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SELECTED CONSOLIDATED FINANCIAL INFORMATION AND KEY FIGURES

Selected consolidated financial information and key figures at a glance

in € million (unless otherwise specified)	2014	2013	Change 2014-2013
Revenues and earnings			
Revenues	3,913.9	3,574.1	9.5%
attributable to the commercial engine business ¹⁾	2,116.8	1,891.3	11.9%
attributable to the military engine business ¹⁾	531.5	500.7	6.2%
attributable to the commercial maintenance business ¹⁾	1,298.9	1,213.7	7.0%
Gross profit	538.5	525.7	2.4%
Earnings before interest and tax (EBIT)	333.5	317.3	5.1%
Earnings after tax	195.4	166.3	17.5%
Adjusted earnings			
Earnings before interest and tax (adjusted EBIT)	382.7	377.4	1.4%
EBIT margin in %	9.8	10.6	
Earnings after tax	253.3	238.6	6.2%
Balance sheet			
Total assets	4,806.3	4,457.8	7.8%
Equity	1,188.3	1,251.0	-5.0%
Equity ratio in %	24.7	28.1	
Net financial debt	737.3	370.5	99.0%
Cash flow			
Cash flow from operating activities	204.8	188.8	8.5%
Cash flow from investing activities	-234.5	-183.3	-27.9%
Free cash flow	42.5	80.3	-47.1%
Cash flow from financing activities	-72.7	4.9	< -100%
Number of employees at year end			
Commercial and military engine business	5,274	5,225	0.9%
Commercial maintenance business	3,059	3,118	-1.9%
Total number of employees	8,333	8,343	-0.1%
Share indicators			
Earnings per share in €			
Undiluted earnings per share	3.84	3.27	17.4
Diluted earnings per share	3.83	3.27	17.1
Dividend per share in € ²⁾	1.45	1.35	7.4
Dividend yield in %	2.0	1.9	
Total dividend ²⁾	74.0	68.7	7.7
Outstanding common stock at Dec. 31 (million shares)	51.0	50.9	0.2

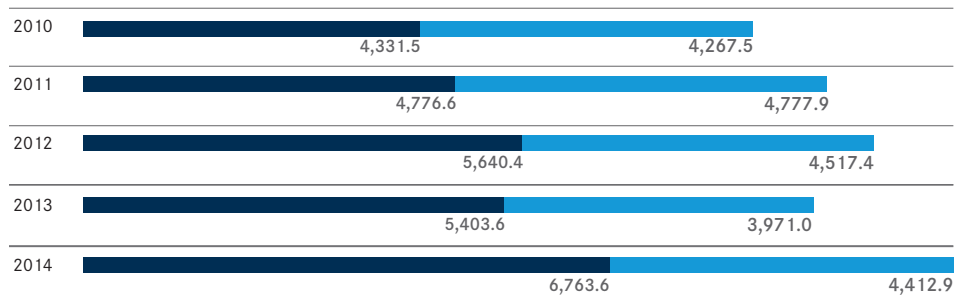
¹⁾ Before consolidation.

²⁾ Proposal to the Annual General Meeting for 2014 based on an expected volume of 51.0 million dividend-entitled shares.

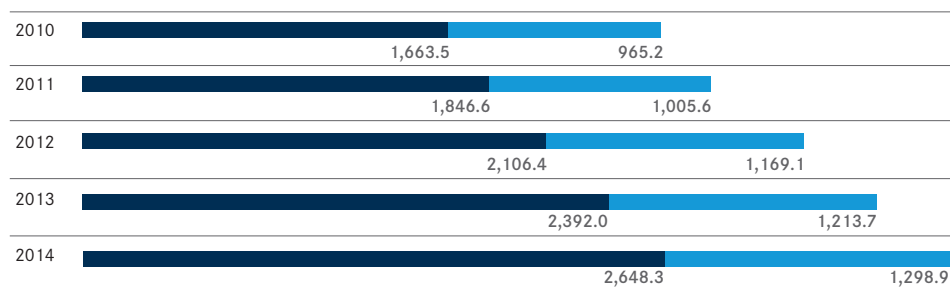
Prior year: Resolution by the Annual General Meeting for the financial year.

KEY INDICATORS REVIEWED OVER 5 YEARS

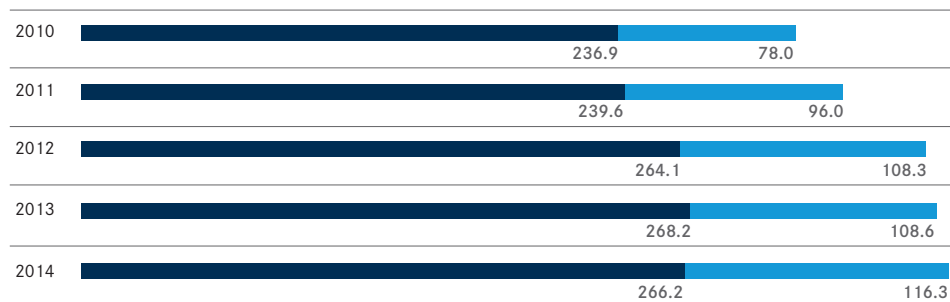
Order backlog by segments in € million (before consolidation)



Revenues by segments in € million (before consolidation)

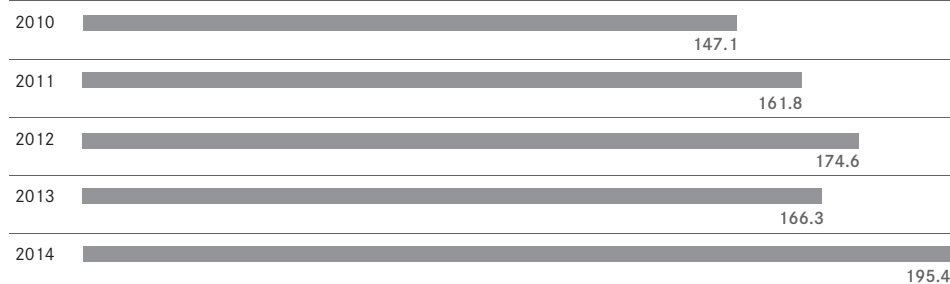


EBIT adjusted by segments in € million (before consolidation)

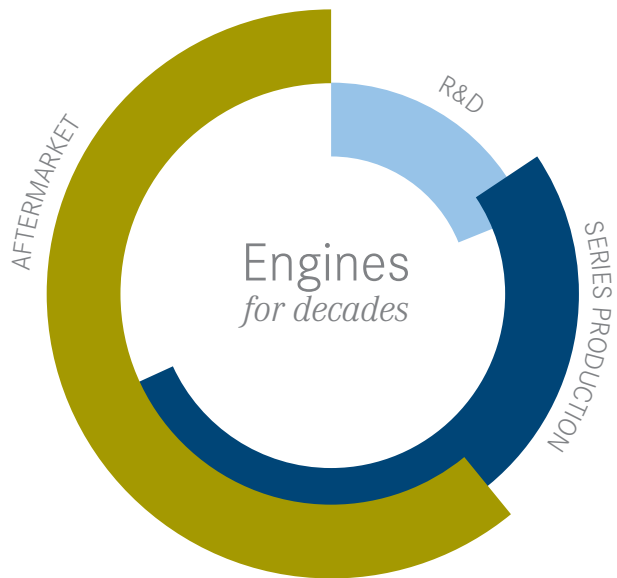


■ OEM segment
■ MRO segment

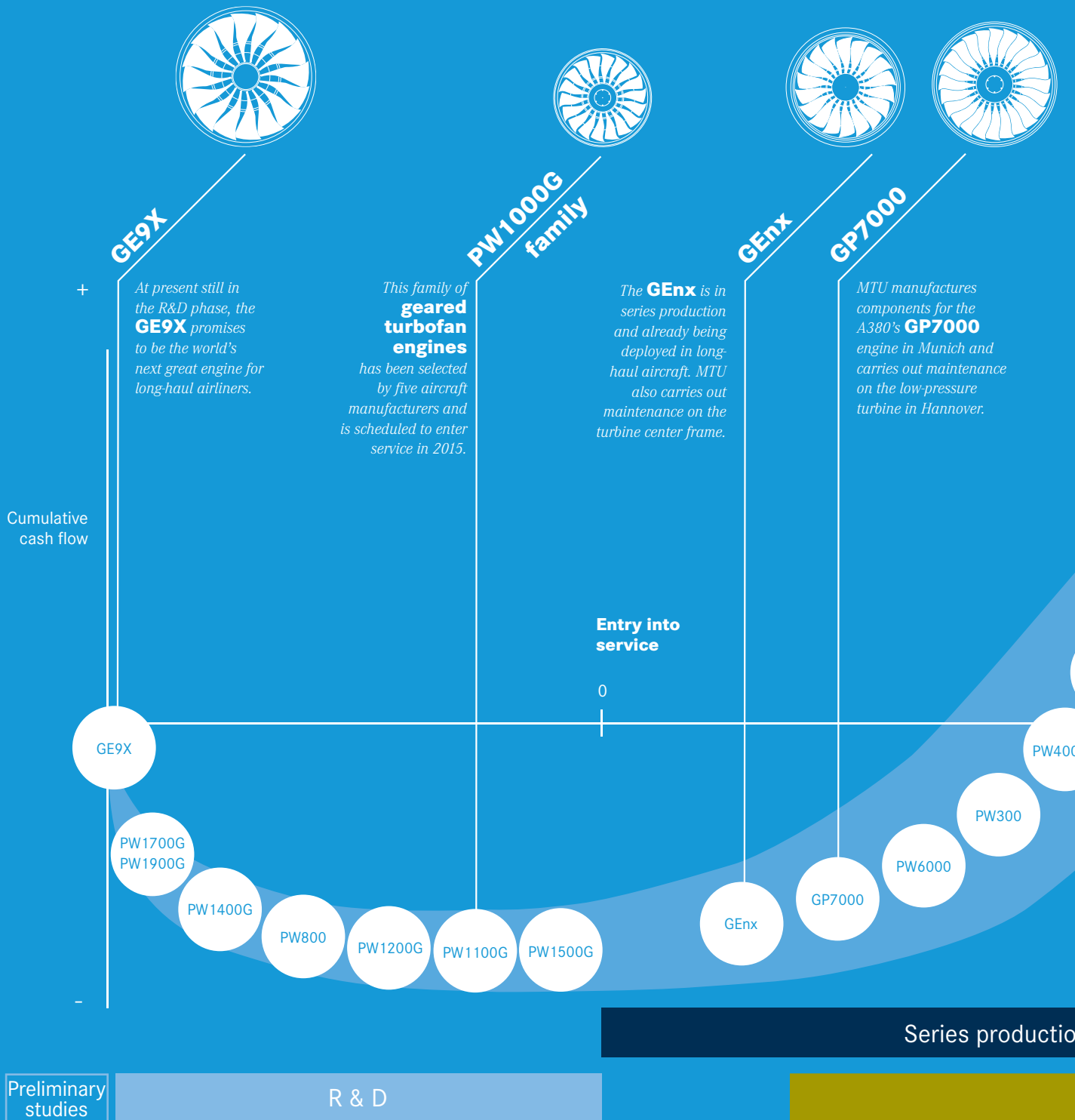
Earnings after tax (EAT) in € million



The OEM segment (Original Equipment Manufacturing) covers new commercial engines, including spare parts, and the whole of the military business. The MRO segment (Maintenance, Repair and Overhaul) comprises all commercial maintenance activities. In the five-year overviews, the figures for the financial years 2010 through 2013 are adjusted and unaudited. For information on these adjustments, please refer to the Notes to the consolidated financial statements (IFRS 11, Joint Arrangements).



A BALANCED PORTFOLIO *with outstanding prospects*



MTU's balanced portfolio comprises engines at every stage of their lifecycle, and of all thrust and power classes, for which it provides a full range of services stretching from R&D and manufacturing to maintenance. MTU has recognized expertise in low-pressure turbines, high-pressure compressors and turbine center frames. These components form part of modern aircraft engines such as the GP7000 deployed in the Airbus A380 and the GEnx deployed in the Boeing 787 and 747-8.

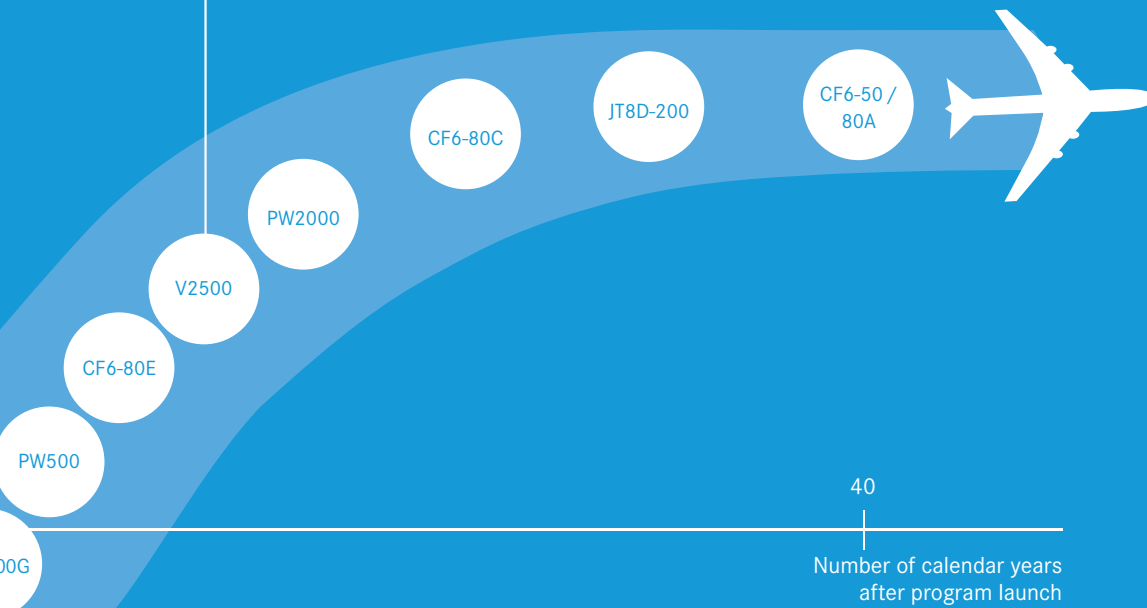
As a stakeholder in the PW1000G engine family, MTU has ensured its future growth in the market for short- and medium-haul aircraft and regional jets. Its share in the GE9X engine for the Boeing 777X offers similar prospects in the future market for long-haul airliners.

MTU is one of the world's top five providers of maintenance services for commercial aircraft engines. The most important program in MTU's MRO portfolio is the V2500, which powers the Airbus A320 family.



V2500

The **V2500** is MTU's most lucrative commercial engine program – in both the OEM and MRO operating segments.



40

Number of calendar years after program launch

Phase-out

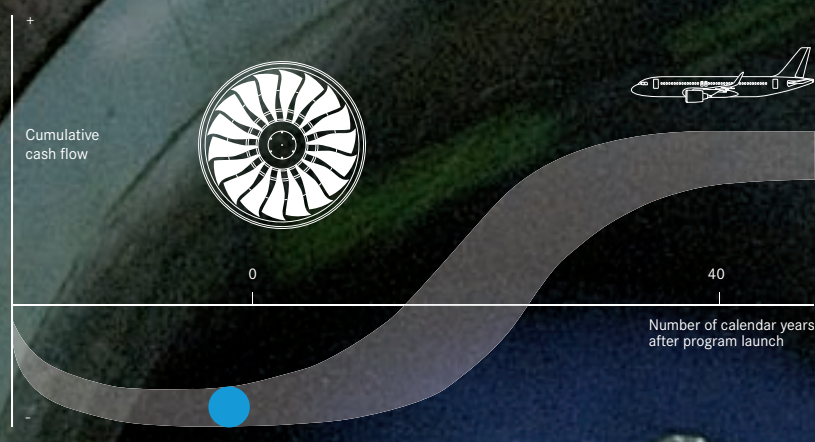
Aftermarket

PW1000G

Top-selling engine with over **6,000 firm** orders and options

The PurePower® PW1000G family of geared turbofan engines has already conquered the market, with more than 6,000 firm orders and options placed by the end of 2014. Five aircraft manufacturers have chosen this type of engine. It is offered as an option for the Airbus A320neo and the Irkut MS-21, and is the exclusive engine for the Bombardier CSeries, the Mitsubishi Regional Jet and the new Embraer E-Jets. MTU's share in these contracts lies between 15 and 18 percent, depending on the application. As well as supplying the high-speed low-pressure turbine and the first four stages of the high-pressure compressor, MTU also manufactures brush seals and nickel blisks. The PW1000G is scheduled to enter service in 2015 and promises to be as successful as the V2500, currently MTU's best-selling commercial engine program.

