314 (1) no. 9 of the German Commercial Code (HGB) amounted to € 1.1 million (2007: € 1.0 million).

The expense item "Audit of financial statements" comprises all fees paid to the external group auditor for the auditing of the financial statements of MTU Aero Engines Holding AG, the consolidated financial statements, and the financial statements drawn up by the relevant group subsidiaries.

Fees paid to the auditor

in € million	2008	2007	2006
Audit of financial statements	0.6	0.7	0.5
Tax consulting	0.4	0.3	0.3
Other certification or evaluation services	0.1		0.1
Total fees paid to the auditor	1.1	1.0	0.9

III. Notes to the Consolidated Balance Sheet

18. Analysis of changes in intangible assets, property, plant and equipment, and financial assets 2008

Analysis of changes in assets (1) – Cost of acquisition or construction

in € million	Cost of acquisition or construction						Dec. 31, 2008
	Jan. 1, 2008	Translation differences	Additions	Transfers	Disposals	Changes in group reporting entity	
Program assets	710.7		126.1				836.8
Program-independent technologies	124.7						124.7
Customer relations	65.7	1.2					66.9
Rights and licenses	62.3	0.3	1.3	27.0	-11.6		79.3
Goodwill	391.5	1.7	15.0				408.2
Development costs	4.3		51.4				55.7
Intangible assets	1,359.2	3.2	193.8	27.0	-11.6		1,571.6
Land, leasehold rights and buildings, including buildings on non-owned land	329.0	1.3	2.6	1.4	-0.2		334.1
Technical equipment, plant and machinery	311.8	1.0	14.7	17.5	-4.4		340.6
Other equipment, operational and office equipment	209.2	0.7	22.8	7.0	-14.9		224.8
Advance payments and construction in progress	70.5	-2.1	59.8	-52.9			75.3
Property, plant and equipment	920.5	0.9	99.9	-27.0	-19.5		974.8
Investments in subsidiaries	5.3					-5.3	
Investments in associated companies	0.4						0.4
Equity investments in joint ventures	8.9				-1.0		7.9
Other equity investments	0.1						0.1
Other loans							
Financial assets¹⁾	14.7				-1.0	-5.3	8.4
Total assets	2,294.4	4.1	293.7		-32.1	-5.3	2,554.8

1) Insofar as they are accounted for using the equity method or at cost

Analysis of changes in assets (2) – Depreciation/amortization and carrying amount

in € million	Depreciation/amortization					Carrying amount	
	Jan. 1, 2008	Translation differences	Additions	Transfers	Disposals	Dec. 31, 2008	Dec. 31, 2008
Program assets	101.8		62.3			164.1	672.7
Program-independent technologies	49.9		12.4			62.3	62.4
Customer relations	20.2	0.2	2.8			23.2	43.7
Rights and licenses	52.3		6.3		-11.6	47.0	32.3
Goodwill							408.2
Development costs			0.1			0.1	55.6
Intangible assets	224.2	0.2	83.9		-11.6	296.7	1,274.9
Land, leasehold rights and buildings, including buildings on non-owned land	39.2	0.2	9.7			49.1	285.0
Technical equipment, plant and machinery	205.7	0.8	36.6	0.1	-2.6	240.6	100.0
Other equipment, operational and office equipment	135.6	0.6	30.0	0.2	-6.4	160.0	64.8
Advance payments and construction in progress	0.3			-0.3			75.3
Property, plant and equipment	380.8	1.6	76.3		-9.0	449.7	525.1
Investments in subsidiaries							
Investments in associated companies							0.4
Equity investments in joint ventures							7.9
Other equity investments							0.1
Other loans							
Financial assets¹⁾							8.4
Total assets	605.0	1.8	160.2		-20.6	746.4	1,808.4

1) 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 2007

Analysis of changes in assets (1) – Cost of acquisition or production

in € million	Cost of acquisition or production					Dec. 31, 2007
	Jan. 1, 2007	Translation differences	Additions	Transfers	Disposals	
Program assets	701.6		9.1			710.7
Program-independent technologies	124.7					124.7
Customer relations	66.1	-0.4				65.7
Rights and licenses	64.4	-1.0	0.9	0.2	-2.2	62.3
Goodwill	392.5	-1.0				391.5
Development costs			4.3			4.3
Intangible assets	1,349.3	-2.4	14.3	0.2	-2.2	1,359.2
Land, leasehold rights and buildings, including buildings on non-owned land	325.8	-0.6	1.2	3.5	-0.9	329.0
Technical equipment, plant and machinery	293.9	-0.6	10.0	11.2	-2.7	311.8
Other equipment, operational and office equipment	181.5	-0.4	25.7	5.3	-2.9	209.2
Advance payments and construction in progress	41.2	-0.1	49.6	-20.2		70.5
Property, plant and equipment	842.4	-1.7	86.5	-0.2	-6.5	920.5
Investments in subsidiaries	0.1		5.3		-0.1	5.3
Investments in associated companies	0.4					0.4
Equity investments in joint ventures	11.5				-2.6	8.9
Other equity investments	0.1					0.1
Other loans	0.1				-0.1	
Financial assets¹⁾	12.2		5.3		-2.8	14.7
Total assets	2,203.9	-4.1	106.1		-11.5	2,294.4

1) Insofar as they are accounted for using the equity method or at cost

Analysis of changes in assets (2) – Depreciation/amortization and carrying amount

in € million	Depreciation/amortization					Carrying amount	
	Jan. 1, 2007	Translation differences	Additions	Transfers	Disposals	Dec. 31, 2007	Dec. 31, 2007
Program assets	75.3		26.5			101.8	608.9
Program-independent technologies	37.4		12.5			49.9	74.8
Customer relations	15.1		5.1			20.2	45.5
Rights and licenses	32.0	-0.3	22.8		-2.2	52.3	10.0
Goodwill							391.5
Development costs							4.3
Intangible assets	159.8	-0.3	66.9		-2.2	224.2	1,135.0
Land, leasehold rights and buildings, including buildings on non-owned land	29.7	-0.1	9.8	0.4	-0.6	39.2	289.8
Technical equipment, plant and machinery	169.0	-0.5	39.4	0.1	-2.3	205.7	106.1
Other equipment, operational and office equipment	105.0	-0.3	33.5		-2.6	135.6	73.6
Advance payments and construction in progress	0.9	-0.1		-0.5		0.3	70.2
Property, plant and equipment	304.6	-1.0	82.7		-5.5	380.8	539.7
Investments in subsidiaries							5.3
Investments in associated companies							0.4
Equity investments in joint ventures							8.9
Other equity investments							0.1
Other loans							
Financial assets¹⁾							14.7
Total assets	464.4	-1.3	149.6		-7.7	605.0	1,689.4

1) 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 2006

Analysis of changes in assets (1) – Cost of acquisition or construction

in € million	Cost of acquisition or construction					Dec. 31, 2006
	Jan. 1, 2006	Translation differences	Additions	Transfers	Disposals	
Program assets	667.1		34.5			701.6
Program-independent technologies	124.7					124.7
Customer relations	66.9	-0.8				66.1
Rights and licenses	62.7	-1.4	2.6	1.8	-1.3	64.4
Goodwill	394.0	-1.5				392.5
Intangible assets	1,315.4	-3.7	37.1	1.8	-1.3	1,349.3
Land, leasehold rights and buildings, included buildings on non-owned land	327.7	-1.1	6.2	0.5	-7.5	325.8
Technical equipment, plant and machinery	269.5	-1.9	17.3	12.4	-3.4	293.9
Other equipment, operational and office equipment	152.7	-0.9	27.4	5.9	-3.6	181.5
Advance payments and construction in progress	35.9	-0.2	26.1	-20.6		41.2
Property, plant and equipment	785.8	-4.1	77.0	-1.8	-14.5	842.4
Investments in subsidiaries	0.5				-0.4	0.1
Investments in associated companies	0.4					0.4
Equity investments in joint ventures	13.7				-2.2	11.5
Other equity investments	0.1					0.1
Other loans	0.1					0.1
Financial assets¹⁾	14.8				-2.6	12.2
Total assets	2,116.0	-7.8	114.1		-18.4	2,203.9

1) Insofar as they are accounted for using the equity method or at cost

Analysis of changes in assets (2) – Depreciation/amortization and carrying amount

in € million	Depreciation/amortization				Carrying amount	
	Jan. 1, 2006	Translation differences	Additions	Disposals	Dec. 31, 2006	Dec. 31, 2006
Program assets	47.2		28.1		75.3	626.3
Program-independent technologies	24.9		12.5		37.4	87.3
Customer relations	9.9		5.2		15.1	51.0
Rights and licenses	21.6	-0.4	12.0	-1.2	32.0	32.4
Goodwill						392.5
Intangible assets	103.6	-0.4	57.8	-1.2	159.8	1,189.5
Land, leasehold rights and buildings, including buildings on non-owned land	20.0	-0.3	10.0		29.7	296.1
Technical equipment, plant and machinery	123.1	-0.7	49.4	-2.8	169.0	124.9
Other equipment, operational and office equipment	73.9	-0.6	33.7	-2.0	105.0	76.5
Advance payments and construction in progress			0.9		0.9	40.3
Property, plant and equipment	217.0	-1.6	94.0	-4.8	304.6	537.8
Investments in subsidiaries						0.1
Investments in associated companies						0.4
Equity investments in joint ventures						11.5
Other equity investments						0.1
Other loans						0.1
Financial assets¹⁾						12.2
Total assets	320.6	-2.0	151.8	-6.0	464.4	1,739.5

1) Insofar as they are accounted for using the equity method or at cost

19. Intangible assets

Intangible assets mainly comprise program assets capitalized by purchase price allocation (PPA), program-independent technologies and software (the latter mostly for engineering applications), and acquired goodwill.

Program assets

Through the cooperation agreement dated December 19, 2008 between the General Electric Company and MTU Aero Engines GmbH, MTU acquired a 6.65% stake in the GEnx (General Electric next generation) engine program for the Boeing 787 and 747-8. The investment in this new engine program amounting to € 126.1 million has been recognized under program assets.

Rights and licenses

The new software and logistics system introduced at the Hannover site to optimize production-related processes and reduce manufacturing costs went into productive operation in January 2008. This permitted cumulated expenditure amounting to € 27.0 million to be transferred to the item "Rights and licenses". The disposals amounting to a total of € 11.6 million relate to a multitude of no-longer-used software packages dating from 2004.

Goodwill

Goodwill represents the amount by which the cost of the acquired entity exceeded the fair value of the group's identifiable net assets at the date of acquisition. The goodwill is allocated to the segments for the purpose of the impairment test. The tax field audit covering the period up to the date of MTU's acquisition from DaimlerChrysler AG (since renamed) was completed during the financial year 2008. The resulting retrospective purchase price adjustment led to an increase of € 15.0 million in goodwill. The segments were tested for impairment in 2008. There were no indications of any impairment. Explanatory comments on the measurement of the amounts used in the impairment test are provided in Note 40.

Development costs

Additions to intangible assets in the financial year 2008 included development costs attributable to MTU's share in the GE38 military engine program for the Sikorsky Aircraft Corporation's CH-53K heavy-lift helicopter amounting to € 45.2 million. Internally generated development costs for the same program amounting to € 2.8 million were also capitalized.

Finally, the commercial maintenance business has developed special repair processes capable of increasing the efficiency of engine maintenance. The recognition criteria for these new technologies were met in the financial year 2008, allowing intangible assets totaling € 3.4 million (2007: € 4.3 million) to be recognized.

A detailed presentation of changes in intangible assets can be found in the table headed "Analysis of changes in intangible assets, property, plant and equipment, and financial assets" (Note 18.).

20. Property, plant and equipment

Through its capital expenditure on property, plant and equipment for the OEM business, 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.

Land, leasehold rights and buildings, including buildings on non-owned land

Land and buildings leased by MTU Maintenance Hannover from Silkan Gewerbepark Nord Hannover-Langenhagen GmbH & Co. KG, Munich (owned by the LHI leasing company) have been capitalized because an attractive purchase option has been granted to the company at the end of the leasing period.

Technical equipment, plant and machinery

Capital expenditure on technical equipment, plant and machinery amounted to a total of € 14.7 million (2007: € 10.0 million). Newly purchased items include a welding system, a combined laser drilling and ablation system, an ultrasonic shot peening system, a tool-grinding machine, a wet-blasting plant, a wire-erosion machining plant, a vacuum furnace and a number of CNC grinding and milling machines.

Five leased engines and one gas turbine are furthermore recognized in the item "Property, plant and equipment". For these assets, the company is required to make an additional payment at the end of the leasing period if the proceeds from the disposal of the lease assets are lower than the carrying amount. The liabilities arising from all lease assets are recognized at the present value of the minimum lease payments and amortized on a yearly basis.

Advance payments and construction in progress

Additions to this item in 2008, totaling € 59.8 million (2007: € 49.6 million), comprise € 21.6 million for unfinished construction work on the manufacturing facilities of MTU Aero Engines Polska Sp. z.o.o., Rzeszów, Poland, € 24.7 million relating to work in progress on technical equipment, plant and machinery for new engine programs at the German sites, and € 13.5 million relating to construction costs for the new engine test rig in Hannover, which is expected to be completed by March 2009. The existing test cell in Langenhagen had reached its capacity limit and offered no possibility for expansion. Work on the construction of the new engine test rig commenced in March 2007. The new facility will enable the company to test very large engines such as those powering the Airbus A380 (GP7000). The originally planned date for the test rig's entry into service, which was mid-2008, has been delayed by almost a year due to technical problems originating with the supplier of the test rig.

A detailed presentation of changes in property, plant and equipment can be found in the table headed "Analysis of changes in intangible assets, property, plant and equipment, and financial assets" (Note 18.).

Finance lease assets are accounted as follows:

Minimum lease payments for finance lease properties

in € million	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Total future minimum lease payments			
due within one year	8.7	9.3	2.6
due between one and five years	10.1	18.0	26.3
due later than five years	20.5	22.3	31.1
	39.3	49.6	60.0
Interest portion of future minimum lease payments			
due within one year	0.4	1.0	0.1
due between one and five years	1.8	2.4	3.0
due later than five years	3.1	4.5	8.4
	5.3	7.9	11.5
Present value of future minimum lease payments			
due within one year	8.3	8.3	2.5
due between one and five years	8.3	15.6	23.3
due later than five years	17.4	17.8	22.7
	34.0	41.7	48.5

The following carrying amounts resulted from the capitalized assets under finance lease agreements at the balance sheet date:

Carrying amounts

in € million	Carrying amount Dec. 31, 2008	Carrying amount Dec. 31, 2007	Carrying amount Dec. 31, 2006
Land and buildings	26.0	26.9	27.7
Technical equipment, machines and other plant Operational and office equipment	6.1	10.9	14.1
Total carrying amount	32.1	37.8	41.8

A more detailed presentation of the property, plant and equipment items stated in the balance sheet and the corresponding changes in 2008 can be found in the table headed "Analysis of changes in intangible assets, property, plant and equipment, and financial assets" (Note 18.).

21. Financial assets

The table below presents the carrying amounts of financial assets included in the consolidated financial statements:

Composition of financial assets

in € million	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Financial assets accounted for using the equity method	3.6	4.6	7.2
Joint ventures accounted for at cost	4.3	4.3	4.3
Financial assets accounted for at cost	0.5	5.8	0.7
Subtotal	8.4	14.7	12.2
Financial assets measured at fair value	11.8	35.8	26.4
Total	20.2	50.5	38.6

The financial asset accounted for using the equity method is the joint venture Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde. The joint ventures and other financial assets accounted for at cost mainly comprise non-significant investments in non-consolidated subsidiaries, non-consolidated equity investments in associated companies, and other non-consolidated equity investments in joint ventures. MTU defines non-consolidated subsidiaries as companies that have no significant impact on the group's net assets, financial situation or operating results.

The following amounts have been recognized in respect of the assets, debt, income and expenses of other joint ventures and associated companies:

Income and financial statements of other joint ventures and associated companies

in € million	Joint ventures 2008 ¹⁾	Associated companies 2008 ²⁾	Joint ventures 2007 ³⁾	Associated companies 2007 ⁴⁾	Joint ventures 2006 ⁵⁾	Associated companies 2006 ⁶⁾
Disclosures relating to the income statement						
Income	131.1	895.5	163.8	918.4	182.8	997.6
Expenses	-132.6	-894.1	-168.8	-916.9	-182.3	-996.5
Result	-1.5	1.4	-5.0	1.5	0.5	1.1
Disclosures relating to the balance sheet						
Non-current assets	19.5	2.7	15.5	2.4	13.5	1.8
Current assets	47.9	183.5	31.6	195.0	37.4	159.9
Total	67.4	186.2	47.1	197.4	50.9	161.7
Equity	6.1	2.9	7.4	2.9	12.7	2.4
Non-current debt	8.2	11.9	3.6	3.2	3.1	1.3
Current debt	53.1	171.4	36.1	191.3	35.1	158.0
Total	67.4	186.2	47.1	197.4	50.9	161.7

¹⁾ The disclosures for the joint ventures Ceramic Coating Center S.A.S and Airfoil Services Sdn. Bhd. relate to 2007, as the actuals for 2008 were not available at the time of reporting.

²⁾ Data for financial year 2007, as the actuals for 2008 were not available at the time of reporting.

³⁾ The disclosures for the joint ventures Ceramic Coating Center S.A.S and Airfoil Services Sdn. Bhd. relate to 2006, as the actuals for 2007 were not available at the time of reporting.

⁴⁾ Data for financial year 2006, as the actuals for 2007 were not available at the time of reporting.

⁵⁾ The disclosures for the joint ventures Ceramic Coating Center S.A.S and Airfoil Services Sdn. Bhd. relate to 2005, as the actuals for 2006 were not available at the time of reporting.

⁶⁾ Data for financial year 2005, as the actuals for 2006 were not available at the time of reporting.

The financial assets measured at fair value relate to derivative financial instruments utilized as cash flow hedges, and comprise the following items:

Financial assets

in € million	Dec. 31, 2008			Dec. 31, 2007			Dec. 31, 2006		
	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total
Fair value of derivatives									
Forward foreign exchange contracts	1.3	2.9	4.2	24.3	2.1	26.4	18.7	7.5	26.2
Interest rate derivatives	0.5		0.5		0.2	0.2		0.2	0.2
Forward commodity sales contracts		0.1	0.1						
Currency options	2.2	4.8	7.0	9.2		9.2			
Total	4.0	7.8	11.8	33.5	2.3	35.8	18.7	7.7	26.4

Derivative financial assets include forward foreign exchange contracts and currency options used to hedge cash flows are measured at their fair value. The fair value of currency options mainly consists of premiums for currency option transactions. This type of transaction enables MTU to sell a defined quantity of U.S. dollars at agreed euro exchange rates on a range of different dates. Further explanatory comments on derivative financial instruments are provided in Note 42. (Risk management and financial derivatives).

22. Inventories

Inventories are recognized at the lower of cost or net realizable value. Acquisition costs of inventories comprise the purchase price, customs charges and other taxes, transportation and administrative costs, and other miscellaneous costs directly attributable to the purchase of finished products, materials and services.

Construction costs of work in progress comprise direct costs of raw materials and supplies, wages for industrial staff, as well as fixed and variable overheads (based on normal utilization of production capacity). Acquisition and construction costs do not include any borrowing costs. Acquisition costs are net of trade discounts and concessions and customer loyalty awards.

Inventories

in € million	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Raw materials and supplies	311.5	263.9	230.2
Work in progress	322.2	314.5	295.3
Advance payments	27.7	9.4	3.5
Total inventories	661.4	587.8	529.0

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	2008	2007	2006
Balance at January 1	39.1	32.0	36.7
Allocated/utilized (-)	-1.3	7.1	-4.7
Balance at December 31	37.8	39.1	32.0

The recognized inventories amounting to € 661.4 million at December 31, 2008 (2007: € 587.8 million) are measured at their net realizable value after write-downs on raw materials and supplies and work in progress. The write-down method represents the best possible means of estimating the net realizable value of inventories held by MTU, in view of the group's business model. Write-downs on inventories recognized in the financial year 2008 in order to account for their net realizable value were reduced by a utilization amount of € 1.3 million (2007: increased by an allocation amount of € 7.1 million).

23. Trade receivables

Trade receivables comprise the following items:

Trade receivables

in € million	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Third parties	415.9	440.8	345.1
Associated companies	41.5	54.5	51.1
Joint ventures	3.0	3.9	3.8
Total	460.4	499.2	400.0

The valuation allowances on trade receivables changed as follows:

Valuation allowances

in € million	2008	2007	2006
Valuation allowances at January 1	8.4	7.6	7.0
Additions (expense for allowances)			
Specific allowances	2.3	2.6	2.5
General allowances	0.6	0.9	1.1
Utilized	-0.7	-2.5	-2.1
Reversed	-0.2	-0.2	-0.9
Valuation allowances at December 31.	10.4	8.4	7.6

In the following table, the expense for bad debts on trade receivables written off as uncollectible is offset against the income from bad debts recovered:

Expense for bad debts on trade receivables written off as uncollectible

in € million	2008	2007	2006
Expense for bad debts written off	-0.6	-0.3	-0.2
Income from bad debts recovered			0.4
Total	-0.6	-0.3	0.2

All expense and income amounts arising from valuation allowances and the write-off of uncollectible bad debts on trade receivables are recognized as selling expenses.

24. Contract production receivables

These receivables relate to construction contracts with specific customers in respect of specific engine programs. Interest-free advance payments received for production contracts directly attributable to an engine project are offset against the corresponding accounts receivable. If the amount of the directly attributable advance payments received exceeds the amount of the accounts receivable, the balance is recognized under contract production payables. The interest accrued on long-term advance financing of production contracts is accounted for as a liability over the duration of financing and recognized as revenue when the engine component is delivered to the customer.

Contract production receivables

in € million	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Accounts receivable for production contracts	386.2	367.5	266.0
offset against:			
Advance payments received	-247.3	-196.4	-126.2
Net contract production receivables	138.9	171.1	139.8

In the financial year 2008, revenues totaling € 18.3 million were generated by contract production (2007: € 116.6 million). Contract-related costs to be offset against these revenues amounted to € 12.2 million (2007: € 101.1 million), resulting in contract production earnings of € 6.1 million (2007: € 15.5 million). The amount of € 386.2 million for contract receivables at December 31, 2008 (2007: € 367.5 million) includes advance payments received amounting to € 247.3 million (2007: € 196.4 million). Retained amounts for partial settlement of contract production receivables did not arise in 2008. Note 5.8. provides more detailed information on the accounting treatment, and more particularly on the methods used to determine the revenues to be recognized in respect of ongoing contract production projects and their percentage of completion.

For disclosures relating to contract production receivables that have been offset against directly attributable advance payments received, please refer to Note 36.

The table below shows the carrying amounts of trade and contract production receivables at the balance sheet date together with a breakdown of these amounts according to the impairment status of not-yet-overdue trade and contract production receivables and the time windows within which they will become overdue:

Impairment status and due dates of trade and contract production receivables

in € million	Carrying amount	Thereof: neither impaired nor overdue at the balance sheet date		Thereof: not impaired at the balance sheet date and overdue in the following time windows				Total: not impaired but overdue	
		in %	in %	Less than 90 days	Between 90 and 180 days	Between 181 and 360 days	More than 360 days	in %	in %
Dec. 31, 2008									
Trade and contract production receivables	846.6	708.7	83.7	96.5	14.1	16.7	2.5	129.8	15.3
Dec. 31, 2007									
Trade and contract production receivables	866.7	716.4	82.7	110.5	22.6	17.2	2.0	152.3	17.6
Dec. 31, 2006									
Trade and contract production receivables	666.0	540.3	81.1	95.2	20.5	6.9	4.7	127.3	19.1

25. Other assets

Other assets comprise the following items:

Other assets

in € million	Dec. 31, 2008			Dec. 31, 2007			Dec. 31, 2006		
	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total
Other taxes	26.6		26.6	14.3		14.3	12.0		12.0
Receivable from employees	0.5		0.5	1.1		1.1	1.3		1.3
Receivable from suppliers	4.3		4.3	3.2		3.2	4.6		4.6
Sundry other assets	4.2	4.0	8.2	4.0	3.9	7.9	4.0	4.1	8.1
Total	35.6	4.0	39.6	22.6	3.9	26.5	21.9	4.1	26.0

The item "Other taxes" amounting to € 26.6 million (2007: € 14.3 million) comprises an amount of € 23.3 million (2007: € 13.5 million) relating to input taxes and an amount of € 3.3 million (2007: € 0.8 million) relating to receivables of foreign group companies due to transaction taxes.

The item "Sundry other assets" amounting to € 8.2 million (2007: € 7.9 million) groups together a variety of different assets. These include the surplus plan assets of MTU Maintenance Canada Ltd., Canada, amounting to € 1.9 million (2007: € 1.0 million). Please refer to Note 31. for further information on the calculation of the surplus plan assets.

The table below shows the carrying amounts of other assets at the balance sheet date together with a breakdown of these amounts according to the impairment status of not-yet-overdue other assets and the time windows within which they will become overdue:

Other assets

in € million	Carrying amount	Thereof: neither impaired nor overdue at the balance sheet date			Thereof: not impaired at the balance sheet date an overdue in the following time windows			Total: not impaired but overdue	
			in %		Less than 90 days	Between 90 and 180 days	Between 181 and 360 days	More than 360 days	in %
Dec. 31, 2008									
Due within 1 year									
Loans and receivables (LaR)	9.0	8.3	92.2		0.7			0.7	7.8
Due in more than 1 year									
Loans and receivables (LaR)	4.0	4.0	100.0						
Dec. 31, 2007									
Due within 1 year									
Loans and receivables (LaR)	8.3	7.3	88.0	1.0				1.0	12.0
Due in more than 1 year									
Loans and receivables (LaR)	3.9	3.9	100.0						
Dec. 31, 2006									
Due within 1 year									
Loans and receivables (LaR)	9.9	8.6	86.9	1.3				1.3	13.1
Due in more than 1 year									
Loans and receivables (LaR)	4.1	4.1	100.0						

26. Cash and cash equivalents

The cash and cash equivalents of € 69.9 million (2007: € 67.3 million) comprise checks, cash in hand, and bank deposits with an original maturity of three months or less. At the balance sheet date, this item also included foreign currency holdings translated at an amount of € 37.3 million (2007: € 77.8 million).

27. Income tax claims

Income tax claims amounting to € 1.0 million (2007: € 2.7 million) relate to claimed reimbursements of corporation tax and municipal trade tax predating the incorporation of the company amounting to € 1.0 million (2007: € 1.0 million). The figure for 2007 additionally includes an amount of € 1.5 million relating to capital gains tax and an amount of € 0.2 million relating to foreign taxes.

28. Deferred taxes

Please refer to Note 39. for explanatory comments concerning income tax assets and liabilities.

29. Prepayments

The prepayments of € 3.3 million (2007: € 5.0 million) consist primarily of prepayments for insurance premiums and rents.

30. Equity

Changes in group equity are set out in the consolidated statement of changes in equity.

30.1. Subscribed capital

Capital reduction due to withdrawal of shares

The company's capital stock amounts to € 52.0 million (2007: € 55.0 million), divided into 52 million (2007: 55 million) registered non-par shares. At the Annual General Meeting on April 27, 2007, the Board of Management was 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 withdraw part of all of the purchased treasury shares. By a resolution of the Board of Management and the Supervisory Board with effect of March 18, 2008, this authorization was exercised to withdraw 3,000,000 shares and to reduce the company's stock capital by € 3.0 million from € 55.0 million to € 52.0 million.

30.2. Authorized capital

Authorized capital I

The Board of Management is authorized until May 29, 2010 to increase the company's capital stock, with the prior approval of the Supervisory Board, by up to € 5.5 million by issuing, either in a single step or in several steps, new registered shares in return for cash contributions, whereby the subscription rights of existing shareholders may be excluded (Authorized Capital I 2005).

Authorized capital II

The Board of Management is also authorized until May 29, 2010 to increase the company's capital stock, with the prior approval of the Supervisory Board, by up to € 19.25 million by issuing, either in a single step or in several steps, new registered shares in return for cash and/or non-cash contributions, whereby the subscription rights of existing shareholders may be excluded (Authorized Capital II 2005).

30.3. Conditional capital increase

The company's capital stock may be increased by up to € 19.25 million through the issue of up to 19.25 million new registered 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. Use was made of this authorization for a conditional capital increase on January

23, 2007 to issue a convertible bond with a total volume of € 180.0 million (see Note 34.). The conditional capital increase is implemented only to the extent that owners or creditors of conversion rights or warrants attached to convertible bonds and/or bonds with warrants issued between May 30, 2005 and May 29, 2010 by the company or one of its direct or indirect affiliates make use of their conversion rights or warrants on the basis of a resolution passed by an extraordinary shareholders' meeting, or that owners or creditors of conversion obligations attached to convertible bonds issued by the company or one of its direct or indirect affiliates between May 30, 2005 and May 29, 2010 satisfy their conversion obligation on the basis of a resolution passed by an extraordinary shareholders' meeting, and to the extent that treasury shares are not used for this purpose. Shares issued under these conditions are entitled to participate in the distribution of profits starting in the financial year in which the conversion rights or warrants were exercised or the conversion obligations were satisfied.

30.4. 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 Matching Stock Program (MSP) and an amount of € 3.3 million representing the excess over the sale proceeds from the shares sold under the MAP employee stock option program. The purchase price for the 3,000,000 withdrawn treasury shares, based on averages, amounted to € 104.4 million. Capital reserves were accordingly reduced by the amount of the premium, € 101.4 million. 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 34. The following section provides disclosures relating to the Matching Stock Program (MSP) and the MAP employee stock option program, including information on measurement and effects.

Matching Stock Program (MSP)

To strengthen the motivation to meet business targets, the group has set up an incentive and risk-sharing instrument allowing management-level employees to participate in its share capital as part of a Matching Stock Program (MSP), which authorizes the subscription of phantom stocks. On the date of subscription to the MSP, participants must have an existing employment contract with MTU Aero Engines Holding AG or a German company in the MTU group.

When the program was launched on June 6, 2005, the group granted a defined quantity of equity instruments (phantom stock) 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. As a rule, MSP shares are not subject to any restraints on disposal. MSP shares entitle the holder to participate in dividend and subscription rights.

Each tranche of allocated phantom stock is subject to a vesting period of 2 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 Aero Engines Holding AG. The shares are purchased at the market price on the strike date (exercise date). They must be held for 2 years after the strike date.

Exercise conditions

A tranche of phantom stock allocated under the Matching Stock Program can be exercised when the average, non-weighted closing price of the shares in XETRA trading on the Frankfurt Stock Exchange over the 60 trading days prior to the exercise date of the phantom stocks exceeds the average, non-weighted closing price of the shares over the 60 trading days prior to the allocation of the phantom stock plus a premium of 10% (basis price). The allocation of phantom stock is tied to the condition that the subscriber is an employee of the company.

New rules for determining the exercise price (repricing)

If the group pays a dividend to its shareholders during the period between the allocation and exercise of a tranche of phantom stock, it is entitled to reduce the basis price (exercise price) for a tranche of the Matching Stock Program by the amount of dividend paid during the duration of the tranche. The reduction in the basis price correspondingly increases the gain on the exercise. The Board of Management and Supervisory Board invoked this option for all not yet exercisable tranches of the Matching Stock Program through a resolution passed on May 23, 2007. As a consequence of this change, a new basis price for the respective tranches – reduced by the amount of the dividend – was determined (repricing).

Accounting policy (measurement)

The fair value of the phantom stock is carried as a personnel expense on a pro rata basis and simultaneously recognized in equity (capital reserves) up to the stock's maturity (exercise date). The total expense to be recorded over the period to the exercise date is calculated from the fair value of the granted shares of phantom stock. Equity increased as planned through additions arising from the measurement of the Matching Stock Program and the additional personnel expenses arising from the adjusted fair value of the not yet exercisable tranches based on the modified exercise price.

To account for the modification of the basis price (repricing), the original planning assumptions were adjusted in May 2007. After adjustment, the following program duration assumptions were applied:

Program duration assumptions

	2008	2007 ¹⁾	2006
Stock price change p.a.	10.0%	10.0%	6.5%
Expected dividend increase p.a.	5.0%	5.0%	n/a
Expected volatility	23.0%	23.0%	20.0%
Duration of each tranche	2 years	2 years	2 years
Risk-free interest rate per tranche	4.0 - 4.4%	4.0 - 4.4%	2.1 - 3.4%
Fluctuation rate	4.0%	4.0%	4.0%

¹⁾ amended contractual terms in force (repricing 2007)

When the program was launched in June 2005, the expected volatility was determined from the average volatility of shares in comparable listed (peer-group) companies with similar business models, given that MTU did not yet have any capital market history of its own at that time. When the new basis prices were established in May 2007, the expected volatility was adjusted on the basis of the meanwhile available MTU capital market data.

Changes in valuations for **non-market-related exercise thresholds** (such as significant fluctuation in personnel) are considered in the assumptions relating to the expected number of exercisable shares of phantom stock. In the event that there is significant deviation between the exercise conditions assumed at the start of the program and those existing at the end of a financial year, these conditions are adjusted so that the fair value is based on the number of ultimately exercisable equity instruments. At each balance sheet date, the company reviews the estimate of the number of shares of phantom stock through to the end of the respective exercise period for an allocated tranche for which it is likely that these could be exercised. The impact of any changes to original estimates is taken into account in the income statement and via a corresponding adjustment to equity for the remaining period until they become non-forfeitable. No more changes in valuation are made after the strike date. No changes in valuation were made up to December 31, 2008.

Changes in market conditions such as variations in share price performance and price volatility, on the other hand, do not lead to a different fair value.

If a **new basis price (exercise price)** is determined during the vesting period, an adjustment must be made to account for the difference arising in the period from the modification date to the date on which the stock becomes exercisable, in addition to the expense that was originally recorded on the basis of the fair value of the phantom stock and allocated proportionately over the full program duration. The reduction in the previously determined basis price of the allocated tranches in the financial year 2007 led to an increase in personnel expenses over those recognizable under the original conditions, reflecting the higher gain on the exercise. This additional expense is recognized from the date of repricing onward.

The additional expense is calculated on the basis of the higher gain on the exercise (difference between the average, non-weighted closing price of the shares over the 60 trading days prior to the exercise date and the original basis price less the dividend payment) for the not yet exercisable tranches of phantom stock. The additional expense resulting from repricing increased personnel expenses in the financial year 2007 by € 1.2 million. In the financial year 2008, an amount of € 0.5 million (2007: € 0.9 million) was recognized in personnel expenses.

Changes in phantom stock

The second tranche of phantom stock granted in 2006 was unable to be exercised and lapsed because the average exercise price (basis price) of € 28.89 was not reached. The actual exercise price on the exercise date for the phantom stock was € 27.40. In the financial year 2008, a further 399,966 shares of phantom stock with a vesting period running until June 5, 2010 were allocated to participants of the Matching Stock Program upon allocation of the fourth tranche.

The table below shows the changes in granted equity instruments and the number of not yet exercisable shares of phantom stocks at December 31, 2008.

Phantom stocks

	Dec. 31, 2008		Dec. 31, 2007		Dec. 31, 2006	
	Number of phantom stocks	Fair value in € ¹⁾	Number of phantom stocks	Fair value in € ¹⁾	Number of phantom stocks	Fair value in € ¹⁾
At the beginning of the year						
Phantom stocks granted	1,483,488		2,094,690		2,180,130	
Change during the year						
Phantom stocks granted	194,220		71,424		150,216	
Phantom stocks forfeited	-117,120		-260,952		-235,656	
Phantom stocks exercised			-421,674			
Phantom stocks lapsed	-406,380					
At the end of the year:						
Phantom stocks not yet exercisable	1,154,208	3.30	1,483,488	3.40	2,094,690	2.32

¹⁾ Weighted average fair value of the tranches granted for the period 2005-2009 (taking into account the new rules for determining the exercise price, applicable for the first time in 2007)

The 1,154,208 phantom stocks not yet exercisable at the end of the financial year 2008 relate to the third and fourth tranches of the Matching Stock Program, which were allocated in 2007 and 2008 respectively. The corridor of average exercise prices for the third tranche allocated in 2007 ranges between € 46.00 and € 46.50, depending on the dividend payment for the financial year 2008. Assuming that the dividend payment for the financial year 2009 remains the same as that in 2007 and 2008, the corridor for the fourth tranche allocated in 2008 ranges between € 28.00 and € 28.50. Deviations from the forecast corridors of exercise prices for the third and fourth tranches are possible, however, given that a tranche has a duration of two years and therefore a dividend payment has had to be estimated for each year of this period. At December 31, 2008, the weighted average remaining duration of contracts under the Matching Stock Program was 1.5 years (December 31, 2007: 2 years). No exercise price or corridor of possible exercise prices has yet been determined for the fifth and final tranche of the Matching Stock Program, to be allocated in the financial year 2009, because these prices are calculated on the basis of the average closing share price (in XETRA trading) 60 trading days prior to the allocation date.

In 2008, the average fair value of a granted equity instrument, after application of the new rules for determining the exercise price, was € 3.30 (2007: € 3.40) and was calculated for the remaining duration of the program using the Black-Scholes pricing method. The repricing in the financial year 2007 had less effect on tranches three to five of the Matching Stock Program than it did on tranches one and two, which were either shortly before the allocation date or shortly before the exercise date when the repricing took effect. The fair value of a phantom stock thus decreased by € 0.10 to € 3.30.

MAP employee stock option program

In the second quarter of 2008, the Board of Management of MTU Aero Engines Holding AG (MTU) launched the new MAP employee stock option program for group employees, which will run for two years until June 2010. Staff of all categories (paid under collective bargaining agreements and freely negotiated contracts) who are employed, paid and deployed by the group in Germany are eligible to join the program. The purchase price for the registered shares of MTU Aero Engines Holding AG is based on the lowest share price on April 18, 2008 (purchase date) and therefore amounted to € 25.19 per share. Under the MAP employee stock option program, MTU offers to “match” each participant’s investment at the end of a two-year vesting period. In other words, at the end of the program, each MAP participant will receive a taxable cash payment of an amount corresponding to 50% of the amount he or she invested in MTU shares at the beginning of the program. The benefit of this “matching” payment is classified without exception as income, on which the applicable taxes and social security contributions must be paid. Instead of receiving the net matching payment in cash, MAP participants have the option of converting it into MTU shares. In this case, the purchase price is based on the closing price of the MTU share in XETRA trading on the first trading day after the two-year vesting period.

Employees purchased a total of 192,959 shares at a price of € 25.19 per share from MTU under the terms of the employee stock option program. The disposal value of the shares distributed to employees was measured, using the first-in-first-out (FIFO) method, at a total value of € 8.2 million, or an average value per share of € 42.28. The proceeds of the sale of shares to employees amounted to € 4.9 million, making it necessary to reduce the capital reserve by the difference, which amounted to € 3.3 million (2007: € 0.0 million).

30.5. Revenue reserves

Revenue reserves comprise the post-acquisition and non-distributed earnings of consolidated group companies. Revenue reserves increased during the year by 69.5% to € 325.3 million (2007: € 191.9 million). They were increased in 2008 by the amount of the net profit for the year of € 179.7 million (2007: € 154.1 million) and were reduced by the payment of the dividend for the financial year 2007 amounting to € 46.3 million (financial year 2006: € 43.6 million).

30.6. Treasury shares

Purchase of treasury shares in 2008 in accordance with authorizations granted by the Annual General Meeting

The Board of Management of MTU Aero Engines Holding AG is authorized to buy back shares in accordance with the authorizations mentioned below. 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.

Share buyback in accordance with authorization granted on April 27, 2007

At the MTU Annual General Meeting on April 27, 2007, the Board of Management was authorized to purchase treasury shares with a par value of up to 10% of the company’s capital stock, as applicable on the date of the resolution, and, without any requirement for a further resolution by the Annual General Meeting, withdraw the purchased treasury shares. This authorization was valid until October 27, 2008. In the period up to March 18, 2008, the Board of Management exercised this authorization to purchase a total of 5,369,663 shares (9.8% of the company’s capital stock prior to the capital reduction on March 18, 2008).

Share buyback in accordance with authorization granted on April 30, 2008

At the MTU Annual General Meeting on April 30, 2008, the Board of Management was authorized to purchase treasury shares with a par value of up to 10% of the company's capital stock, as applicable on the date of the resolution, during the period from May 2, 2008 through October 30, 2009, pursuant to Section 71 (1) item 8 of the German Stock Corporation Act (AktG). After the capital reduction in which 3,000,000 shares were withdrawn, the Board of Management exercised the authorization granted on April 30, 2008 to buy back further 1,164,963 shares during the period from May 2, 2008 to December 31, 2008.

Development of share buyback exercise

Treasury shares purchased up to December 31, 2008

Exercising the authorizations it had been granted to purchase and use treasury shares pursuant to Section 71 (1) item 8 of the German Stock Corporation Act (AktG), the Board of Management bought back a total of 6,534,626 shares on the stock exchange for a total price of € 217.8 million up to December 31, 2008. Averaged over the total quantity of shares purchased from the time the buyback exercise started in the financial year 2006 up to the end of the financial year 2008, the average acquisition cost amounted to € 33.33 per share.

The total amount of each year's expenditure on the purchase of treasury shares is recognized directly in equity in the item "Treasury shares" in the respective year of purchase. More information on the balance of treasury shares at December 31, 2008, and on changes in treasury shares and subscribed capital, is provided elsewhere in this Note.

Treasury shares purchased in the financial year

In 2008, the company purchased a total of 2,151,604 treasury shares (2007: 2,732,139 shares) for a total price of € 56.4 million (2007: € 118.7 million). The average acquisition cost amounted to € 26.19 per share (2007: € 43.46 per share).

The shares were purchased in order to meet contractual obligations attached to the convertible bond issue and in order to issue shares to group employees under the Matching Stock Program (MSP).

Shares issued as part of employee stock option programs

Matching Stock Program (MSP)

Out of the total volume of purchased shares, 112,612 shares were issued to members of the Board of Management and other executive managers in connection with the first tranche of the Matching Stock Program (MSP) in the financial year 2007.

MAP employee stock option program

A total of 192,959 shares were sold to group employees in May 2008 for a total price of € 4.9 million (€ 25.19 per share) under the MAP employee stock option program. The average original acquisition cost of the shares sold to group employees under the MAP program amounted to € 8.2 million, which was deducted from the equity item "Treasury shares". The difference between the proceeds of the sale and the original acquisition cost amounted to a total of € 3.3 million and was added to capital reserves. More details are provided in the consolidated statement of changes in equity and in Note 30.4. (Capital reserves).

Capital reduction due to withdrawal of shares

As a result of the resolution by the Board of Management and the Supervisory Board dated March 18, 2008 to reduce the company's capital stock by withdrawing 3,000,000 shares, MTU's holding of treasury shares was reduced to 3,229,055 shares at December 31, 2008. The amount presented in the "Treasury shares" of the consolidated statement of changes in equity reflects the reduction attributable to the acquisition cost of the purchased treasury shares. The transaction costs incurred in connection with the purchase of treasury shares – net of the attributable income tax benefits – were deducted from equity. Recognition of the average acquisition cost of the withdrawn shares led to an increase in the item "Treasury shares" in the consolidated statement of changes in equity of € 104.4 million (2007: € 0.0 million).

The table below shows the change in the share buyback volume, the number of shares issued to employees under the stock option programs, the holding of treasury shares and the amount of subscribed capital:

Change in holding of treasury shares and subscribed capital

in number of shares	Share buyback	Issue of shares to employees	Holding of treasury shares	Amount of subscribed capital
Subscribed capital				55,000,000
Changes:				
Financial year 2006	-1,650,883		-1,650,883	
Financial year 2007				
Share buyback	-2,732,139		-2,732,139	
Matching Stock Program (MSP) / June 2007		112,612	112,612	
Financial year 2008 (January 1 to March 18)	-986,641		-986,641	
Status prior to withdrawal	-5,369,663	112,612	-5,257,051	
Capital reduction due to withdrawal of shares on March 18, 2008			3,000,000	-3,000,000
Status after withdrawal (March 18, 2008)	-5,369,663	112,612	-2,257,051	52,000,000
Financial year 2008 (March 19 to December 31)				
Share buyback (between May 2 and December 31, 2008)	-1,164,963		-1,164,963	
MAP employee stock program / June 2008		192,959	192,959	
Share buyback / Shares issued to employees				
Treasury shares and subscribed capital (December 31, 2008)	-6,534,626	305,571	-3,229,055	52,000,000

Out of the total of 6,534,626 treasury shares purchased by the group, 112,612 shares were issued to employees under the Matching Stock Program in June 2007, given that the agreed exercise conditions for the first tranche allocated in June 2005 had been met or exceeded.

By a resolution of the Board of Management and the Supervisory Board with effect of March 18, 2008, the decision was taken to reduce the company's capital stock by withdrawing 3,000,000 shares. This reduced the capital stock by € 3.0 million.

A further 192,959 shares were sold to group employees in May 2008 under the new MAP employee stock option program. The sale of treasury shares is reported in a separate line of the consolidated statement of changes in equity.

Reconciliation of average weighted number of outstanding shares

At December 31, 2008, MTU's holding of treasury shares – after the issue of shares in connection with Matching Stock Program (MSP), the sale of treasury shares in connection with the MAP employee stock option program, and the withdrawal of shares in connection with the capital reduction – amounted to 3,229,055 (2007: 4,270,410) shares. This represents 6.2% of the company's capital stock (2007: 7.8% of the capital stock prior to the capital reduction).

		2008	
Number of shares	Balance at beginning of month	Buyback / issue MSP / withdrawal / MAP	Balance at end of month
Balance at January 1	50,729,590	-4,270,410	
Purchase and issue of shares			
January	50,729,590	-337,168	50,392,422
February	50,392,422	-237,796	50,154,626
March	50,154,626	-411,677	49,742,949
April	49,742,949		49,742,949
May	49,742,949	-227,303	49,515,646
June	49,515,646	-322,211	49,193,435
June (exercise of MSP / MAP) ¹⁾	49,193,435	192,959	49,386,394
July	49,386,394	-327,333	49,059,061
August	49,059,061	-38,116	49,020,945
September	49,020,945	-105,000	48,915,945
October	48,915,945	-145,000	48,770,945
November	48,770,945		48,770,945
December	48,770,945		48,770,945
Buyback / issue MSP¹⁾ / MAP¹⁾		-6,229,055	
Shares withdrawn		3,000,000	
Balance of treasury shares at December 31		-3,229,055	
Weighted average at December 31			49,353,648

¹⁾ Includes the issue of 112,612 shares to employees under the Matching Stock Program (MSP) in June 2007 and the issue of 192,959 shares to group employees under the MAP employee stock program in June 2008

As a result of the share buyback exercise, the average weighted number of outstanding shares in 2008 amounted to 49,353,648 shares (2007: 52,295,450). At December 31, 2008, a total of 48,770,945 MTU Aero Engines Holding AG shares (2007: 50,729,590 shares), each with a par value of one euro, were in issue and entitled to receive a dividend.

The table below shows the change in the number of bought-back shares, the number of shares issued in June 2008 to group employees under the MAP employee stock option program, the balance at the beginning and end of each month, and the average number of outstanding shares:

	2007			2006	
Balance at beginning of month	Buyback/ issue MSP/ withdrawal/MAP	Balance at end of month	Balance at beginning of month	Buyback/ issue MSP/ withdrawal/MAP	Balance at end of month
53,349,117	-1,650,883		55,000,000		55,000,000
53,349,117		53,349,117	55,000,000		55,000,000
53,349,117	-73,020	53,276,097	55,000,000		55,000,000
53,276,097	-101,258	53,174,839	55,000,000		55,000,000
53,174,839		53,174,839	55,000,000		55,000,000
53,174,839	-78,000	53,096,839	55,000,000	-170,130	54,829,870
53,096,839	-216,477	52,880,362	54,829,870	-570,463	54,259,407
52,880,362	112,612	52,992,974	54,259,407		54,259,407
52,992,974	-347,246	52,645,728	54,259,407	-238,916	54,020,491
52,645,728	-916,992	51,728,736	54,020,491	-270,496	53,749,995
51,728,736	-250,460	51,478,276	53,749,995	-235,110	53,514,885
51,478,276	-314,504	51,163,772	53,514,885		53,514,885
51,163,772	-429,182	50,734,590	53,514,885	-150,768	53,364,117
50,734,590	-5,000	50,729,590	53,364,117	-15,000	53,349,117
	-4,270,410			-1,650,883	
	-4,270,410			-1,650,883	
		52,295,450			54,216,897

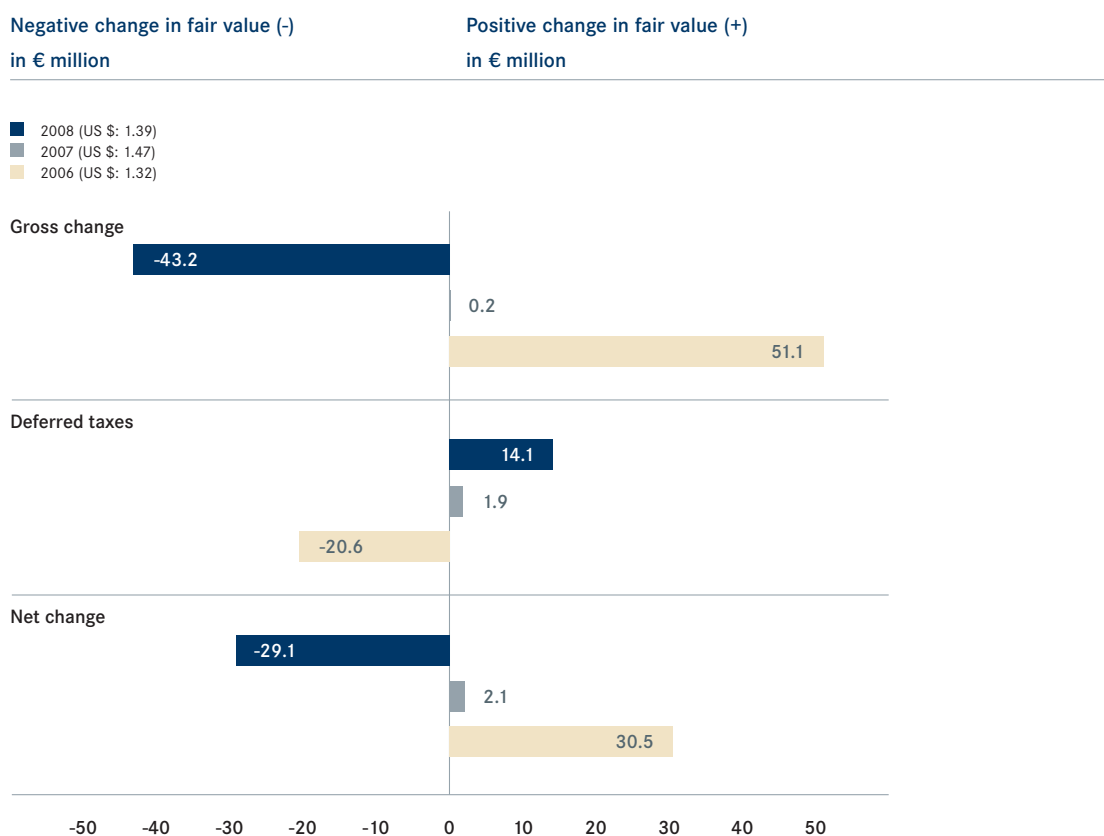
30.7. Other comprehensive income (OCI)

In 2008, other comprehensive income was reduced overall by € 25.7 million to a negative balance of € 14.3 million (2007: a positive balance of € 11.4 million), principally as a result of fair value losses on derivative financial instruments.

Other comprehensive income comprises effects arising from fair value measurement of derivative financial instruments in 2008, which were recognized directly in equity, amounting to total losses of € 29.1 million (2007: total gains of € 2.1 million), and differences arising from the currency translation of the financial statements of foreign subsidiaries, which were also recognized directly in equity, resulting in an addition of € 3.4 million (2007: a reduction of € 3.6 million). The change in derivative financial instruments includes deferred tax assets recognized directly in equity amounting to € 14.1 million (2007: € 1.9 million).

Changes in the fair value of derivative financial instruments recognized under other comprehensive income (OCI)

The following chart illustrates the gross changes in cash flow hedges together with the changes in the deferred tax assets and liabilities recognized under other comprehensive income (OCI) and the net changes (net of taxes) in cash flow hedges over the past three years. Changes in the fair value of cash flow hedges net of deferred taxes are presented in the consolidated statement of changes in equity under other comprehensive income.



In 2008, the gross fair value of the cash flow hedges recognized under other comprehensive income (before tax) decreased by a total of € 43.2 million (2007: increased by € 0.2 million). After offsetting deferred tax assets amounting to € 14.1 million (2007: € 1.9 million), the net change in the fair value of these cash flow hedges amounted to a reduction of € 29.1 million (2007: an increase of € 2.1 million).

Consequently, the fair value of derivative financial instruments recognized directly in equity under other comprehensive income (OCI) at December 31, 2008 decreased to a net liability of € 17.1 million (2007: a net asset of € 26.1 million). The balance of deferred tax assets and liabilities attributable to the cash flow hedges at the end of 2008 thus amounted to an asset of € 5.6 million (2007: a liability of € 8.5 million). Note 39. provides more information on the deferred tax assets and liabilities recognized in other comprehensive income.

30.8. 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.

One of the goals pursued by MTU in connection with capital management is to keep a strong credit rating with the institutional rating agencies. In addition to a range of non-financial factors, credit ratings are based on a variety of performance indicators including equity ratio, profitability, liquidity and relative indebtedness.

MTU makes every effort to keep its corporate credit rating within a desirable band. At present, MTU's long-term credit rating with Standard & Poor's is BB+ (outlook stable) and Ba1 with Moody's (outlook stable).

Consequently, the group's capital management activities are focused on optimizing the ratio between EBITDA adjusted and gross financial liabilities (financial liabilities plus pension obligations), the ratio between equity and net financial liabilities (gross financial liabilities less pension obligations, derivative financial receivables, cash and cash equivalents) and improving the equity ratio.

The figures for gross interest-bearing financial liabilities, net financial liabilities, and equity at December 31, 2008 are presented in the following table:

Capital management

in € million	Change 2008 - 2007	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Financial liabilities	9.9	336.4	326.5	338.8
Carrying amount of pension obligations	13.6	390.2	376.6	394.9
Gross financial liabilities	23.5	726.6	703.1	733.7
Carrying amount of pension obligations	-13.6	-390.2	-376.6	-394.9
Cash and cash equivalents	-2.6	-69.9	-67.3	-102.2
Derivative financial receivables	24.0	-11.8	-35.8	-26.4
Net financial liabilities	31.3	254.7	223.4	210.2
Ratio of gross financial liabilities to EBITDA adjusted		1.8	1.8	2.3
Equity	55.4	617.4	562.0	562.3
Equity ratio in %	1.1	19.3	18.2	18.8
Gearing (ratio of net financial liabilities to equity) in %	1.5	41.3	39.8	37.4

The ratio of gross interest-bearing financial liabilities to EBITDA adjusted has remained unchanged. Financial liabilities (before the addition of pension obligations) principally comprised liabilities in connection with the convertible bond issue amounting to € 145.4 million (2007: € 167.3 million) and the utilized part of the revolving credit facility amounting to € 61.2 million (2007: € 69.6 million). The convertible bond issued in 2007 has a maturity of five years with a fixed interest rate of 2.75% per annum. The effective interest rate on the liability component of the convertible bond is 5.425% per annum. The quantity of shares required to meet contractual obligations in respect of conversion rights for the convertible bond had already been repurchased on the market at the end of 2008 (see Note 30.6.).

Equity increased by € 55.4 million (9.9%) to € 617.4 million. The equity ratio increased by 1.1 percentage points to 19.3% (2007: 18.2%). Gearing deteriorated slightly despite the increase in equity, as a result of the increase of € 31.3 million (14.0%) in net financial liabilities due to changes in the fair value of derivative financial instruments.

31. 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 fulfil commitments to current and former employees. These benefits are financed primarily by provisions recognized in the financial statements.

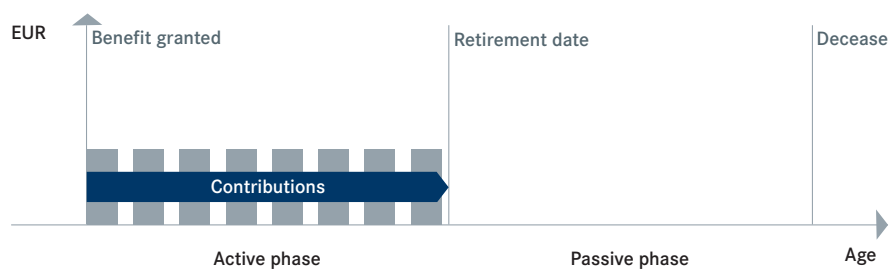
In some cases, it is difficult to differentiate between defined contribution and defined benefit plans. In Germany, for example, a minimum level of benefits is guaranteed for defined contribution plans, such that, even when the plan is organized via an external fund or insurance company, it is still the employer that remains liable (the so-called “ultimate liability of employer” pursuant to § 1 (1) sentence 3 of the German Law on Retirement Pensions). Technically therefore, it could be argued that these forms of pension plans represent defined benefit plans. For financial reporting purposes, however, the term “defined benefit plans” is required to be interpreted on the basis of the underlying economic substance of the arrangements. Having given consideration to IFRIC D 9 Interpretation (Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions), which has not yet been formally approved, MTU currently considers that plans such as those that exist within the MTU group (i.e. organized via an insurance company or via an external welfare fund fully covered by insurance contracts) represent defined contribution plans both from a legal point of view and in terms of the underlying economic substance of the arrangements. A provision would only be required to be recognized by MTU in the event of a shortfall, i.e. if the present value of the guaranteed benefits or minimum benefits were not covered by the assets of the external fund. In the unlikely case that this should happen or if the IFRIC should change its interpretation with respect to the classification of the type of plan existing within the MTU group, this could result in changes in accounting treatment. From today’s perspective, the impact would not be material for the net assets, financial position and results of operations of the MTU group. It could, however, result in a considerably greater scope of disclosures in accordance with IAS 19.120 ff.