PurePower® PW1000G



The PW1000G engines are at the beginning of their lifecycle. The first of them will fly in 2015 aboard the Bombardier CSeries. Preparations for series production are in full swing, because more than 6,000 of these GTF engines will be needed to meet the current volume of firm orders and options.



GE9X

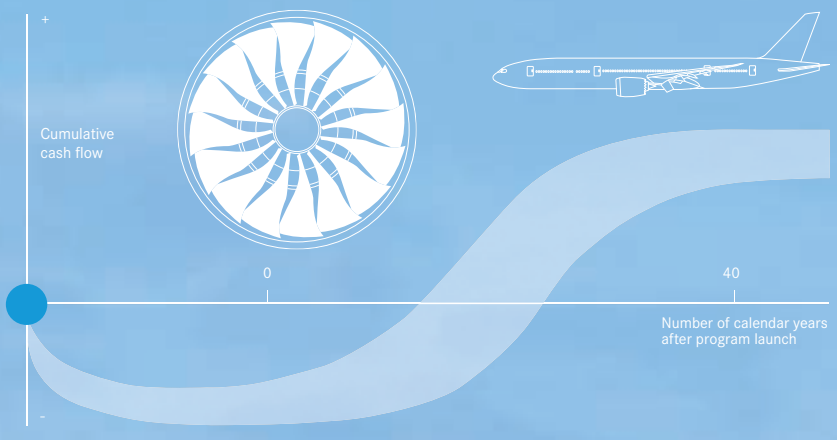
*Approximately **4 billion euros** in potential revenues for MTU*

MTU's acquisition of a 4-percent stake in the GE9X program in 2014 was a decisive move that will assure the company a significant market share in one of the most important engines for tomorrow's long-haul airliners. At the same time, it has helped MTU further improve its product mix. MTU is responsible for designing and manufacturing the turbine center frame for the GE9X, which will power the Boeing 777X. Over the lifetime of the program, this represents about 4 billion euros in potential revenues for MTU. The new engine will be a model of efficiency, with the best fuel consumption to thrust ratio of all engines ever marketed by GE.





GE9X



The GE9X engine for the Boeing 777X is still in the development phase. This program places MTU on a solid footing in the key long-haul market and promises to generate around 4 billion euros in revenues for the group over the engine's lifetime.



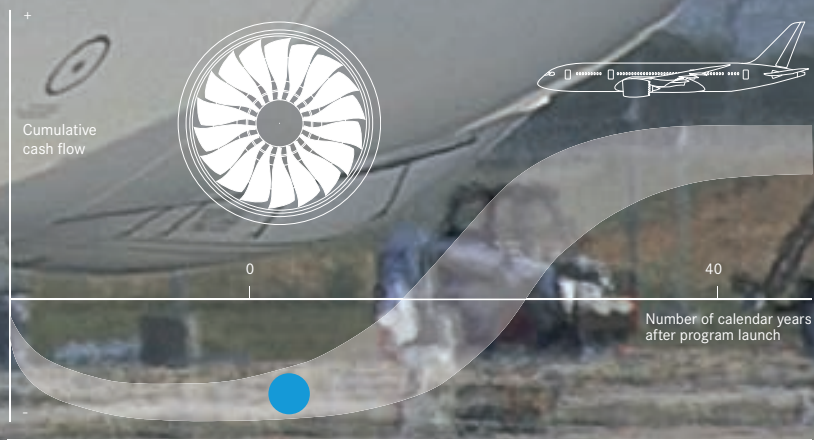
GEnx

GEnx market estimated at **4,400 units**

The GEnx is designed to power long-haul aircraft and is deployed in the Boeing 787 Dreamliner and the Boeing 747-8. MTU's 6.65-percent share in this program covers the design, manufacture and assembly of the turbine center frame. The GEnx went into series production a little over three years ago and accounts for a growing proportion of MTU's revenues in the commercial engine business. The total market potential of the GEnx engine is estimated at 4,400 units. So far, approximately 1,600 orders have been placed. MTU provides MRO support for the GEnx turbine center frame all around the world under the terms of an agreement extending throughout all stages of the program lifecycle. For MTU this represents more than three billion euros in MRO revenues.



GEEnx




Series production of GEEnx engines for Boeing's long-haul fleet commenced in 2011. MTU's maintenance facilities are optimally prepared to handle this new engine, which is expected to generate over three billion euros in MRO revenues over its lifetime.



GP7000

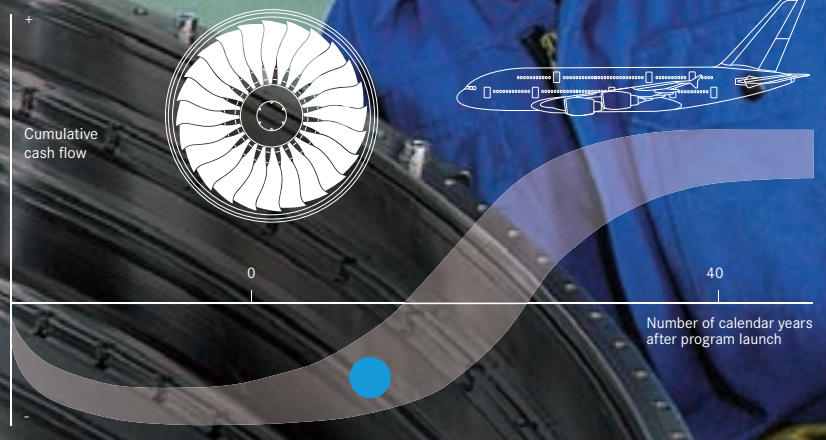
More than 900 **GP7000 modules** *delivered*



The world's largest passenger aircraft, the A380, is equipped with GP7000 engines. MTU holds the third-largest share in this engine program (22.5%) after GE and Pratt & Whitney. MTU is responsible for the design and manufacture of the low-pressure turbine and the turbine center frame, as well as the manufacture of parts of the high-pressure turbine. These components are produced at MTU's main manufacturing site in Munich. To date, MTU has delivered more than 900 low-pressure turbines and turbine center frames for the GP7000. The first GP7000 engines became due for scheduled maintenance in 2013. MTU Maintenance will benefit from a share of this work.



GP7000



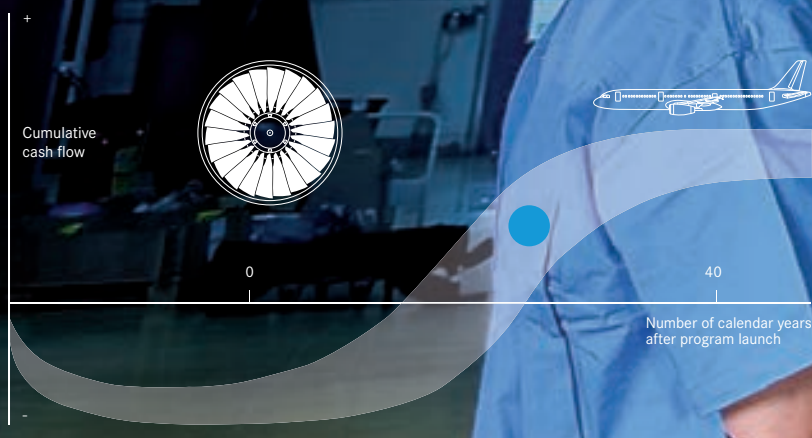
The GP7000 for the A380 is well into the series-production phase. MTU has built and shipped more than 900 GP7000 modules and handed them over for assembly. The first engines underwent scheduled maintenance in 2013.

V2500

MTU Maintenance logs over **3,700** V2500 shop visits

With more than 6,000 engines delivered to over 200 customers, the V2500 is one of the world's bestsellers. This commercial engine contributes more to MTU's revenues than any other product – in both the OEM and MRO operating segments. MTU holds a 16-percent share in the V2500 program, and has 25 years of experience in its maintenance. MTU is the world's number-one provider of MRO services for this popular engine, with a market share of around 35% and a total of over 3,700 shop visits by close to 50 customers around the world. The V2500 is used to power the Airbus A320 family, the Boeing/McDonnell Douglas MD-90 and the Embraer KC-390. It will remain one of the keystones of MTU's engine portfolio for many years to come: The partnership agreement with the IAE consortium, which markets this engine, is in effect until 2045.

V2500



The V2500 has been part of MTU's MRO portfolio for 25 years and is still in production. MTU Maintenance is the world's leading provider of maintenance services for this engine, with a total of over 3,700 shop visits.



TO OUR SHAREHOLDERS

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LETTER TO OUR SHAREHOLDERS

Dear shareholders,

The title of this year's Annual Report – Engines for decades – succinctly describes why MTU is so successful. For 80 years, MTU has been providing support for commercial and military engines at all stages of their lifecycle, which can extend to 30 years or more, starting with R&D and continuing through series production and aftermarket services. Our main strategic advantage is a balanced portfolio of engines at different lifecycle stages covering all market sectors. In this way we can be sure that the investments required during the development and series production phases of new programs ultimately lead to many years of cash flow from spare parts sales and maintenance services for these engines.

In the past financial year, our main focus has been on investing in the future. MTU holds stakes in several engines that will play a major role in the aviation world of tomorrow – chief among them the geared turbofan™ (GTF) programs for the PurePower® PW1000G family. These engines are still at the beginning of their lifecycle and have been selected by five airframe manufacturers for deployment in short- and medium-haul aircraft: the Airbus A320neo, the Bombardier CSeries, the new generation of Embraer E-Jets, the Mitsubishi Regional Jet and the Irkut MS-21. By the end of 2014, more than 6,000 firm orders and options had been placed for GTF engines, a considerable market success. The development process is advancing well; the highlight in 2014 was the first flight of an A320neo powered by GTF engines in September. MTU has made substantial investments to prepare for the series-production phase, including the construction of a new logistics center and a new manufacturing facility for geared turbofan™ components in Munich and the expansion of our plant in Poland. This will enable us to ramp up production in the second half of 2015, when the CSeries is due to enter service.

Another member of the PurePower® engine family is the PW800, for which MTU supplies the low-pressure turbine and the forward stages of the high-pressure compressor. In 2014, Gulfstream selected the PW800 to power its new G500/G600 family of business jets. MTU is thus assured a prime position in the future market for business jet engines.

MTU also enjoys a favorable position in the future long-haul market sector, thanks to its acquisition in 2014 of a 4-percent share in the GE9X engine for the future Boeing 777X. Over the lifetime of the program, this represents potential revenues for MTU of about € 4 billion. The GE9X was an outstanding success at the Farnborough Airshow 2014, where MTU garnered orders totaling approximately € 1.3 billion, the majority for the GE9X.

The GENx for the Boeing 787 Dreamliner and Boeing 747-8 is further along in its lifecycle. It has already entered series production and is generating an increasing share of revenues for MTU's OEM business. MTU is responsible for the GENx turbine center frame. In 2014, we secured a significant market advantage when we were accepted as an approved maintenance organization for this module as part of GE's global MRO network. Potential revenues from this maintenance agreement amount to more than € 3 billion.

The top revenue earner in MTU's commercial engine portfolio – in both the OEM and MRO operating segments – is the V2500 engine that powers the Airbus A320. MTU is the world's leading provider of maintenance services for the V2500, and celebrated the 25th anniversary of this MRO partnership in 2014.

As regards the military engine business, we have successfully ramped up series production for the TP400-D6, and shipped the 100th engine in 2014. The German armed forces took delivery of their first A400M equipped with TP400-D6 engines in December 2014.

This cross-section of our engine portfolio illustrates MTU's excellent position in both the OEM and MRO operating segments, which is also reflected in our financial results. Our revenues in the commercial engine business have increased by 12% to € 2.1 billion, while commercial maintenance revenues have grown by 7% to € 1.3 billion. The military engine business has risen by 6% to € 532 million.

At group level, 2014 was another record-breaking year at MTU. Group revenues increased to an unprecedented € 3.9 billion. Adjusted earnings also reached an all-time high, with an operating profit of € 383 million and an EBIT margin of 9.8%. Earnings after tax rose to € 253 million. With these results, we have fully met our targets for the year – including the revised earnings forecast issued in October.

We owe this excellent performance to the devoted work and untiring efforts of our highly skilled employees, to whom I would like to express my sincere thanks on behalf of the entire Executive Board.

As our shareholders, you too can expect to benefit from MTU's positive results. In keeping with our dividend policy, which is based on continuity, we intend to once again offer an earnings-oriented dividend for the financial year 2014. At the Annual General Meeting on April 15, 2015, we intend to propose a dividend payment of € 1.45 per share.

As in 2014, our main focus in the next few years will be on building up production capacity for the geared turbofan™ programs and further developing the relevant technologies. We are also working on R&D projects for engines that will play an important role in the future, such as the GE9X. These projects have a tight schedule in order to meet the planned date for entry into service. In the MRO segment, we are strengthening our position as an exclusive partner in the OEMs' maintenance networks, which will enable us to maximize the utilization of our maintenance resources in the years to come. In other words, we are continuing to invest in the company's future. As far as 2015 is concerned, we expect growth in the series-production sector to be stronger than in the far more profitable spare parts business. A high growth rate is anticipated in the commercial maintenance sector, while the military engine business is expected to decrease.

These future-oriented projects, coupled with MTU's solid financial basis, will enable the group to further consolidate its market position in both the OEM and MRO operating segments as well as in engine programs for short- and medium-haul aircraft, widebody aircraft for long-haul flights, and business jets. For this reason, MTU remains an attractive investment, both in the short term and for many decades to come. We would be delighted if you, our shareholders, see things the same way and continue to place your trust in us.

Sincerely yours
Reinhold Winkel



THE EXECUTIVE BOARD

“With its solid financial basis and pioneering technologies, MTU’s product portfolio makes the company a sound investment today and for many decades to come.”

REINER WINKLER

Chief Executive Officer,
Director of Labor Relations

- Appointed term: to September 30, 2019
- Born 1961
- Degree in business administration
- From May 2005 to December 2013: member of the MTU Executive Board with responsibility for finance, human resources and IT (Director of Labor Relations)
- Member of MTU’s executive management since 2001
- Former managing director finance and controlling at TEMIC Telefunken micro-electronic GmbH
- Previous management posts: Daimler-Benz AG, Siemens AG

“With its stakes in promising new engine programs and a well-rounded portfolio, MTU will be able to live up to its motto of engines for decades.”

MICHAEL SCHREYÖGG

Member of the Executive Board,
Chief Program Officer

- Appointed term: to June 30, 2016
- Born 1966
- Degree in mechanical engineering
- In present post since July 2013
- Former head of military programs at MTU Aero Engines
- Managed and coordinated numerous programs for many years at MTU Aero Engines, most recently for the TP400-D6 and MTR390 engines

“As a high-tech leader in key components of today’s and tomorrow’s aircraft engines, MTU offers technology that will last for decades.”

DR. RAINER MARTENS

Member of the Executive Board,
Chief Operating Officer

- Appointed term: to April 14, 2019
- Born 1961
- Doctorate and degree in mechanical engineering
- In present post since April 2006
- Has occupied various key positions in the engine and aircraft production industry over a period spanning more than 20 years
- Previous management posts: Airbus, MTU Aero Engines, CIM-Fabrik Hannover gGmbH

“With its all-round expertise in the maintenance of the market’s best-selling engines, MTU can be assured of strong MRO revenues for decades.”

DR. STEFAN WEINGARTNER

Member of the Executive Board,
President MTU Maintenance

- Term of office ends on March 31, 2015
- Born 1961
- Doctorate in engineering, degree in physics, MBA
- In present post since November 2007
- Former head of military programs at MTU Aero Engines
- Previous posts: managing director of MTU Turbomeca Rolls-Royce GmbH, president and managing director of EADS Japan Co. Ltd., managing director of DaimlerChrysler Japan Holding

THE MTU SHARE

VOLATILE STOCK MARKETS

2014 was yet another record-breaking year for the German stock markets. The DAX blue-chip index broke 10,000 points for the first time ever, while in the summer the MDAX midcap index rose to a new all-time high of more than 17,000 points. The low interest rate policy maintained by the European Central Bank and the U.S. Federal Reserve was an important contributing factor. At 0.05%, the key interest rate in the eurozone has never been so low, encouraging many investors to place their money in shares. This initially positive mood gave way to more bearish sentiments in the second half of 2014, in the wake of political upheavals and deteriorating economic indicators. This mood change was reflected in the stock market indices. After moving up during the earlier part of the year, both the DAX and the MDAX became more volatile from July onward, resulting in significant losses. Toward the end of the year, however, investors' optimism rose once again to predominate. Over the year as a whole, the DAX gained in value by 2.7%, closing at 9,806 points on December 31, 2014. The MDAX rose by 2.2% and stood at 16,935 points at the close of trade on December 31.