31.1. Defined contribution plans

Employees in Germany receive benefits from the state social insurance scheme, contributions for which are paid in to the scheme as part of an employee’s income. From January 1, 2007 onwards, contributions for employees who have joined the company since that date, have been paid by MTU to a company-sponsored external fund. This type of fund – in MTU’s case a welfare fund – is a separate legal entity with its own “tied” assets to pay benefits. The benefits owed by the welfare fund are protected against insolvency. Other plans that exist within the MTU group are direct insurance contracts (funded by employee contributions) and benefits granted by MTU Unterstützungskasse München GmbH. Since no further liability arises for the group once the contributions have been paid to either the state or private retirement fund, these plans are treated as defined contribution plans. Current contributions are recognized as an expense in the period for which the payments are made.

Employer’s contributions to the state pension scheme in the financial year 2008 totaled € 32.0 million (2007: € 31.9 million). In addition, contributions of € 0.6 million (2007: € 0.2 million) were made to the company-sponsored welfare fund (fully funded via insurance contracts).

Defined contribution plan



31.2. Defined benefit plans

The provision for defined benefit plans recognized in the balance sheet corresponds to the fair value of the benefits payable for current and past service (the defined benefit obligation) – taking account of future increases in benefits – less the fair value of plan assets and adjusted for cumulative unrecognized actuarial gains and losses. The defined benefit obligation is computed annually by an independent actuary using the projected unit credit method. Extensive actuarial reviews and computations are carried out annually for each pension plan.

Actuarial gains or losses can result from increases or decreases either in the present value of the defined benefit obligation 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.

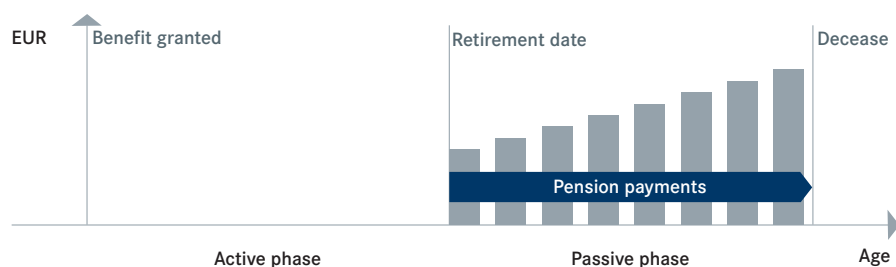
Cumulative actuarial gains and losses are not recognized unless they exceed 10% of the present value of the defined benefit obligation or 10% of the fair value of relevant plan assets, whichever is higher. Actuarial gains or losses that exceed the 10% corridor are recognized from the beginning of the following financial year as income or expense over the expected average remaining working lives of the employees in the relevant pension plan.

The pension obligations of MTU Aero Engines Holding AG and other group companies in Germany 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. With effect from the beginning of 2007, no new direct pension benefits have been granted to new employees (closed defined benefit plans). The group has a number of fund-financed pension plans outside Germany which are either fully or partially covered by plan assets.

MTU's defined benefit pension obligations to its employees result from the following: the employer financed "Versorgungsordnung VO97" pension plan (in place until December 31, 2005); the "MTU kapitalPlus (Basiskonto)" pension plan introduced with effect from January 1, 2006 and the "Pension Capital (Basiskonto)" pension plan.

In addition to the basic pension, MTU employees also have the option to accumulate their own individual employee-funded capital account (the "Pension Capital Aufbaukonto"). As part of the reorganization of the pension system, the voluntary scheme "Versorgungskapital zur Wahl" self-financed by employees was replaced with effect from January 1, 2008 by the new "MTU kapitalPlus Aufbaukonto" without any impact on profit or loss. The obligation to finance the pension entitlements remains with MTU. For this reason, pension plans involving the accumulation of funds in capital accounts are treated as defined benefit plans.

Defined benefit plan



The funding status of defined benefit pension obligations is as follows:

Present value and funding status of defined benefit pension obligations

in € million	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Present value of pension obligations that are neither fund-financed nor loan-financed	396.5	383.3	447.7
Present value of fund-financed pension obligations	15.7	20.2	19.5
Present value of loan-financed pension obligations	22.0	20.4	n/a
Defined benefit pension obligations	434.2	423.9	467.2

The following actuarial assumptions were applied for the purposes of measuring pension obligations:

Actuarial assumptions: Germany

in %	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Interest rate for accounting purposes	5.75	5.25	4.50
Expected return on plan assets ¹⁾	n/a	n/a	n/a
Salary trend	3.0	2.5	2.5
Pension trend	2.1	1.75	1.75

¹⁾ relates to one variable-interest loan subject to the three-month Euribor rate plus 50 basis points per year (see text headed "Loan-financed plan assets")

Actuarial assumptions: Other countries

in %	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Interest rate for accounting purposes	6.25	5.25	5.00
Expected return on plan assets	7.25	7.25	7.25
Salary trend	3.0	3.0	3.0
Pension trend	2.5	2.5	2.5

The market yields on high-quality corporate bonds have risen compared to the previous year. For this reason, obligations for pensions and long-service awards were discounted at December 31, 2008 using a discount rate of 5.75% (2007: 5.25%). The biometric tables issued by Dr. Heubeck (RT 2005G) were used for the purposes 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 employee fluctuation probabilities applied were estimated on the basis of age and gender. The expected salary trend refers to the expected rate of salary increase which is estimated annually depending on inflation and the period of service of employees within the group.

In the following tables, the defined benefit obligation and plan assets are reconciled to the reported pension provision:

Reconciliation of defined benefit obligation and plan assets to reported pension provision

in € million	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Total amount of the defined benefit obligation (DBO) for pension and similar plans	434.2	423.9	467.2
Fair value of plan assets	-25.1	-29.8	-18.0
Cumulative unrecognized actuarial losses	-20.8	-18.5	-54.3
Net obligations	388.3	375.6	394.9
Capitalized surplus of plan assets	1.9	1.0	
Reported pension provision	390.2	376.6	394.9

Of the total amount of the defined benefit obligation for pension and similar plans totaling € 434.2 million (2007: € 423.9 million), an amount of € 418.5 million (2007: € 403.7 million) relates to group companies in Germany; this represents approximately 96.4% (2007: 95.2%) of the total obligation.

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 totaling € 25.1 million (2007: € 29.8 million).

Cumulative actuarial losses at December 31, 2008 amounted to € 20.8 million (2007: € 18.5 million). Despite the higher salary and pension trends, revised biometric assumptions and lower employee fluctuation rates applied, an actuarial gain initially arose for the financial year 2008 due to the fact that the discount factor used to measure the defined benefit obligation was 0.5 percentage points higher than planned. Actuarial losses on plan assets, however, totaled € 3.5 million, with the consequence that cumulative unrecognized actuarial losses increased by € 2.3 million (+12.4%) at December 31, 2008.

The fair value of the plan assets of MTU Maintenance Canada Ltd., Canada, exceeds the pension obligations of that entity. In accordance with IAS 19, the surplus of € 1.9 million (2007: € 1.0 million) is reported within "Other assets", since it is probable that economic resources will flow to the group in the form of reimbursements.

The defined benefit obligation developed as follows:

Change in defined benefit obligation

in € million	2008	2007	2006
DBO at January 1	423.9	467.2	458.8
Current service cost	12.0	13.1	14.5
Interest expense	21.7	19.8	19.3
Past service cost		-24.0	
Actuarial gains (-) / losses (+)	-1.8	-36.6	-10.3
Pension payments	-18.5	-16.2	-15.3
Transfers / Translation differences	-3.1	0.6	0.2
DBO at December 31	434.2	423.9	467.2

The actuarial gains arising in 2008 resulted mainly from the change in the discount factors applied for pension plans of group companies outside Germany.

The switch from the “VO97” plan to the “MTU kapitalPlus Basiskonto” plan in the previous year resulted in a decrease in the pension obligation as a result of the recognition of a negative past service cost of € 24.0 million (recognized via the income statement). This came about as a result of the use of different interest rates and structure-related changes in assumptions applied to vested benefits.

The total expense from pension obligations comprised the following components:

Total expense from pension obligations

in € million	2008	2007	2006
Current service cost	12.0	13.1	14.5
Interest expense	21.7	19.8	19.3
Expected return on fund-financed plan assets	-1.2	-1.4	-1.1
Expected return on loan-financed plan assets	-0.6	-0.2	
Amortization of actuarial gains (-) / losses	1.8	0.2	0.9
Amortization of past service cost		-24.0	
Total expense	33.7	7.5	33.6

The interest expense and expected return on plan assets from fund and loan financed pension plans are reported in “Financial result on other items”.

The fair value of plan assets developed as follows:

Change in fair value of plan assets

in € million	2008	2007	2006
Fair value at January 1	29.8	18.0	15.7
Allocation to plan assets		10.6	
Expected return on plan assets	1.8	1.6	1.1
Actuarial gains / losses (-) from:			
Fund-financed plan assets	-3.6	-2.0	0.9
Loan-financed plan assets	0.1		
Transfers / Translation differences	-2.9	0.9	
Employer contributions	1.0	1.7	1.3
Employee contributions to plan	0.1	0.1	0.1
Pension payments	-1.2	-1.1	-1.1
Fair value at December, 31	25.1	29.8	18.0

Fund-financed plan assets

The fund-financed plan assets relate to MTU Maintenance Canada Ltd., Canada and do not include any securities pertaining to MTU group entities nor any assets used by the MTU group. During the financial year 2008, there was a very small shift in the composition of plan assets away from stocks towards fixed-income securities. Plan assets comprised the following:

Composition of fund-financed plan assets

in %	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Stocks	58.4	59.8	59.9
Fixed-income securities	32.8	31.7	34.3
Cash and cash equivalents and other assets	8.8	8.5	5.8
Total	100.0	100.0	100.0

The expected return determined for each category of assets took account of generally available information concerning capital market forecasts. The expected return on fixed-income securities is based on the maturities of securities held and yields achievable at the end of the reporting period. The expected return on equity investments reflects the long-term expectation of yields on the stock markets. Overall, therefore, an expected return of 7.25% was applied, as in the previous year, to measure the fair value of fund-financed plan assets. Fund-financed plan assets are “tied” and comprise mainly equity investments and fixed-income securities.

Loan-financed plan assets

Loan-financed plan assets relate to a loan receivable by MTU München Unterstützungskasse GmbH from the plan sponsor company, MTU München GmbH, totaling €11.4 million (2007: €10.8 million) at the end of the reporting period. MTU München Unterstützungskasse GmbH meets the criteria for plan assets set out in IAS 19.7 with effect from the financial year 2007.

Allocation of loan-financed plan assets

in %	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Other assets ¹⁾	100.0	100.0	n/a

¹⁾The loan is subject to the three-month Euribor interest rate plus 50 basis points.

Funding status and experience adjustments

The experience adjustment made to the defined benefit obligation (DBO) corresponds to the difference between the DBO at the balance sheet date measured using assumptions made at the beginning of the period and the DBO at the balance sheet date measured using current assumptions but still using the discount factor applicable at the beginning of the period.

The experience adjustment made to plan assets corresponds to the actuarial gains and losses resulting on plan assets during the financial year.

Funding status and experience adjustments at the end of the financial year

in € million	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Total amount of the defined benefit obligation (DBO) for pension and similar plans	434.2	423.9	467.2
Fair value of plan assets	-25.1	-29.8	-18.0
Underprovisionment of plans	409.1	394.1	449.2
Experience adjustments to gains / losses (-)			
from defined benefit obligation	-11.9	-8.4	-9.7
from fund-financed plan assets	-3.6	-2.0	0.9
from loan-financed plan assets	0.1		

Employer contributions to fund-financed plan assets for the financial year 2009 are expected to amount to between € 1.0 million and € 1.2 million.

32. Income tax payable

The income tax payable in 2008 for the financial years 2007 and 2008 amounting to € 23.0 million (2007: € 38.8 million) comprises corporation tax amounting to € 15.5 million (2007: € 25.7 million), municipal trade tax amounting to € 7.3 million (2007: € 13.0 million) and taxes on the income of foreign group companies amounting to € 0.2 million (2007: € 0.1 million).

Income tax payable

in € million	Dec. 31, 2008			Dec. 31, 2007			Dec. 31, 2006		
	Current Due within one year	Non-current Due in more than one year	Total	Current Due within one year	Non-current Due in more than one year	Total	Current Due within one year	Non-current Due in more than one year	Total
Income tax payable	23.0		23.0	38.8		38.8	1.2		1.2

Income tax payable has developed as follows:

Income tax payable

in € million	Balance Jan. 1	Translation differences	Utilized	Reversed	Allocated	Transferred	Balance Dec. 31
2008	38.8		-11.5	-10.1	5.8		23.0
2007	1.2	-0.2	-1.1		38.9		38.8
2006	40.8		-40.8		1.2		1.2

33. Other provisions

Other provisions comprise other tax obligations, personnel obligations, pending losses on onerous contracts, warranty obligations, and other obligations, which mainly consist of identified and measured contingent liabilities arising from the purchase price allocation.

The table below presents information on each of these items:

Other provisions

in € million	Dec. 31, 2008			Dec. 31, 2007			Dec. 31, 2006		
	Current Due within one year	Non-current Due in more than one year	Total	Current Due within one year	Non-current Due in more than one year	Total	Current Due within one year	Non-current Due in more than one year	Total
Other tax obligations	0.4		0.4	0.8		0.8	0.8		0.8
Personnel obligations	51.6	5.7	57.3	56.6	5.7	62.3	56.9	10.5	67.4
Pending losses on onerous contracts, contractual obligations and warranties	59.3	9.6	68.9	54.2	13.4	67.6	36.6	13.9	50.5
Other obligations	144.1	208.7	352.8	131.6	236.2	367.8	127.7	236.6	364.3
Total other provisions	255.4	224.0	479.4	243.2	255.3	498.5	222.0	261.0	483.0

With the exception of the contingent liabilities for engine programs identified and measured at the time of the company's acquisition and recognized under other obligations, MTU expects that, under normal circumstances, the majority of these provisions will be utilized within one to five years.

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 for 2008 and previous financial years.

Personnel obligations

The personnel obligations comprise provisions allocated for profit-sharing and performance-related bonuses amounting to € 32.2 million (2007: € 32.3 million), provisions for part-time early retirement working arrangements amounting to € 1.7 million (2007: € 3.9 million), provisions for long-service awards amounting to € 5.6 million (2007: € 5.7 million) and provisions for restructuring measures following the introduction of single-status pay agreements (ERA) amounting to € 15.5 million (2007: € 16.4 million). Provisions for long-service awards and for part-time early retirement working arrangements are discounted and recognized under liabilities at their present value.

Pending losses on onerous contracts, contractual obligations and warranties

Warranty obligations, contractual obligations, and pending losses on onerous contracts relate to current obligations in respect of probable third-party claims for which the likely expense can be reliably estimated. Provisions are accrued on the basis of past experience data, bearing in mind the conditions prevailing at the balance sheet date.

MTU has allocated provisions for pending losses on onerous contracts in respect of maintenance contracts in the commercial maintenance business amounting to € 9.9 million (2007: € 14.2 million).

Besides the general business risks, MTU has specifically identified risks in the TP400-D6 engine program for the new Airbus military transporter A400M. MTU is a member of a consortium comprising four European companies in which each partner is required to finance unexpected additional development and manufacturing costs using its own resources, in proportion to its share in the program. A provision has been allocated for possible contractual obligations to cover part of this possible future expense.

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.

Other obligations

Provisions for other obligations cover a multitude of identifiable individual risks and contingent liabilities.

Current provisions for other obligations include provisions for follow-up costs amounting to € 53.5 million (2007: € 48.5 million), losses arising from the settlement of accounts amounting to € 79.1 million (2007: € 63.1 million), and contingent liabilities under risk- and revenue-sharing partnerships (Note 43.1.). Current provisions for other obligations increased by a total of € 12.5 million (9.5%).

Non-current provisions for other obligations 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. (KKR) from the then DaimlerChrysler AG. The contingent liabilities are measured according to IFRS 3.48, taking cash flows into account. As in the past, obligations arising from contingent liabilities are measured on the basis of a life of between 9 and 15 years. In total, contingent liabilities decreased by € 27.5 million (-11.6%).

The following tables show the changes in current provisions and non-current provisions (presented separately) in 2008 and in each of the two previous years:

Changes in current other provisions in 2008

in € million	Balance Jan. 1, 2008	Translation differences	Utilized	Reversed	Allocated	Trans- ferred	Balance Dec. 31, 2008
Other tax obligations	0.8		-0.6		0.2		0.4
Personnel obligations	56.6	-0.1	-35.6	-0.4	31.1		51.6
Pending losses on onerous contracts, contractual obligations and warranties	54.2		-3.4	-0.5	9.0		59.3
Other obligations	131.6	0.2	-28.0	-13.1	53.4		144.1
Total	243.2	0.1	-67.6	-14.0	93.7		255.4

Changes in current other provisions in 2007

in € million	Balance Jan. 1, 2007	Translation differences	Utilized	Reversed	Allocated	Trans- ferred	Balance Dec. 31, 2007
Other tax obligations	0.8						0.8
Personnel obligations	56.9		-39.2		38.9		56.6
Pending losses on onerous contracts, contractual obligations and warranties	36.6	-0.1	-3.6		21.3		54.2
Other obligations	127.7	-0.1	-35.4	-11.9	52.6	-1.3	131.6
Total	222.0	-0.2	-78.2	-11.9	112.8	-1.3	243.2

Changes in current other provisions in 2006

in € million	Balance Jan. 1, 2006	Translation differences	Utilized	Reversed	Allocated	Trans- ferred	Balance Dec. 31, 2006
Other tax obligations	0.5		-0.4		0.7		0.8
Personnel obligations	56.7	-0.1	-38.7	-0.4	39.4		56.9
Pending losses on onerous contracts, contractual obligations and warranties	11.0	-0.3	-2.7		28.6		36.6
Other obligations	99.8	-0.2	-46.8	-1.3	76.2		127.7
Total	168.0	-0.6	-88.6	-1.7	144.9		222.0

Changes in non-current other provisions in 2008

in € million	Balance Jan. 1, 2008	Utilized	Reversed	Allocated	Trans- ferred	Balance Dec. 31, 2008
Personnel obligations	5.7	-0.4		0.4		5.7
Pending losses on onerous contracts, contractual obligations and warranties	13.4	-3.8				9.6
Other obligations: Obligations from contingent liabilities	236.2		-70.9	43.4		208.7
Total	255.3	-4.2	-70.9	43.8		224.0

Changes in non-current other provisions in 2007

in € million	Balance Jan. 1, 2007	Utilized	Reversed	Allocated	Trans- ferred	Balance Dec. 31, 2007
Personnel obligations	10.5	-4.8				5.7
Pending losses on onerous contracts, contractual obligations and warranties	13.9	-8.9		8.4		13.4
Other obligations: Obligations from contingent liabilities	236.6	-0.4				236.2
Total	261.0	-14.1		8.4		255.3

Changes in non-current other provisions in 2006

in € million	Balance Jan. 1, 2006	Utilized	Reversed	Allocated	Trans- ferred	Balance Dec. 31, 2006
Personnel obligations	12.4	-2.6		0.7		10.5
Pending losses on onerous contracts, contractual obligations and warranties	18.9	-5.4		0.4		13.9
Other obligations: Obligations from contingent liabilities	247.4	-10.8				236.6
Total	278.7	-18.8		1.1		261.0

34. Financial liabilities

All liabilities arising from derivative and non-derivative financial instruments held by MTU Aero Engines Holding AG and its affiliated companies, existing at the balance sheet date, are recognized under financial liabilities. They consist of the following components:

Financial liabilities 2008

in € million	Current	Non-current		Total
	Due within one year	Due in > one year < five years	Due in > five years	Dec. 31, 2008
Bonds				
Convertible bond ¹⁾	141.5			141.5
Interest liability on convertible bond	3.9			3.9
Liabilities to banks				
Revolving credit facility	61.2			61.2
Other liabilities to banks	11.6	9.7		21.3
Other financial liabilities				
Finance lease liabilities	8.3	8.3	17.4	34.0
Purchase price adjustment in favor of Daimler AG	15.0			15.0
Loan from the province of British Columbia to MTU Maintenance Canada	11.1			11.1
Derivative financial liabilities	24.9	23.5		48.4
Total financial liabilities	277.5	41.5	17.4	336.4

¹⁾ Matures in 2012. Recognized under current liabilities because conversion option can be exercised at any time

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. 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. 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 a conversion price fixed at issue date of € 49.50 (not including any possible dilution of the share capital resulting from a capital increase due to conversion of capital reserves or revenue reserves, the splitting or grouping of shares, the reduction of capital or a change of control). 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 Aero Engines Holding AG to proceed with the early repayment of the convertible bond on or after February 15, 2010 – after giving the appropriate notice – at par value plus interest accrued up to the repayment date.

MTU Aero Engines Holding AG is furthermore authorized to call all remaining outstanding parts of the convertible bond for early repayment at par value plus interest accrued up to the repayment date in the event that the total par value of the outstanding parts 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 company's capital stock may be increased by up to € 19.25 million through the issue of up to 19.25 million new registered 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.

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 (convertible bonds underwriting agreement dated January 23, 2007) 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, amounting to € 17.6 million, 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.

Repurchase of convertible bond prior to maturity in 2008

In the period from September 17 to October 31, 2008, MTU repurchased units of its own convertible bond on the market with a total nominal volume of € 27.2 million (approximately 15.1% of the original nominal volume of € 180.0 million at the issue date) 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.

The repurchase expense was split into an equity component and a liability component according to IAS 32.AG 33, applying the same allocation method as that applied when the bond was issued, according to the requirements of IAS 32.28-32. By way of simplification, and in order to account for the materiality of the exercise, costs were aggregated for the bond units repurchased in September 2008 and October 2008 respectively and the resulting sum in each case was split into an equity component and a liability component, instead of doing so for each repurchase transaction individually. The average repurchase price paid for the bond units repurchased in September 2008, which had a nominal value of € 7.0 million, corresponded to 81.9% of their nominal value. For the bond units repurchased in October 2008, which had a nominal value of € 20.2 million, the average repurchase price corresponded to 80.3% of their nominal value.

The costs arising from the bond repurchase exercise in September 2008 amounted to an effective total of € 5.7 million, of which € 5.2 million was allocated to liabilities and € 0.5 million to equity. The difference between the fair value of the liability component and its amortized cost, amounting to € 1.2 million, was recognized in the income statement under the financial result, according to IAS 32.AG34 (a). The equity component (net of taxes), determined according to IAS 32.AG34 (b), was recognized directly in equity as a deduction from capital reserves.

The costs arising from the bond repurchase exercise in October 2008 amounted to an effective total of € 16.2 million, of which € 14.8 million was allocated to liabilities and € 1.4 million to equity. The difference between the fair value of the liability component and its amortized cost, amounting to € 3.8 million, was recognized in the income statement under the financial result, according to IAS 32.AG34 (a). The equity component (net of taxes), determined according to IAS 32.AG34 (b), was recognized directly in equity as a deduction from capital reserves.

The separation of the costs of the repurchase exercise into an equity and a liability component is a matter of judgement, given that, in MTU's estimation, credit spreads have considerably widened as a result of the financial market crisis, to the extent that they no longer adequately reflect MTU's continuing good creditworthiness. If measurements based on credit spreads were used to separate the costs of the repurchase exercise into an equity and a liability component at either the upper or the lower limit of the observed market parameters, the figures included in the income statement for the repurchase of bond units in September 2008 would have been € 0.4 million higher or € 0.5 million lower, and the corresponding income for bond units repurchased in October 2008 would have been either € 1.4 million higher or € 1.4 million lower.

Following the repurchase, prior to final maturity, of units of the convertible bond with a total nominal volume of € 27.2 million, the associated conversion rights theoretically corresponded at the end of the financial year 2008 to approximately 3.1 million (2007: 3.6 million) nonpar value shares of conditional capital. If these conversion rights had been exercised in the financial year 2008, earnings per share would have been reduced to € 0.10 (2007: € 0.11) – see Note 16. More detailed explanatory comments concerning the conditional capital increase can be found under Note 30.3.

Liabilities to banks

MTU meets its financing requirements in its functional currency, the euro, principally through the above-mentioned convertible bond, long-term loans, and a revolving credit facility. On the basis of this revolving credit facility, the group has access to overdraft facilities amounting to € 250.0 million made available by a consortium of banks. Within this framework, direct credit facility arrangements have been agreed with three banks, each for an amount of € 40.0 million (ancillary facilities).

At December 31, 2008 the group had drawn down € 61.2 million (2007: € 69.6 million) out of the € 120.0 million available under these bilateral banking credit facilities. Of the remaining total line of credit amounting to € 188.8 million at the balance sheet date, € 16.9 million (2007: € 16.5 million) had been drawn down as bank guarantees in favor of third parties. Any credit actually utilized is subject to interest at market index average rates plus an additional margin. Unused credit facilities are subject to a modest loan commitment fee.

As at December 31, 2008, MTU and its affiliates had met all loan repayment and other obligations (covenants) arising from financing agreements.

Other liabilities to banks amounting to € 21.3 million (2007: € 26.5 million) relate to loans and overdraft facilities agreed by subsidiaries in favour of third parties.

Other financial 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 Notes 5.6. and 20.

The tax field audit covering the period 2000 to 2003 was completed during the financial year 2008. Since tax pooling arrangements had been in place during that period with the company that is now Daimler AG, the tax audit findings were taken into account in tax assessments at the level of Daimler AG. The additional tax expense resulting from the tax field audit triggered a retrospective adjustment to the purchase price (originally agreed in 2003) for the MTU group (goodwill). Further explanatory comments are provided in Note 19.

The loan from the province of British Columbia to MTU Maintenance Canada Ltd., Canada, is recognized at amortized cost. The change compared with 2007 is mainly attributable to movements in the exchange rate parity between the euro (€) and the Canadian dollar (CAD).

Derivative financial liabilities

Derivative financial liabilities amounting to € 48.4 million (2007: € 8.9 million) relate principally to changes in the fair value of forward foreign exchange transactions used to hedge cash flows and forward commodity sales contracts for nickel.

The following two tables provide an overview of financial liabilities in previous years for comparison:

Financial liabilities 2007

in € million	Current	Non-current		Total
	Due within one year	Due in > one year < five years	Due in > five years	Dec. 31, 2007
Bonds				
Convertible bond ¹⁾	162.8			162.8
Interest liability on convertible bond	4.5			4.5
Liabilities to banks				
Revolving credit facility	69.6			69.6
Other liabilities to banks	9.5	17.0		26.5
Other financial liabilities				
Finance lease liabilities	8.3	15.6	17.8	41.7
Loan from the province of British Columbia to MTU Maintenance Canada		12.5		12.5
Derivative financial liabilities	5.0	3.9		8.9
Total financial liabilities	259.7	49.0	17.8	326.5

¹⁾ Matures in 2012. Recognized under current liabilities because conversion option can be exercised at any time

Financial liabilities 2006

in € million	Current	non-current		Total
	Due within one year	Due in > one year < five years	Due in > five years	Dec. 31, 2007
Bonds				
High yield bond			165.0	165.0
Interest liability on high yield bond	3.4			3.4
Liabilities to banks				
Revolving credit facility	75.6			75.6
Other liabilities to banks	7.6	25.8		33.4
Liabilities to related companies				
	0.1			0.1
Other financial liabilities				
Finance lease liabilities	2.5	23.3	22.7	48.5
Loan from the province of British Columbia to MTU Maintenance Canada		12.8		12.8
Total financial liabilities	89.2	61.9	187.7	338.8

35. Trade payables

Trade payables

in € million	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
	Total	Total	Total
Trade accounts payable to:			
Third parties	436.7	363.7	316.8
Related companies			
Associated companies, joint ventures, other equity investments	48.8	88.4	57.8
Non-consolidated subsidiaries	10.2	10.8	3.9
Total trade payables	495.7	462.9	378.5

The total amount of trade payables is due within one year. Refer to Note 42.1.1. for details of trade accounts payable to associated companies.

36. Contract production liabilities

Contract production

Liabilities arising from production contracts primarily concern advance payments for contract production for specific engine programs.

Liabilities arising from production contracts 2008

in € million	Current	Non-current		Total
	Due within one Year	Due in > one and < five years	Due in > five years	Dec. 31, 2008
Contract production				
Advance payments received for contract production	356.0	411.9		767.9
of which offset against:				
Accounts receivable for contract production	-108.4	-138.9		-247.3
Total	247.6	273.0		520.6

Advance payments received for contract production and accounts receivable for contract production can be attributed to specific engine programs. To better reflect their economic value, accounts receivable for contract production are offset against the corresponding advance payments. For this reason, advanced payments received for contract production, totalling € 247.3 million (2007: € 196.4 million), were transferred in the financial year 2008 to receivables from contract production (Note 24) and offset by the economically relevant amount of these receivables.

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.

The following tables show the comparative values of contract production liabilities for the financial years 2007 and 2006.

Liabilities arising from production contracts 2007

in € million	Current	Non-current		Total
	Due within one Year	Due in > one and < five years	Due in > five years	Dec. 31, 2007
Contract production				
Advance payments received for contract production	333.7	302.4		636.1
of which offset against:				
Accounts receivable for contract production	-94.6	-101.8		-196.4
Total	239.1	200.6		439.7

Liabilities arising from production contracts 2006

in € million	Current	Non-current		Total
	Due within one Year	Due in > one and < five years	Due in > five years	Dec. 31, 2006
Contract production				
Advance payments received for contract production	255.9	281.8		537.7
of which offset against:				
Accounts receivable for contract production	-56.9	-69.3		-126.2
Total	199.0	212.5		411.5

37. Other liabilities

Other liabilities are broken down into the following categories:

Other liabilities 2008

in € million	Current	Non-current		Total Dec. 31, 2008
	Due within one year	Due in > one and < five years	Due in > five years	
Other taxes	16.5			16.5
Social security	1.8			1.8
Employees	40.6	3.3	0.5	44.4
Accrued interest expense		14.7		14.7
Sundry other liabilities	18.3	8.0	2.1	28.4
Total other liabilities	77.2	26.0	2.6	105.8

Other taxes and social security

The taxes due amounting to € 16.5 million (2007: € 1.2 million) concern payable wage and church taxes, solidarity surcharges and transactional taxes. Amounts due for social security principally comprise contributions to social insurance against occupational accidents amounting to € 1.3 million (2007: € 1.6 million) and amounts due to health insurers totalling € 0.5 million (2007: € 0.5 million).

Employees

Liabilities towards employees are composed of unused vacation entitlements, flexitime credits, obligations arising from part-time early retirement working arrangements and obligations arising from efficiency-improvement programs in prior periods. Liabilities arising from employee profit-sharing plans and management bonuses, a portion of part-time early retirement arrangements, as well as organizational measures within the scope of introducing the single-status pay agreement (ERA) are recognized in other provisions, as further described in Note 33.

Accrued interest expense

Long-term advance payments received for contract production 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 expenses relate to advance payments received for long-term contract production, amounting to € 11.5 million (2007: 8.5 million) as well as to advanced payments of € 3.2 million (2007: € 1.6 million) received for long-term engine programs in the commercial engine business. Further explanations are given in Note 5.8).

Sundry other liabilities

Non-current sundry other liabilities principally comprise liabilities arising from finance lease agreements for replacement engines that are made available to airlines to bridge over the period in which an engine is undergoing maintenance. Sundry other liabilities cover a multitude of minor individual obligations.

The tables below provide comparative information on other liabilities for 2007 and 2006.

Other liabilities 2007

in € million	Current	Non-current		Total
	Due within one year	Due in > one and < five years	Due in > five years	Dec. 31, 2007
Other taxes	11.2			11.2
Social security	2.1			2.1
Employees	52.6	1.3		53.9
Accrued interest expense		10.1		10.1
Sundry other liabilities	20.6	10.3	2.5	33.4
Total other liabilities	86.5	21.7	2.5	110.7

Other liabilities 2006

in € million	Current	Non-current		Total
	Due within one year	Due in > one and < five years	Due in > five years	Dec. 31, 2006
Other taxes	16.5			16.5
Social security	2.6			2.6
Employees	57.9	4.5		62.4
Sundry other liabilities	16.2	8.5	2.4	27.1
Total other liabilities	93.2	13.0	2.4	108.6

The following tables list the contractually agreed (undiscounted) payments of interest and principle on the original financial liabilities and derivative financial instruments measured at fair value through profit or loss to MTU:

Repayment dates of financial liabilities

in € million	Carrying amount Dec. 31, 2008	Cash flows 2009		
		Fixed interest	Variable interest	Principle
Trade payables	495.7			495.7
Bonds	145.4	4.2		
Liabilities to banks	82.5		0.5	72.8
Other interest-bearing liabilities	16.8			
Other interest-free liabilities	60.6			52.6
Derivative financial liabilities				
Derivatives without hedging relationship	27.0			11.9
Derivatives with hedging relationship	21.4			13.0
Other disclosures				
Contingent liabilities under risk- and revenue-sharing partnerships	57.2			57.2 ¹⁾
Guarantees	85.0			85.0
Finance lease liabilities	34.0	0.4		8.3
Other financial liabilities not within the scope of either IFRS 7 or IAS 39	490.2			113.6

¹⁾ Relates to delay-related contingent liabilities arising from RRSP contracts

Repayment dates of financial liabilities

in € million	Carrying amount Dec. 31, 2007	Cash flows 2008		
		Fixed interest	Variable interest	Principle
Trade payables	462.9			462.9
Bonds	167.3	4.9		
Liabilities to banks	96.1		1.2	79.1
Other interest-bearing liabilities	12.6			
Other interest-free liabilities	52.0			29.1
Derivative financial liabilities				
Derivatives without hedging relationship	8.7			5.4
Derivatives with hedging relationship	0.2			0.2
Other disclosures				
Contingent liabilities under risk- and revenue-sharing partnerships	73.1			73.1 ¹⁾
Guarantees	41.5			41.5
Finance lease liabilities	41.7	1.0		8.3
Other financial liabilities not within the scope of either IFRS 7 or IAS 39	498.9			138.2

¹⁾ Relates to delay-related contingent liabilities arising from RRSP contracts

Cash flows 2010			Cash flows 2011			Cash flows 2012 ff.		
Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle
4.2			4.2			4.2		152.8
	0.4	9.7						
		3.2						13.6
		8.0						
		14.2			0.9			
		8.4						
0.4		1.2	0.4		3.8	4.1		20.7
		18.9			19.9			342.5

Cash flows 2009			Cash flows 2010			Cash flows 2011 ff.		
Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle
4.9			4.9			10.0		180.0
	0.8	7.8		0.3	9.2			
								12.6
		22.9						
		3.3						
0.4		8.1	0.4		1.4	6.1		23.9
		17.2		0.1	20.6		0.3	328.1

Repayment dates of financial liabilities

in € million	Carrying amount Dec. 31, 2006	Cash flows 2007		
		Fixed interest	Variable interest	Principle
Trade payables	378.5			378.5
Bonds	168.4	5.5	19.1	165.0
Liabilities to banks	109.0		1.4	83.2
Other interest-bearing liabilities	2.4			
Other interest-free liabilities	48.8			27.4
Derivative financial liabilities				
Derivatives without hedging relationship				
Derivatives with hedging relationship				
Other disclosures				
Contingent liabilities under risk- and revenue-sharing partnerships	72.2			72.2 ¹⁾
Guarantees	34.9			34.9
Finance lease liabilities	48.5	0.1		2.5
Other financial liabilities not within the scope of either IFRS 7 or IAS 39	540.3			148.6

¹⁾ Relates to delay-related contingent liabilities arising from RRSP contracts

The statement includes all instruments in the portfolio at December 31, 2008 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, 2008. Financial liabilities with no fixed repayment date and contingent liabilities (contingent liabilities arising from RRSPs and guarantees) 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 43.1.

Cash flows 2008			Cash flows 2009			Cash flows 2010 ff.		
Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle
	1.3	6.8		0.9	8.7		0.4	10.3
								2.4
		3.6			15.8			2.0
	0.1	5.8	0.1		5.8	11.2		34.4
		25.4		0.1	22.4		0.3	343.9

38. 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 IAS39. The presented information 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. Notes 5.10. and 5.12. provide 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

in € million	Category as defined in IAS 39/ Other category	Carrying amount Dec. 31, 2008	Cash reserve Nominal value
ASSETS			
Other assets			
Loans and receivables	LaR	13.0	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AfS	4.8	
Financial assets held for trading	FAHFT		
Trade receivables	LaR	460.4	
Receivables from construction contracts	LaR	386.2	
Derivative financial assets			
Derivatives without hedging relationship	FAHFT	7.6	
Derivatives with hedging relationship	n/a	4.2	
Cash and cash equivalents	Cash reserve	69.9	69.9
EQUITY AND LIABILITIES			
Trade payables	FLAC	495.7	
Bonds	FLAC	145.4	
Liabilities to banks	FLAC	82.5	
Other interest-bearing liabilities	FLAC	16.8	
Other interest-free liabilities	FLAC/n/a	60.6	
Derivative financial liabilities			
Derivatives without hedging relationship	FLHFT	27.0	
Derivatives with hedging relationship	n/a	21.4	
Other disclosures			
Contingent liability under risk-and revenue-sharing partnerships	Financial guarantees	57.2	
Guarantees	Financial guarantees	85.0	
Thereof aggregated by category as defined in IAS 39			
Loans and receivables	LaR	859.6	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AfS	4.8	
Financial assets held for trading	FAHFT	7.6	
Financial liabilities measured at amortized cost	FLAC	801.0	
Financial liabilities held for trading	FLHFT	27.0	
Finance lease liabilities	n/a	34.0	
Financial instruments not within the scope of either IFRS 7 (IFRS 7 B2b) or IAS 39		493.7	

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, 2008
Measured at amortized cost	Measured at cost	Fair value recognized in equity	Fair value recognized in income statement				
13.0						13.0	13.0
	4.8					4.8	4.8
460.4						460.4	460.4
386.2						386.2	386.2
			7.6			7.6	7.6
		4.2				4.2	4.2
						69.9	69.9
495.7						495.7	495.7
145.4						145.4	118.5
82.5						82.5	82.5
16.8						16.8	16.8
52.6				8.0		60.6	60.6
			27.0			27.0	27.0
		21.4				21.4	21.4
						57.2	57.2
						85.0	85.0
859.6						859.6	859.6
	4.8					4.8	4.8
			7.6			7.6	7.6
793.0				8.0		801.0	774,1
			27.0			27.0	27.0
				34.0		34.0	34.0
					493.7	493.7	521.7

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 years 2007 and 2006.

Disclosures concerning financial instruments, Carrying amounts, measurement/recognition methods and fair values aggregated by category

in € million	Category as defined in IAS 39/ Other category	Carrying amount Dec. 31, 2007	Cash reserve Nominal value
ASSETS			
Other assets			
Loans and receivables	LaR	12.2	
Held-to-maturity investments	HTM		
Available-for-sale financial assets	AfS	10.1	
Financial assets held for trading	FAHFT		
Trade receivables	LaR	499.2	
Receivables from construction contracts	LaR	367.5	
Derivative financial assets			
Derivatives without hedging relationship	FAHFT	9.5	
Derivatives with hedging relationship	n/a	26.3	
Cash and cash equivalents	Cash reserve	67.3	49.7
EQUITY AND LIABILITIES			
Trade payables	FLAC	462.9	
Bonds	FLAC	167.3	
Liabilities to banks	FLAC	96.1	
Other interest-bearing liabilities	FLAC	12.6	
Other interest-free liabilities	FLAC/n/a	52.0	
Derivative financial liabilities			
Derivatives without hedging relationship	FLHFT	8.7	
Derivatives with hedging relationship	n/a	0.2	
Other disclosures			
Contingent liability under risk- and revenue-sharing partnerships	Financial guarantees	73.1	
Guarantees	Financial guarantees	41.5	
Thereof aggregated by category as defined in IAS 39			
Loans and receivables	LaR	878.9	
Held-to-maturity investments	HTM		
Available-for-sale financial assets	AfS	10.1	
Financial assets held for trading	FAHFT	9.5	
Financial liabilities measured at amortized cost	FLAC	790.9	
Financial liabilities held for trading	FLHFT	8.7	
Finance lease liabilities	n/a	41.7	
Financial instruments not within the scope of either A85 IFRS 7 (IFRS 7 B2b) or IAS 39		503.4	

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, 2007
Measured at amortized cost	Measured at cost	Fair value recognized in equity	Fair value recognized in income statement				
12.2						12.2	12.2
	10.1					10.1	10.1
499.2						499.2	499.2
367.5						367.5	367.5
			9.5			9.5	9.5
		26.3				26.3	26.3
			17.6			67.3	67.3
462.9						462.9	462.9
167.3						167.3	164.0
96.1						96.1	96.1
12.6						12.6	12.6
41.7				10.3		52.0	52.0
			8.7			8.7	8.7
		0.2				0.2	0.2
						73.1	73.1
						41.5	41.5
878.9						878.9	878.9
	10.1					10.1	10.1
			9.5			9.5	9.5
780.6				10.3		790.9	787.6
			8.7			8.7	8.7
				41.7		41.7	41.7
					503.4	503.4	513.8

Disclosures concerning financial instruments, carrying amounts, measurement/recognition methods and fair values aggregated by category

in € million	Category as defined in IAS 39/ Other category	Carrying amount Dec. 31, 2006	Cash reserve Nominal value
ASSETS			
Other assets			
Loans and receivables	LaR	14.0	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AfS	5.0	
Financial assets held for trading	FAHFT		
Trade receivables	LaR	400.0	
Receivables from construction contracts	LaR	266.0	
Derivative financial assets			
Derivatives without hedging relationship	FAHFT	0.5	
Derivatives with hedging relationship	n/a	25.9	
Cash and cash equivalents	Cash reserve	102.2	102.2
EQUITY AND LIABILITIES			
Trade payables	FLAC	378.5	
Bonds	FLAC	168.4	
Liabilities to banks	FLAC	109.0	
Other interest-bearing liabilities	FLAC	2.4	
Other interest-free liabilities	FLAC/n/a	48.8	
Derivative financial liabilities			
Derivatives without hedging relationship	FLHFT		
Derivatives with hedging relationship	n/a		
Other disclosures			
Contingent liability under risk- and revenue-sharing partnerships	Financial guarantee	72.2	
Guarantees	Financial guarantee	34.9	
Thereof aggregated by category as defined in IAS 39			
Loans and receivables	LaR	680.0	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AfS	5.0	
Financial assets held for trading	FAHFT	0.5	
Financial liabilities measured at amortised cost	FLAC	707.1	
Financial liabilities held for trading	FLHFT		
Finance lease liabilities	n/a	48.5	
Financial instruments not within the scope of either IFRS 7 (IFRS 7 B2b) or IAS 39		547.5	

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, 2006
Measured at amortized cost	Measured at cost	Fair value recognized in equity	Fair value recognized in income statement				
14.0						14.0	14.0
	5.0					5.0	5.0
400.0						400.0	400.0
266.0						266.0	266.0
			0.5			0.5	0.5
		25.9				25.9	25.9
						102.2	102.2
378.5						378.5	378.5
168.4						168.4	189.0
109.0						109.0	109.0
2.4						2.4	2.4
40.2				8.6		48.8	48.8
						72.2	72.2
						34.9	34.9
680.0						680.0	680.0
	5.0					5.0	5.0
			0.5			0.5	0.5
698.5				8.6		707.1	727.7
				48.5		48.5	48.5
					547.5	547.5	600.3

Cash and cash equivalents, trade receivables and contract production 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 contract production 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 convertible bond, amounting to € 128.4 million (2007:€ 192.6 million), is obtained by multiplying the par value of exercisable convertible bonds, totalling € 152.8 million (2007: € 180 million), by the factor of 84 % (2007:107 %), representing the quoted share price at the balance sheet date. Based on prevailing market assumptions on the balance sheet date relating to risk-free interest rates for the remaining term of the convertible bond, conversion price, share price, expected dividend payments and volatility of the MTU share, a proportional value of € 4.46 (2007: € 9.12) was calculated per exercised conversion option.

The equity component of the convertible bond amounts to € 13.8 million (2007: € 33.1 million), based on a total of 3,086,869 (2007: 3,636,363) exercisable conversion options.

Accordingly, the fair value of the equity component amounted to € 114.6 million (2007: € 159.5 million) at the balance sheet date. Taking into account the separately recognized interest of € 3.9 million (2007:4.5 million) accrued over the 11 months up to December 31, 2008, the fair value inclusive of interest amounts to € 118.5 million (2007: 164.0 million). The carrying amount inclusive of interest accrued over 11 months amounts to € 145.4 million (2007:167.3 million).

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 2008

Aggregated by category as defined in IAS 39	from interest	from investments	from remeasurement			from disposal	net gain/loss 2008
			at fair value	currency translation	valuation allowances		
in € million							
Loans and receivables (LaR)	3.6			-1.1	-2.8		-0.3
Held-to-maturity investments (HtM)							
Available-for-sale financial assets (AFS)		1.7					1.7
Financial assets held for trading (FAHFT)			39.0			1.1	40.1
Financial liabilities measured at amortised cost (FLAC)	-15.0		-9.4	6.7			-17.7
Financial liabilities held for trading (FLHFT)			-51.7				-51.7
Financial instruments not within the scope of IFRS 7 or IAS 39	0.9	-1.0		-6.1			-6.2
Total	-10.5	0.7	-22.1	-0.5	-2.8	1.1	-34.1

The interest portion of financial instruments is recognized under net interest expense (see Note 11.). Other components of net income or loss are recorded in MTU's financial statements under financial result on other items (Note 13.), 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. The loss of € -1.0 million (2007: € -2.3 million) generated by the joint venture Pratt & Whitney Canada Customer Service Centre Europe GmbH, which is accounted for using the equity method, is recognized under "profit/loss of companies accounted for using the equity method" (Note 12.).

Explanatory comments relating to net interest expense

The net interest expense on financial liabilities classified as financial liabilities measured at amortized cost (a negative expense of € -10.5 million) mainly comprises interest expenses attributable to the convertible bond and other financial liabilities. It also includes interest income from the discounting of loan commitments.

Explanatory comments relating to equity investments

The financial result on other items includes profit/loss of companies accounted for using the equity method (Note 13.) in addition to profit/loss of other related companies accounted for at cost (Note 14.).

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

Losses from the currency translation of financial instruments classified as loans and receivables amounting to € -1.1 million are mainly attributable to exchange rate gains and losses arising from the measurement of trade receivables and payables.

The exchange rate losses stated for financial instruments not within the scope of IFRS 7 or IAS 39 are largely attributable to the translation of currency holdings denominated in U.S. dollars.

The following table provides comparative information on the effect of transactions involving financial instruments, aggregated by category, in 2007.

Net gain/loss on financial instruments by category 2007

Aggregated by category as defined in IAS 39	from interest	from investments	from remeasurement			from disposal	net gain/loss 2007
			at fair value	currency translation	valuation allowances		
in € million							
Loans and receivables (LaR)	2.3			-9.7	-1.0		-8.4
Held-to-maturity investments (HtM)							
Available-for-sale financial assets (AFS)	0.1	1.3					1.4
Financial assets held for trading (FAHfT)			17.6			0.2	17.8
Financial liabilities measured at amortised cost (FLAC)	-35.3		-1.7	1.7			-35.3
Financial liabilities held for trading (FLHfT)			-14.1			-6.4	-20.5
Financial instruments not within the scope of IFRS 7 or IAS 39	4.4	-2.3		-12.8			-10.7
Total	-28.5	-1.0	1.8	-20.8	-1.0	-6.2	-55.7

Expense relating to the early repayment of the high yield bond is included in the interest result for the financial year 2007. The disposal made in 2007 classified under financial liabilities held for trading relates to securities sold in the financial year 2007 classified under financial assets held for trading.

Net gain/loss on financial instruments by category 2006

Aggregated by category as defined in IAS 39	from interest	from investments	from remeasurement			from disposal	net gain/loss 2006
			at fair value	currency translation	valuation allowances		
in € million							
Loans and receivables (LaR)	0.7			-3.1	-0.9		-3.3
Held-to-maturity investments (HtM)							
Available-for-sale financial assets (AFS)		1.3				-0.3	1.0
Financial assets held for trading (FAHfT)			10.2				10.2
Financial liabilities measured at amortised cost (FLAC)	-44.1			1.0			-43.1
Financial liabilities held for trading (FLHfT)			-2.5				-2.5
Financial instruments not within the scope of IFRS 7 or IAS 39	23.2			-3.0			20.2
Total	-20.2	1.3	7.7	-5.1	-0.9	-0.3	-17.5

39. Deferred taxes

Deferred taxes reflect temporary differences resulting from differences in the tax base of assets and liabilities and their carrying amounts for IFRS accounting purposes. Deferred taxes are recognized directly in equity if the tax relates to items that are also recognized in equity. The future impact of tax losses and credits available for carry-forward is also taken into account in the computation of deferred taxes.

Deferred tax assets and deferred tax liabilities relate to the following balance sheet and other items:

Deferred tax

in € million	Dec. 31, 2008		Recognized in		Deferred tax income (expense)	Dec. 31, 2007		Dec. 31, 2006	
	Deferred tax assets	Deferred tax liabilities	income statement OCI (other where appropriate)			Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
			Deferred tax assets	Deferred tax liabilities					
Intangible assets	0.7	215.5			19.8	0.7	235.3	0.6	305.7
Property, plant and equipment	4.1	83.6			16.9	3.9	99.9	4.8	124.8
Financial assets	2.5				0.6	1.9		1.2	
Inventories	1.1	21.8			-0.2	1.0	21.5	0.8	28.9
Receivables and other assets	6.3	14.7			2.1	6.3	17.4	2.6	17.6
Provisions	105.8	1.4			-6.6	112.0	1.3	166.5	0.9
Equity component of convertible bond		5.1		5.1			5.7		
Special taxed reserves		4.2					4.2		5.3
Derivatives	5.6		5.6				8.5		10.4
Liabilities	6.5	7.6			-2.4	7.2	5.9	16.1	0.2
Tax gains carried forward	10.5								
Tax losses carried forward	17.8				-2.0	18.4		17.7	
Deferred tax assets/liabilities before offset	160.9	353.9	5.6	5.1	28.2	151.4	399.7	210.3	493.8
Valuation allowance on deferred tax assets ¹⁾	-33.2					-20.8		-22.3	
Balance	-126.3	-126.3				-129.9	-129.9	-186.6	-186.6
Net deferred tax assets/liabilities	1.4	227.6	5.6	5.1	28.2	0.7	269.8	1.4	307.2

¹⁾ relates to tax gains carried forward in respect of MTU Aero Engines Polska Sp. z.o.o., Poland, tax losses carried forward and temporary differences in respect of MTU Maintenance Canada Ltd., Canada and MTU Aero Engines North America Inc. USA

The valuation allowance on deferred tax assets is based on management's assessment of the degree of future recoverability. The current assessment of the recoverability of temporary differences, unused tax losses and tax losses available for carry-forward may change as a result of the future earnings of group entities, thus making it necessary to increase or decrease the valuation allowance.

Reference is made to Note 15. 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.

No deferred tax claims were recognized for the following deferred tax losses/credits available for carry-forward:

Deferred tax assets on tax losses/credits available for carry-forward at Dec. 31

in € million	Germany	U.S.A	Canada	Poland	2008	2007	2006
Unused tax losses/credits		31.5	17.9		49.4	51.9	49.8
available for carry-forward				10.5	10.5		
Potential tax impact of tax losses/credits available for carry-forward		12.3	5.5	10.5	28.3	18.4	17.7
Valuation allowances		-12.3	-5.5	-10.5	-28.3	-16.4	-16.1
Balance-sheet effect of deferred tax assets on tax losses/credits available for carry-forward						2.0	1.6

The tax credits of € 10.5 million relate to the new production site of MTU Aero Engines Polska Sp.z.o.o., 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.

Tax losses can be carried forward in the USA and Canada for 20 years.

In Germany, corporation and municipal tax losses can be carried forward without time restriction. The tax losses of group companies in Germany were fully utilized by the end of the financial year 2008.

Deferred tax assets changed during the year as follows:

Change in deferred tax assets

in € million	2008	2007	2006
Balance at Jan. 1	0.7	1.4	0.2
Deferred taxes recognized in the income statement	0.7	-0.7	1.2
Balance at Dec. 31	1.4	0.7	1.4

No deferred taxes were recognized on the following temporary differences.

Temporary differences at Dec. 31 for which no deferred taxes were recognized

in € million	2008	2007	2006
Temporary differences	12.3	11.6	15.8
Deferred taxes, not recognized	4.9	4.4	6.2

Temporary differences for which no deferred tax assets were recognized totaled € 12.3 million (2007: € 11.6 million) at the end of the reporting period and related to MTU Maintenance Canada, Canada, and MTU Aero Engines North America Inc., USA. The resulting potential tax impact of € 4.9 million (2007: € 4.4 million) was therefore not taken into account in the computation of income tax expense.

Deferred taxes recognized directly in equity (in other comprehensive income) comprise the following:

Balance of deferred taxes recognized directly in equity (other comprehensive income) at Dec. 31

in € million	2008	2007	2006
Equity component of convertible bond	-5.1	-5.7	
Cash flow hedges	5.6	-8.5	-10.4
Net deferred taxes	0.5	-14.2	-10.4

Similar to the treatment of deferred taxes arising on the issue of the convertible bond, the deferred tax asset of € 5.1 million (2007: € 5.7 million) relating to the equity component of the convertible bond is presented in capital reserves. Deferred taxes on cash flow hedges are presented in other comprehensive income.

Reference is made to the comments on other comprehensive income provided in Note 30.7. regarding the deferred tax asset of € 5.1 million on the equity component of the convertible bond (2007: deferred tax asset of € 5.7 million) and the deferred tax asset of € 5.6 million on cash flow hedges (2007: deferred tax liabilities of € 8.5 million).

IV. Other information

40. Measurement of the recoverable amount of business segments to which goodwill has been attributed

The group tests goodwill for impairment annually. The value in use of each of the two cash generating units or business segments – commercial and military engine business (OEM) and commercial maintenance business (MRO) – at June 30, 2008, was calculated in order to determine their respective recoverable amounts. The recoverable amount determined for each business segment was compared with the corresponding carrying amount.

The calculations are based on the following assumptions:

- These calculations are based on the planned EBIT for each of the two business segments.
- The future free cash flows are then derived from the planned cash flows (cash in-flows 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

Review of analysis of goodwill

Designation of CGU Business segment	OEM			MRO		
	Commercial and military engine business			Commercial maintenance business		
	2008	2007	2006	2008	2007	2006
Carrying amount of business segment (net assets in € million)	911	958	700	582	518	352
Carrying amount of goodwill of business segment (in € million)	308.0	296.3	296.3	100.2	95.2	96.2
Recoverable amount of business segment (in € million)	1,660	1,444	926	786	907	630
Impairment	n/a	n/a	n/a	n/a	n/a	n/a
Length of planning period in years	3	3	5	3	3	5
Annual growth premium applied for the period beyond the planning horizon (perpetuity)	1%	1%	1%	1%	1%	1%
Discount rate (before tax)	13.5%	13.8%	14.4%	13.0%	13.5%	13.6%

The WACC 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 taxes. For this purpose MTU in 2008 used a risk-free base interest rate of 4.75%, a market risk premium of 5% and a beta coefficient of 1.13 based on peer group analysis. The cost of debt capital was 3.9% after taxes. The tax rate applied to determine the result before taxes was set at 32.6%. The relationship of equity capital to debt capital was 78% to 22% respectively. A growth rate of 1% 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 2009 to 2011 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 business segments, these cash flows were determined with reference to projected earnings before interest and tax (EBIT) for the ultimate year of the planning period (2011), assuming a sustainable reinvestment ratio for intangible assets and property, plant and equipment.

The calculations present no indications at the present time which could lead us to the conclusion that an impairment loss on goodwill for either of the business segments is necessary.

In order to take account of current developments in connection with the crisis on the financial markets and their corresponding volatility, a new calculation of capital costs was carried out on November 13, 2008. Within the scope of determining their value in use, the updated weighted cost of capital produced no other result for the business segments "Commercial and Military Engine Business" and "Commercial MRO": the value in use exceeded the carrying amount of the respective business segment also after applying the updated costs of capital. Within the framework of this updated calculation of costs of capital, no change was made to the date of valuation; no new determination of value in use was carried out based on the company's planned figures on the valuation date.

41. 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 sustainable reduction in planned earnings before interest and tax (EBIT) might have on the goodwill amounts allocated to each of the two segments. This analysis included sensitivity factors affecting the calculation of the weighted average cost of capital (WACC).

Assuming a weighted average cost of capital (WACC) of approximately 13%, the sensitivity analyses concluded that this would not result in any necessity to recognize an impairment loss on goodwill for the respective business segment, even in the event of a long-term reduction in EBIT ranging to 20% below the earnings forecast established by management for the OEM segment and 10% below the earnings forecast established by management for the MRO segment.

The following sensitivity analysis tables present scenarios of deviations from planned EBIT targets to illustrate under what conditions the value of goodwill for commercial and military engines (OEM) and for commercial maintenance (MRO) would have to be adjusted. Assuming that the WACC remains unchanged, an impairment of goodwill for the OEM segment would first then be indicated by a drop in operative results (EBIT) of 30% against planned EBIT figures. In MRO business, initial indications of impairment would only then occur if the operative result (EBIT) deviated from EBIT planned figures by around 20%.