Shares of aviation industry companies such as Airbus Group, Safran and Rolls-Royce were also marked by volatility in 2014. The Stoxx Europe TMI Aerospace & Defense Index dropped in value by 8.4% over the course of the year.

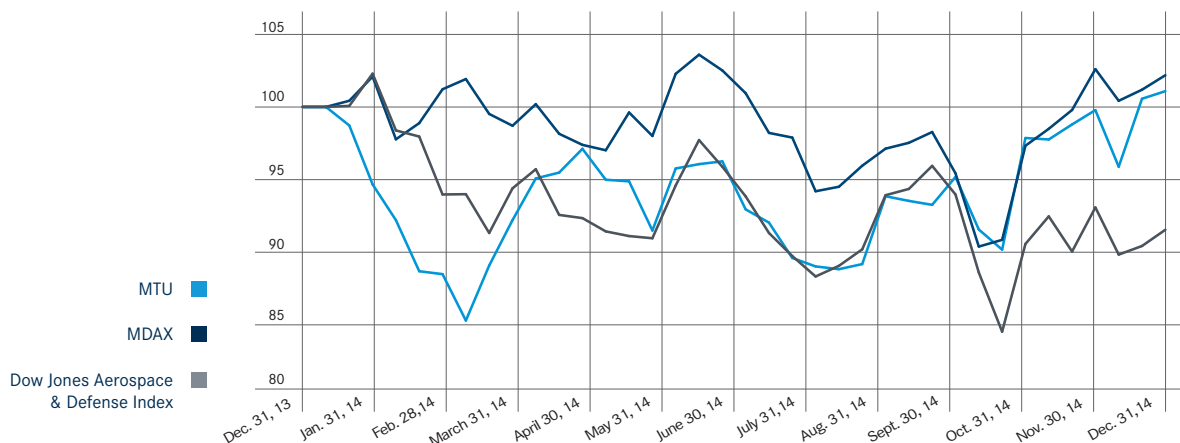
MTU SHARE PERFORMANCE IMPACTED BY VOLATILE STOCK MARKET

MTU share achieves subtle gain

The MTU share price exhibited high volatility in 2014. In the first quarter it dropped to € 60.94, the lowest level of the year, mainly due to the weak U.S. dollar. The share rallied in the second quarter, with an average quoted price of € 68. When the financial data for the first six months of 2014 were published on July 24, MTU adjusted its revenue forecast. In the second half of the year, deteriorating sentiments on the capital market plus political unrest drove the MTU share price down again, causing it to lose around 11% by mid-August. After briefly trading water, investors regained confidence in the share's potential as a recommended buy. In the fourth quarter, the falling price of oil and the stronger U.S. dollar had a stimulating effect on the share price. On October 23, 2014, MTU revised its end-of-year forecast upward. The value of MTU shares increased significantly in the weeks that followed, reaching their highest quoted price of the year, € 72.42, at the end of December.

Over the year as a whole, the MTU share price recorded a gain of 1.1%, closing at € 72.16 on December 31.

MTU share performance in 2014 compared with stock market indices (baseline Dec. 31, 2013 = 100)



MTU share indicators: year-on-year comparison

		2014	2013
Highest quoted price ¹⁾	€	72.42	79.25
Lowest quoted price ¹⁾	€	60.94	65.76
Beginning-of-year share price ¹⁾	€	71.00	70.74
End-of-year share price ¹⁾	€	72.16	71.39
Annual performance ²⁾	%	+1.1	+4
Market capitalization at year end	€ million	3,752	3,712
Average daily trading volume	€ million	8	10
	in '000 shares	118	146
Earnings per share	€	3.84	3.27
Dividend per share	€	1.45 ³⁾	1.35
Dividend payout ratio ⁴⁾	%	35.0	26.0
Dividend yield ⁵⁾	%	2.0	1.9

¹⁾ Xetra closing price.

²⁾ Based on Xetra year-end closing price (Dec. 31).

³⁾ Proposal.

⁴⁾ Dividend payout as a percentage of net profit available for distribution.

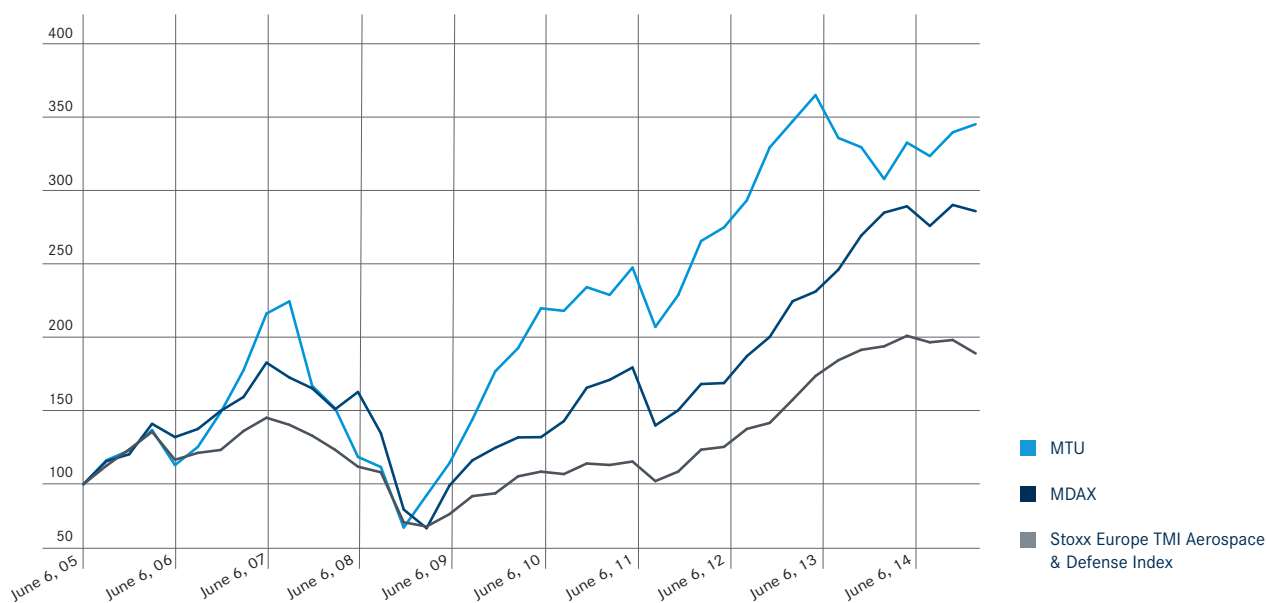
⁵⁾ Net dividend yield based on Xetra year-end closing price (Dec. 31).

The MTU share has increased in value by 242% since the IPO in 2005, significantly outperforming both the MDAX and the Stoxx Europe TMI Aerospace & Defense Index.

242%

increase in value since IPO

MTU share performance since the IPO compared with stock market indices (baseline June 6, 2005 = 100)



Proposed dividend
€ 1.45

ATTRACTIVE DIVIDEND

At the Annual General Meeting on April 15, 2015, the Executive Board and the Supervisory Board intend to propose a dividend payment of € 1.45 per share for the financial year 2014, in accordance with the company's earnings-oriented dividend policy. The previous year's dividend was €1.35 per share. Investors can expect to receive their dividend payment on April 16, 2015. The dividend payout ratio calculated as a percentage of MTU's net profit available for distribution is 35%. Based on the share price of € 72.16 at the close of trade on December 31, 2014, this represents a dividend yield of 2.0%.

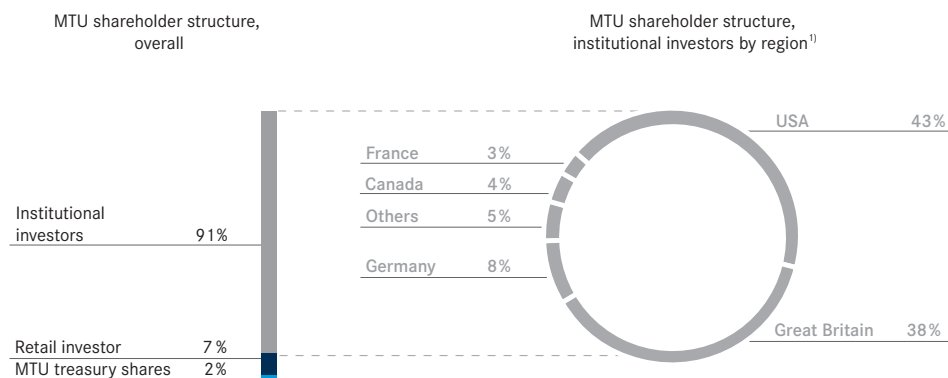
TRADING VOLUME

In 2014, the average number of MTU shares that changed hands each day through Xetra trading and the floor trading systems was 118,000, compared with 146,000 shares per day in 2013. The average daily trading volume expressed in monetary terms amounted to around € 8 million, compared with € 10 million in 2013. MTU was thus placed 22nd in the ranking of MDAX companies according to trading volume in 2014 (2013: 15th place). In terms of market capitalization, MTU ranked 12th with outstanding shares valued at € 3,752 million (2013: 10th place).

BROAD INTERNATIONAL SHAREHOLDER BASE

At December 31, 2014, 98% of MTU shares were in free float and around 2% were held by the company itself in the form of treasury shares. Of the free-floating shares, roughly 91% were owned by institutional investors and 7% by retail investors. The shareholder structure is diversified, with the majority of institutional investors based in the United States, the United Kingdom, Germany, Canada, France and other Western European countries. At December 31, 2014, the stock market authorities were in possession of notifications pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) from the following institutional investors, each of whom holds more than 3% of the company's voting rights: Capital Research and Management Company, U.S.A. (9.84% - notification dated February 26, 2014), The Capital Group Companies, U.S.A. (9.19% - notification dated March 5, 2014), Sun Life, Canada (5.31% - notification dated December 6, 2013), Mondrian Investment Partners Limited, U.K. (3.0% - notification dated October 8, 2014).

Shareholder structure



¹⁾ Approximation based on top 50 shareholders.
 As of December 31, 2014.

HIGH PROFILE AMONG ANALYSTS

Many investors base their share purchase decisions on research reports issued by banks. As of the end of December 2014, 23 analysts were reporting regularly on MTU. Buy recommendations were issued by 8 of these financial institutions, while 10 gave the MTU share a hold rating, and 5 recommended selling (2013: 5 “buy”, 14 “hold”, 3 “sell”). The average upside target was € 71.

The following financial institutions report regularly on MTU:

Alpha Value Research	Deutsche Bank	HSBC	Metzler Equities
Berenberg Bank	DZ Bank	Independent Research	Natixis
Bernstein Research	Equinet	Investec	Oddo Securities Research
BoA Merrill Lynch	Exane BNP Paribas	JPMorgan Cazenove	Société Générale
Citi Global Markets Research	Goldman Sachs	KeplerCheuvreux	UBS
Commerzbank	Hauck & Aufhäuser	Landesbank Baden-Württemberg	

INVESTOR RELATIONS ACTIVITIES

In 2014, MTU staged 12 road shows in all major financial centers in Europe and the United States to meet with investors. The company also participated in 13 international investor conferences, including the German Investment Seminar hosted by Commerzbank in New York, the German Corporate Conference organized by KeplerCheuvreux in Frankfurt and the European Industrial Conference held by Goldman Sachs in London. In addition, members of management and the IR team provided detailed information on the company’s business model and its potential for growth in numerous face-to-face meetings. Another key platform for dialog with shareholders was the MTU Annual General Meeting, which was held in Munich on May 8, 2014. It was attended by shareholders representing 20% of the share capital with voting rights (previous AGM: 48%). MTU’s medium- to long-term opportunities were one of the main subjects discussed during the company’s annual Investor and Analyst Day, which was held in Munich on November 25, 2014. The event was attended by some 40 analysts and investors, who were able to gain an overview of the latest developments and MTU’s progress with the implementation of its growth strategy.

MTU once again received numerous awards in 2014. At the Deutsches Wirtschaftsforum conference in early December, MTU was presented with the German Investors’ Award for Responsible Business Practices. The jury’s decision was based on the company’s steady progress in sustainability management. Buy-side analysts ranked MTU 3rd among “Europe’s Best CEOs, CFOs and Investor Relations” in the aerospace & defense sector and the MTU Annual Report was placed 15th in manager magazin’s “Best Annual Reports” category for MDAX companies.

The Investor Relations section of the MTU website (www.mtu.de) provides all relevant information. You are also welcome to contact the IR team by calling +49 89 1489-8473.

Investors’ Award
for Responsible Business
Practices



GE90-110B/-115B

*MRO contracts valued
at around **800 million**
U.S. dollars*

MTU Maintenance Hannover was one of the first maintenance organizations in the world to obtain a license for the repair and overhaul of the GE90-110B/-115B, the world's largest and most powerful engine. It can be tested on the company's test rig in Hannover and has been part of MTU's MRO portfolio since 2010. The GE90-110B/-115B is the exclusive engine for the latest members of the Boeing 777 family: the 777-200LR and 777-300ER passenger aircraft and the 777-200F air freighter. Nearly 700 of these aircraft are already in service, and there are another 300 on order. MTU has signed exclusive maintenance contracts with five GE90 customers so far, with a total value of around 800 million U.S. dollars.



GE90-110B/-115B



In 2010, MTU obtained a license for the maintenance of the GE90-110B/-115B, which powers the most recent versions of the Boeing 777. Five customers have signed maintenance contracts with MTU for this engine type, representing a total value of 800 million U.S. dollars.

CORPORATE GOVERNANCE

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CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT

MTU places great importance on responsible corporate management and complies with all the recommendations of the German Corporate Governance Code. The corporate governance report delivered pursuant to Section 3.10 of the Code qualifies as the corporate governance statement required under Section 289a of the German Commercial Code (HGB) and thus forms part of the combined management report for the MTU group and MTU Aero Engines AG.

RESPONSIBLE CORPORATE MANAGEMENT

Corporate governance is a
natural
responsibility

The term “corporate governance” stands for the practice of administering and controlling a company in accordance with the principles of responsibility and long-term value creation. MTU Aero Engines AG sees good corporate governance as a natural responsibility that embraces every area of the company. Important aspects include mutual trust and efficient collaboration between the Executive Board and the Supervisory Board, respect for the shareholders’ interests, and open and transparent communication with all stakeholders. As a company with global operations, 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”). In the financial year just passed, the Executive Board and Supervisory Board closely studied the Code, the latest version of which was published on June 24, 2014.

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

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

The Executive Board and the Supervisory Board of MTU Aero Engines AG declare that the recommendations of the Government Commission on the German Corporate Governance Code, as published in the amended version of June 24, 2014 by the Federal Ministry of Justice in the official section of the Federal Gazette, have been and are being complied with in their entirety. The Executive Board and the Supervisory Board of MTU Aero Engines AG also intend to follow these recommendations in the future.

Munich, December 2014

For the Executive Board



Reiner Winkler
Chairman

For the Supervisory Board



Klaus Eberhardt
Chairman

THE PRACTICE OF CORPORATE MANAGEMENT

MTU has always demonstrated a sense of responsibility in everything it does, applying these principles in the same measure to the environment and society as it does to its products, processes, employees, customers and partners. MTU is committed to sustainable development, and its contribution in this area goes above and beyond the minimum legal requirements. The company's social engagement focuses primarily on environmental protection, an employee-friendly human resources policy and community outreach projects in the neighborhood of MTU sites. These commitments are publicly documented on the MTU website at www.mtu.de under [Company > Corporate Responsibility](#).

→ more information available online under [Company > Corporate Responsibility](#)

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

MTU attaches great importance to maintaining an open, ongoing dialog with its target groups. The company communicates with these groups via many channels, including the intranet and internet, company brochures, employee and customer magazines, as well as face-to-face at industry events. The goal of this communication is to generate broad public acceptance.

MTU insists on the finest quality for its products and services. Compliance with quality standards is verified by official organizations and through internal and external audits. A list of approvals and certifications can be found on the MTU website at www.mtu.de under [Engines > Quality](#).

→ more information available online under [Engines > Quality](#)

TRUST-BASED COOPERATION AMONG GOVERNING BODIES

MTU is a stock corporation organized under German law. Its governing bodies are the Executive Board, the Supervisory Board and the Annual General Meeting. The close cooperation among the governing bodies is based on trust, and they share information with one another in a reliable and regular manner. The Annual General Meeting, in particular, offers shareholders the opportunity to present questions to MTU executives and to exercise their voting rights.

WORKING PROCEDURES OF THE EXECUTIVE BOARD

As the executive body of MTU, the Executive Board's goal is to create sustainable added value, on its own responsibility and in the company's interest, taking into account the interests of its shareholders, employees and other groups connected with the company. The Executive Board works as a team, with its members bearing joint responsibility. The members of the Executive Board regularly discuss important measures and events within their respective remits. Their qualifications and professional experience are complementary. As of April 2015, the MTU Executive Board will be made up of three members.

Goal is to create sustainable added value

The Supervisory Board is briefed by the Executive Board in a regular, timely and comprehensive manner on the situation of the company, in particular on strategy, the status of planning, the achievement of targets, the company's risk exposure and its risk management activities. The Executive Board coordinates decisions of a strategic nature with the Supervisory Board, ensures that such decisions are implemented, and discusses the progress made. Once a month, the Supervisory Board receives written reports on the company's earnings, financial situation and net asset position. Any deviations from the planned operational performance are explained in detail to the Supervisory Board. Furthermore, the chair of the Supervisory Board is briefed regularly and in person on the company's current situation, significant business transactions and important pending decisions.

The Executive Board also receives regular reports on compliance issues, i.e. on the measures taken to comply with laws and regulations and with the company's own guidelines.

Important Executive Board decisions, in particular those concerning the budget, require the approval of the Supervisory Board. The Supervisory Board provides information on these matters in its report on page 54 et seq. The Executive Board's rules of procedure, along with the list of transactions by MTU Aero Engines AG requiring Supervisory Board approval, can be viewed on the company website at www.mtu.de under [Investor Relations > Corporate Governance](#).

→ more information available
online under
Corporate Governance

WORKING PROCEDURES OF THE SUPERVISORY BOARD

In line with statutory requirements, the Supervisory Board comprises six shareholder representatives and six employee representatives. It appoints the Executive Board, oversees the latter's work and provides advisory support. Decisions of consequence for the company require the approval of the Supervisory Board. All Supervisory Board members are qualified for these tasks and properly perform their mandated duties. The German Corporate Governance Code recommends that not more than two former members of the Executive Board shall be members of the Supervisory Board. MTU Aero Engines AG complies with this recommendation: Prof. Dr.-Ing. Klaus Steffens is the only member of the Supervisory Board who previously served on the Executive Board. The Supervisory Board is entrusted with gauging the independence of its own members. The majority of the members of the Supervisory Board may be regarded as independent, thus ensuring that the Executive Board receives independent advice and supervision.

→ further information
on page 56

The Supervisory Board's rules of procedure make provision for its members to form committees. MTU's Supervisory Board has four committees, [details of which can be found on page 56](#).

The Supervisory Board's rules of procedure contain binding provisions for dealing with conflicts of interest. Such conflicts are to be disclosed and, where appropriate, may result in termination of the member's mandate. In addition, the Supervisory Board must explicitly state such potential conflicts of interest in the nomination proposals it makes to the Annual General Meeting. In 2014, no consulting agreements, contracts for services or similar contractual agreements existed between the members of the Supervisory Board and MTU Aero Engines AG or any of its subsidiaries. Thus, no conflicts of interest requiring disclosure arose.

In the financial year 2014, directors' and officers' liability insurance was in effect for the MTU Executive Board and Supervisory Board members. The cover includes a deductible amounting to 10% of the loss incurred, up to a maximum of one and a half times the board member's annual fixed compensation.

→ further information
on page 33 et seq.

Compensation for the members of the Executive Board and Supervisory Board is established in accordance with clear, transparent criteria, which are described in the management compensation report on [page 33 et seq.](#)

DIVERSITY

As the diversity of MTU's workforce is a decisive factor in the company's success, it is a topic to which MTU attaches great importance. In particular, MTU's human resources policy focuses on ensuring that the criteria of internationality and the fair representation of women are respected.

International
orientation

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

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

At present, two seats on the MTU Supervisory Board are occupied by women, namely Babette Fröhlich as an employee representative and Prof. Dr. Marion A. Weissenberger-Eibl as a shareholder representative. This concurs with the Supervisory Board's opinion that two or more women representatives would adequately meet the requirement for fair representation, this number being based on the relative number of women working for the company.

MTU has set itself the goal of significantly increasing the number of women in its workforce, including at the management level. Every area of the company is called upon to work actively toward achieving this corporate objective. Furthermore, there are already company-wide measures firmly in place to encourage more women to accede to management posts. These measures are continually being expanded and include career guidance for high-potential women and various mentoring schemes. Other measures address both men and women and are designed to improve work-life balance. They include part-time management posts, job sharing and teleworking.

The Supervisory Board also places value on fostering diversity in appointments to the Executive Board. In terms of its members' education, training and professional experience, the Executive Board already meets the criterion of internationality, and intends to abide by this principle in the future. The Supervisory Board will moreover give due consideration to the goal of adequate representation of women when searching for suitably qualified candidates to fill vacant positions on the Executive Board.

The Supervisory Board's rules of procedure contain an age-limit provision specifying that members of the Supervisory Board must relinquish their seats after the Annual General Meeting that follows their 72nd birthday.

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

Promoting
women in
management

FINANCIAL REPORTING

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

RISK MANAGEMENT AND CONTROL SYSTEM

The Executive Board is responsible for ensuring that an appropriate risk management and control system is in place. This system is described on page 115 et seq. The Executive Board reports to the Supervisory Board in a regular and timely manner on existing opportunities and risks as well as any pertinent new developments.

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

COMPLIANCE

The corporate culture at MTU sets great store by the values of trust and mutual respect. Nevertheless, the risk can never be entirely ruled out that unauthorized behavior of isolated individuals might lead to contravention of the law. MTU does everything in its power to mitigate this risk; for example, avoiding misconduct in the first place by providing regular anti-corruption training and, should acts of misconduct nevertheless occur, uncovering them and taking consistent disciplinary action.

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

Compliance is a
management
duty

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

MTU has set up a Compliance Board, which holds ordinary meetings once a quarter and reports directly to the Executive Board. Its duties include identifying and evaluating legal and reputational risks. Where necessary, it recommends additional compliance rules to the Executive Board. Above and beyond this, the Compliance Board coordinates the measures taken in specific cases of non-compliance. In agreement with the Works Council, the company has set up an internal compliance office that staff, customers and suppliers may contact if they suspect unethical conduct.

Status reports on the activities of the Compliance Board are presented at meetings of the Supervisory Board's Audit Committee. The Audit Committee then informs the plenary meetings of the Supervisory Board via a summary of its own meetings.

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

A FULL INFORMATION SERVICE

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

→ more information
available online

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

MANAGEMENT COMPENSATION REPORT

The management compensation report describes the principles applied when establishing the compensation to be awarded to members of the Executive Board and Supervisory Board of MTU Aero Engines AG, and states the amount and composition of that compensation. The management compensation report follows the provisions of Section 314 (1) no. 6 of the German Commercial Code (HGB), German Accounting Standard DRS 17 “Reporting on the remuneration of members of governing bodies,” the recommendations of the German Corporate Governance Code, and the International Financial Reporting Standards (IFRSs).

At the proposal of the Personnel Committee, the Supervisory Board decides on a system of compensation for the members of the Executive Board, including the main components of their contracts, and reviews this system at regular intervals.

The present compensation system was developed with the support of external consultants and put in place in 2010. It focuses on linking Executive Board compensation to a style of corporate management and development that has a sustainable and long-term orientation. That entails not only an appropriate mix of fixed and variable compensation components but also the inclusion of long-term components in the variable compensation. Large parts of the variable compensation can be deferred, or not paid out at all. The intention is to align the interests of the members of the Executive Board more closely with those of the company by increasing their participation in the company in the long term.

Members of the Executive Board did not receive any compensation for mandates on boards of MTU group companies, nor were they granted any loan facilities by the company.

Variable compensation includes long-term components

PRINCIPLES OF THE COMPENSATION SYSTEM FOR MEMBERS OF THE EXECUTIVE BOARD

At the proposal of the Personnel Committee, the Supervisory Board determines both the total compensation to be awarded to members of the Executive Board (target direct compensation) and the composition of this compensation. The target direct compensation is made up of non-performance-related components (40% of the total) and performance-related components (60%). The latter comprises the Annual Performance Bonus (APB) and a share-based component, each of which makes up approximately 30% of the target direct compensation.

NON-PERFORMANCE-RELATED COMPONENTS

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

PERFORMANCE-RELATED COMPONENTS

Performance-related components without long-term incentive effect

Half of the Annual Performance Bonus (APB) is granted as a short-term compensation component.

The actual amount depends on the results achieved as regards two company performance targets and on the board member’s individual performance. The company performance targets are based on the key performance indicators at group level – “adjusted EBIT” and “free cash flow” – which are

Individual performance taken into account

given equal weighting. The targets to be achieved to ensure payment of 100% of the APB are set annually in advance by the Supervisory Board, taking the annual planning figures into account. In addition, an entry threshold is set for each performance target at a figure 30% below the planned level; this corresponds to a goal achievement level of 50%. Members of the Executive Board who do not reach this entry threshold are not entitled to a short-term compensation component. Similarly, the maximum goal achievement level of 180% is fixed at a figure 15% above the planned value for each of the two performance targets. Between the entry threshold, the 100% level and the maximum value, the degree of goal achievement is interpolated using a straight-line method. A slightly modified rule was applied in 2014 with regard to the „free cash flow“ performance target. Exceptionally, the corridor between the minimum and maximum goal achievement levels was defined in absolute terms. The entry threshold was set at a figure € 30 million below the planned target and the maximum limit was fixed at a figure € 15 million above the planned target. The Supervisory Board takes each Executive Board member's individual performance into account by decreasing or increasing the goal achievement figures by up to 20% (termed the “discretionary factor”).

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

Performance-related components with long-term incentive effect

Performance-related compensation with long-term incentive effect comprises the deferred APB and a share-based component.

Deferred Annual Performance Bonus (APB):

The remaining 50% of the APB is deferred and paid out in two equal portions over the following two financial years.

The ultimate amount of the deferred APB depends on the goal achievement level attained in respect of the two key performance indicators at group level and on the discretionary factor applied in the respective financial years.

In Egon Behle's case, the outstanding deferred APBs of the previous years will continue to be adjusted to the respective goal achievement level. His discretionary factor is set at one (1).

Share-based component

The long-term compensation awarded to members of the MTU Executive Board also comprises a share-based component granted in annual tranches by the Supervisory Board. The share-based component consists of the Performance Share Plan (PSP), which is linked to the development of the MTU share relative to the MDAX index, and the Share Matching Plan (SMP), in which the members of the Board of Management can opt to invest their payment from the PSP at the end of the assessment period for each tranche.

Performance Share Plan (PSP)

On the dates fixed for these tranches, the provisional number of performance shares is calculated on the basis of the average price of the MTU Aero Engines AG share (Xetra) over the last 30 trading days prior to commencement of the assessment period in accordance with each Executive Board member's long-term target compensation. At the end of the four-year assessment period, these performance shares entitle the recipients to a payment either in cash or in shares, as the Supervisory Board sees fit. Since 2010, the tranches of shares have been granted with effect from January 1 of each financial year. By way of exception, Michael Schreyögg was granted the fourth tranche of the PSP on a pro rata basis on July 1, 2013.

The actual number of performance shares is determined after expiry of the four-year assessment period for each tranche of granted shares. This amount reflects the performance of the MTU share compared with the other shares in the MDAX index, based on total shareholder return (TSR). The TSR is calculated as the total return on the stock including all changes in the share price and all dividends paid during the assessment period. The TSR ranking of the MTU share relative to that of all other MDAX-listed shares at the end of the assessment period is the main factor determining the number of shares allocated. Depending on this ranking, the level of goal achievement may be between 0% and 150%, with 100% being the value for an average ranking.

The amount disbursed equals the actual number of performance shares multiplied by the average MTU Aero Engines AG share price (Xetra) over the last 30 trading days prior to the end of the assessment period. The maximum payment for each tranche of granted shares is limited to 300% of the individual board member's long-term target compensation. The Supervisory Board has the right to impose further limits if any extraordinary events should occur.

Share Matching Plan (SMP)

The members of the Executive Board are entitled to use the post-tax benefits payable under each tranche of the Performance Share Plan (PSP) to purchase MTU Aero Engines AG shares, provided the Supervisory Board resolves to offer the Share Matching Plan in the year in question. At the end of the three-year vesting period, these shares are matched on the basis of the Share Matching Plan (SMP), with each Executive Board member being awarded one additional free share for every three MTU shares acquired in this way. The total value of the free shares allocated at the end of the vesting period is limited to three times the purchase price of the shares originally acquired through the PSP. Alternatively, the Supervisory Board may decide to offer a cash payment equivalent to the value of the matching shares.

Payment
in cash or in shares

INDIVIDUAL COMPENSATION OF THE MEMBERS OF THE EXECUTIVE BOARD

The members of the Executive Board were awarded the following total compensation – as defined in Section 314 (1) no. 6a of the German Commercial Code (HGB) – for their activities on the board in the financial years 2014 and 2013:

Individual compensation of the members of the Executive Board

Members of the Executive Board	Reiner Winkler Chief Executive Officer		Dr. Rainer Martens Chief Operating Officer	
in €	2014	2013	2014	2013
Non-performance-related components				
Basic salary	720,000	530,000	477,000	477,000
Other benefits ¹⁾	22,334	19,158	14,585	14,426
Performance-related components				
Without long-term incentive effect (non-deferred) ²⁾	402,759	190,284	266,828	171,254
With long-term incentive effect				
Deferred APB 2011		145,979		131,383
Deferred APB 2012 ³⁾	209,987	134,773	188,988	121,296
Deferred APB 2013 ³⁾	141,923		127,730	
Share-based compensation ⁴⁾	456,166	332,499	302,241	299,244
Total compensation	1,953,169	1,352,693	1,377,372	1,214,603

¹⁾ Other benefits include charges to taxable income covering personal use of company vehicles amounting to € 81,120 (2013: € 82,766) and premiums for accident insurance policies taken out on behalf of members of the Executive Board amounting to € 5,173 (2013: € 6,326).

²⁾ Non-deferred APB for the financial year 2014; to be paid in 2015 immediately after adoption of the annual financial statements for 2014.

³⁾ To be paid in 2015 immediately after adoption of the annual financial statements for 2014.

⁴⁾ Fair value at the grant date.

Michael Schreyögg Chief Program Officer since July 1, 2013		Dr, Stefan Weingartner⁵⁾ President MTU Maintenance until March 31, 2015		Egon Behle (Former member of the Executive Board) Member of the Executive Board and Chief Executive Officer until December 31, 2013		Total compensation	
2014	2013	2014	2013	2014	2013	2014	2013
418,500	180,000	477,000	477,000		795,000	2,092,500	2,459,000
23,209	10,371	26,165	24,021		21,116	86,293	89,092
234,104	64,624	266,828	171,254		285,424	1,170,519	882,840
			131,383		218,970		627,715
		188,988	121,296	314,978	202,159	902,941	579,524
48,200		127,730		212,884		658,467	
265,177	107,675	302,241	299,244		498,722	1,325,825	1,537,384
989,190	362,670	1,388,952	1,224,198	527,862	2,021,391	6,236,545	6,175,555

⁵⁾ Dr. Stefan Weingartner will cease to be a member of the Executive Board with effect of March 31, 2015 and will then receive the following one-time payments on March 31, 2015: APB € 208,688, basic salary € 278,250, other benefits € 16,625, long-term compensation € 208,688.
The deferred portions of the APB granted in respect of 2014 and 2013 will be paid out in 2016 and 2017 based on a goal achievement level of 100% (for 2015 and 2016) and a discretionary factor of one (1).

NEW RECOMMENDATIONS OF THE GERMAN CORPORATE GOVERNANCE CODE (GCGC)

The GCGC determines which compensation components are to be disclosed individually for each Executive Board member and recommends the use of the model tables appended to the Code for this purpose. The following table shows the benefits granted for the financial years 2014 and 2013 as well as the minimum and maximum amounts applicable for the financial year 2014.