Goodwill sensitivity factors 2008

Calculated impairment loss in € million for EBIT planning variance of x%	WACC	EBIT planning variance in % (plan = 0%)			
		-30 %	-20 %	-10 %	Baseline ¹⁾
Business segments					
Commercial and military engine business (OEM)	13.5 %	-156 € million	none	none	n/a
Commercial maintenance business (MRO)	13.0 %	-132 € million	-20 € million	none	n/a

¹⁾ not applicable

Goodwill sensitivity factors 2007

Calculated impairment loss in € million for EBIT planning variance of x%	WACC	EBIT planning variance in % (plan = 0%)			
		-30 %	-20 %	-10 %	Baseline ¹⁾
Business segments					
Commercial and military engine business (OEM)	13.8 %	-188 € million	none	none	n/a
Commercial maintenance business (MRO)	13.5 %	none	none	none	n/a

¹⁾ not applicable

Goodwill sensitivity factors 2006

Calculated impairment loss in € million for EBIT planning variance of x%	WACC	EBIT planning variance in % (plan = 0%)			
		-30 %	-20 %	-10 %	Baseline ¹⁾
Business segments					
Commercial and military engine business (OEM)	14,4 %	-22 € million	none	none	n/a
Commercial maintenance business (MRO)	13,6 %	none	none	none	n/a

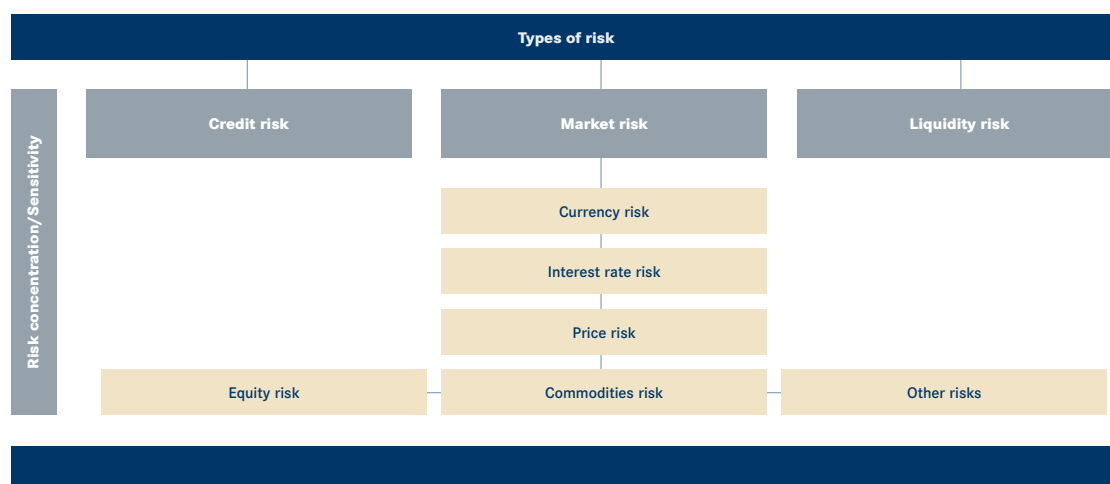
¹⁾ not applicable

42. 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. Hedging transactions to minimize credit risk are concluded exclusively with banking institutions possessing a credit rating of A- or better.

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.



42.1. 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 on a decentralized basis, i.e. by the business segments. Credit risk is accounted for by means of specific and general allowances. 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, potential 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 A- or better. For this reason, the general credit risk resulting from derivative financial instruments used 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 (including derivative financial instruments with a positive fair value). In this case, there are no material agreements existing at the balance sheet date which could reduce the maximum credit risk (for instance, an offset agreement). 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 € 57.2 million (2007:€ 73.1 million). In addition to these contingent liabilities, the group also held guarantees issued for group companies amounting to € 85.0 million (2006: € 41.5 million).

Commercial engine business

Transactions in the commercial engine business with key customers in the framework of risk- and revenue-sharing partnerships are subject to special creditworthiness monitoring, because transactions with these partner companies represent a substantial part of the total risk exposure. After volume production of an engine has ceased, there is a risk that expected spare parts sales might not be realized.

Military engine business

A number of different European countries award engine development and production contracts to MTU via the consortia of which it is a member. Here there is a possibility that unit volumes may be reduced or entire production batches of an engine may be cancelled. MTU is additionally exposed to the risk of loss of sustainable spare parts sales.

Commercial maintenance business

Accounts receivable, especially those from airlines, are secured by a supplementary credit insurance covering approximately 30% of the outstanding amount on each contract. Any excess receivable amount over and above that covered by the credit insurance thus represents a credit risk.

42.2. Market risks

42.2.1. 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 (CYN), and to a lesser extent in Canadian dollars (CAD) and Polish zloty (PLN). 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. In line with MTU's 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 EBITDA (or from financial year 2009 onward: EBIT).

Since MTU employs financial instruments merely to cover net exposure, the portion of the group's U.S. dollar income that is not hedged by means of financial instruments is exposed to exchange rate fluctuations. The remaining, unhedged part of that U.S. dollar income, is affected by changes in the spot rate up to the time of payment.

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 (per month) exceeds the hedged amount.

To minimize currency risk, MTU principally employs forward foreign exchange contracts forming part of an effective cash flow hedging relationship, as defined by IAS 39, to hedge exposure to variability in cash flows due to exchange rate fluctuations. In doing so, MTU complies with the strict requirements of IAS 39 concerning hedge accounting. Changes in the exchange rate of the currency in which the effectively hedged transactions are denominated have an impact on the fair value of these transactions and hence on the hedge reserve recognized in equity. The ineffective portion of the change in value of the hedging instrument is recognized in the income statement under 'financial result on other items'. If, contrary to standard practice at MTU, an instrument does not qualify for hedge accounting, then the change in fair value of the hedging transaction is also recognized in the income statement. A certain residual currency risk remains open to exposure, however, since the group's internal policy guidelines only prescribe the hedging of the most significant, individually identified cash flows.

At December 31, 2008, MTU held forward foreign exchange contracts for a contractual period up to May 2011 to sell a nominal volume of U.S. \$ 880.0 million (which translates to € 632.3 million at the exchange rate prevailing at the balance sheet date) at futures rates for a total of € 619.9 million. Changes in the fair value of the forward foreign exchange contracts amounted to € -29.1 million (2007: € 2.1 million).

A gain of € 22.4 million (2007: € 28.8 million) from effective forward foreign exchange contracts realized in the financial year was recycled from equity to revenues. The total amount of the ineffective portion of the fair value of hedging transactions in 2008 was recognized in the financial result as a gain of € 0.4 million (2007: € 1.7 million). At December 31, 2008, net of deferred taxes, fair value losses on forward foreign exchange contracts amounting to € -11.5 million (2007: € 17.6 million) were recognized directly in equity (see consolidated statement of changes in equity).

At December 31, 2008, MTU had hedged cash flows amounting to € 880.0 million for the period 2009 – 2011 (2007 for the period 2008 – 2009: € 305.0 million) by means of forward foreign exchange contracts. The following graph shows the changing balance of the U.S. dollar hedge reserve based on forward foreign currency transactions together with its planned utilization as a hedge against currency risk for forecast cash inflows over the next few years.

On the basis of the increases and decreases in the hedge reserve in 2008, the graph illustrates how changes in the fair value of the effective portion of open financial instruments (forward foreign exchange contracts) are recognized directly in equity, while changes in the fair value of the ineffective portion of the financial instruments are recognized in the income statement under "financial result on other items". When the contracts become due, the effective portion of the financial instruments is recognized in revenues, while the ineffective portion is recognized under "financial result on other items".

The nominal amounts of derivative financial instruments used to hedge against currency risk are shown below grouped by contractual period:

Forward foreign exchange contracts

Change in U.S. dollar hedge reserve based on forward foreign currency transactions at December 31, 2008 with comparative table for previous years

- ¹⁾ Amounts shown net of deferred taxes
²⁾ Transactions completed in U.S. \$
³⁾ Amount of hedge reserve allocated for use in subsequent years, in € million

	Hedge reserve ²⁾ in U.S. \$ million			Effect on 2008 balance sheet / income statement in € million		
	2006	2007	2008	Balance sheet ¹⁾ Equity	Income statement Revenues	Financial result on other items
Balance Jan. 1	560.0	720.0	305.0	17.6		
Increase	615.0	85.0	970.0	-29.1		
Decrease	-455.0	-500.0	-395.0			
						0.0
						0.6
						-0.2
					29.6	
					-7.2	
Balance Dec. 31	720.0	305.0	880.0	-11.5	22.4	0.4

Year	Allocation ³⁾		
2007	500.0		
2008	210.0	275.0	
2009	10.0	30.0	480.0
2010			340.0
2011			60.0
Total	720.0	305.0	880.0

There are 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 the following derivative financial instruments which do not form part of a hedging relationship as defined by IAS 39.

Currency option transactions

This type of transaction (commonly referred to as „plain vanilla options“) enables 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 the risk that if the value of the euro should fall against the U.S. dollar the group will be obliged to sell a greater quantity of U.S. dollars at the previously agreed exchange rate.

Structured U.S. dollar currency option transactions

The group also holds a structured product as a currency hedge that allows the company to sell, or under certain circumstances obliges the company to sell, a minimum quantity of U.S. dollars at fixed exchange rates. The maximum volume to be exchanged in these transactions in the financial year 2009 amounts to U.S. \$ 240 million. Such products present the risk that if the value of the euro should fall against the U.S. dollar the group will be obliged to sell a greater quantity of U.S. dollars at the previously agreed exchange rate. The product comprises twelve individual currency option transactions for each month from January to December 2009. Should certain exchange rate parities be exceeded on the agreed due dates, MTU is obliged to sell USD to the contracting bank at a firmly agreed USD/€ exchange rate.

Currency swaps

A currency holding of a fixed amount of U.S. dollars was sold during the financial year 2008 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. There is no further currency risk beyond that of the currency holding.

Currency risks that do not affect the group's cash flows (risks arising from the currency translation of the assets and liabilities of foreign group entities) are not hedged, because the risk involved is insignificant.

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 profit and loss 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, finance lease liabilities) are invoiced in U.S. dollars and therefore have an impact on net profit for the year and 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 had been 10% higher or lower than the actual closing rate on December 31, 2008, the sensitivity analysis based on this assumption produces the following hypothetical effects on net profit for the year and equity:

Exchange rate sensitivity

in € million	2008		2007		2006	
Exchange rate sensitivity € / US-\$	+ 10%	-10%	+ 10%	-10%	+ 10%	-10%
Closing exchange rate Dec. 31, 2008: 1.3917 (Dec. 31, 2007: 1.4721, Dec. 31, 2006: 1.3170)	1.25	1.53	1.32	1.62	1.19	1.45
Net profit¹⁾	-18.4	14.1	-12.0	7.6	5.0	-4.1
Equity¹⁾	-38.1	31.2	-19.0	15.3	-43.8	30.2
of which: hedge reserve (fair value) ¹⁾	-47.2	38.6	-15.8	12.7	-39.4	26.8

¹⁾ net of taxes

42.2.2. 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 (CAD), Chinese yuan (CNY), Polish zloty (PLN) and U.S. dollars (USD).

MTU has access to overdraft facilities in the form of a revolving credit facility (RCF) amounting to € 250.0 million made available by a consortium of banks. Within this framework, direct credit facility arrangements have been agreed with three banks, each for an amount of € 40.0 million (ancillary facilities). At December 31, 2008 the group had drawn down € 61.2 million (2007: € 69.6 million) out of the € 120.0 million available under these bilateral banking credit facilities. Of the remaining total line of credit amounting to € 188.8 million (2007: € 180.4 million) at the balance sheet date, € 16.9 million had been drawn down as bank guarantees in favour of third parties. Any credit actually utilized is subject to interest at market index average rates plus an additional margin. Unused credit facilities are subject to a modest loan commitment fee. As at December 31, 2008, MTU and its affiliates had met all loan repayment and other obligations (covenants) arising from financing agreements.

MTU also employs the following derivative financial instruments which do not form part of a hedging relationship as defined by IAS 39. Changes in the fair value of the derivatives embedded in these financial instruments have an affect on the financial result on other items, and hence on net profit for the year and equity.

US-Dollar-Interest-Rate-Swap / Cross Currency Swap (CCS)

The purpose of interest rate swaps is to reduce exposure to interest rate fluctuations. This financial instrument involves swapping variable-rate U.S. dollar interest income on U.S. dollar bank deposits for fixed-rate U.S. dollar interest income over a period of five years. This type of transaction is of a purely financial nature and consequently presents no additional currency risk, even if it does present a minor interest rate risk. At December 31, 2008, MTU holds contractual obligations pertaining to 3 interest-rate swaps. The first of these carries a nominal amount of € 10.0 million and is due on April 17, 2013. The company in this case swaps a variable 3-month USD-Libor BBA interest rate for a fixed interest rate.

The second and third are each cross-currency interest-rate swaps. The second interest-rate swap carries a nominal amount of 33.0 million USD and a due date of November 19, 2009, whereby MTU swaps a one-year fixed interest rate for a variable interest rate. The third swap carries a nominal amount of € 40.0 million and a due date of September 22, 2009, whereby the company receives a fixed 3-month USD-Libor BBA interest rate in exchange for a variable 3-month EUR Euribor-Reuters. The negative fair value of these swaps is included in the “financial result on other items” (Note 14.).

Cross-currency swaps are used to swap U.S. dollars for euros and to swap fixed-rate euro interest income for variable-rate U.S. dollar interest income.

Constant maturity swaps (CMS)

This type of financial instrument is used to swap short-term interest for long-term interest. MTU pays interest to the counterparty at the short-term rate and receives interest at the rate for long-term deposits. The minimum deposit required to benefit from this type of transaction is € 120.0 million. The contractual period is 10 years. This swap instrument is paired with a second financial instrument for the same amount (€ 120.0 million), which swaps long-term interest for short-term interest. The contractual period in this case is 3 years. Inverse changes in the yield curve over the long term could have a negative impact on the fair value of this financial instrument. This financial instrument was fully redeemed in May 2008.

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, net profit for the year, and equity. The interest rate sensitivity analysis is based on the following assumptions:

Change in the market interest rate of non-derivative financial instruments bearing interest at a fixed, normal rate only have an effect on net profit 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 net profit and equity that must be accounted for. There may be a possible effect on net profit in the event of early repayment or maturity, resulting from the difference between carrying amounts and fair values, which is disclosed in the notes (see also the explanatory comments relating to the convertible bond). The repurchase of units of the convertible bond with a total nominal value of € 27.2 million in September and October 2008, resulted in the recognition of income of € 5.0 million under “financial result on other items” (see Note 14.)

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 can have an effect on the “financial result on other items” (adjustment of fair value of derivative instruments). These effects are therefore also taken into account in the relevant sensitivity analysis.

The currency derivatives used by the group are only subject to an insignificant interest rate risk, and are therefore not included in the sensitivity analysis.

Interest rate sensitivity

In the financial year 2008, an average of 55% (2007: 64%) of the group's financial liabilities denominated in euros bore 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, 2008 had been 100 base points higher or lower, the sensitivity analysis based on this assumption produces the following hypothetical effects on net profit for the year:

Interest rate sensitivity

in € million	2008		2007		2006	
Interest rate sensitivity in PVBP ¹⁾	+100	-100	+100	-100	+100	-100
Net profit ²⁾	-0.3	0.4	-4.5	5.2	0.2	0.1

¹⁾ PVBP = present value of a basis point

²⁾ net of taxes

42.2.3. 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 net profit for the year and equity. The risk variables of most relevance in this context are the quoted MTU share price, as a factor influencing the conversion option threshold for the convertible bond (see explanatory comments below) and forward commodity sales contracts for nickel alloys.

Convertible bond

In the financial year 2007, MTU Aero Engines Holding AG issued a convertible bond with a par value of € 180.0 million. The convertible bond carries a par value of € 100,000 and has a term to maturity of five years. The bond is convertible into registered non-par value common shares of the company corresponding to a proportionate amount (€ 1 per share) of the company's total share capital and possessing full dividend rights. At a conversion price of € 49.50, the conversion ratio at issue date was 2,020.20. The coupon rate is fixed at 2.75%, payable yearly on February 1. The present value of future cash flows arising from the contractual obligation was calculated by applying a discount rate equivalent to the 5.425% market interest rate that the company would have had to pay if it had issued a non-convertible bond.

The expense over the convertible bond's term to maturity consists of the present value calculated as above, discounted at the applied market interest (measured at amortized cost using the effective interest method). As a result of changes in the yield curve, the fixed coupon rate of the convertible bond may present an interest rate risk, which ultimately represents a market-related fair value risk, out of which differences might arise between the carrying amount and the fair value of the liability portion of the convertible bond at the balance sheet date.

The repurchase of units of the convertible bond with a total nominal value of € 27.2 million in September and October 2008 resulted in the recognition of income amounting to € 5.0 million (2007: € 0.0 million) under the financial result on other items (Note 14.).

The possible effect on the financial result in the event of early repayment, repurchase or maturity is represented by the difference between the carrying amount of € 145.4 million (2007: € 167.3 million) and the fair value of € 118.5 million (2007: € 164.0 million), as disclosed in the notes. The significantly lower fair value of the liability component

in 2008 is attributable to distortions of the credit spread for corporate bonds in connection with the financial market crisis, and in MTU's view is not an accurate reflection of the company's creditworthiness. MTU considers that the unchanged good credit ratings published by the rating agencies are appropriate and justified. Details of these ratings and the outlook issued by leading rating agencies are provided in Section 3. of the group management report.

Forward commodity sales contracts

To minimize the risk of increasing commodity prices for the necessary quantity of nickel, MTU has concluded 30 forward commodity sales contracts with banking institutions for a total of 1,210 tons of nickel over the period 2009 to May 2011. The contracted fixed prices for nickel range between 10.9 and 36.5 thousand USD per 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 has been established to cover these transactions. The fair value changes arising from these forward commodity sales contracts are recognized under "financial result on other items" to the amount of € -11.7 million (2007: € -9,7 million). Please refer to Note 14.

Price sensitivity

If it is assumed that the market price of forward commodity sales contracts for nickel had been 10% higher or lower, the sensitivity analysis based on this assumption produces the following hypothetical effects on net profit for the year:

Price sensitivity

in € million	2008		2007		2006 ²⁾	
Market price sensitivity	+10%	-10%	+10%	-10%	+10%	-10%
Net profit ¹⁾	0.7	-0.7	1.7	-1.7	n/a	n/a

¹⁾ net of taxes

²⁾ no forward commodity contracts for nickel in 2006

42.3. 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 according to business units, product, currency and location. 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, where necessary, cash and cash equivalents, is kept available. Transactions in connection with financing activities are conducted exclusively with partners who have an excellent credit rating, and creditworthiness is continuously monitored. Outstanding payments in connection with operating activities are monitored on an ongoing basis. General and specific allowances are used to account for the risk of non-payment (see Note 23.).

The group's lines of credit consist of a revolving credit facility for an amount of € 250.0 million made available by a consortium of banks in conjunction with agreements that run to March 24, 2010. Within this framework, direct credit facility arrangements have been agreed with three banks, each for an amount of € 40.0 million (ancillary facilities). The funds raised through these lines of credit are generally intended to finance investment in production facilities and are not covered by collateral. At December 31, 2008 the group had drawn down € 61.2 million (2007: € 69.6 million) under these bilateral banking credit facilities. Of the remaining € 188.8 million (2007: € 180.4 million)

available at the balance sheet date, € 16.9 million (2007: 16.5 million) had been drawn down as bank guarantees in favour of third parties. As of December 31, 2008, MTU and its affiliates had met all loan repayment and other obligations (covenants) arising from financing agreements. The availability of spare borrowing capacity amounting to € 171.9 million (2007: € 163.9 million) through the unused part of these lines of credit increases the scope and flexibility of the group's financing opportunities.

The maximum default risk is represented by the carrying amounts of the financial assets recognized in the balance sheet (including derivative financial instruments with a positive fair value). Irrespective of existing collateral, the amount stated for the financial assets specifies the maximum default risk pertaining to the case in which a customer, risk- and revenue-sharing partner, consortium, or similar entity is unable to meet its contractual payment obligations. In order to minimize default risk, depending on the form of payment and amount being serviced, payment arrangements underlying the original financial instrument are secured by collateral as required, credit rating information is obtained, or historical data from the existing business relationship (and in particular payment patterns) are used to avoid payment defaults.

MTU is also exposed to default risk through contingent liabilities and other financial obligations (see Note 43.).

43. Contingent liabilities and other financial obligations

No provisions were allocated for the following net contingent liabilities, as the risk of their being invoked is considered very unlikely:

Contingent liabilities 2008

in € million	Provisions	Dec. 31, 2008	
		Gross	Net
I. Contingent liability under risk- and revenue-sharing partnerships with:			
IAE International Aero Engines AG	1.6	28.6	27.0
Pratt & Whitney Aircraft Company	0.2	21.6	21.4
General Electric Company	0.1	7.0	6.9
Total contingencies	1.9	57.2	55.3
II. Guarantees and other contingent liabilities		83.7	83.7
Total contingent liabilities	1.9	140.9	139.0

43.1. Contingent liabilities under risk- and revenue-sharing partnerships

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 safe-guarding 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. Contingent liabilities arising from sales financing under existing risk- and revenue-sharing agreements amount to a total of € 57.2 million (2007: € 73.1 million). The gross figure represents the total amount of the contingent liability, whereas the net figure, amounting to € 55.3 million (2007: € 71.1 million), is reduced by the corresponding provisions set aside to cover the liability. The financing risk represented by the difference between the accepted financing obligations and the market value of the financed engines, amounting to € 1.9 million (2007: € 2.0 million), was recognized under "Other provisions" (Note 33.).

43.2. Guarantees and other contingent liabilities

Guarantees and other contingent liabilities relate to service agreements for gas turbine maintenance and guarantee obligations arising from maintenance agreements amounting to € 19.8 million (2007: € 17.7 million), and investment grants amounting to € 20.9 million (2007: € 20.9 million). The increase in these liabilities is mainly attributable to the initial recognition of contingent liabilities for a government grant that is repayable under certain conditions. However, it is judged unlikely that these conditions will arise.

The following table shows the contingent liabilities in 2007, for comparison:

Contingent liabilities 2007

in € million	Provisions	Dec. 31, 2007	
		Gross	Net
I. Contingent liability under risk- and revenue-sharing partnerships with:			
IAE International Aero Engines AG	1.5	28.0	26.5
Pratt & Whitney Aircraft Company	0.3	26.3	26.0
General Electric Company	0.2	18.8	18.6
Total contingencies	2.0	73.1	71.1
II. Guarantees and other contingent liabilities		40.3	40.3
Total contingent liabilities	2.0	113.4	111.4

The following table shows the contingent liabilities in 2006, for comparison:

Contingent liabilities 2006

in € million	Provisions	Dec. 31, 2006 Gross	Net
I. Contingent liability under risk- and revenue-sharing partnerships with:			
IAE International Aero Engines AG	1.7	33.3	31.6
Pratt & Whitney Aircraft Company	0.2	14.2	14.0
General Electric Company	0.2	24.7	24.5
Total contingencies	2.1	72.2	70.1
II. Guarantees and other contingent liabilities		33.5	33.5
Total contingent liabilities	2.1	105.7	103.6

43.3. Contingent liabilities arising from joint ventures

The contingent liabilities arising from equity investments in joint ventures are as follows:

Contingent liabilities arising from joint ventures

in € million	2008	2007	2006
Capital obligations and guarantees	1.3	1.2	1.4

The capital obligations and guarantees relate to accorded loans and are recognized in proportion to the interest in the joint venture. MTU does not have any capital obligations towards the partner company itself.

43.4. Other financial obligations

43.4.1. 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 contracts have terms of one to eighteen years and in certain cases contain extension and purchase options and/or price adjustment clauses. With regard to rental and lease agreements, payments of € 21.2 million (2007: € 16.3 million) were expensed in 2008.

The total sum of future minimum lease payments attributable to rental and lease agreements (operating leases) which cannot be terminated is as follows (based on due payment dates):

Nominal total of future minimum lease payments

in € million	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Due in less than one year	9.8	11.3	9.9
Due in more than one and less than five years	22.7	14.2	20.1
Due in more than five years	2.6	4.1	3.0
Total	35.1	29.6	33.0

The increase in the nominal total of future minimum lease payments amounting to € 35.1 million at December 31, 2008, as compared with € 29.6 million at December 31, 2007 is primarily attributable to contracts for leased engines in commercial MRO. In 2008, 14 engines were retired and 10 new engines taken into service, the latter in part being leased for significantly longer periods and thus carrying a higher total obligation. These engines are made available to customers as replacements while their own engines are undergoing repairs.

In addition to engine leasing in commercial MRO with a total volume of € 15.6 million, other major individual obligations, totaling € 15.1 million, comprise the future lease payments for an office building at MTU Munich, payments for the building at the air base in Erding in connection with the cooperative model, and for the lease of floor conveyor.

At December 31, 2008, 93% of the leasing contracts, in arithmetical terms, are due to expire within 5 years. 7% are valid for more than 5 years, while a small number of leasing contracts have no definite expiration date.

In the two previous comparative periods, the group had pledged securities totaling € 2.5 million to the Nord/LB Norddeutsche Landesbank, Hannover. This pledge was revoked effective January 1, 2008.

43.4.2. Order commitments for financial obligations

At December 31, 2008, other financial obligations comprised order commitments for the purchase of intangible assets, totaling € 5.7 million, and financial obligations for the purchase of property, plant and equipment, totaling € 41.4 million. These financial obligations were thus within normal limits.

44. Explanatory comments relating to the consolidated cash flow statement

The statement details how cash and cash equivalents and the group's liquidity have changed during the year under review. In accordance with IAS 7 (Statement of Cash Flows), a distinction is made between cash flow from operating activities, cash flow from investing activities, and cash flow from financing activities (see consolidated cash flow statement).

The cash and cash equivalents presented in the cash flow statement comprise the recognized amounts of cash in hand, checks, and credit balances held at banks with a term to maturity not exceeded three months.

The cash flows from **investing and financing activities** are established directly on the basis of payment.

Cash flow from **operating activities**, on the other hand, is inferred **indirectly** on the basis of net profit. As part of the indirect calculation process, changes to balance sheet items taken into consideration in connection with operating activities are adjusted by the effects generated by changes in the composition of the group reporting entity. Accordingly, the changes in the affected balance sheet items cannot be reconciled with the corresponding figures on which the published consolidated balance sheet is based.

45. Relationships with related companies and persons

Special disclosures are required to be made with regard to relationships and transactions with related companies and persons. Related companies are listed under Note 45.1.2. (Major shareholdings). Not only members of the Board of Management but also members of the Supervisory Board and shareholders are considered as “related parties” as defined by IAS 24 (Related Party Disclosures).

In addition, the disclosure requirement extends to transactions with associated companies and joint ventures as well as to transactions with persons who exercise significant influence on the financial and business policies of the group, including close family members or intermediate companies. A significant influence on the financial and business policies of MTU Aero Engines Holding AG is deemed to exist if a party has a shareholding of 20% or more in a group company, or a seat on the managing or supervisory board of a group company, or holds any other key management position.

MTU Aero Engines Holding AG is required by IAS 24 to disclose for the 2008 business year, as in prior periods, its business relationships with subsidiaries, associated companies, joint ventures, and members of the Board of Management and Supervisory Board.

MTU maintains normal business relationships with non-consolidated, related subsidiaries. The transactions with these related companies form part of their normal dealings. 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.

No significant transactions were conducted between companies belonging to the MTU group and members of the Board of Management or Supervisory Board of MTU Aero Engines Holding AG, or with any companies in which these persons hold a seat on the managing or supervisory board. This is also applicable for close family members of this group of persons.

45.1. Related companies

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.