Benefits granted

Members of the Executive Board	Reiner Winkler Chief Executive Officer				Dr. Rainer Martens Chief Operating Officer			
Individual items in €	2014 ²⁾	2014 (min.)	2014 (max.)	2013	2014 ²⁾	2014 (min.)	2014 (max.)	2013
Fixed compensation	720,000	720,000	720,000	530,000	477,000	477,000	477,000	477,000
Other benefits ¹⁾	22,334	22,334	22,334	19,158	14,585	14,585	14,585	14,426
Subtotal	742,334	742,334	742,334	549,158	491,585	491,585	491,585	491,426
One-year variable compensation	270,000		583,200	198,750	178,875		386,370	178,875
Multi-year variable compensation	726,166		3,730,617	531,249	481,117		2,471,535	478,120
Deferred APB 1 (relating to 2014 or 2013)	135,000		629,856	99,375	89,438		417,280	89,438
Deferred APB 2 (relating to 2014 or 2013)	135,000		629,856	99,375	89,438		417,280	89,438
Share-based compensation								
Performance Share Plan (assessment period: 4 years)	389,658		1,620,000	284,011	258,175		1,073,250	255,605
Share Matching Plan (vesting period: 88 months)	66,508		850,905	48,488	44,066		563,725	43,639
Total fixed and variable compensation	1,738,500	742,334	5,056,151	1,279,157	1,151,577	491,585	3,349,490	1,148,421
Service cost in accordance with IAS 19	186,810	186,810	186,810	1,398,373	159,912	159,912	159,912	157,319
Total compensation (GCGC)	1,925,310	929,144	5,242,961	2,677,530	1,311,489	651,497	3,509,402	1,305,740

¹⁾ Other benefits include charges to taxable income covering personal use of company vehicles amounting to € 81,120 (2013: € 82,766) and premiums for accident insurance policies taken out on behalf of members of the Executive Board amounting to € 5,173 (2013: € 6,326).

²⁾ Based on a goal achievement level of 100%.

Michael Schreyögg Chief Program Officer since July 1, 2013				Dr. Stefan Weingartner³⁾ President MTU Maintenance until March 31, 2015				Egon Behle (Former member of the Executive Board) Member of the Executive Board and Chief Executive Officer until December 31, 2013			
2014 ²⁾	2014 (min.)	2014 (max.)	2013	2014 ²⁾	2014 (min.)	2014 (max.)	2013	2014 ²⁾	2014 (min.)	2014 (max.)	2013
418,500	418,500	418,500	180,000	477,000	477,000	477,000	477,000				795,000
23,209	23,209	23,209	10,371	26,165	26,165	26,165	24,021				21,116
441,709	441,709	441,709	190,371	503,165	503,165	503,165	501,021				816,116
156,938		338,985	67,500	178,875		386,370	178,875				298,125
422,115		2,168,422	175,175	481,117		1,459,620	478,120				796,848
78,469		366,104	33,750	89,438		193,185	89,438				149,063
78,469		366,104	33,750	89,438		193,185	89,438				149,063
226,515		941,625	92,030	258,175		1,073,250	255,605				425,993
38,662		494,589	15,645	44,066			43,639				72,729
1,020,762	441,709	2,949,116	433,046	1,163,157	503,165	2,349,155	1,158,016				1,911,089
67,089	67,089	67,089	1,277,219	133,120	133,120	133,120	130,851				432,400
1,087,851	508,798	3,016,205	1,710,265	1,296,277	636,285	2,482,275	1,288,867				2,343,489

³⁾ Dr. Stefan Weingartner will no longer participate in the Share Matching Plan.

The table below shows the allocation of fixed and variable compensation for the financial years 2014 and 2013 as well as the service cost (benefit expense) for the pension plan:

Allocation of compensation and service cost

Members of the Executive Board	Reiner Winkler Chief Executive Officer		Dr. Rainer Martens Chief Operating Officer	
Individual items in €	2014	2013	2014	2013
Fixed compensation	720,000	530,000	477,000	477,000
Other benefits ¹⁾	22,334	19,158	14,585	14,426
Subtotal	742,334	549,158	491,585	491,426
One-year variable compensation	402,759	190,284	266,828	171,254
Multi-year variable compensation	995,706	280,752	896,122	252,679
Deferred APB 1 (relating to 2013 and 2012)	141,923	134,773	127,730	121,296
Deferred APB 2 (relating to 2012 and 2011)	209,987	145,979	188,988	131,383
Share-based compensation				
Performance Share Plan 2010-2013 ²⁾	643,796		579,404	
Total fixed and variable compensation	2,140,799	1,020,194	1,654,535	915,359
Service cost in accordance with IAS 19	186,810	1,398,373	159,912	157,319
Total compensation (CCGC)	2,327,609	2,418,567	1,894,447	1,072,678

¹⁾ Other benefits include charges to taxable income covering personal use of company vehicles amounting to €81,120 (2013: €82,766) and premiums for accident insurance policies taken out on behalf of members of the Executive Board amounting to €5,173 (2013: €6,326).

²⁾ In the financial year 2014, Egon Behle was awarded a cash settlement corresponding to the total value of all granted performance shares.

Michael Schreyögg
Chief Program Officer
since July 1, 2013

Dr. Stefan Weingartner
President MTU Maintenance
until March 31, 2015

Egon Behle
**(Former member of the
Executive Board)**
Member of the Executive Board
and Chief Executive Officer
until December 31, 2013

2014	2013	2014	2013	2014	2013
418,500	180,000	477,000	477,000		795,000
23,209	10,371	26,165	24,021		21,116
441,709	190,371	503,165	501,021		816,116
234,104	64,624	266,828	171,254		285,424
48,200		896,122	252,679	2,524,507	421,129
48,200		127,730	121,296	212,884	202,159
		188,988	131,383	314,978	218,970
		579,404		1,996,645	
724,013	254,995	1,666,115	924,954	2,524,507	1,522,669
67,089	1,277,219	133,120	130,851		432,400
791,102	1,532,214	1,799,235	1,055,805	2,524,507	1,955,069

PERFORMANCE-RELATED COMPONENTS

ANNUAL PERFORMANCE BONUS (APB):

The performance targets set by the Supervisory Board for the 2014 Annual Performance Bonus (APB) were as follows:

- Adjusted EBIT € 370.0 million (actual adjusted EBIT in 2014: € 382.7 million)
- Free cash flow € 0.0 million (actual free cash flow in 2014: € 42.5 million).

Deferred portions of the APB awarded in respect of 2012 and 2013 formed part of the performance-related compensation payable in 2014.

PERFORMANCE SHARE PLAN (PSP)

The following table shows the number of performance shares granted in each PSP tranche:

Performance Share Plan 2014

number of shares, value in € or months	Average Xetra share price ¹⁾	Fair value at grant date	Granted performance shares			Exercisable performance shares	Not yet exercisable performance shares		Time to end of vesting period for performance shares
			Number at Jan. 1, 2014 shares	Acquired in 2014 shares	Number at Dec. 31, 2014 shares		Performance shares 2014/shares	Number at Dec. 31, 2014 shares	
	€	€							Time at Dec. 31, 2014 months
Reiner Winkler									
Performance shares tranche 2 granted Jan. 1, 2011	47.03	31.26	7,973		7,973	7,973			
Performance shares tranche 3 granted Jan. 1, 2012	47.47	34.26	8,374		8,374		8,374	36.68	12
Performance shares tranche 4a granted Jan. 1, 2013	67.16	47.98	5,919		5,919		5,919	30.08	24
Performance shares tranche 5 granted Jan. 1, 2014	69.87	50.42		7,729	7,729		7,729	49.30	36
Personal total / average	57.01	40.33	22,266	7,729	29,995	7,973	22,022	39.34	24
Dr. Rainer Martens									
Performance shares tranche 2 granted Jan. 1, 2011	47.03	31.26	7,176		7,176	7,176			
Performance shares tranche 3 granted Jan. 1, 2012	47.47	34.26	7,537		7,537		7,537	36.68	12
Performance shares tranche 4a granted Jan. 1, 2013	67.16	47.98	5,327		5,327		5,327	30.08	24
Performance shares tranche 5 granted Jan. 1, 2014	69.87	50.42		5,121	5,121		5,121	49.30	36
Personal total / average	56.07	39.60	20,040	5,121	25,161	7,176	17,985	38.32	22
Michael Schreyögg²⁾									
Performance shares tranche 4b granted July 1, 2013	76.59	52.20	1,763		1,763		1,763	31.96	30
Performance shares tranche 5 granted Jan. 1, 2014	69.87	50.42		4,493	4,493		4,493	49.30	36
Personal total / average	71.76	50.92	1,763	4,493	6,256		6,256	44.41	34
Dr. Stefan Weingartner³⁾									
Performance shares tranche 2 granted Jan. 1, 2011	47.03	31.26	7,176		7,176	7,176			
Performance shares tranche 3 granted Jan. 1, 2012 ⁴⁾	47.47	34.26	7,537		7,537		7,537	70.38	3
Performance shares tranche 4a granted Jan. 1, 2013 ⁴⁾	67.16	47.98	5,327		5,327		5,327	70.38	3
Performance shares tranche 5 granted Jan. 1, 2014 ⁴⁾	69.87	50.42		5,121	5,121		5,121	70.38	3
Personal total / average	56.07	39.60	20,040	5,121	25,161	7,176	17,985	70.38	3
Cumulative total / average	57.53	40.67	64,109	22,464	86,573	22,325	64,248	48.24	19

Note: In the financial year 2014, no performance share rights were forfeited, nor did any lapse.

¹⁾ Average Xetra share price during the 30 trading days preceding the grant date.

²⁾ Member of the Executive Board since July 1, 2013.

³⁾ Member of the Executive Board until March 31, 2015; a cash settlement corresponding to the value of the performance shares granted in 2011, 2012, 2013 and 2014 will therefore be awarded in the financial year 2015.

⁴⁾ The amount of the cash settlement will be based on the average Xetra share price during the 30 trading days prior to March 31, 2015, and a goal achievement level of 100%.

Performance Share Plan 2013

number of shares, value in € or months	Average Xetra share price ¹⁾	Fair value at grant date	Granted performance shares			Exercisable performance shares	Not yet exercisable performance shares		Time to end of vesting period for performance shares
			Number at Jan. 1. 2013 shares	Acquired in 2013 shares	Number at Dec. 31, 2013 shares		Performance shares 2013/shares	Number at Dec. 31, 2013 shares	
	€	€							
Egon Behle²⁾									
Performance shares tranche 1b granted July 1, 2010	46.64	27.13	6,031		6,031	6,031			
Performance shares tranche 2 granted Jan. 1, 2011	47.03	31.26	11,960		11,960	11,960			
Performance shares tranche 3 granted Jan. 1, 2012	47.47	34.26	12,561		12,561	12,561			
Performance shares tranche 4a granted Jan. 1, 2013	67.16	47.98		8,878	8,878	8,878			
Personal total / average	51.64	35.35	30,552	8,878	39,430	39,430			
Dr. Rainer Martens									
Performance shares tranche 1a granted Jan. 1, 2010	36.63	22.96	9,214		9,214	9,214			
Performance shares tranche 2 granted Jan. 1, 2011	47.03	31.26	7,176		7,176		7,176	57.93	12
Performance shares tranche 3 granted Jan. 1, 2012	47.47	34.26	7,537		7,537		7,537	44.75	24
Performance shares tranche 4a granted Jan. 1, 2013	67.16	47.98		5,327	5,327		5,327	37.67	36
Personal total / average	47.53	32.46	23,927	5,327	29,254	9,214	20,040	47.59	23
Michael Schreyögg³⁾									
Performance shares tranche 4b granted July 1, 2013	76.59	52.20		1,763	1,763		1,763	38.58	42
Personal total / average	76.59	52.20		1,763	1,763		1,763	38.58	42
Dr. Stefan Weingartner									
Performance shares tranche 1a granted Jan. 1, 2010	36.63	22.96	9,214		9,214	9,214			
Performance shares tranche 2 granted Jan. 1, 2011	47.03	31.26	7,176		7,176		7,176	57.93	12
Performance shares tranche 3 granted Jan. 1, 2012	47.47	34.26	7,537		7,537		7,537	44.75	24
Performance shares tranche 4a granted Jan. 1, 2013	67.16	47.98		5,327	5,327		5,327	37.67	36
Personal total / average	47.53	32.46	23,927	5,327	29,254	9,214	20,040	47.59	23
Reiner Winkler									
Performance shares tranche 1a granted Jan. 1, 2010	36.63	22.96	10,238		10,238	10,238			
Performance shares tranche 2 granted Jan. 1, 2011	47.03	31.26	7,973		7,973		7,973	57.93	12
Performance shares tranche 3 granted Jan. 1, 2012	47.47	34.26	8,374		8,374		8,374	44.75	24
Performance shares tranche 4a granted Jan. 1, 2013	67.16	47.98		5,919	5,919		5,919	37.67	36
Personal total / average	47.53	32.46	26,585	5,919	32,504	10,238	22,266	47.59	23
Cumulative total / average	49.15	33.59	104,991	27,214	132,205	68,096	64,109	47.34	23

Note: In the financial year 2013, no performance share rights were forfeited, nor did any lapse.

¹⁾ Average Xetra share price during the 30 trading days preceding the grant date.

²⁾ Member of the Executive Board until December 31, 2013; a cash settlement corresponding to the value of the performance shares granted in 2010, 2011, 2012 and 2013 was therefore awarded in the financial year 2014.

³⁾ Member of the Executive Board since July 1, 2013.

The fair value is calculated by an independent expert in accordance with the recommendations contained in IFRS 2. A fluctuation rate of 4% per performance share is taken into account.

The methods used to calculate these figures are documented in the fairness opinions established at the respective grant dates.

The total carrying amount of the liabilities in connection with PSP compensation developed as follows:

Development of total carrying amount

in €	At Dec. 31, 2014	At Dec. 31, 2013
Performance Share Plan - tranche 1a		1,802,604
Performance Share Plan - tranche 1b		316,039
Performance Share Plan - tranche 2	1,099,864	1,847,442
Performance Share Plan - tranche 3	927,385	1,095,102
Performance Share Plan - tranche 4a	502,420	388,695
Performance Share Plan - tranche 4b	21,129	8,502
Performance Share Plan - tranche 5	502,068	
Total carrying amount	3,052,866	5,458,384

SHARE MATCHING PLAN (SMP)

The number of future matching shares depends on the cash amount paid out under the PSP. In order to determine the fair value of the SMP, a combined Monte Carlo simulation and Black-Scholes pricing model was used. The expected cash settlement was determined on the basis of the exact same assumptions used to measure the value of the PSP. The amount of the cash settlement serves as a basis for measuring the value of the forward options granted under the terms of the SMP.

Combined
calculation method

The fair value of the forward options at the grant date was calculated on the basis of the following assumptions (an option period of 52 months, a vesting period of 88 months and a fluctuation rate of 4% were assumed for all tranches):

Share Matching Plan

Model parameters	Tranche 5 financial year 2014	Tranche 4b financial year 2013	Tranche 4a financial year 2013	Tranche 3 financial year 2012	Tranche 2 financial year 2011	Tranche 1b financial year 2010	Tranche 1a financial year 2010
Measurement date	Jan. 1, 2014	July 1, 2013	Jan. 1, 2013	Jan. 1, 2012	Jan. 1, 2011	July 1, 2010	Jan. 1, 2010
Average share price at acquisition date	69.87	76.59	67.16	47.47	47.03	46.64	36.63
Dividend yield	1.89%	1.82%	1.74%	2.23%	1.84%	2.07%	2.44%
Expected volatility	23.32%	24.60%	27.94%	35.18%	51.40%	52.82%	52.08%
Risk-free interest rate	0.77%	0.71%	0.26%	0.70%	1.76%	1.37%	2.30%

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

Share Matching Plan 2014

number of shares, value in € or months	Fair value at grant date	Granted performance shares ¹⁾			Exercised performance shares	Lapsed performance shares	Forfeited performance shares	Not yet exercisable performance shares	Time to end of vesting period for performance shares ²⁾
		Number at Jan. 1, 2014 shares	Acquired in 2014 shares	Number at Dec. 31, 2014 shares					
	€								
Reiner Winkler									
Performance Shares tranche 1a granted Jan. 1, 2010	3.722	10,238		10,238	4,662	5,576			
Performance shares tranche 2 granted Jan. 1, 2011	4.779	7,973		7,973			7,973	4	
Performance shares tranche 3 granted Jan. 1, 2012	5.771	8,374		8,374			8,374	16	
Performance shares tranche 4a granted Jan. 1, 2013	8.192	5,919		5,919			5,919	28	
Performance shares tranche 5 granted Jan. 1, 2014	8.605		7,729	7,729			7,729	40	
Personal total / average	5.954	32,504	7,729	40,233	4,662	5,576	29,995	21	
Dr. Rainer Martens									
Performance shares tranche 1a granted Jan. 1, 2010	3.722	9,214		9,214	4,209	5,005			
Performance shares tranche 2 granted Jan. 1, 2011	4.779	7,176		7,176			7,176	4	
Performance shares tranche 3 granted Jan. 1, 2012	5.771	7,537		7,537			7,537	16	
Performance shares tranche 4a granted Jan. 1, 2013	8.192	5,327		5,327			5,327	28	
Performance shares tranche 5 granted Jan. 1, 2014	8.605		5,121	5,121			5,121	40	
Personal total / average	5.812	29,254	5,121	34,375	4,209	5,005	25,161	20	
Michael Schreyögg³⁾									
Performance shares tranche 2 granted Jan. 1, 2011 ⁴⁾	4.779	907		907	516	391			
Performance shares tranche 3 granted Jan. 1, 2012 ⁴⁾	5.771	943		943			943	4	
Performance shares tranche 4a granted Jan. 1, 2013 ⁴⁾	8.192	353		353			353	16	
Performance shares tranche 4b granted July 1, 2013	8.874	1,763		1,763			1,763	34	
Performance shares tranche 5 granted Jan. 1, 2014	8.605		4,493	4,493			4,493	40	
Personal total / average	7.918	3,966	4,493	8,459	516	391	7,552	33	
Dr. Stefan Weingartner⁵⁾									
Performance shares tranche 1a granted Jan. 1, 2010	3.722	9,214		9,214	4,518	4,696			
Performance shares tranche 2 granted Jan. 1, 2011	4.779	7,176		7,176			7,176		
Performance shares tranche 3 granted Jan. 1, 2012	5.771	7,537		7,537			7,537		
Performance shares tranche 4a granted Jan. 1, 2013	8.192	5,327		5,327			5,327		
Performance shares tranche 5 granted Jan. 1, 2014	8.605		5,121	5,121			5,121		
Personal total / average	5.812	29,254	5,121	34,375	4,518	4,696	25,161		
Cumulative total / average	6.012	94,978	22,464	117,442	13,905	15,668	25,161	62,708	22

¹⁾ This column shows the number of granted performance shares. The corresponding matching share entitlement depends on the TSR ranking of the MTU share and on the share price.

²⁾ The time to end of vesting period for SMP shares is 4 months longer than for PSP shares because the strike date is in April.

³⁾ Member of the Executive Board since July 1, 2013.

⁴⁾ Granted under the terms of his previous contract as a tier-1 senior manager.

⁵⁾ Member of the Executive Board until March 31, 2015; he therefore forfeits his right to reinvest the benefits payable under the Performance Share Plan (PSP) in MTU Aero Engines AG shares.

Share Matching Plan 2013

number of shares, value in € or months	Fair value at grant date	Granted performance shares ¹⁾			Forfeited performance shares	Not yet exercisable performance shares	Time to end of vesting period for performance shares ²⁾
		Number at Jan. 1, 2013 shares	Acquired in 2013 shares	Number at Dec. 31, 2013 shares			
	€				Performance shares 2014/shares	Number at Dec. 31, 2013 shares	Time at Dec. 31, 2013 months
Egon Behle³⁾							
Performance shares tranche 1b granted July 1, 2010	4.233	6,031		6,031	6,031		
Performance shares tranche 2 granted Jan. 1, 2011	4.779	11,960		11,960	11,960		
Performance shares tranche 3 granted Jan. 1, 2012	5.771	12,561		12,561	12,561		
Performance shares tranche 4a granted Jan. 1, 2013	8.192		8,878	8,878	8,878		
Personal total / average	5.780	30,552	8,878	39,430	39,430		
Dr. Rainer Martens							
Performance shares tranche 1a granted Jan. 1, 2010	3.722	9,214		9,214		9,214	4
Performance shares tranche 2 granted Jan. 1, 2011	4.779	7,176		7,176		7,176	16
Performance shares tranche 3 granted Jan. 1, 2012	5.771	7,537		7,537		7,537	28
Performance shares tranche 4a granted Jan. 1, 2013	8.192		5,327	5,327		5,327	40
Personal total / average	5.323	23,927	5,327	29,254		29,254	20
Michael Schreyögg⁴⁾							
Performance shares tranche 2 granted Jan. 1, 2011 ⁵⁾	4.779	907		907		907	4
Performance shares tranche 3 granted Jan. 1, 2012 ⁵⁾	5.771	943		943		943	16
Performance shares tranche 4a granted Jan. 1, 2013 ⁵⁾	8.192		353	353		353	28
Performance shares tranche 4b granted July 1, 2013	8.874		1,763	1,763		1,763	46
Personal total / average	7.139	1,850	2,116	3,966		3,966	28
Dr. Stefan Weingartner							
Performance shares tranche 1a granted Jan. 1, 2010	3.722	9,214		9,214		9,214	4
Performance shares tranche 2 granted Jan. 1, 2011	4.779	7,176		7,176		7,176	16
Performance shares tranche 3 granted Jan. 1, 2012	5.771	7,537		7,537		7,537	28
Performance shares tranche 4a granted Jan. 1, 2013	8.192		5,327	5,327		5,327	40
Personal total / average	5.323	23,927	5,327	29,254		29,254	20
Reiner Winkler							
Performance shares tranche 1a granted Jan. 1, 2010	3.722	10,238		10,238		10,238	4
Performance shares tranche 2 granted Jan. 1, 2011	4.779	7,973		7,973		7,973	16
Performance shares tranche 3 granted Jan. 1, 2012	5.771	8,374		8,374		8,374	28
Performance shares tranche 4a granted Jan. 1, 2013	8.192		5,919	5,919		5,919	40
Personal total / average	5.323	26,585	5,919	32,504		32,504	20
Cumulative total / average	5.511	106,841	27,567	134,408	39,430	94,978	20

Note: In the financial year 2013, no performance share rights were exercised, nor did any lapse.

¹⁾ This column shows the number of granted performance shares. The corresponding matching share entitlement depends on the TSR ranking of the MTU share and on the share price.

²⁾ The time to end of vesting period for SMP shares is 4 months longer than for PSP shares because the strike date is in April.

³⁾ Member of the Executive Board until December 31, 2013; he therefore forfeits his right to reinvest the benefits payable under the Performance Share Plan (PSP) in MTU Aero Engines AG shares.

⁴⁾ Member of the Executive Board since July 1, 2013.

⁵⁾ Granted under the terms of his previous contract as a tier-1 senior manager.

First-time entitlement

In the financial year 2014, the members of the Executive Board were for the first time entitled to purchase MTU shares under the terms of the Share Matching Plan.

This resulted in the following matching share entitlements:

Matching share entitlements

number of shares or value in €	Number at Jan. 1, 2014 shares	Acquired in 2014 shares	Number at Dec. 31, 2014 shares	Fair value at grant date €
Reiner Winkler		1,554	1,554	3.722
Dr. Rainer Martens		1,403	1,403	3.722
Michael Schreyögg		172	172	3.722
Dr. Stefan Weingartner		1,506	1,506	3.722
Total / average		4,635	4,635	3.722

Note: In the financial year 2014, no matching share rights were exercised, and none lapsed or were forfeited.

TOTAL EXPENSE INCURRED FOR SHARE-BASED COMPENSATION

The total expense incurred for share-based compensation can be broken down as follows for the individual members of the Executive Board:

Total expense incurred for share-based compensation

Members of the Executive Board in €	Financial year 2014			Financial year 2013		
	Cash settlement	Equity instruments	Total	Cash settlement	Equity instruments	Total
Reiner Winkler	217,932	23,421	241,353	386,384	39,929	426,313
Dr. Rainer Martens	173,527	18,926	192,453	347,748	35,936	383,684
Michael Schreyögg ¹⁾	67,999	15,827	83,826	8,502	1,805	10,307
Dr. Stefan Weingartner ²⁾	934,173	113,718	1,047,891	347,748	35,936	383,684
Total expense	1,393,631	171,892	1,565,523	1,090,382	113,606	1,203,988
Former member of the Executive Board						
Egon Behle ³⁾				1,255,549	170,069	1,425,618
Total expense				1,255,549	170,069	1,425,618

¹⁾ Member of the Executive Board since July 1, 2013.

²⁾ Member of the Executive Board until March 31, 2015.

³⁾ Member of the Executive Board until December 31, 2013.

RULES WHEN TERMINATING THE CONTRACTS OF MEMBERS OF THE EXECUTIVE BOARD

The members of the Executive Board are insured under a defined benefit plan. The benefits payable to members of the Executive Board under this plan correspond to those of their peers in comparable companies.

Retirement and survivors' pensions

The members of the Executive Board earn company pension entitlements in accordance with the "MTU Pension Capital" plan, which constitutes the current post-employment benefits plan for members of the Executive Board of MTU Aero Engines AG. The goal of the plan is to provide a pension amounting to 60% of each member's basic salary after 15 years of service on the Executive Board. When this plan was introduced on January 1, 2010, the vested benefits that each member of the Executive Board had earned up until December 31, 2009 under the previous plan were transferred to the new plan in the form of initial units. This entitlement represents the benefit payable at age 60 under the old plan, adapted to reflect the ratio between the actual number of years of service with the company and the number of years from start of service with the company until age 60. The initial units transferred to the new plan correspond to the current cash value of the pension converted into a lump sum.

Once this amount had been determined, a pension account was opened for each member of the Executive Board to which further capital units are credited annually. The annual capital units are calculated on the basis of an individual contribution and an age-dependent factor, with the latter taking into account an interest rate of 6% per annum up to the age of 60. The contribution period is capped at 15 years of service on the Executive Board, or at age 60, whichever comes first. As of the age of 61, the pension account earns interest at an annual rate of 4% until such time as the pension is drawn (= bonus amount). The accrued capital units plus the units initially transferred to the account plus any bonus amounts credited to the account together make up the pension capital available to finance post-employment benefits. If a member of the Executive Board dies before reaching age 60, 50% of the benefits that he/she would otherwise have earned up to that age are added to the accrued balance on the pension account – taking into account the permissible contribution period.

As a general rule, the pension capital is paid as a single lump sum. However, at the request of the Executive Board member and with the approval of the company, the pension capital may be drawn either in ten installments (with the amassed pension capital being increased by 4% before payment of the installments) or as a lifelong pension with annual increments of 1%. In any insured event, the pension account is topped up to the level of benefits the insured party would have reached under the previous plan (guaranteed capital). Pension benefits do not become payable until such time as an insured event occurs (i.e. on reaching pensionable age, or in the event of disability or death), even if the insured party leaves the Executive Board. The pension entitlement cannot be forfeited once the initial contribution has been paid.

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

Contribution
period capped at
15 years

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

Existing post-employment benefit entitlements

Members of the Executive Board in €	Initial transfer amount ¹⁾	Guaranteed capital ²⁾	Annual contribution	End of contribution period	One-time payment
Reiner Winkler	1,625,140	2,510,788	400,000	Oct. 1, 2019	7,744,205
Dr. Rainer Martens	1,366,176	2,317,650	220,000	Apr. 1, 2021	5,293,176
Michael Schreyögg	365,627	365,627	154,690	Aug. 1, 2026	3,696,618
Dr. Stefan Weingartner ³⁾	1,188,427	1,528,750	200,000	March 1, 2015	3,355,094

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

Michael Schreyögg: Changeover date July 1, 2013.

²⁾ Capital payment equal to the adjusted value of the benefit entitlement at December 31, 2009, when the new pension arrangements came into force (January 1, 2010).

³⁾ All figures take into account his departure as of March 31, 2015.

Individual pension account contributions

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

The following table shows the service cost for the financial years 2014 and 2013, and the corresponding carrying amounts of pension provisions recognized for members of the Executive Board in accordance with both IFRS and the German Commercial Code (HGB):

Allocations to pension provisions and total amounts recognized

Members of the Executive Board in €	Year	Service cost (IFRS)	Service cost (HGB)	Carrying amount of pension provisions at Dec. 31 (IFRS)	Carrying amount of pension provisions at Dec. 31 (HGB)
Reiner Winkler	2014	186,810	169,893	5,556,898	4,633,159
	2013	1,398,373	1,270,476	4,646,398	4,172,597
Dr. Rainer Martens	2014	159,912	147,483	4,094,359	3,474,746
	2013	157,319	140,041	3,439,132	3,129,213
Michael Schreyögg¹⁾	2014	67,089	57,168	2,099,588	1,541,359
	2013	1,277,219	1,074,529	1,622,781	1,364,401
Dr. Stefan Weingartner²⁾	2014	133,120	122,836	2,982,350	2,550,930
	2013	130,851	116,520	2,896,643	2,635,501
Total	2014	546,931	497,380	14,733,195	12,200,194
Total	2013	2,963,762	2,601,566	12,604,954	11,301,712

¹⁾ Member of the Executive Board since July 1, 2013.

²⁾ Member of the Executive Board until March 31, 2015.

The pension obligations toward former members of the Executive Board in accordance with IAS 19 amounted to € 7,470,324 (2013: € 5,946,295) and included the pension obligation toward Egon Behle in the amount of € 3,235,873 (2013: € 3,079,256).

DISABILITY PENSIONS

Under the new pension rules of January 1, 2010, if a member of the Executive Board is disabled before reaching the age of 60, 50% of the benefits to which he / she would normally have been entitled up to the maximum age limit are added to the balance on the pension account at the time of disablement. The amount credited is based on the contributions paid in the last year of employment. This arrangement also applies if the insured party dies before reaching the age of 60.

SEVERANCE PAYMENTS ON PREMATURE TERMINATION OF CONTRACT FOR MEMBERS OF THE EXECUTIVE BOARD

The members of the Executive Board are entitled to receive severance payments if MTU prematurely terminates their appointment. In the case of ordinary termination, a severance package is payable that corresponds to the board member's basic salary, 50% of the APB and 50% of the share-based performance-related compensation component for the time from the end of the notice period until the date on which the contract would normally have expired. The amount of the severance package may not exceed two full years of payments of these compensation components. If the employment contract is terminated for cause, no severance package is payable.

Capped
severance
payments

SEVERANCE PAYMENTS ON PREMATURE TERMINATION OF CONTRACT FOR MEMBERS OF THE EXECUTIVE BOARD IN THE EVENT OF A CHANGE OF CONTROL OR SUBSTANTIAL CHANGES IN THE OWNERSHIP OF MTU AERO ENGINES AG

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

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

Further, the share-based performance-related compensation components (PSP/SMP) are automatically terminated. By way of compensation, the member of the Executive Board in question receives a pro rata payment that is calculated as if the component had been continued. The only difference is that the level of goal achievement is determined on the date of the change of control and the final amount disbursed is multiplied by the average MTU share price (Xetra) over the last 30 trading days prior to the change of control.

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

SUPERVISORY BOARD COMPENSATION

Compensation relative to company size

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

Pursuant to Article 12 of the articles of association of MTU Aero Engines AG, members of the Supervisory Board receive a fixed annual payment of € 50,000, payable at the end of the financial year. This sum is tripled in the case of the chair of the Supervisory Board, and multiplied by one-and-a-half in the case of the deputy chair. In addition to the fixed annual payment, members serving on one of the Supervisory Board's committees receive an additional € 10,000 and a further € 20,000 if they chair a committee. Further, members of the Supervisory Board receive an attendance fee of € 3,000 for each meeting of the Supervisory Board and its committees, subject to an upper limit of € 3,000 per day. The attendance fee is halved for meetings convened by the chair or deputy chair that take place via telephone or video conference. Expenses incurred in connection with the exercise of their office are reimbursed, as is the value-added tax payable on the fees.

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

The following compensation was awarded to the individual members of the Supervisory Board of MTU Aero Engines AG for the financial years 2014 and 2013 respectively:

Supervisory Board compensation

in €	2014 ¹⁾				2013 ¹⁾			
	Fixed annual payment	Committee member fees	Attendance fees	Total compensation	Fixed annual payment	Committee member fees	Attendance fees	Total compensation
Klaus Eberhardt (Supervisory Board and Personnel Committee chairman) ^{3) 4)}	150,000.00	50,000.00	36,000.00	236,000.00	127,833.33	38,916.67	39,000.00	205,750.00
Josef Hillreiner (Supervisory Board deputy chairman) ^{2) 3) 5)}	75,000.00	20,000.00	33,000.00	128,000.00	63,916.67	16,305.56	33,000.00	113,222.23
Dr. Joachim Rauhut (Audit Committee chairman)	50,000.00	30,000.00	27,000.00	107,000.00	42,611.11	22,611.11	30,000.00	95,222.22
Michael Behé ⁵⁾	50,000.00		18,000.00	68,000.00	42,611.11		18,000.00	60,611.11
Dr. Wilhelm Bender	50,000.00		18,000.00	68,000.00	42,611.11		18,000.00	60,611.11
Thomas Dautl	50,000.00		18,000.00	68,000.00	42,611.11		18,000.00	60,611.11
Rudolf Domberger (until May 3, 2013) ⁵⁾					10,250.00		9,000.00	19,250.00
Babette Fröhlich ^{3) 5)}	50,000.00	10,000.00	27,000.00	87,000.00	42,611.11	8,152.78	24,000.00	74,763.89
Berthold Fuchs (since May 3, 2013)	50,000.00		18,000.00	68,000.00	32,444.45		12,000.00	44,444.45
Dr.-Ing. Jürgen M. Geißinger ^{2) 4)}	50,000.00	20,000.00	24,000.00	94,000.00	42,611.11	16,305.56	18,000.00	76,916.67
Dr. Martin Kimmich (since January 1, 2014) ^{2) 5)}	50,000.00	8,333.33	24,000.00	82,333.33				
Michael Leppék (until December 31, 2013) ^{2) 5)}					42,611.11	8,152.78	21,000.00	71,763.89
Udo Stark (until May 3, 2013)					10,250.00		9,000.00	19,250.00
Prof. Dr.-Ing. Klaus Steffens	50,000.00		18,000.00	68,000.00	42,611.11		18,000.00	60,611.11
Prof. Dr. Marion A. Weissenberger-Eibl (since May 3, 2013)	50,000.00		18,000.00	68,000.00	32,444.45		12,000.00	44,444.45
Total	725,000.00	138,333.33	279,000.00	1,142,333.33	618,027.78	110,444.46	279,000.00	1,007,472.24

¹⁾ Figures do not include VAT.