45.1.1. Business with related companies

During the course of the business year, companies within the group conducted transactions amongst themselves (intragroup sales). The following business transactions were carried out with non-consolidated related companies in the financial year 2008 and the two prior periods:

Receivables due from related companies

in € million	Outstanding balances			Value of business transactions					
	Receivables			Revenues/income/sales			Expenses/purchases		
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	2008	2007	2006	2008	2007	2006
Current accounts receivable									
Eurojet Turbo GmbH, Munich ¹⁾	31.0	32.3	38.3	227.0	154.5	136.4	-0.6	-0.8	-0.3
MTU Turbomeca Rolls-Royce GmbH, Hallbergmoos ¹⁾	2.5	6.7	5.0	23.5	29.5	28.8	-0.6	-0.8	-0.1
MTU Turbomeca Rolls-Royce ITP GmbH, Hallbergmoos ¹⁾	0.5			4.2			-0.5		
Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde	1.1	3.4	3.6	42.7	51.2	45.8	-0.1	-1.0	-0.9
Pratt & Whitney Canada CSC Africa (Pty.) Ltd., Lanseria, South Africa				0.2					
Ceramic Coating Center S.A.S., Paris, France	0.1	0.1	0.2				-2.4	-0.7	-2.3
Turbo Union Ltd., Bristol, England ¹⁾	7.5	15.5	7.8	80.8	85.5	115.5			
Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia	1.8	0.4		0.8	0.6		-4.6	-0.1	
Gesellschaft zur Entsorgung von Sondermüll in Bayern GmbH, Munich							-0.2	-0.2	-0.2
Total	44.5	58.4	54.9	379.2	321.3	326.5	-9.0	-3.6	-3.8

¹⁾ Associated entities

Liabilities due to related companies

in € million	Outstanding balances			Value of business transactions					
	Liabilities			Revenues/income/sales			Expenses/purchases		
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	2008	2007	2006	2008	2007	2006
Current liabilities									
MTU Aero Engines Beteiligungs- und Verwaltungs GmbH, Munich			0.1						
Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia			0.1						-2.8
MTU Turbomeca RollsRoyce ITP GmbH, Hallbergmoos ¹⁾		0.1	0.4		9.1	5.8		-0.6	-0.1
IAE International Aero Engines AG, Zurich, Switzerland ¹⁾	41.6	81.6	56.6	442.1	357.9	365.3	-485.1	-491.5	-394.7
MTU Versicherungsvermittlungs- und Wirtschaftsdienst GmbH, Munich							-7.7	-9.5	-10.8
EPI Europrop International GmbH, Munich ¹⁾	7.2	6.7	0.7	2.2	2.1	2.6		-1.6	-1.5
MTU München Unterstützungskasse GmbH, Munich	10.2	10.8	3.9				-0.6	-0.2	-0.3
Total	59.0	99.2	61.8	444.3	369.1	373.7	-493.4	-503.4	-410.2

¹⁾ Associated entities

45.1.2. 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, 2008 and the profit or loss generated by each company in the financial year 2008:

Name and registered office of entity

	Shareholding	Equity	Profit/loss
	in %	in € 000	€ 000
	Dec. 31, 2008	Dec. 31, 2008	2008
I. Investments in subsidiaries			
MTU Aero Engines Finance B.V., Amsterdam, Netherlands	100.00	5,562	-3,577
MTU Aero Engines GmbH, Munich	100.00	845,810	61,846 ²⁾
MTU Maintenance Hannover GmbH, Langenhagen	100.00	118,776	-6,788 ²⁾
MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde	100.00	127,796	12,735
MTU Aero Engines North America Inc., Newington, USA	100.00	-6,715 ³⁾	-2,787 ⁷⁾
MTU Maintenance Canada Ltd., Richmond, Canada	100.00	-6,505 ³⁾	-3,117 ⁷⁾
Vericor Power Systems LLC., Atlanta, USA	100.00	24,101 ³⁾	1,718 ⁷⁾
RSZ Beteiligungs- und Verwaltungs GmbH, Munich	100.00	13,432	0
MTU Aero Engines Polska Sp. z.o.o., Rzeszów, Poland	100.00	16,908 ³⁾	-5,285 ⁷⁾
MTU Versicherungsvermittlungs- und Wirtschaftsdienst GmbH, Munich	100.00	26 ⁴⁾	0 ^{2/4)}
MTU München Unterstützungskasse GmbH, Munich ⁹⁾	100.00	10,164 ⁴⁾	0 ⁴⁾
II. Investments in associated companies			
Turbo-Union Ltd., Bristol, England	39.98	310 ¹⁾	22 ¹⁾
EUROJET Turbo GmbH, Hallbergmoos	33.00	1,894 ^{1/4)}	802 ^{1/4)}
EPI Europrop International GmbH, Munich	28.00	497 ^{1/4)}	433 ^{1/4)}
MTU Turbomeca Rolls-Royce GmbH, Hallbergmoos	33.33	148 ^{1/4)}	109 ^{1/4)}
MTU Turbomeca Rolls-Royce ITP GmbH, Hallbergmoos	25.00	59 ^{1/4)}	32 ^{1/4)}
III. Equity investments in joint ventures			
MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China	50.00	108,244 ³⁾	22,366 ⁷⁾
Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde	50.00	7,226	-1,945
Ceramic Coating Center S.A.S., Paris, France	50.00	1,188 ¹⁾	811 ¹⁾
Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia	50.00	2,327 ^{1/6)}	-767 ^{1/8)}
Pratt & Whitney Canada CSC Africa (Pty.) Ltd., Lanseria, South Africa	50.00	1,115 ³⁾	-840 ⁵⁾
IV. Other equity investments			
IAE International Aero Engines AG, Zurich, Switzerland	12.10	31,486 ^{1/6)}	2,070 ^{1/8)}

¹⁾ Previous year's figures; current figures not available

²⁾ Profit/loss for German GAAP purposes (HGB) transferred under profit and loss transfer agreement 2008

³⁾ Translated at closing exchange rate, Dec. 31, 2008

⁴⁾ HGB amount; no IFRS financial statements drawn up

⁵⁾ Translated at annual average rate for 2008

⁶⁾ Translated at closing exchange rate, Dec. 31, 2007

⁷⁾ Translated at monthly closing exchange rates 2008

⁸⁾ Translated at annual average rate for 2007

⁹⁾ Plan assets according to IAS 19

45.2. 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. This is also applicable for close family members of this group of persons.

45.2.1. Board of Management and Supervisory Board compensation

The following compensation has been paid in the year under review to the Board of Management and the Supervisory Board. Disclosures of compensation for individual members of the Board of Management and the Supervisory Board are made in conjunction with information relating to the German Corporate Governance Code (see the corporate governance report and the management compensation report).

Compensation for active board members

in € million	Board of Management			Supervisory Board		
	2008	2007	2006	2008	2007	2006
Short-term employee benefits	5.4	5.9	6.8	0.7	0.7	0.7
Pension contributions	0.5	0.4	0.4			
Share-based payment	0.4	0.5	0.4			
Total	6.3	6.8	7.6	0.7	0.7	0.7

45.2.2. Members of the Board of Management

Board of Management

Egon Behle Chief Executive Officer of MTU Aero Engines Holding AG, Munich	Munich
Dr. Rainer Martens Chief Operating Officer of MTU Aero Engines Holding AG, Munich	Munich
Dr. Stefan Weingartner President and CEO Commercial Maintenance of MTU Aero Engines Holding AG, Munich	Munich
Reiner Winkler Chief Financial Officer of MTU Aero Engines Holding AG, Munich	Munich

45.2.3. Members of the Supervisory Board

Members of the Supervisory Board

Klaus Eberhardt (Chairman) CEO of Rheinmetall AG, Düsseldorf	Düsseldorf
Josef Hillreiner ¹⁾ (Deputy Chairman) Chairman of the Works Council of MTU Aero Engines GmbH, Munich Chairman of the Group Works Council of MTU Aero Engines GmbH, Munich	Ried
Michael Behé ¹⁾ (since Apr. 30, 2008) Chairman of the Works Council of MTU Maintenance Hannover GmbH, Hannover Member of the Group Works Council of MTU Aero Engines GmbH, Munich	Wedemark
Prof. Dr. Wilhelm Bender (since Apr. 30, 2008) Chairman of the Executive Board of Fraport AG, Frankfurt / Main	Frankfurt
Thomas Dautl ¹⁾ (since Apr. 30, 2008) Director for Manufacturing Engineering, MTU Aero Engines GmbH, Munich	Weichs
Rudolf Domberger ¹⁾ (since Apr. 30, 2008) Full-time member of the Works Council of MTU Aero Engines GmbH, Munich	Illmünster
Harald Flassbeck ¹⁾ (since Apr. 30, 2008) Former First Authorized Representative, IG Metall, Munich	Unterhaching
Babette Fröhlich ¹⁾ Departmental head within the IG Metall Executive Committee, Frankfurt	Frankfurt
Dr.-Ing. Jürgen M. Geißinger President and CEO of INA-Holding Schaeffler KG, Herzogenaurach	Herzogenaurach
Louis R. Hughes (until Apr. 30, 2008) Chief Executive Officer of GBS Laboratories LLC., Herndon, Virginia	Winnetka, USA
Johannes P. Huth (until Jan. 31, 2008) Member of Kohlberg Kravis Roberts & Co. Ltd., London	London
Michael Keller ¹⁾ (until Apr. 30, 2008) Senior Vice President Rotor/Stator and Production Services of MTU Aero Engines GmbH, Munich	Aindling
Prof. Dr. Walter Kröll Former President of the Helmholtz Association of German Research Centres, Bonn	Marburg
Michael Leppke ¹⁾ (since Apr. 30, 2008) Second Authorized Representative, IG Metall, Munich	Munich
Josef Mailer ¹⁾ (until Apr. 30, 2008) Full-time member of the Works Council of MTU Aero Engines GmbH, Munich Member of the Group Works Council of MTU Aero Engines GmbH, Munich	Hirschenhausen
Günter Sroka ¹⁾ (until Mar. 31, 2008) Former Chairman of the Group Works Council of MTU Aero Engines GmbH, Munich	Dachau
Udo Stark (since Feb. 1, 2008) Former CEO of MTU Aero Engines Holding AG, Munich	Munich
Prof. Dr. Ing. Klaus Steffens Former President and CEO of MTU Aero Engines GmbH, Munich	Bernried

¹⁾ Employee representative

For disclosures concerning the compensation awarded to individual members of the Supervisory Board, please see the management compensation report.

V. Segment Information

46. Applicability of segment reporting

The group reports financial information by line of business and by geographical area. 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.

46.1. Identification of segments

The group identifies its reportable segments in accordance with IAS 14 (Segment Reporting), and has determined that business segments (delineated by line of business) are to be used as the primary reporting format, and geographical segments (delineated by geographical area) as the secondary reporting format.

MTU Aero Engines Holding AG classifies its activities according to two business segments:

- **Commercial and military engine business (OEM)**
- **Commercial maintenance business (MRO)**

Activities of the business segments:

- 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.
- In the **commercial maintenance business**, the group maintains, repairs and overhauls commercial aircraft engines. Activities encompass full engine maintenance and repair, and the complete overhaul of engine modules and special repairs. In addition to aircraft engines, group companies in this business sector also repair and overhaul industrial gas turbines.

In the table showing segment information by business segment, the amount in the earnings before tax (EBT) line of the consolidation/reconciliation column represents, on the one hand, the amounts applied to eliminate inter-segment sales between the two business segments and, on the other hand, transactions by the holding companies which cannot be directly allocated to a business segment.

The negative consolidation/reconciliation amount of € 39.6 million in the "Net interest expense and financial result on other items" line includes interest expenses attributable to the holding company and eliminates profit and loss transfers between group companies allocated to different segments. The negative consolidation/reconciliation amount of € 486.1 million in the segment assets line relates to the consolidation of the fair value of subsidiaries (financial assets) and of accounts receivable from inter-segment sales. The reconciliation amount of € 90.3 million in the segment liabilities line reconciles financial liabilities attributable to the holding company to internal liabilities attributable to the group companies.

46.2. Explanatory comments relating to the segment information

Primary segments (business segments)

- The segment information is based on the same accounting policies as the consolidated financial statements. Receivables and liabilities, income and expenses, and revenues from inter-segment sales are reconciled between the segments. Intra-group sales are transacted on an arm's length basis.
- Capital expenditure relates to additions to property, plant and equipment and intangible assets which will probably be in use for more than one year. This capital expenditure is allocated on the basis of the registered office of the company to which the acquired assets belong.
- Segment assets and the segment liabilities also include assets and liabilities which have been used for generating current business activities. These assets are allocated on the basis of the registered office of the company to which they belong. Segment assets and segment liabilities have been reconciled to group assets and group liabilities.
- Significant non-cash expenses relate to change in provisions, write-downs on inventories, discounts applied to contract production receivables, and the interest expense on pension obligations.

Secondary segments (geographical segments)

- In the segment information reported by geographical area, external sales are allocated on the basis of the registered office of the customers. In line with the method used for internal control and reporting, the following geographical areas (regions) are defined: Germany, Europe, North America, South America, Africa, Asia, others, and financial assets accounted for at equity.
- Revenues are allocated on the basis of the country in which the customer is domiciled.
- Capital expenditure relates to additions to property, plant and equipment and intangible assets which will probably be in use for more than one year. This capital expenditure is allocated on the basis of the registered office of the company to which the acquired assets belong, which in turn defines the geographical segment.
- Segment assets are allocated on the basis of the registered office of the company to which they belong.

Explanatory comments relating to segment earnings

Earnings before interest and tax (EBIT) are determined by adding back certain items (depreciation/amortization, write-downs on assets, and the effects of the purchase price allocation arising from the company's acquisition by Kohlberg Kravis Roberts & Co. (KKR) from DaimlerChrysler AG) to earnings before interest, tax, depreciation and amortization (EBITDA adjusted).

Commercial and military engine business

EBITDA (adjusted) and EBITDA margin

EBITDA (adjusted) for the OEM business increased from € 305.7 million to € 330.3 million, and the adjusted EBITDA margin improved from 19.1% to 20.1%. The reconciliation of EBIT to adjusted EBITDA is given in Note 17.1.

The impairment losses on intangible assets, totaling € 35.2 million, comprise impairment losses on the carrying amount of old GE engine programs amounting to € 34.3 million and on old military engine programs amounting to € 0.9 million. In each case, the carrying amount was compared with the recoverable amount. The recoverable amount was found to be below the carrying amount, and hence an impairment loss was recognized to match the carrying amount to the recoverable amount. Refer to Note 7. for a summary of the distribution of impairment losses on assets and on the business segments.

Impairment losses attributable to the commercial and military engines business in 2006 amounted to € 5.7 million, of which € 2.4 million was attributable to the investment in the TP400-D6 engine program for the A400M military transporter. A further impairment loss of € 3.3 million was necessitated on property, plant and equipment at MTU Aero Engines North America Inc., USA, as the carrying amount no longer adequately reflected the recoverable amount.

Commercial maintenance business (MRO)

EBITDA and EBITDA margin

Earnings before interest, tax, depreciation and amortization (EBITDA) were reduced by € 9.0 million to € 78.9 million as a result of the additional costs incurred in conjunction with the introduction of new logistics and planning systems in Hannover. The adjusted EBITDA margin fell accordingly to 7.1% (2007: 8.7%). The reconciliation of EBIT to adjusted EBITDA is given in Note 17.1.

There was no impairment loss recognized in respect of the commercial maintenance business in the financial year 2008. The impairment loss on intangible assets in the financial year 2007 amounting to € 14.7 million related to the carrying amount of a license for CF34 repair techniques, which was compared with its recoverable amount. The recoverable amount was found to be below the carrying amount. Hence an impairment loss of € 14.7 million, representing the full carrying amount of the CF34 license, was recognized in costs of sales and thus reduced the net profit of the commercial maintenance business. Refer to Note 7. for a summary of the distribution of impairment losses on assets and on the business segments.

The calculated impairment loss on intangible assets and on property, plant and equipment in the financial year 2006, totaling € 0.6 million, relates to the carrying amount of MTU Maintenance Canada Ltd., Canada, which no longer adequately reflected its recoverable amount.

Group segment reporting according to business segments is described on pages 134 to 137.

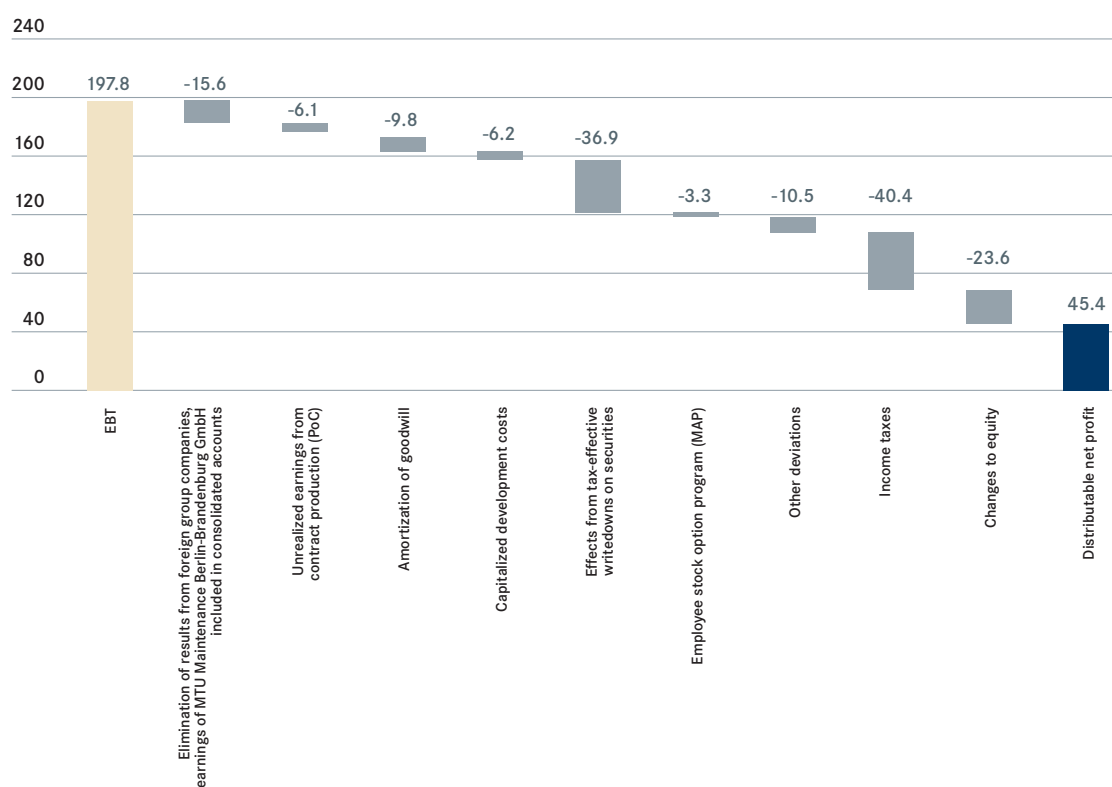
VI. Events after the balance sheet date

On July 16, 2008, a share purchase agreement was signed with United Technologies International Corporation, East Hartford, USA for the purpose of acquiring shares in a company domiciled in the Kingdom of Saudi Arabia. The terms of this share purchase agreement were amended on December 16, 2008. Under the provisions of the agreement, MTU Aero Engines GmbH will acquire 125,450 shares with a nominal value of 12,545,000 Saudi Arabian rial (SAR) corresponding to an interest of 19.3% in the share capital of the Saudi Arabian company. Ownership of the shares is to be transferred after closing, probably at the end of April 2009. MTU has no shareholder rights or other rights of control until the date of transfer of ownership.

VII. Reconciliation of group net profit with net profit of MTU Aero Engines Holding AG

Unlike the consolidated financial statements, which are based on the IASB's IFRS standards, the annual financial statements of MTU Aero Engines Holding AG are prepared in accordance with German Commercial Code (HGB) and German Stock Cooperation Act (AktG). The IFRS rules are also applied in the individual income 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, and those of the German subsidiaries whose profit/loss is transferred to MTU Aero Engines Holding AG (and whose financial statements are also prepared in accordance with the German Commercial Code), differ from the accounting policies applied in the consolidated financial statements.

Reconciliation of group net profit with net profit of MTU Aero Engines Holding AG



The following reconciliation table therefore contains the major differences between the net profit of the group and the net profit available for distribution by MTU Aero Engines Holding AG:

Reconciliation

in € million	2008	2007	2006
Net profit (IFRS)	179.7	154.1	89.1
Income tax	-18.1	-25.3	-61.4
Earnings before tax (EBT)	197.8	179.4	150.5
Elimination of results from foreign group companies	2.0	-9.3	-6.6
+/- Deviations from German Commercial Code (HGB)			
Earnings of MTU Maintenance Berlin-Brandenburg GmbH included in consolidated accounts	-17.6	-0.7	-9.9
Transfer to special tax reserve			-13.0
Unrealized earnings from contract production (PoC)	-6.1	-15.5	-15.5
Amortization of goodwill	-9.8	-9.8	-9.8
Capitalized development costs	-6.2	-4.3	
Transaction costs for convertible bond issue		-3.3	
Effects from tax-effective writedowns on securities	-36.9		
Employee stock option program (MAP)	-3.3		
Other deviations	-10.5	-6.7	-2.2
Earnings before tax of MTU Aero Engines Holding AG (HGB)	109.4	129.8	93.5
Income taxes	-40.4	-64.4	-25.1
Net profit of MTU Aero Engines Holding AG (HGB)	69.0	65.4	68.4
Appropriation of net income			
Withdrawn from capital reserves	47.4	113.6	38.9
Withdrawn from reserves, from reserve for treasury shares from other reserves	112.6 6.0		3.8
Allocation to reserves to reserve for treasury shares to other reserves	-56.4 -31.8	-113.6 -18.2	-42.7 -24.6
Expenditure from the withdrawal of shares	-104.4		
Earnings from reduction of stock capital	3.0		
Distributable net profit of MTU Aero Engines Holding AG (HGB)	45.4	47.2	43.8

Disclosures relating to key items in the reconciliation table of group net profit to the net profit available for distribution of MTU Aero Engines Holding

Profit/loss of MTU Maintenance Berlin-Brandenburg GmbH

In the reconciliation between IFRS and HGB statements, an adjustment is applied to group earnings, which include the profit and loss of the subsidiary, corresponding to the annual results of MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde, since a profit and loss transfer agreement between MTU Aero Engines GmbH, Munich and MTU Maintenance Berlin-Brandenburg GmbH was terminated in 2006.

Unrecognized earnings from contract production (PoC)

Contrary to the provisions of the German Commercial Code (HGB), the international financial reporting standards (IFRS) prescribe the use of the percentage-of-completion (PoC) method under certain conditions when accounting for production contracts, whereby revenue and profits arising from a production contract are recognized in proportion to the stage of completion of the project. 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 Notes 5.8. and 24.).

Amortization of goodwill

The goodwill arising from the merger reported in the HGB balance sheet is subject to scheduled amortization over 15 years in accordance with Section 255 (4) of the German Commercial Code. In the reconciliation between IFRS and HGB statements, an adjustment is made to group earnings before tax (EBT), which does not include any amortization of goodwill (IAS 36), corresponding to the goodwill amortization expense in the HGB annual results.

Capitalized development costs

The commercial MRO business has developed special repair processes capable of reducing the cost and increasing the efficiency of engine maintenance. The associated development costs, as well as those relating to development work on the GE 38 engine in the commercial and military engine business, meet the criteria for recognition of intangible assets laid down in the international financial reporting standards. By contrast, the German Commercial Code treats these as services for the company's own account which are to be recognized as an expense.

Impact of tax deductibility of write-downs on treasury shares

Unlike for IFRS accounting purposes, treasury shares acquired by MTU Aero Engines Holding AG are required to be presented for German accounting (HGB) and tax purposes within current assets measured at their average acquisition cost. Such assets are required to be written down to their „fair value“ (for HGB purposes) or their „Teilwert“ (for tax purposes) if lower at the end of the reporting period. Since MTU Aero Engines Holding AG is classified for tax purposes as a finance company, the write-down on treasury shares reduced taxable profit by € 36.9 million (2007: € 0.0 million). Refer to Note 30.6 for calculation of the average purchase price of treasury shares.

MAP employee share option program

In 2008, employees purchased a total of 192,959 shares at a total price of € 4.9 million (€ 25.19 per share) from MTU under the terms of the employee stock option program. The average purchase price of the shares sold to group employees originally amounted to € 8.2 million. The loss arising from the difference between the proceeds of the sale and the original acquisition cost, amounting to € 3.3 million, was recognized in accordance with the applicable commercial laws and tax regulations.

Appropriation of net profit

The annual net profit of MTU Aero Engines Holding AG, as reported in the annual financial statements drawn up in accordance with the German Commercial Code (HGB), amounts to € 69.0 million.

Withdrawals from capital reserves

Funds to finance the purchase of treasury shares amounting to € 56.4 million were withdrawn from capital reserves and other revenue reserves in 2008. At the time of each share purchase, the reduced capital reserves remained within the limit defined for the purpose of profit distribution in accordance with Section 272 (2) item 4 of the German Commercial Code (HGB).

Withdrawals from revenues reserves

The subscribed capital was reduced by € 3.0 million as a result of the capital reduction due to the withdrawal of 3 million shares with a par value of € 1 each on March 18, 2008. The expense attributable to the withdrawal of the treasury shares led to a reduction in the reserve for treasury shares of € 104.4 million. In addition, € 8.2 million was withdrawn from the reserve for treasury shares and transferred to other revenue reserves to cover the shares issued to group employees under the MAP employee stock option program.

Allocations to revenue reserves

The treasury shares purchased in 2008 amounting to € 56.4 million were allocated to the reserve for treasury shares.

Allocations to other revenue reserves

The allocations to other revenue reserves amounting to € 31.8 million include € 23.6 million representing to the remaining net profit of MTU Aero Engines Holding AG after the proposed dividend payment for the financial year 2008, and € 8.2 million representing the issue of shares to group employees under the MAP employee stock option program. The net profit available for distribution thus amounts to € 45.4 million (2007: € 47.2 million).

Recommendation for the distribution of net profit

At the Annual General Meeting on May 26, 2009, the Board of Management and Supervisory Board of MTU Aero Engines Holding AG will recommend that a dividend of € 0.93 (2007: € 0.93) per share be distributed for the financial year 2008. For the 48,770,945 shares entitled to a dividend the dividend payment amounts to € 45.4 million. Based on the quoted share price at the close of 2008, this is equivalent to a dividend yield of 4.7% (2007: 2.3%).

Pending approval by the Annual General Meeting, the dividend is to be paid on May 27, 2009.

Electronic version of the Federal Gazette

The annual financial statements of MTU Aero Engines Holding AG, 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 2008 and also permanently available to shareholders on the MTU website at 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 19, 2009



Egon Behle
Chief Executive Officer



Dr. Rainer Martens
Chief Operating Officer



Dr. Stefan Weingartner
President and CEO
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 Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, Group segment reporting and Notes to the Consolidated Financial Statements, together with the Group Management Report for the business year from 1 January to 31 December 2008. 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 German 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, that 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, 3 March 2009

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Plendl
German Public Auditor

Dr. Reitmayr
German Public Auditor

Comparative overview tables

MTU Aero Engines Holding AG was created in 2004, as a result of MTU Aero Engines Erste Holding GmbH's transformation into a joint stock company, shortly before the IPO. Prior to the IPO, the company was owned by funds managed by one of the world's leading private equity firms, Kohlberg Kravis Roberts & Co. (KKR). The funds had acquired the company at the end of 2003. Until that time, it had been a wholly owned subsidiary of the then DaimlerChrysler AG. Because the long-established MTU only became an independently controlled company again as from the 2004 financial year, the comparative presentations in this Annual Report are limited to the years 2004 to 2008.