²⁾ Member of the Personnel Committee.

³⁾ Member of the Audit Committee.

⁴⁾ Member of the Nomination Committee.

⁵⁾ These employee representatives have declared that they will donate their Supervisory Board compensation to the Hans Böckler Foundation, in accordance with the guidelines of the Confederation of German Trade Unions (DGB).



REPORT OF THE SUPERVISORY BOARD

KLAUS EBERHARDT

Chairman of the Supervisory Board

ACTIVITIES OF THE SUPERVISORY BOARD

In this report, the Supervisory Board provides information in accordance with Section 171 (2) of the German Stock Corporation Act (AktG) on its activities in the financial year 2014 and on the results of its review of the annual financial statements and consolidated financial statements. In 2014, the Supervisory Board carried out with due care the control and consultation duties with which it is entrusted by law and under the terms of the company's articles of association and its own rules of procedure.

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

The Supervisory Board met with the Executive Board to discuss strategy issues and all major projects. After careful deliberation and examination, the Supervisory Board endorsed the strategic orientation of the company. Resolutions were passed concerning all transactions requiring the approval of the Supervisory Board in accordance with law, the company's articles of association or the Executive Board's rules of procedure, after these matters had been reviewed and discussed with the Executive Board.

As in previous years, the Supervisory Board devoted special attention to MTU's system of internal controls in 2014, above all the company's risk management system, its auditing practices and the conformity of its corporate governance system with the relevant legal provisions. The Supervisory Board examined these aspects with reference to the documents submitted to it and in dialog with the Executive Board, and came to the conclusion that the company has effective systems in place to deal with such issues, in particular an effective internal control and risk management system relating to the accounting process.

The Audit Committee has a special responsibility for monitoring compliance matters, complementing the Supervisory Board's activities in this area. The internal auditors regularly present their findings to the Audit Committee and report to it on basic issues and the latest developments in the field of compliance.

MEETINGS OF THE SUPERVISORY BOARD

In the financial year 2014, the Supervisory Board convened five ordinary meetings and one extraordinary meeting. No telephone conferences were held. The average attendance rate at Supervisory Board meetings was 98.6%. 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. This entailed frequent consultations with the Executive Board to discuss strategy, the planning status, business developments, the company's risk exposure and risk management policy, and compliance issues.

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

One of the topics discussed during Supervisory Board meetings in 2014 was MTU's plans for a euro private placement. This project was approved, as was MTU's acquisition of a stake in the GE9X engine program for the Boeing 777X. Other items on the agenda included the progress of development work on the GTF programs and MTU's planned participation in joint maintenance agreements for GP7000 and GENx engines. A further subject discussed at length by the Supervisory Board was the business performance and strategic orientation of the company's two operating segments, OEM and commercial maintenance.

Following the decision by Dr. Stefan Weingartner to vacate the position of President MTU Maintenance, the Supervisory Board of MTU Aero Engines AG passed a resolution whereby his position would not be replaced and his present functions would be redistributed among the three remaining members of the Executive Board. The new organizational structure will take effect as of January 1, 2015.

A further question dealt with by the Supervisory Board concerned the appointment of an external auditor. Following the recommendation of the Audit Committee, the Supervisory Board proposed that Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Munich, should be appointed to audit the annual and consolidated financial statements and to verify the half-year interim reports for the financial year 2014. The Annual General Meeting accepted this proposal, which received 99% of the votes cast.

Other issues closely examined by the Supervisory Board were the operational business plans and the budget for 2015, the annual performance bonuses for the Executive Board for 2013, and the German Corporate Governance Code.

CORPORATE GOVERNANCE

The Supervisory Board is convinced that the success of the company is based on good corporate governance. For this reason, the Supervisory Board once again closely studied the application and implementation of the German Corporate Governance Code in 2014, taking it as a yardstick to measure the efficiency of its own activities. It analyzed the diversity of its own composition, especially with respect to the criteria of fair representation of women and an adequate number of members with international experience. The Supervisory Board also aims to enhance diversity within the Executive Board. When searching for suitably qualified candidates to fill vacant positions there, it will pay particular attention to the goal of fair representation of women.

In addition, the Supervisory Board has explicitly stated that, in the nomination proposals it submits to the Annual General Meeting, it has taken into account the principles concerning the avoidance of conflicts of interest and will continue to do so in the future. In submitting nomination proposals, the Supervisory Board will disclose each candidate's possible personal ties to – and business relations with – the company, its governing bodies and/or major shareholders.

The Supervisory Board has a sufficient number of independent members. They each take part in training measures on their own responsibility, and also receive specialized training from MTU. Cooperation between the Supervisory Board and the Executive Board, and among the members of the Supervisory Board, was judged to be of a very high quality in the financial year 2014. No conflicts of interest arose between MTU and any member of its Executive Board or Supervisory Board. The Supervisory Board assured itself that the company had complied with the recommendations laid down in the German Corporate Governance Code, as stated in its declaration of conformity.

In a joint declaration with the Executive Board dated December 12, 2014, pursuant to the requirements of Section 161 of the German Stock Corporation Act (AktG), the Supervisory Board states that MTU Aero Engines AG complies with all the recommendations of the German Corporate Governance Code. The company's declaration is reproduced on page 28 of this Annual Report together with a more detailed description of the company's corporate governance system; the declaration has also been posted on the MTU website.

COMMITTEE MEETINGS

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

A Nomination Committee, which meets on an ad hoc basis, was set up in 2007 pursuant to the recommendations of the German Corporate Governance Code. This committee convened one meeting in the financial year 2014, on February 26. The task of the Nomination Committee is to find suitable candidates for election to the Supervisory Board. The members of this committee are Klaus Eberhardt and Dr. Jürgen M. Geißinger.

The Personnel Committee consists of Klaus Eberhardt, Dr. Jürgen M. Geißinger and the two employee representatives Josef Hillreiner and Dr. Martin Kimmich (since March 10, 2014). This committee met three times in the course of 2014 to discuss matters including Dr. Stefan Weingartner's impending departure, the results of the Supervisory Board's efficiency audit and to review the compensation awarded to members of the Executive Board, including the performance-related components with long-term incentive effect and the Share Matching Plan. Other topics on the agenda were the annual performance bonuses for the Executive Board for 2013 and the setting of the performance targets to be achieved in connection with the annual performance bonus for 2014.

The Mediation Committee, whose members are identical with those of the Personnel Committee, was not called upon to convene any meetings in 2014.

The members of the Audit Committee are Dr. Joachim Rauhut, Klaus Eberhardt, Babette Fröhlich and Josef Hillreiner. The Audit Committee convened six times in the course of 2014 and was primarily concerned with reviewing the annual financial statements, the consolidated financial statements and combined management report for the MTU group and MTU Aero Engines AG as well as the company's financial situation and quarterly reports.

Other subjects discussed by the Audit Committee included the additional services provided by the auditor and the granting of the audit mandate. The Audit Committee specified the key areas for audit in the 2014 financial statements and awarded the contract for these services to the accounting firm Ernst & Young. In addition, the committee obtained the auditor's statement of independence pursuant to Section 7.2.1 of the German Corporate Governance Code and also monitored the auditor's independence.

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

In accordance with the legal requirements, the Audit Committee monitored the accounting process and the related internal control, risk management and internal auditing systems, which it judged to be effective. The committee also took note of the reports submitted to it concerning the results of internal audits, the activities of the Compliance Board, and the status of loan commitments in connection with engine and aircraft financing agreements.

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

The annual financial statements, consolidated financial statements, and combined management report for the MTU group and MTU Aero Engines AG for the financial year 2014 were audited and fully certified by the accounting firm Ernst & Young, Munich, whose appointment had been confirmed by the Annual General Meeting. The audit reports and documents to be reviewed were submitted in a timely manner to all members of the Supervisory Board. The Supervisory Board thoroughly reviewed the annual financial statements, consolidated financial statements and the combined management report for the MTU group and MTU Aero Engines AG for 2014 and the Executive Board's profit distribution proposal on the basis of the preliminary audit by the accounting firm Ernst & Young, on which the chair of the Audit Committee had presented a full report to the Supervisory Board.

The auditor attended the meetings of the Audit Committee of MTU Aero Engines AG on December 12, 2014, January 19, 2015 and February 25, 2015 and the balance sheet meeting of the Supervisory Board on March 3, 2015, and presented the main findings of the audit. The Supervisory Board reviewed the annual financial statements, consolidated financial statements, combined management report and the Executive Board's profit distribution proposal, and raised no objections. The company's annual financial statements and consolidated financial statements for the financial year 2014 as submitted by the Executive Board were approved at the Supervisory Board meeting on March 3, 2015. The annual financial statements are thereby adopted. The Supervisory Board agreed to the Executive Board's profit distribution proposal after giving due consideration to the interests of the company and its shareholders.

BOARDROOM CHANGES

Former Chief Financial Officer Reiner Winkler was appointed as the new CEO, effective January 1, 2014. He will continue to serve as the group's Chief Financial Officer, and assume certain other executive functions. Dr. Martin Kimmich, who joined the Supervisory Board as of January 1, 2014, has taken the place of his predecessor, Michael Leppek, on the Personnel and Mediation Committees. Dr. Stefan Weingartner will be leaving the company by amicable agreement on March 31, 2015. The Supervisory Board sincerely regrets the departure of Dr. Weingartner, and wishes to thank him for his valued contribution to the Executive Board's work over the past eight years. As of April 2015, the MTU Executive Board will be made up of three members.

The Supervisory Board wishes to thank the members of the Executive Board for their constructive and dependable collaboration. Thanks are also due to all MTU employees for their successful work and the great commitment shown in 2014, and to the Works Council for its close cooperation. In the same vein, the Supervisory Board would like to thank all MTU's shareholders for placing their trust in the company.

Munich, March 3, 2015



Klaus Eberhardt
Chairman of the Supervisory Board

THE SUPERVISORY BOARD

Members of the Supervisory Board and their additional supervisory board mandates and/or mandates on comparable supervisory entities of foreign or domestic commercial companies

Klaus Eberhardt

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

Dürr AG
ElringKlinger AG
KSPG AG (until December 31, 2014)

Michael Behé

*Full-time member of the Works Council of
MTU Maintenance Hannover GmbH, Hannover
Member of the Group Works Council of
MTU Aero Engines AG, Munich*

MTU Maintenance Hannover GmbH

Prof. Dr. Wilhelm Bender

*Former CEO of Fraport AG,
Frankfurt/Main*

Bombardier Transportation GmbH
Bombardier Transportation (Bahntechnologie) Holding Germany GmbH
Eintracht Frankfurt Fußball AG
FrankfurtRheinMain GmbH
International Marketing of the Region
(since January 2014)
Lufthansa Cargo AG
The New Germany Fund Inc. (U.S.)

Thomas Dautl

*Director Manufacturing Technology,
MTU Aero Engines AG, Munich*

Josef Hillreiner

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

Babette Fröhlich

*Coordination of National Executive Committee tasks
and planning, IG Metall, Frankfurt/Main*

Volkswagen AG

Berthold Fuchs

*Representative Center Support Military
Programs and member of the Works Council of
MTU Aero Engines AG, Munich*

Dr.-Ing. Jürgen M. Geißinger

Former CEO of Schaeffler AG, Herzogenaurach

Sandvik AB (Sweden)

Dr. Martin Kimmich

Second authorized representative of IG Metall, Munich

Linde AG
Nokia Solutions and Networks Management GmbH

Dr. Joachim Rauhut

CFO of Wacker Chemie AG, Munich

B. Braun Melsungen AG
J. Heinrich Kramer Holding GmbH
Pensionskasse Wacker Chemie VVaG
Siltronic AG

Prof. Dr.-Ing. Klaus Steffens

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

CompuGroup Medical AG (until May 2014)
Poppe & Potthoff GmbH
Tital Holding GmbH & Co. KG
Tyczka Energie GmbH & Co. KGaA

Prof. Dr. Marion A. Weissenberger-Eibl

*Director of the Fraunhofer Institute for Systems and
Innovation Research ISI in Karlsruhe and holder of
the Chair of Innovation and Technology Management
at the Karlsruhe Institute of Technology*

HeidelbergCement AG

SUPERVISORY BOARD COMMITTEES**Personnel Committee**

Klaus Eberhardt, Chairman
Dr.-Ing. Jürgen M. Geißinger
Josef Hillreiner
Dr. Martin Kimmich (since March 10, 2014)

Audit Committee

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

Mediation Committee

Klaus Eberhardt, Chairman
Dr.-Ing. Jürgen M. Geißinger
Josef Hillreiner
Dr. Martin Kimmich (since March 10, 2014)

Nomination Committee

Klaus Eberhardt
Dr.-Ing. Jürgen M. Geißinger

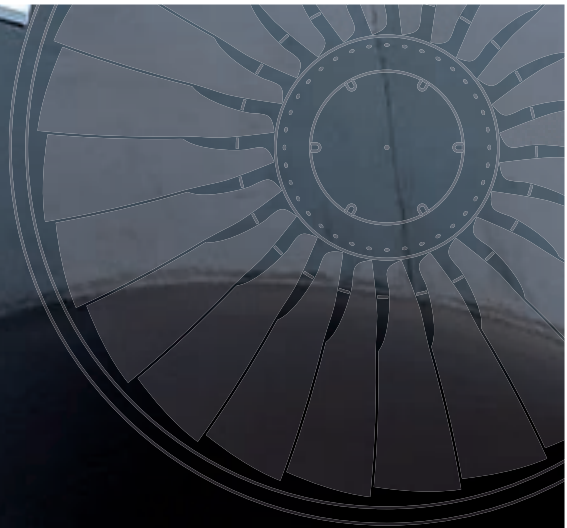
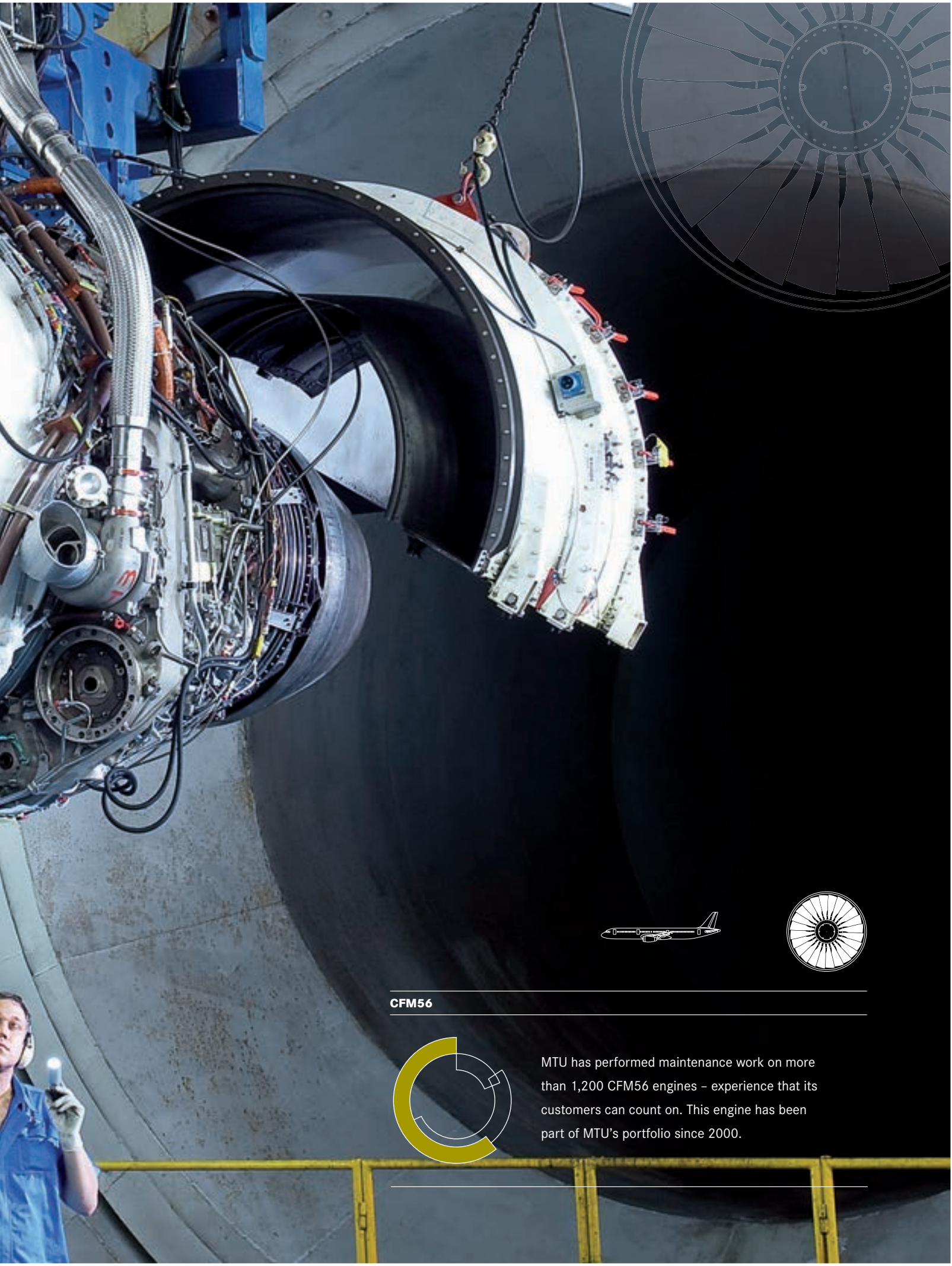


The image shows a large, white CFM56 jet engine in a maintenance shop. The engine is the central focus, with its large, circular intake visible. The shop floor is visible in the background, and a technician in a blue uniform is standing in the bottom right corner. The engine has some markings, including 'sabena' and 'CENTRAL ASP'.