Summary of group information

in € million	Change 2008 - 2007	2008	2007	2006	2005	2004 ¹⁾
Revenues	5.8%	2,724.3	2,575.9	2,416.2	2,182.7	1,918.0
Commercial engine business	4.0%	1,146.3	1,102.0	993.5	943.4	879.9
Military engine business	-0.2%	496.6	497.5	489.6	491.4	495.7
Commercial maintenance business	10.8%	1,113.0	1,004.7	954.7	766.9	575.9
Gross profit	8.3%	483.5	446.4	352.7	288.0	290.4
Research and development expenses	-12.3%	-94.9	-84.5	-64.5	-45.7	-57.7
Selling expenses	-33.6%	-100.2	-75.0	-71.2	-69.4	-68.0
General administrative expenses	3.5%	-44.2	-45.8	-45.4	-46.4	-87.7
Other operating income and expenses	86.4%	4.1	2.2	12.2	4.7	4.1
Financial result	21.0%	-50.5	-63.9	-33.3	-72.6	-74.6
Earnings before tax	10.3%	197.8	179.4	150.5	58.6	6.5
Net profit	16.6%	179.7	154.1	89.1	32.8	0.2
Non-current assets	7.4%	1,821.6	1,696.3	1,752.7	1,797.1	1,634.5
Intangible assets	12.3%	1,274.9	1,135.0	1,189.5	1,211.8	968.6
Property, plant and equipment	-2.7%	525.1	539.7	537.8	568.8	576.6
Financial assets	-4.7%	16.2	17.0	19.9	14.8	86.6
Other assets + deferred tax assets	17.4%	5.4	4.6	5.5	1.7	2.7
Current assets	-1.1%	1,374.5	1,389.2	1,233.3	1,011.1	1,069.0
Inventories	12.5%	661.4	587.8	529.0	528.9	448.1
Trade receivables	-7.8%	460.4	499.2	400.0	315.4	360.8
Contract production receivables	-18.8%	138.9	171.1	139.8	106.0	74.1
Financial assets + Other assets + Prepayments + Income tax claims	-31.2%	43.9	63.8	62.3	38.8	157.5
Cash and cash equivalents	3.9%	69.9	67.3	102.2	22.0	28.5
Equity	9.9%	617.4	562.0	562.3	528.0	217.0
Subscribed capital	-5.5%	52.0	55.0	55.0	55.0	2.2
Capital reserves	-22.9%	354.5	460.0	455.7	454.5	203.7
Revenue reserves	69.5%	325.3	191.9	81.4	32.5	-0.1
Treasury shares	36.0%	-100.1	-156.3	-42.7		
Other comprehensive income	-225.4%	-14.3	11.4	12.9	-14.0	11.2
Current and non-current liabilities	2.2%	2,578.7	2,523.5	2,423.7	2,280.2	2,486.5
Pension provisions	3.6%	390.2	376.6	394.9	377.8	358.9
Income tax liabilities	-40.7%	23.0	38.8	1.2	40.8	8.9
Other provisions	-3.8%	479.4	498.5	483.0	446.7	204.0
Financial liabilities	3.0%	336.4	326.5	338.8	326.7	866.5
Trade payables	7.1%	495.7	462.9	378.5	358.4	289.4
Contract production payables	18.4%	520.6	439.7	411.5	388.5	295.2
Other liabilities	-4.4%	105.8	110.7	108.6	90.7	95.9
Deferred tax liabilities	-15.6%	227.6	269.8	307.2	250.6	367.7
Total assets/total equity and liabilities	3.6%	3,196.1	3,085.5	2,986.0	2,808.2	2,703.5
Employees (annual average)	2.4%	7,263	7,092	7,003	7,070	7,682
Employees (Dec. 31)	5.7%	7,537	7,130	7,077	6,930	7,417
Trainees (annual average)	10.6%	281	254	270	286	286

¹⁾ Data for 2004 do not include proportionate consolidation of MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China

MTU group: Key income statement data

		Change 2008 - 2007	2008	2007	2006	2005	2004 ¹⁾
EBITDA	€ million	4.0 %	408.5	392.9	335.6	295.3	214.1
EBITDA margin	%	-2.0 %	15.0	15.3	13.9	13.5	11.2
EBIT	€ million	2.1 %	248.3	243.3	183.8	131.2	81.1
EBIT margin	%	-3.2 %	9.1	9.4	7.6	6.0	4.2
EBT	€ million	10.3 %	197.8	179.4	150.5	58.6	6.5
Net profit	€ million	16.6 %	179.7	154.1	89.1	32.8	0.2
Adjusted earnings indicators							
EBITDA adjusted	€ million	3.3 %	405.7	392.9	318.2	238.7	172.2
EBITDA margin (adjusted)	%	-2.6 %	14.9	15.3	13.2	10.9	9.0
EBIT adjusted	€ million	5.9 %	331.0	312.6	237.7	161.7	101.7
EBIT margin (adjusted)	%		12.1	12.1	9.8	7.4	5.3
EBT adjusted	€ million	12.8 %	280.5	248.7	204.4	89.1	21.8
Other performance indicators							
Revenues per employee = Revenues / average number of employees (excl. trainees)	€ 000	3.6 %	390.2	376.7	358.9	321.7	259.3
EBIT per employee = EBIT / average number of employees (excl. trainees)	€ 000		35.6	35.6	27.3	19.3	11.0
Value added	€ million	4.2 %	718.2	689.1	722.6	635.5	592.0
Value added per employee = Value added / average number of employees	€ 000	1.7 %	98.9	97.2	103.2	89.9	77.1
Tax rate = Income taxes / earnings before tax	%	-34.8 %	9.2	14.1	40.8	44.0	96.9
R&D as a percentage of revenues = Research and development expenses / revenues	%	-1.5 %	6.7	6.8	7.0	7.9	12.1
Depreciation/amortization rate = Scheduled depreciation and amortization / revenues	%	-11.5 %	4.6	5.2	6.0	7.4	6.9
Productivity indicators							
Material intensity = Cost of materials / revenues	%	-1.4 %	64.8	65.7	64.7	64.1	63.1
Labor intensity = Personnel expenses / revenues	%	1.1 %	18.5	18.3	21.7	23.2	26.6

¹⁾ Data for 2004 do not include proportionate consolidation of MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China

MTU group: Balance sheet data

		Change 2008 - 2007	2008	2007	2006	2005	2004 ¹⁾
Investment intensity of non-current assets = Non-current assets / total assets	%	3.6%	57.0	55.0	58.7	64.0	60.5
Investment intensity of current assets = Current assets / total assets	%	-4.4%	43.0	45.0	41.3	36.0	39.5
Equity ratio = Equity / total capital	%	6.0%	19.3	18.2	18.8	18.8	8.0
Debt ratio = Debt capital (liabilities) / total capital	%	-1.3%	80.7	81.8	81.2	81.2	92.0
Debt to equity ratio = Debt capital (liabilities) / equity	%	-7.0%	417.7	449.0	431.0	431.9	1,145.9
Structure of assets = Non-current assets / current assets	%	8.5%	132.5	122.1	142.1	177.7	152.9
Capital structure = Equity / debt capital (liabilities)	%	7.2%	23.9	22.3	23.2	23.2	8.7
Level of reserves = Capital reserves + revenue reserves less treasury shares / total capital	%	12.4%	18.1	16.1	16.6	17.3	7.5
Level of provisions = Provisions / total capital	%	-5.7%	27.9	29.6	29.4	30.8	21.2
Gross financial liabilities = Financial liabilities + carrying amount of pension obligations	€ million	3.3%	726.6	703.1	733.7	704.5	1,225.4
Net financial liabilities = Gross financial liabilities - carrying amount of pension obligations - cash and cash equivalents - derivative financial receivables	€ million	14.0%	254.7	223.4	210.2	304.7	720.9

¹⁾ Data for 2004 do not include proportionate consolidation of MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China

MTU group: Cash flow data

		Change 2008 - 2007	2008	2007	2006	2005	2004 ¹⁾
Cash flow from operating activities	€ million	71.8 %	405.8	236.2	209.8	273.3	72.9
Cash flow from investing activities	€ million	-170.0 %	-282.2	-104.5	-94.1	-83.9	-59.8
thereof: capital expenditure on intangible assets	€ million	-1,255.2 %	-193.8	-14.3	-37.1	-5.7	-10.9
thereof: capital expenditure on property, plant and equipment	€ million	-15.5 %	-99.9	-86.5	-77.0	-80.0	-55.0
thereof: proceeds from disposal/repayment ²⁾	€ million	618.8 %	11.5	1.6	20.0	2.3	6.2
thereof: investments in financial assets	€ million	100.0 %		-5.3		-0.5	-0.1
Free cash flow							
= Cash flow from operating activities + cash flow from investing activities	€ million	-6.2 %	123.6	131.7	115.7	189.4	13.1
Cash flow from financing activities	€ million	23.2 %	-127.4	-165.8	-37.7	-207.5	-190.7
Change in cash and cash equivalents	€ million	107.4 %	2.6	-34.9	80.2	-6.5	-177.2
Capex to depreciation ratio							
= Capital expenditure on intangible assets and property, plant and equipment / depreciation and amortization	%	172.0 %	183.3	67.4	75.2	52.2	49.5

¹⁾ Data for 2004 do not include proportionate consolidation of MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China and are adjusted for acquisition of MTU

²⁾ In full: Proceeds from disposal/repayment of intangible assets, property, plant and equipment and financial assets

MTU-Group: Liquidity data

		Change 2008 - 2007	2008	2007	2006	2005	2004 ¹⁾
First-degree liquidity ratio (cash ratio)							
= Cash and cash equivalents / trade payables	%	-2.8 %	14.1	14.5	27.0	6.1	9.8
Second-degree liquidity ratio (quick ratio)							
= (Cash and cash equivalents + trade receivables) / trade payables	%	-12.6 %	107.0	122.4	132.7	94.1	134.5
Third-degree liquidity ratio (current ratio)							
= (cash and cash equivalents + trade receivables (incl. contract production receivables) + inventories) / trade payables (incl. contract production payables)	%	-10.8 %	130.9	146.8	148.2	130.2	155.9
Ratio gross financial liabilities / EBITDA adjusted			1.8	1.8	2.3	3.0	7.1
Gearing							
= Net financial liabilities / equity	%	3.8 %	41.3	39.8	37.4	57.7	332.2
Relative indebtedness							
= Net financial liabilities / EBITDA adjusted	%	10.4 %	62.8	56.9	66.1	127.6	418.6

¹⁾ Data for 2004 do not include proportionate consolidation of MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China

MTU group: Share data and enterprise value

		Change 2008 - 2007	2008	2007	2006	2005	2004 ¹⁾
Earnings per share (undiluted) = Net profit / shares in circulation ²⁾	€	23.4%	3.64	2.95	1.64	0.60	n/a
Earnings per share (diluted) = Net profit + interest expense for convertible bond (net of taxes) / shares in circulation ⁴⁾	€	25.1%	3.54	2.83	1.64	0.60	n/a
Price-earnings ratio (PER) = Share price / earnings per share (diluted)		-61.0%	5.5	14.1	21.6	43.8	n/a
EBITDA per share = EBITDA / shares in circulation ²⁾	€	10.3%	8.28	7.51	6.19	5.37	n/a
EBIT per share = EBIT / shares in circulation ²⁾	€	8.2%	5.03	4.65	3.39	2.39	n/a
Cash flow per share = Cash flow from operating activities / outstanding shares ²⁾	€	81.9%	8.22	4.52	3.87	4.97	n/a
Market capitalization = Number of common shares x price per share (balance sheet date)	€ million	-53.7%	1,018.2	2,200.0	1,950.3	1,445.4	n/a
Enterprise value = Market capitalization + financial liabilities + pension provisions - cash and cash equivalents	€ million	-40.9%	1,674.9	2,835.8	2,581.8	2,127.9	n/a
Ratio of enterprise value to EBITDA = Enterprise value / EBITDA		-43.1%	4.1	7.2	7.7	7.2	n/a
Ratio of enterprise value to EBIT = Enterprise value / EBIT		-42.7%	6.7	11.7	14.0	16.2	n/a
Ratio of enterprise value to revenues = Enterprise value / revenues		-45.5%	0.6	1.1	1.1	1.0	n/a
Annual dividend payout rate = Total dividend ³⁾ / unappropriated profit available for distribution x 100	%	-8.8%	65.8	72.2	64.0	86.8	n/a
Dividend per share = Total dividend / outstanding shares ²⁾	€		0.93	0.93	0.82	0.73	n/a
Dividend yield = Dividend per share / current share price	%	104.3%	4.7	2.3	2.3	2.8	n/a

¹⁾ Data for 2004 do not include proportionate consolidation of MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China

²⁾ In full: Average number of shares in circulation

³⁾ According to resolution by the Annual General Meeting

⁴⁾ Relates to average weighted number of shares in circulation plus potential shares from the convertible bond and the MSP.

MTU group: Profitability data

		Change 2008 - 2007	2008	2007	2006	2005	2004 ¹⁾
Return on sales (net profit) = Net profit / revenues	%	10.0	6.6	6.0	3.7	1.5	
Return on sales (EBITDA) = EBITDA / revenues	%	-2.0	15.0	15.3	13.9	13.5	11.2
Return on sales (EBIT) = EBIT / revenues	%	-3.2	9.1	9.4	7.6	6.0	4.2
Return on sales (EBT) = EBT / revenues	%	4.3	7.3	7.0	6.2	2.7	0.3
Gross profit margin = Gross profit / revenues	%	2.3	17.7	17.3	14.6	13.2	15.1
Return on equity = Net profit / average equity	%	11.2	30.5	27.4	16.3	8.8	0.1
Return on total capital = (EBT + interest expenses) / average total capital	%	-4.8	6.8	7.2	6.8	4.7	
Return on investment (ROI) = (Net profit / revenues) x (revenues / total capital)	%	12.0	5.6	5.0	3.0	1.2	
Return on capital employed (ROCE) = EBIT / capital employed	%	-3.3	37.6	38.9	31.4		
Ratio of working capital to revenues = Working capital / revenues	%	-9.6	8.5	9.4	7.3	9.4	13.2
Inventory turnover = Revenues / average inventories		-4.3%	4.4	4.6	4.6	4.5	4.4
Receivables turnover = Average trade receivables / revenues x 365	days	-2.4%	65.2	66.8	55.4	58.2	63.4
Payables turnover = Average trade payables / cost of materials x 365	days	9.1%	99.1	90.8	86.1	84.5	79.0

¹⁾ Data for 2004 do not include proportionate consolidation of MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China

> 2009

Bombardier CSeries



Bombardier is the world's leading manufacturer of business and regional jets. The CSeries tops off the Canadian company's product portfolio and represents its first foray into the hundred-seater market. The program was kicked off at Farnborough Airshow 2008, and the new airplane is due to go operational in 2013. Bombardier has opted for the latest technology to power it: the geared turbofan. MTU has a 15-percent share in the PW1524G engine program, for which it is developing and building its key component, the high-speed low-pressure turbine, and producing the high-pressure compressor together with Pratt & Whitney.



Corporate Governance

Corporate Governance Report

High regard for corporate management based on responsibility

The term “corporate governance” refers to the practice of administering and controlling a company according to strict rules of accountability and principles of responsibility. At MTU, corporate governance has been held in high regard for many years. Two central elements play a major role: Promoting the trust of investors, customers and employees in the company’s executive and controlling bodies, and increasing the value of the company in a sustainable manner.

The basic principles of good corporate governance are that it should be based on mutual trust and efficient collaboration between the Board of Management and the Supervisory Board, respect the shareholders’ interests, and allow for open and transparent communication. 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”).

The Code, now in the amended version of June 6, 2008, first came into force in 2002 and describes the nationally and internationally recognized standards of responsible corporate leadership together with the statutory regulations for the management and supervision of German listed companies. MTU’s Board of Management and Supervisory Board have actively worked towards ensuring that the recommendations of the Code are met. Their declaration of conformity can be found on page 299.

The following contains a report by the MTU Board of Management – also on behalf of the Supervisory Board – as stipulated in Section 3.10 of the Code, on corporate governance at the company in the 2008 financial year.

Trust-based cooperation

MTU is a stock corporation organized under German law. In accordance with these legal provisions, its governing bodies consist of the Board of Management, the Supervisory Board and the Annual General Meeting. Corporate management relies on close and trust-based cooperation between all of these bodies as well as a reliable and constant flow of information. The Annual General Meeting, in particular, offers shareholders the opportunity to present questions to MTU executives and personally exercise their voting rights, or do so through a proxy.

The company is managed by a Board of Management whose members work together as a team. Members complement each other with a variety of qualifications and professional experience. The Board of Management sets MTU’s strategic direction, plans and establishes the company’s budget and monitors the individual business units. It informs the Supervisory Board of the company’s current situation, potential risks, strategic decisions and their implementation, in a timely manner and on a regular basis. Important Board of Management decisions require the approval of the Supervisory Board, in particular the approval of the budget. For further information on this topic, please refer to the Supervisory Board report on page 306.

In line with statutory requirements, the Supervisory Board comprises six shareholder representatives and six employee representatives. It oversees the work of the Board of Management and provides advisory support. All Supervisory Board members are qualified for these tasks and perform their mandated duties correctly. 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 may be found on page 307.

In 2008, no consulting agreements or contracts for services or similar contractual arrangements existed between MTU Aero Engines Holding AG or any of its associates and any member of the Supervisory Board. No conflicts of interest requiring disclosure have arisen.

In the financial year 2008, directors' and officers' liability insurance with an appropriate deductible was in effect for MTU Board of Management and Supervisory Board members.

Compensation for members of the Board of Management and Supervisory Board is established according to clear, transparent criteria, which are fully described in the management compensation report on pages 300 to 305.

Financial reporting

The Board of Management is accountable for the reporting of the consolidated financial statements, which are drawn up in accordance with International Financial Reporting Standards (IFRS). The financial statements of group companies are compiled according to the provisions of the German Commercial Code (HGB). An internal system of controls coupled with the application of uniform principles of accounting ensure that the earnings, financial situation, net asset position and cash flows of all group companies are accurately presented. MTU has a differentiated system in place to identify and monitor business and financial risks.

Compliance

The corporate culture at MTU places great store on the values of trust and mutual respect. Nevertheless, the risk can never be entirely excluded that the unauthorized behavior of isolated individuals might lead to contravention against 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 applied preventive measures include awareness training and regular scheduled inspections of all business units by the internal auditing teams.

The observance of judicial and ethical rules and principles plays a central role in this respect. These include non-violation of the law and the upholding of professional values in dealings with customers, suppliers, competitors, government authorities, holders of public office, and members of the general public, both in Germany and abroad, and the strict separation of professional and personal affairs in order to avoid conflicts of interest. All of these compliance aspects are documented in a code of conduct drawn up and introduced by the MTU Board of Management and Group Works Council, which also deals with the responsible use of insider information. It embodies MTU's corporate culture and reflects its resolve to strictly comply with the stipulations of the relevant public laws and internal regulations. The code of conduct is intended as a company-wide guide to ethical business relations and as a public statement of MTU's commitment to corporate social responsibility and environmental protection.

Compliance is an important aspect of all management functions at MTU. All managers are expected to verify that each member of their staff has read and understood the code of conduct and is abiding by its rules. These activities are supplemented by internal training courses designed to accentuate employees' awareness of compliance risks and to reinforce and augment their knowledge of the relevant requirements. Corruption prevention is one of the major topics dealt with during these training courses.

MTU has set up a Compliance Board that reports directly to the Board of Management and offers its advice on relevant issues. The members of the Compliance Board, which consists of the heads of the legal, auditing and security departments, meet once a quarter. The board's duties include identifying and evaluating legal and reputation risks. It also proposes preventive measures based on an analysis of the way compliance aspects are integrated in business processes, and issues instructions to the relevant specialist departments concerning their implementation.

As the result of an agreement between the Board of Management and the Group Works Council, an internal contact office for unethical conduct has been created. It allows employees, customers and suppliers to report suspected cases of irregular or criminal practice.

The Supervisory Board oversees the Board of Management's compliance activities with the assistance of the Audit Committee. In the year under review, it was briefed on the awareness training courses, the meetings of the Compliance Board, and the information submitted to the contact office charged with dealing with suspected cases of illegal or unethical conduct. Other issues dealt with by the Compliance Board included updates to the compliance guidelines, the audits carried out by the Compliance Board and the training measures planned for 2009.

A full information service

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 changes in its business situation to shareholders, shareholder associations, financial analysts, the media and other interested parties. The company publishes a full range of informative documentation, press releases and a financial calendar on the MTU website at www.mtu.de. MTU also publishes quarterly reviews of its business activities. Through these interim reports and related publications, the Board of Management keeps investors, analysts and the media up to date on the company's quarterly and yearly business results. Any new developments likely to have a significant impact on the MTU share are disclosed in accordance with statutory requirements in the form of ad hoc releases.

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 related derivatives. Section 15a of the German Securities Trading Act (WpHG) stipulates that such transactions must be disclosed if and when their value reaches or exceeds € 5,000 within a single calendar year.

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 June 6, 2008 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. The only recommendations of the German Corporate Governance Code that have not been and will not be applied are the following:

1. Form and details 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.

2. Reporting of the total ownership of shares in the company (Section 6.6 of the Code):

The number of shares in the company held by members of the Board of Management and the Supervisory Board will not be reported separately in respect of each Board. As the members of the Board of Management and the Supervisory Board do not consult with one another regarding the exercise of their stock rights, we do not consider such reporting to be appropriate. No corresponding provision has yet been specified in current legislation, as such information is not deemed necessary.

Munich, December 2008

For the Board of Management



Egon Behle
Chairman

For the Supervisory Board



Klaus Eberhardt
Chairman

Management Compensation Report

The management compensation report summarizes the principles applied when establishing the level of compensation to be awarded to members of the Board of Management of MTU Aero Engines Holding AG, and explains how benefits received by members of the Board of Management are calculated and structured. This report furthermore describes the schedule of fees paid to members of the Supervisory Board.

The management compensation report is based on the recommendations of the German Corporate Governance Code and contains statements which, pursuant to the requirements of the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRSs), form part of the notes to the financial statements or the management report. It therefore forms part of the attested consolidated financial statements. Consequently, information presented in the management compensation report will not be repeated in the notes or management report.

Board of Management compensation

Board of Management compensation is decided upon by the Personnel Committee of the Supervisory Board of MTU Aero Engines Holding AG. The members of this committee in the financial year 2008 were the chairman of the Supervisory Board, Klaus Eberhardt, the deputy chairman of the Supervisory Board, Josef Hillreiner, plus Harald Flassbeck (until April 30, 2008), Michael Leppke (since April 30, 2008) and Jürgen M. Geißinger.

The compensation awarded to members of the Board of Management of MTU Aero Engines Holding AG takes into account the size of the company, the global reach of its activities, its business and financial situation, and the level and structure of management compensation paid out by comparable companies in Germany and abroad. It furthermore takes into account the duties of each member of the Board of Management and their respective contributions to the company's overall performance, and the length of time for which they have served on the board. Compensation levels are calculated in such a way as to match the competitive standards of the international recruitment market for highly qualified business executives, and so as to represent an adequate incentive to achieve results.

The compensation received by members of the Board of Management is based on a performance-related remuneration scheme. In the financial year 2008, it was made up of the following four components:

- (1) a fixed basic sum, paid on a monthly basis.
- (2) a variable bonus, which is dependent on achieving specific business targets and is contractually limited to a sum ranging between 83% and 100% of the fixed portion of the compensation.
- (3) share-based compensation under the Matching Stock Program (MSP) which was established for a wide section of the company's executive management in the financial year 2005 to cover the period 2005 - 2009. Under this scheme, shares of phantom stock are allocated to subscribers in equal tranches each year for a period of five years. The allocation of these phantom stocks is subject to the condition that subscribers hold their own long-term investment in the company's shares. At the end of the respective vesting period, which runs for two years after allocation of each tranche, and on condition that the minimum exercise thresholds have been exceeded, the share-based compensation can be redeemed in exchange for the exercise of the phantom stock rights (a more detailed description of the MSP, including information on the amendments to the terms of issue introduced during the year 2007, is provided in Note 30.4. to the consolidated financial statements).
- (4) pension commitments under a defined benefit pension plan for members of the Board of Management. Defined benefit pension provisions are dealt with in more detail under Note 31. to the consolidated financial statements.

The contractual agreements with members of the Board of Management make no provision for further payments after termination of contract. Solely in the event of premature termination of contract without serious cause, members of the Board of Management are entitled to receive a payment equivalent to the fixed basic compensation that

would have otherwise been awarded for the remaining term of their contract. In accordance with the recommendations of the German Corporate Governance Code, two Board of Management contracts contain a clause limiting such severance payments to no more than the value of two years' compensation (severance payment cap).

Board of Management contracts make no provision for any compensatory payments in the event that a board member's term of office should be prematurely terminated as the result of a change of control.

Compensation payments in 2008

In the financial year 2008, total cash benefits paid to members of the Board of Management amounted to € 5.4 million (2007: € 5.9 million). Of this sum, € 2.9 million (2007: € 3.4 million) concerned non-performance-related payments and € 2.5 million (2007: € 2.5 million) was performance-related. The cumulative expense came to a total of € 6.3 million (2007: € 6.8 million).

Details of the compensation entitlement of the individual members of the Board of Management in the financial year 2008 are presented below:

Overview

Active board members (figures in €)	Cash benefits	Other benefits ¹⁾	Pension contributions ²⁾	Cash-equivalent value of share-based compensation ³⁾ (long-term incentive)	Total
Egon Behle	2,279,677.97	38,538.69	296,248.00	172,756.00	2,787,220.66
Dr. Rainer Martens	1,111,891.77		87,129.00	22,529.00	1,221,549.77
Dr. Stefan Weingartner	819,902.26		54,921.00	54,642.00	929,465.26
Reiner Winkler	1,194,991.54		100,299.00	99,988.00	1,395,278.54
Total 2008	5,406,463.54	38,538.69	538,597.00	349,915.00	6,333,514.23
Total 2007	5,858,726.25	50,000.00	392,379.38	450,216.00	6,751,321.63

¹⁾ Other benefits comprises double household expenses amounting to € 38,538.69 (2007: € 50,000).

²⁾ Relates to the pension contributions (allocation to provisions) paid on behalf of the individual board members.

³⁾ The values shown in this table for share-based compensation refer to phantom stock that was granted under the Matching Stock Program for the third through fifth tranche, taking into account the modified terms of issue introduced in the financial year 2007 (see Note 30.4. to the consolidated financial statements).

Non-performance-related and performance-related cash benefits were paid out as follows in 2008:

Cash benefits

Active board members (figures in €)	Salary (non-performance-related)	Other benefits ¹⁾ (non-performance-related)	Annual bonus (performance-related)	Total
Egon Behle	1,161,856.00	17,821.97	1,100,000.00	2,279,677.97
Dr. Rainer Martens	600,000.00	11,891.77	500,000.00	1,111,891.77
Dr. Stefan Weingartner	400,008.00	19,894.26	400,000.00	819,902.26
Reiner Winkler	625,002.00	19,989.54	550,000.00	1,194,991.54
Total 2008	2,786,866.00	69,597.54	2,550,000.00	5,406,463.54
Total 2007	2,816,668.00	575,391.25	2,466,667.00	5,858,726.25

¹⁾ Other benefits comprises charges to taxable income covering personal use of company vehicles amounting to € 62,999.93 (2007: € 68,705.41) and premiums for accident insurance policies taken out on behalf of the Board of Management amounting to € 6,597.61 (2007: € 6,685.84). The figure for 2007 additionally includes benefits under insurance premium conversion arrangements amounting to € 500,000.

Defined benefit obligation of pension provisions accorded to members of the Board of Management

The defined benefit obligation (DBO) of all pension provisions accorded to members of the Board of Management at December 31, 2008 amounted to € 1.9 million in total (2007: € 1.6 million), as stated in Note 31. to the financial statements. The slight increase in the present value of defined benefit obligations is due to the application of a higher discount at the current market rate of 5.75% for 2008, compared with a rate of 5.25% for 2007.

Share-based compensation

The table below lists the number and cash-equivalent value of phantom stock granted and allocated to members of the Board of Management under the Matching Stock Program (MSP) as the share-based component of their compensation. The cash-equivalent value of this stock has been calculated using the Black-Scholes pricing model. The

Share-based compensation

Active board members	Granted phantom stock ¹⁾			Allocated phantom stock		
	At Jan. 1, 2008	Acquired in 2008	At Dec. 31, 2008	At Jan. 1, 2008	Acquired in 2008	At Dec. 31, 2008
(number of shares or value in €)	shares	shares	shares	shares	shares	shares
Egon Behle						
Phantom Stock Tranche 1 dated 6.6.2005						
Phantom Stock Tranche 2 dated 6.6.2006						
Phantom Stock Tranche 3 dated 6.6.2007						
Phantom Stock Tranche 4 dated 6.6.2008		72,000	72,000		72,000	72,000
Phantom Stock Tranche 5 dated 6.6.2009		72,000	72,000			
Total		144,000	144,000		72,000	72,000
Dr. Rainer Martens						
Phantom Stock Tranche 1 dated 6.6.2005						
Phantom Stock Tranche 2 dated 6.6.2006	7,224		7,224	7,224		7,224
Phantom Stock Tranche 3 dated 6.6.2007	7,224		7,224	7,224		7,224
Phantom Stock Tranche 4 dated 6.6.2008	7,224		7,224		7,224	7,224
Phantom Stock Tranche 5 dated 6.6.2009	7,224		7,224			
Total	28,896		28,896	14,448	7,224	21,672
Dr. Stefan Weingartner³⁾						
Phantom Stock Tranche 1 dated 6.6.2005						
Phantom Stock Tranche 2 dated 6.6.2006						
Phantom Stock Tranche 3 dated 6.6.2007						
Phantom Stock Tranche 4 dated 6.6.2008	30,000		30,000		30,000	30,000
Phantom Stock Tranche 5 dated 6.6.2009	30,000		30,000			
Total	60,000		60,000		30,000	30,000
Reiner Winkler						
Phantom Stock Tranche 1 dated 6.6.2005	35,712		35,712	35,712		35,712
Phantom Stock Tranche 2 dated 6.6.2006	35,712		35,712	35,712		35,712
Phantom Stock Tranche 3 dated 6.6.2007	35,712		35,712	35,712		35,712
Phantom Stock Tranche 4 dated 6.6.2008	35,712		35,712		35,712	35,712
Phantom Stock Tranche 5 dated 6.6.2009	35,712		35,712			
Total	178,560		178,560	107,136	35,712	142,848
Cumulative total	267,456	144,000	411,456	121,584	144,936	266,520

¹⁾ The stock from the Matching Stock Program is allocated in equal annual tranches over the five-year period 2005-2009, each of which becomes exercisable after a vesting period of 2 years up to June 6, 2011, under the conditions defined in the Matching Stock Program. This case arose for the first time in 2007, being applicable to the first tranche allocated in 2005. The second tranche allocated in 2006 lapsed in financial year 2008 since the exercise price was not reached (for more details, see Note 30.4. to the consolidated financial statements).

expense relating to phantom stock granted to members of the Board of Management under the MSP is reported in the balance sheet on the basis of the fair value estimated at the time of its allocation, making allowance for the specific conditions relating to the exercise of the phantom stock rights. It should be noted that the terms under which equity instruments are issued have been amended (for a more detailed explanation of the exercise conditions and the subsequent amendment as a result of a modification to the terms of issue that became effective in financial year 2007, please refer to Note 30.4. to the consolidated financial statements).

A total of 411,456 shares of phantom stock from the Matching Stock Program had been granted to the Board of Management as of December 31, 2008. Of these, a total of 332,808 phantom stocks (2007: 314,592) were not yet exercisable at the end of financial year 2008 and will remain so for the remaining term of the Matching Stock Program. The average weighted exercise price for the phantom stocks that were not yet exercisable at December 31, 2008 was € 34.98 per phantom stock (2007: € 30.17). A year-by-year breakdown is presented in the following table:

(number of shares or value in €)	Exercised Phantom Stock	Forfeited Phantom Stock	Lapsed Phantom Stock	Phantom stock not yet exercisable at Dec. 31, 2008		Cash-equivalent value ²⁾	
	Phantom Stock 2008 shares	Phantom Stock 2008 shares	Phantom Stock 2008 shares	At Dec. 31, 2008 shares	At Dec. 31, 2008 months	Fair value €	Average exercise price €
Egon Behle							
Phantom Stock Tranche 1 dated 6.6.2005							
Phantom Stock Tranche 2 dated 6.6.2006							
Phantom Stock Tranche 3 dated 6.6.2007							
Phantom Stock Tranche 4 dated 6.6.2008				72,000	17		28.28
Phantom Stock Tranche 5 dated 6.6.2009				72,000	29		
Total				144,000		172,756	28.28
Dr. Rainer Martens							
Phantom Stock Tranche 1 dated 6.6.2005							
Phantom Stock Tranche 2 dated 6.6.2006			-7,224				
Phantom Stock Tranche 3 dated 6.6.2007				7,224	5		46.14
Phantom Stock Tranche 4 dated 6.6.2008				7,224	17		28.28
Phantom Stock Tranche 5 dated 6.6.2009				7,224	29		
Total			-7,224	21,672		22,529	37.21
Dr. Stefan Weingartner ³⁾							
Phantom Stock Tranche 1 dated 6.6.2005							
Phantom Stock Tranche 2 dated 6.6.2006							
Phantom Stock Tranche 3 dated 6.6.2007							46.14
Phantom Stock Tranche 4 dated 6.6.2008				30,000	17		28.28
Phantom Stock Tranche 5 dated 6.6.2009				30,000	29		
Total				60,000		54,642	37.21
Reiner Winkler							
Phantom Stock Tranche 1 dated 6.6.2005	-35,712						
Phantom Stock Tranche 2 dated 6.6.2006			-35,712				
Phantom Stock Tranche 3 dated 6.6.2007				35,712	5		46.14
Phantom Stock Tranche 4 dated 6.6.2008				35,712	17		28.28
Phantom Stock Tranche 5 dated 6.6.2009				35,712	29		
Total	-35,712		-35,712	107,136		99,988	37.21
Cumulative total	-35,712		-42,936	332,808		349,915	34.98

²⁾ After modification to the terms of issue (repricing is dealt with in Note 30.4. to the consolidated financial statements), average exercise price for 2007 was adjusted to take into account the actual dividend payments within the vesting period.

³⁾ 2007: 35,712 phantom stocks; the phantom stock in tranches 1-3 granted under the entitlement of 'senior executive' does not form part of Board of Management compensation.

Other

No loan facilities have been granted by the company to members of the Board of Management.

Provisions established to cover current and projected 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:

Pension obligations to former members of the Board of Management

Former board members (figures in €)	Provisions established to cover current and projected pension obligations	
	At Dec. 31, 2008	At Dec. 31, 2007
Total	3,200,371.00	3,159,891.00

Supervisory Board compensation

The rules governing Supervisory Board compensation are laid down in the articles of association of MTU Aero Engines Holding AG.

Pursuant to Section 12 of the articles of association of MTU Aero Engines Holding AG, members of the Supervisory Board receive a fixed payment of € 30,000, payable at the end of the financial year; this sum is tripled in the case of the chairman of the Supervisory Board, and multiplied by one-and-a-half in the case of the deputy chairman. The chairs of the Audit and Personnel Committees respectively receive a further fixed payment of € 10,000, and the other members of these committees each receive a fixed payment of € 5,000. 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 compensation for members of the Supervisory Board is established relative to the size of the company and as a function of the duties and responsibilities of the respective members. The members of the Supervisory Board receive a fixed payment for their work. The chairman and deputy chairman of the Supervisory Board receive additional payments, as do the chairs and members of the Audit Committee and Personnel Committee.

The following compensation was awarded to the individual members of the Supervisory Board in the financial year 2008:

Supervisory Board compensation

Supervisory Board members (figures in €)	Compensation 2008 ¹⁾	Compensation 2007 ¹⁾
Klaus Eberhardt (Supervisory Board and Personnel Committee chairman since Jan. 1, 2008) ³⁾	126,000.00	37,500.00
Josef Hillreiner (deputy chairman) ^{2) 3)}	76,000.00	76,000.00
Babette Fröhlich ³⁾	53,000.00	56,000.00
Prof. Dr. Walter Kröll (Audit Committee chairman since Apr. 30, 2008)	52,500.00	48,000.00
Dr.-Ing. Jürgen M. Geißinger ²⁾	47,000.00	53,000.00
Prof. Dr.-Ing. Klaus Steffens	45,000.00	48,000.00
Udo Stark (since 1.2.2008)	42,500.00	
Michael Leppek (since 30.4.2008) ²⁾	38,250.00	
Thomas Dautl (since 30.4.2008)	34,500.00	
Rudolf Domberger (since 30.4.2008)	34,500.00	
Michael Behé (since 30.4.2008)	34,500.00	
Prof. Dr. Wilhelm Bender (since 30.4.2008)	31,500.00	
Louis R. Hughes (Audit Committee chairman until Apr. 30, 2008)	25,333.33	55,000.00
Harald Flassbeck (until 30.4.2008) ²⁾	17,666.67	53,000.00
Michael Keller (until 30.4.2008)	16,000.00	48,000.00
Josef Mailer (until 30.4.2008)	16,000.00	48,000.00
Günter Sroka (until 31.3.2008)	10,500.00	48,000.00
Johannes P. Huth (until 31.1.2008)	2,500.00	123,000.00
Prof. Dr. Sigmar Wittig (until 31.3.2007)		10,500.00
Total	703,250.00	704,000.00

¹⁾ Figures do not include foreign tax or value added tax

²⁾ Personnel Committee member

³⁾ Audit Committee member

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

Report of the Supervisory Board for the financial year 2008



Klaus Eberhardt,
Chairman of the Supervisory Board

Dear shareholders,

MTU Aero Engines Holding AG can look back on 2008 as a successful business year. The Supervisory Board advised the Board of Management on the running of the company, regularly oversaw its work, and continually followed business developments and the situation of MTU. The Board of Management briefed the members of the Supervisory Board in a regular, timely and exhaustive manner, submitting monthly written reports to the Supervisory Board on the company's earnings, financial situation, net asset position, and important business transactions. There was no cause for more specific acts of control, such as inspection of books and records.

In strategy meetings with the Board of Management, the Supervisory Board discussed all relevant planning issues and, after careful deliberation and examination, endorsed the outlined strategic orientation for the company. All business activities requiring the approval of the Supervisory Board under the provisions of the law, the company's articles of association, or the Board of Management's rules of procedure were closely examined, discussed with the Board of Management, and endorsed.

Meetings of the Supervisory Board

During the financial year 2008, resolutions were adopted at five Supervisory Board meetings and on one occasion by written consent in lieu of a meeting. Each member of the Supervisory Board was present at more than half the number of meetings. 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 these meetings, the Supervisory Board thoroughly discussed the business development of MTU and its associated companies with the Board of Management. One of the important subjects was the ongoing establishment of MTU Aero Engines Polska. The market situation and MTU's position in relation to its competitors was analyzed in detail. The Supervisory Board was also extensively briefed on all aspects of the various engine and technology programs. Topics of special interest were the company's participation in the PW810 engine program for the Cessna Citation Columbus, the PW1217G for the Mitsubishi Regional Jet, the PW1524G that powers the Bombardier CSeries, the GE38 powerplant for the Sikorsky CH-53K transport helicopter, and the GENx program for the Boeing 787 and 747-8. Another of the topics discussed was the TP400-D6 engine for the A400M military transporter.

Other items on the agenda of Supervisory Board meetings included the company's compliance system, the structure of management compensation, the evolution of the U.S. dollar exchange rate and related hedging measures. Topics discussed on a regular basis at meetings with the Board of Management included the concrete progress being achieved through improvement processes in the commercial maintenance segment, especially at the site in Hannover, and specific aspects of the new "Challenge 2010" efficiency improvement program.

Corporate governance

The Supervisory Board maintains the firm belief that good corporate governance is of fundamental importance to the company's business success. For this reason, the Supervisory Board has closely studied the recommendations of the relevant corporate governance standards and the way in which they are being implemented. In doing so, it has also reviewed the efficiency of its own activities. Cooperation between the Supervisory Board and the Board of Management, and among members of the Supervisory Board, was judged to be of very high quality. There were no conflicts of interest between MTU and any member of its Board of Management or Supervisory Board. The Supervisory Board has assured itself that the company has complied with the recommendations laid down in the German Corporate Governance Code throughout the past year, as stated in its declaration of conformity. In a joint declaration with the Board of Management dated December 17, 2008, 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 two exceptions only. The company's declaration of conformity is reproduced on page 299 of this Annual Report together with a more detailed description of the company's corporate governance; the declaration has also been posted on the company's website.

Committee meetings

By convention, the Supervisory Board has three committees equally representing the workforce and management of the company: the Audit Committee, the Personnel Committee, and the Mediation Committee – the latter formed to comply with Section 27, paragraph 3, of the German Codetermination Act. Each committee reports regularly to the full Supervisory Board on its work.

Pursuant to the recommendations of the German Corporate Governance Code, a Nomination Committee was additionally created in 2007. It is the task of this committee, which meets on an ad hoc basis, to identify suitable candidates for election to the Supervisory Board, who will be recommended to the Annual General Meeting by the Supervisory Board. Its members are Klaus Eberhardt and Dr. Jürgen M. Geißinger. The Nomination Committee convened once during the financial year 2008. The Mediation Committee, which has the same composition as the Personnel Committee, was not convoked in 2008.

The Personnel Committee consists of Klaus Eberhardt, Dr. Jürgen M. Geißinger and the two workforce representatives Josef Hillreiner and Michael Leppek, the latter having replaced Harald Flassbeck as of April 30, 2008. The Personnel Committee met twice in 2008 to discuss matters including the renewal of the contract with Supervisory Board member Dr. Rainer Martens, management compensation, and the results of the Supervisory Board's efficiency audit.

The members of the Audit Committee are Louis R. Hughes (until April 30, 2008), Prof. Dr. Walter Kröll (since April 30, 2008), Klaus Eberhardt, Babette Fröhlich, and Josef Hillreiner. The Audit Committee met four times in 2008, primarily to review the annual financial statements of MTU Aero Engines Holding AG, the MTU consolidated financial statements and group management report. To aid the committee members in this task, 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 and consolidated financial statements, the management report and the group management report. These documents were thoroughly reviewed in the presence of the auditor. In conclusion, 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.

Other subjects discussed at length by the Audit Committee included the risk management system and the work of the internal auditing team. As well as reviewing the compliance system of the company, the Audit Committee was briefed by the Board of Management on possible ways of creating a centralized function to manage MTU's industrial property rights. The committee also specified the key areas for audit in the 2008 financial statements, reviewed the proposed fees to be paid for the services of the accounting firm Deloitte & Touche, and recommended that the Supervisory Board should award the contract.

Approval of the annual financial statements and the consolidated financial statements, and adoption of the annual financial statements

MTU Aero Engines Holding AG's annual financial statements, consolidated financial statements, management report and group management report for the 2008 financial year were audited and fully certified by the accounting firm Deloitte & Touche, Munich, whose engagement had been confirmed at 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 2008 and the Board of Management's profit distribution proposal on the basis of the preliminary audit by the Audit Committee, on which the chair of the Audit Committee had presented a full report to the Supervisory Board. The auditor attended the Audit Committee meeting on March 10, 2009 and the Supervisory Board's balance sheet meeting on March 19, 2009, 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 annual financial statements and consolidated financial statements for the 2008 financial year as submitted by the Board of Management were approved at the Supervisory Board meeting on March 19, 2009. The annual financial statements were 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 on March 19, 2009, the Supervisory Board took note that MTU Aero Engines Holding AG had not entered into any change-of-control agreements. This excludes the indirect consequences of any agreements contracted by associated companies containing change-of-control clauses that might affect MTU Aero Engines Holding AG. More detailed notes on this subject can be found in the group management report on page 122 ff.

Boardroom changes

Among the shareholder representatives on the board, the following change took place in the early months of the financial year: Under a decision by the Munich district court on February 1, 2008, Udo Stark was appointed to the Supervisory Board as the successor to Johannes P. Huth, who retired from the Supervisory Board on January 31, 2008.

The existing Supervisory Board was dissolved with effect of April 30, 2008, making way for the election of new officers by the Annual General Meeting. In the voting that took place on April 10, 2008 in accordance with the rulings of the German Codetermination Act, the following persons were appointed to serve as members of the Supervisory Board: Josef Hillreiner, Michael Behé, Rudolf Domberger (employee representatives), Thomas Dautl (senior management representative), and Michael Leppok and Babette Fröhlich as union representatives. The departing officers were Harald Flassbeck, Michael Keller, Josef Mailer and Günter Sroka.

The Annual General Meeting of MTU Aero Engines Holding AG on April 30, 2008 elected the following persons to serve on the company's Supervisory Board as shareholder representatives: Klaus Eberhardt, Prof. Dr. Wilhelm Bender, Dr. Jürgen M. Geißinger, Prof. Dr. Walter Kröll, Udo Stark, and Prof. Dr. Klaus Steffens. They include one new member, Prof. Dr. Wilhelm Bender, who is the Chairman of the Executive Board of Fraport AG. He takes the place of Louis R. Hughes, who took leave as a member of the Supervisory Board after the Annual General Meeting on April 30, 2008.

The Supervisory Board expresses its gratitude to Harald Flassbeck, Louis R. Hughes, Johannes P. Huth, Michael Keller, Josef Mailer and Günter Sroka for their dedicated, professional work.

The Supervisory Board wishes to thank the Board of Management and all MTU employees for their persevering efforts and the outstanding results they achieved in 2008. Thanks are also extended to the works council for its constructive cooperation and, last but not least, to all the shareholders who have placed their trust in MTU over the past business year.

Munich, March 19, 2009



Klaus Eberhardt
Chairman of the Supervisory Board

The Supervisory Board

The Supervisory Board

Klaus Eberhardt

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

Additional supervisory board mandates and/or mandates on comparable supervisory entities of foreign or domestic commercial companies

Dietrich Wälzholz Familienstiftung
Eckart Wälzholz-Junius Familienstiftung
Hirschmann Automotive GmbH
Kolbenschmidt Pierburg AG

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*

Michael Behé (since April 30, 2008)

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

Prof. Dr. Wilhelm Bender (since April 30, 2008)

*Chairman of the Executive Board of Fraport AG,
Frankfurt/Main*

FrankfurtRheinMain GmbH
International Marketing of the Region
Live Holding AG
Lufthansa Cargo AG
SIGNAL IDUNA Allgemeine Versicherung AG
ThyssenKrupp Services AG

Thomas Dautl (since April 30, 2008)

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

Rudolf Domberger (since April 30, 2008)

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

Harald Flassbeck (until April 30, 2008)

*Former First Authorized Representative,
IG Metall, Munich*

EADS Deutschland GmbH
MAN Nutzfahrzeuge AG

Babette Fröhlich

*Departmental head within the
IG Metall Executive Committee, Frankfurt*

Volkswagen AG

Dr.-Ing. Jürgen M. Geißinger

*President and CEO of INA-Holding Schaeffler KG,
Herzogenaurach*

Louis R. Hughes (until April 30, 2008)

*Chief Executive Officer of GBS Laboratories, LLC.,
Herndon, Virginia*

ABB Ltd.
Akzo Nobel N.V.
Sulzer AG

Johannes P. Huth (until January 31, 2008)

*Member of Kohlberg Kravis Roberts & Co. Ltd.,
London*

A. T. U. Auto-Teile-Unger Holding GmbH
KION Holding 1 GmbH
NXP BV
Pro7Sat1 Media AG

Michael Keller (until April 30, 2008)

Senior Vice President Rotor/Stator and Production Services of MTU Aero Engines GmbH, Munich

Prof. Dr. Walter Kröll

Former President of the Helmholtz Association of German Research Centres, Bonn

Michael Leppek (since April 30, 2008)

Second Authorized Representative, IG Metall, Munich

EPCOS AG
Nokia Siemens Management GmbH

Josef Mailer (until April 30, 2008)

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

Günter Sroka (until April 30, 2008)

Former Chairman of the Group Works Council of MTU Aero Engines GmbH, Munich

Udo Stark (since February 1, 2008)

Former CEO of MTU Aero Engines Holding AG, Munich

Bilfinger Berger AG
Cognis GmbH
Oystar Holding GmbH
Prysmian S.p.A.

Prof. Dr.-Ing. Klaus Steffens

Former President and CEO of MTU Aero Engines GmbH, Munich

CompuGroup Holding AG
Tyczka Energie GmbH & Co. KGaA

Supervisory Board committees

Personnel Committee

Klaus Eberhardt, Chairman
Harald Flassbeck (until April 30, 2008)
Dr.-Ing. Jürgen M. Geißinger
Josef Hillreiner
Michael Leppek (since April 30, 2008)

Audit Committee

Prof. Dr. Walter Kröll, Chairman
(since April 30, 2008)
Louis R. Hughes, Chairman (until April 30, 2008)
Klaus Eberhardt
Babette Fröhlich
Josef Hillreiner

Mediation Committee

Klaus Eberhardt, Chairman
Harald Flassbeck (until April 30, 2008)
Dr.-Ing. Jürgen M. Geißinger
Josef Hillreiner
Michael Leppek (since April 30, 2008)

Nomination Committee

Klaus Eberhardt
Dr.-Ing. Jürgen M. Geißinger

Glossary of engine terms

ACARE 2020

The Advisory Council for Aeronautical Research in Europe (ACARE) is composed of 39 members, including representatives of the EU member states, EUROCONTROL, the European Commission, and stakeholders in the European aerospace industry. In its Strategic Research Agenda, published in 2002, ACARE set out the goals it hopes to see achieved by 2020: aircraft should consume 50% less fuel, emit 50% less CO₂ and 80% less NO_x, and their perceived noise level should be reduced by half. For engine manufacturers this means that engines for the next generation of aircraft must cut fuel consumption by about 10%, and their successors must then reach a target of 20% by 2020.

Afterburner

Military jet engines, in particular those designed for supersonic fighter aircraft, are equipped with an afterburner located downstream of the turbine. The afterburner can make almost double the amount of thrust available for take-off, ascent or supersonic flight.

Bauhaus Luftfahrt

Bauhaus Luftfahrt focuses on the future of aviation. Based in Garching near Munich, this think-tank performs visionary basic research and project work. It was founded in November 2005 by EADS, Liebherr-Aerospace and MTU Aero Engines together with the Free State of Bavaria.

Claire

Clean Air Engine (Claire) is a technology program jointly developed by MTU and Bauhaus Luftfahrt which aims to drastically reduce the carbon dioxide output of aircraft engines while at the same time substantially cutting noise levels. The goal is to achieve a 30-percent reduction in CO₂ emissions by 2035. All key components of the Claire program have already been tested or demonstrated proof of principle, and fulfill all expectations concerning energy efficiency and economic viability.

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 2000 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.

Crisp

Crisp (Counter Rotating Integrated Shrouded Propfan) was a technology program set up by MTU in the mid-1980s together with the German Aerospace Center (DLR) and several other institutes. This engine concept, which was proven feasible at the time, was based on a counter-rotating fan with adjustable blades. It would have saved a considerable amount of fuel, especially on long-haul flights, but was not carried through to production maturity due to the low fuel prices of that period. The Crisp concept is now being revived and integrated into the second stage of the Claire technology program.

DECMU

DECMU stands for Digital Engine Control and Monitoring Unit and is a full-authority engine subsystem. There are normally two separate units for engine control and monitoring, but DECMU integrates both functions in a single unit.

Fan

The extremely large 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 short- and medium-haul 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.

Heat exchanger

A heat exchanger consists of a series of connected tubes with one fluid medium flowing inside the tubes – air in the case of aircraft engines – and a second fluid medium at a different temperature flowing along the outside of the tubes, causing energy to be transferred from the hotter medium to the cooler one. Future engines might possibly use such heat exchangers to recycle the residual energy contained in the exhaust gas stream, feeding it back into the compressed air upstream of the combustor. This would significantly increase the engine's efficiency. This method is already being used in gas turbines, particularly in power generation plants.

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 so-called power turbine. This turbine delivers the necessary 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.

Intermediate-pressure turbine

In addition to the usual high-pressure and low-pressure turbines, three-shaft engines have a third, intermediate-pressure turbine which drives the intermediate-pressure compressor.

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.

NEWAC

The EU recently launched a new technology program called NEWAC (New Aero Engine Core Concepts) under the leadership of MTU. The aim is to design a new core engine for use in future aircraft engines. Specific development tasks have been allocated to each of the main partners in the program, who include the major European engine manufacturers. MTU, for its part, is testing new ways of actively controlling a high-pressure compressor in flight.

NGPF

NGPF stands for Next Generation Product Family and designates the new generation of aircraft with one central aisle. It includes the successors to the Airbus A320 family and the Boeing 737.

OEM business

In the aviation industry, OEM stands for original engine manufacturer. At MTU, the term “OEM business” is used to designate one of the company’s two business segments, where it 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.

Propfan, counter-rotating

Unlike single-stage propfans, the counter-rotating propfan has two fan stages that rotate in opposite directions. This makes it much more efficient than its single-stage counterpart. The Crisp technology demonstrator developed by MTU in the 1980s already featured this counter-rotating design.

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, engines with a thrust of between 20,000 and approximately 50,000 pounds, and engines with a thrust ranging from 50,000 to more than 100,000 pounds. Although the official unit of force used to measure thrust is the kilonewton (kN), the English unit “pound” is still widely used in this context by the international engineering community. The abbreviation for ‘pound’ when used as a unit of force is lbf.

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 the 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 turbine 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 necessary air and oil supply lines.

Turbofan engine

The turbofan is a decisive advancement of the turbojet principle, the main difference being its enlarged first compressor stage, known as 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 as high as 10:1. The greater the bypass ratio, the more economical, environmentally compatible and silent the engine. Turbofans are far more fuel-efficient than turbojets.

Turbojet engine

All first-generation engines work according to the turbojet principle: Air is ingested into the compressor, where it is compressed by the blades. Subsequently, it is channeled into the combustor, where fuel is injected and the mixture is burnt. The hot gases expand explosively and stream into the turbine at high velocity. The turbine consists of several turbine rotors with a multitude of blades that are forced to turn by the exhaust gas stream. The turbine drives the compressor via a shaft, and the combustion gases leave the jet nozzle. Because of their low efficiency and the large amount of noise they generate, turbojet engines are no longer produced today.

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 to reduce the speed of rotation. 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 and 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 short-haul routes or for air freight.

Turboshaft engine

Turboshaft engines are used in helicopters and are similar to turboprops but, because the drive shaft cannot be connected in a straight line to the rotor, it is connected instead to a transmission system (gearbox), which converts the energy from the exhaust stream into the rotational motion of the rotor.

Overview of Engines

Type	Description	Application
Commercial Engines (Two-spool turbofan engines)		
PW4000Growth	340 – 440 kN thrust range	Boeing 777
GP7000	315 – 380 kN thrust range	Airbus A380
GEnx	235 – 333 kN thrust range	Boeing 787, 747-8
CF6	180 – 320 kN thrust range	Airbus A300, A310, A330 Boeing 747, 767, DC-10, MD-11
PW2000	170 – 190 kN thrust range	Boeing 757, C-17
V2500	100 – 150 kN thrust range	Airbus A319, A320, A321 Boeing MD-90
PW6000	98 – 106 kN thrust range	Airbus A318
JT8D-200	90 – 100 kN thrust range	Boeing MD-80 series
PW1524G	77 – 109 kN thrust range	Bombardier CSeries
PW1217G	68 – 77 kN thrust range	Mitsubishi Regional Jet
PW810	45 – 72 kN thrust range	Cessna Citation Columbus
PW300	18 – 30 kN thrust range	medium-weight business and regional jets
PW500	13 – 20 kN thrust range	light and medium-weight business jets

Type	Description	Application
Industrial Gas Turbines		
LM6000	Derivative of the CF6-80 aero engine Power class up to 44,000 kW	Electrical power stations
LM5000	Derivative of the CF6-50 aero engine Power class up to 34,000 kW	Electrical power stations, mechanical power systems, oil and gas industry
LM2500/LM2500+	Derivative of the CF6-6 aero engine Power class 22,000 to 30,500 kW	Electrical power stations, mechanical power systems, oil and gas industry, power systems for ships
ASE/TF 40/50	Power class up to 4,100 kW	Electrical power systems, power systems for ships, mechanical power systems, generator sets

Type	Description	Application
Military Engines		
F404/F414	Two-spool turbofan engine in the 80 – 97 kN thrust range	Boeing F/A-18 Hornet amongst others
EJ200	Two-spool turbofan engine with afterburner in the 90 kN thrust class	Eurofighter/Typhoon
RB199	Three-spool turbofan engine with afterburner and thrust reverser in the 70 – 80 kN thrust range	Panavia Tornado
J79	Single-shaft turbojet engine with afterburner in the 70 – 80 kN thrust range	F-4 Phantom
Larzac04	Two-spool turbofan engine in the 14 kN thrust class	Alpha Jet
TP400-D6	Three-spool engine with a power output of 8,000 kW	Airbus A400M
Tyne	Turboprop engine in the 3,955 kW power range	Breguet Atlantic, Transall C160
GE38	Turboprop engine in the 5,500 kW power range	Sikorsky CH-53K
T64	Turboshaft engine with free power turbine in the 3,000 kW power class	Sikorsky CH-53G
MTR390/MTR390 Enhanced	Turboshaft engine with free power turbine in the 950 kW power class	Eurocopter Tiger
RR250-C20	Turboshaft engine with free power turbine in the 310 – 340 kW power range	PAH1, Bo105, and others

Imprint

Contact

Eckhard Zanger
Senior Vice President
Corporate Communications
and Investor Relations
Telephone: +49 89 1489-9113
Fax: +49 89 1489-9140
E-mail: Eckhard.Zanger@mtu.de

Inka Koljonen
Director Investor Relations
Telephone: +49 89 1489-8313
Fax: +49 89 1489-95062
E-mail: Inka.Koljonen@mtu.de

MTU Aero Engines Holding AG
Dachauer Straße 665
80995 Munich, Germany
Telephone: +49 89 1489-0
Fax: +49 89 1489-5500
E-mail: info@mtu.de
www.mtu.de

The addresses of MTU's affiliates, joint ventures and program management and coordination companies in Germany and abroad can be found on the Internet at www.mtu.de

This Annual Report published by MTU Aero Engines Holding AG is available in print form in German and English. We would be happy to send you copies on request. The report is also available on the Internet in German and English.

Translation

The German version takes precedence.

Photo credits

Cover Page	Pratt & Whitney
Pages 2-11	MTU Aero Engines photo archive
Pages 12-13	MTU Aero Engines photo archive, Airbus, Pratt & Whitney
Pages 14-15	Bauhaus Luftfahrt, Pratt & Whitney
Pages 16-17	MTU Aero Engines photo archive
Pages 20	MTU Aero Engines photo archive
Pages 26-27	MTU Aero Engines photo archive
Pages 32-33	The Boeing Company
Pages 126-127	Cessna Aircraft Company
Pages 138-139	Mitsubishi Aircraft Corporation
Pages 294-295	Bombardier Aerospace
Pages 306	Rheinmetall

Financial calendar 2009

March 23, 2009	Publication of the Consolidated Financial Statements 2008
	Annual results press conference
	Conference call with analysts and investors on the annual results for 2008
April 23, 2009	Interim Report as at March 31, 2009
	Conference calls with journalists, analysts and investors
May 26, 2009	Annual General Meeting
July 23, 2009	Interim Report as at June 30, 2009
	Conference calls with journalists, analysts and investors
September 25, 2009	Investor and Analyst Day 2009
October 26, 2009	Interim Report as at September 30, 2009
	Conference calls with journalists, analysts and investors

Key MTU share data

Number of shares	52 million shares of non-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	Official market segment - Prime standard
Stock-market segment	MDAX
Business year	Identical with calendar year
Accounting rules	IFRS
Designated sponsor	Goldman Sachs
Official notices	Electronic version of the Federal Gazette (Bundesanzeiger)



MTU Aero Engines Holding AG
Dachauer Straße 665
80995 Munich • Germany
Tel. +49 89 1489-0
Fax +49 89 1489-5500
www.mtu.de