CFM56

*MTU experience: Based on over **1,200 CFM56** shop visits*

MTU Maintenance has been maintaining the CFM56 since 2000, during which time it has overhauled more than 1,200 of these engines. Its portfolio of MRO services covers all of the most popular versions of this engine. Some 100 customers rely on MTU's expertise in the CFM56, making it the world's largest independent maintenance provider for this type of engine. Depending on the specific version, maintenance work is carried out by MTU Maintenance Hannover, MTU Maintenance Zhuhai or MTU Maintenance Canada. The CFM56 is used to power the A320 family, the classic and new versions of the Boeing 737, and various other aircraft. It will remain flying – and keep generating MRO revenues – well beyond 2035.



CFM56



MTU has performed maintenance work on more than 1,200 CFM56 engines – experience that its customers can count on. This engine has been part of MTU's portfolio since 2000.



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COMBINED MANAGEMENT REPORT

The Management Report of MTU Aero Engines AG and the Group Management Report for the financial year 2014 have been combined in accordance with Section 315 (3) in conjunction with Section 298 (3) of the German Commercial Code (HGB). Due to rounding it is possible that individual figures in this Combined Management Report may not add up to the total given and that percentages do not reflect exactly the absolute figures to which they refer.

THE ENTERPRISE MTU

BUSINESS ACTIVITIES AND MARKETS

MTU Aero Engines AG, Munich (in the following: MTU AG), together with its consolidated group of companies, is Germany's leading engine manufacturer and one of the biggest international players in the industry. In the following, the MTU group is also referred to simply as MTU or the group.

MTU's portfolio covers the entire lifecycle of commercial and military aircraft engines, and aero-derivative industrial gas turbines. The company's range of activities extends from development, manufacturing and marketing through to maintenance.

Key partner
in programs of note

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

The group is also one of the world's leading providers of MRO services for commercial aero engines. In the military sector, it has been the leading company in the national market and lead industrial partner to the German armed forces for many decades.

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

GROUP STRUCTURE, LOCATIONS AND ORGANIZATION

Through its affiliates, associated companies, joint ventures and equity investments, MTU has a strong presence in all key markets and regions worldwide. More information on equity investments is provided in [Part I of the Notes to the consolidated financial statements \(under Group reporting entity\)](#).

MTU Aero Engines worldwide



MTU Maintenance Canada

MTU Aero Engines North America

Vericor Power Systems

MTU Maintenance Dallas

MTU Aero Engines

MTU Maintenance Hannover

MTU Maintenance Berlin-
Brandenburg

MTU Maintenance Lease Services

MTU Aero Engines Polska

AES Aerospace Embedded Solutions¹⁾

Pratt & Whitney Canada

Customer Service Centre Europe¹⁾

Ceramic Coating Center¹⁾

MTU Maintenance Zuhai

Airfoil Services¹⁾

¹⁾ Major joint ventures.

Balanced portfolio

STRATEGY AND OBJECTIVES

CORPORATE STRATEGY

Industry experts expect air traffic to grow by 4–5% per annum in the long term, with Asia, South America and the Middle East constituting the key growth regions. To meet the demand generated by this rise in air traffic, aircraft manufacturers expect deliveries of single-aisle and widebody aircraft to increase from the current level of around 1,300 units/year to some 1,800 units by the end of the next decade.

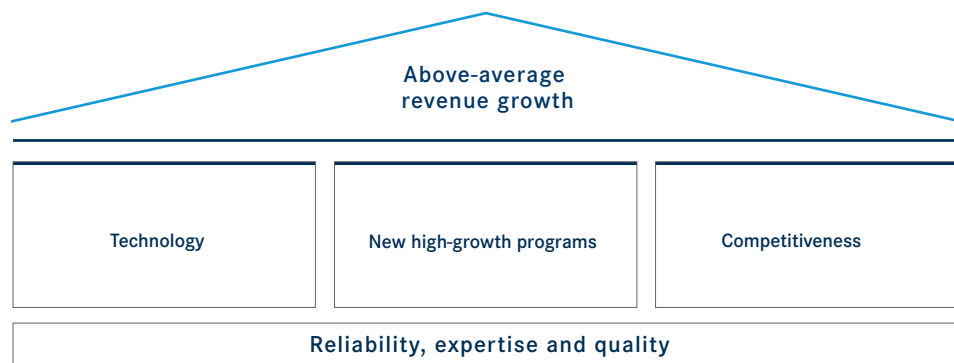
In addition to Airbus and Boeing, manufacturers such as Embraer (Brazil), Bombardier (Canada), COMAC (China) and Irkut (Russia) are expected to continue driving developments in the aircraft sector. When it comes to aircraft engines, Pratt & Whitney and General Electric (both US-based) and Rolls-Royce (UK) will continue to dominate the market. In the long term, however, greater competition is likely to come from both the Russian and Chinese engine industries.

MTU's strategy is founded on three strategic pillars:

- cutting-edge technologies – maintaining and expanding the company's technological leadership,
- a balanced portfolio – participating in new programs that promise strong growth, and
- competitiveness – attaining benchmark levels by raising productivity through improved structures and processes and by reducing tied-up capital.

In everything it does, MTU focuses on generating high added value for its customers and business partners alike. With their expertise and high motivation, the employees of the MTU group help to deliver products and services that meet the company's exacting quality standards.

Pillars of MTU's corporate strategy



Targeted investments in innovative technologies play a big part in ensuring MTU's long-term competitiveness and the company intends to continue driving forward the development of cutting-edge products and processes.

Through its partnership agreements with the world's major engine makers, MTU is well placed to benefit from its manufacturing share in attractive commercial engine programs. In addition to the ramp-up of the geared turbofan™ program, the company's main priority is to secure a strong position in future engine programs for widebody jets.

In the military sector, MTU is lead industrial partner to the German armed forces, developing, manufacturing and supporting their key flight programs. Exports of military engines will help to consolidate MTU's position in this sector.

In the commercial maintenance sector, MTU benefits from its strong market position, not only for those engine programs in which MTU has a stake in series production, but also for programs where it does not. MTU's broad market coverage helps to minimize the company's risk exposure and improve its growth potential. MTU enhances its customer relationships through its global network, technical expertise, and the flexibility and innovativeness of its service portfolio.

The company's long-term goal is to achieve above-average growth, defined by a double-digit EBIT margin. Growth of this kind demands sound financial underpinnings, which is why MTU strives constantly to improve its competitiveness and maintain its financial strength. Other key success factors for MTU are the high qualification levels and motivation of its workforce.

Aiming for
**profitable
growth**

GROUP INTERNAL CONTROL SYSTEM

The MTU group's internal control system mirrors the company's business strategy. The main instruments employed to ensure compliance with the integrated control system are:

- regular Executive Board meetings
- monthly reports
- high-level management meetings dealing with program management and coordination, investments, and technology, as well as quality issues, health and safety, and environmental protection
- risk and opportunity management

The value-driving key performance indicators EBIT, revenues and free cash flow delimit the range within which MTU operates in terms of profitability, growth and liquidity.

Please refer to the subsection "Reconciliation of adjusted performance indicators" in the section "Operating results" for a definition of adjusted EBIT, which is the most important of these KPIs. Another indicator monitored by the company is the adjusted EBIT margin, which expresses the relationship between adjusted EBIT and revenues.

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Performance indicators: revenues and adjusted EBIT

in € million	2014	2013	2012 ¹⁾	2011 ¹⁾	2010 ¹⁾
Revenues	3,913.9	3,574.1	3,242.7	2,821.7	2,599.0
Adjusted EBIT	382.7	377.4	369.6	332.6	316.4
Adjusted EBIT margin (in %)	9.8	10.6	11.4	11.8	12.2

¹⁾ Amounts for 2010-2012 adjusted to take account of new consolidation method for MTU Maintenance Zhuhai.

The purpose of optimizing cash flow is to help the group maintain its financial strength going forward. MTU determines its free cash flow by combining its cash flow from operating activities with its cash flow from investing activities, excluding certain components of the latter that lie outside the control of operations management. These components take the form of expenditure in connection with aircraft financing (the level of which is linked to MTU's share in the corresponding engine programs), with the acquisition of shares in engine programs, and with shares in the development activities of aircraft manufacturers. Similarly, the calculation of free cash flow also excludes investments in and disinvestments of financial assets for the purpose of liquidity regulation.

Free Cashflow

in € million	2014	2013	2012	2011	2010
Cash flow from operating activities	204.8	188.8	229.8	287.9	251.3
Cash flow from investing activities	-234.5	-183.3	-360.0	-126.7	-173.2
Non-recurrent cash outflows	72.2	74.8	215.9	-32.2	66.7
Free cash flow	42.5	80.3	85.7	129.0	144.8

RESEARCH AND DEVELOPMENT**ECONOMIC ENVIRONMENT AND GOALS**

Technological
leadership

Growing mobility demands, limited raw materials and a rising awareness of the environment all call for innovative solutions – especially when it comes to aircraft engines. MTU has established technological leadership in its core competencies of low-pressure turbines, high-pressure compressors, turbine center frames, and high-tech manufacturing processes and repair techniques. This provides a solid basis for refining existing engines and developing entirely new ones.

MTU's medium- to long-term goals in the development of new commercial engines fully comply with the voluntary commitment made by the European aviation industry and research community, who formulated ambitious targets for air traffic in 2050 in their new Strategic Research and Innovation Agenda (SRIA):

Long-term goals¹⁾

	ACARE 2020 ²⁾	SRIA 2020	SRIA 2035	SRIA 2050
CO ₂ emissions – air traffic	-50%	-43%	-60%	-75%
CO ₂ emissions – engines	-20%	-20%	-30%	-43% ³⁾
NO _x emissions – mainly engines	-80%		-84%	-90%
Noise – mainly engines	-50%		-55%	-65%

¹⁾ Changes compared with base year 2000, per passenger-kilometer.

²⁾ By way of comparison: original ACARE Vision 2020 targets.

³⁾ Given comparable improvements in aircraft and engines.

Reducing fuel consumption and emissions

The main focus of MTU's R&D activities is to improve overall engine efficiency as a means of reducing both fuel consumption and emissions. This can be done by increasing the bypass ratio, thereby improving thrust efficiency, increasing higher overall pressure ratios to improve thermal efficiency, and enhancing component efficiency. Key components in this respect are MTU's low-pressure turbine and high-pressure compressor, which feature high pressure ratios, low weight and high efficiency ratios. Developing these technologies is an ongoing task for MTU.

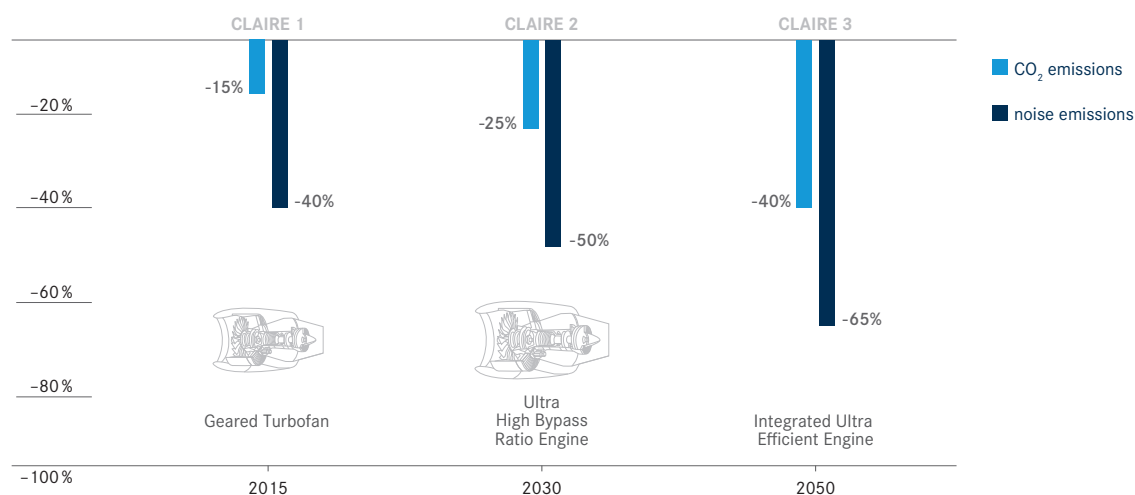
MTU's Claire (Clean Air Engine) program covers all the technology that, in the long term, will need to be developed in order to reduce carbon dioxide, nitrogen oxide and noise emissions.

The first step will soon be accomplished: the geared turbofan™ (GTF) engine, which was developed in partnership with Pratt & Whitney and will go into series production in 2015. It will reduce fuel consumption and hence carbon dioxide emissions by around 15% (see also Commercial engine programs).

Conceptual studies for the next step show that further improvements are possible on the basis of the GTF engine configuration. The engineers want to achieve an even higher bypass ratio, for instance, and further improve thermal efficiency by means of higher pressure and temperature ratios. The goal is to cut fuel consumption and carbon dioxide emissions by 25% each and to halve noise emissions.

The third step of the CLAIRE program will see the introduction of revolutionary new features. Further improvements in thrust efficiency call for even higher mass flows, made possible by integrated and distributed fans on the aircraft. A highly efficient heat exchanger, for example featuring combined processes or hybrid elements, will be needed as a power source. Initial estimates promise a reduction in fuel consumption of 40% and a reduction in noise emissions of up to 65%.

MTU's Claire (Clean Air Engine) technology program



TECHNOLOGIES FOR KEY ENGINES OF THE FUTURE

Commercial engine programs

In cooperation with Pratt & Whitney, MTU is working on the geared turbofan™ (GTF) engine. Unlike conventional turbofans, in which the fan and low-pressure turbine run at the same speed on a single shaft, the GTF places a reduction gear between the two components to decouple them. This means that the large fan can be run more slowly and the low-pressure turbine faster, improving the efficiency ratios of both the fan and the low-pressure turbine, while lowering fuel consumption and CO₂ emissions by 15% each. Noise emissions are also substantially reduced, to well below the certification levels. In the GTF project, MTU is responsible for developing and manufacturing the low-pressure turbine and the front half of the high-pressure compressor.

Milestones in GTF programs

In the financial year 2014, numerous milestones were reached in the GTF programs. In January, as part of the certification process, MTU carried out comprehensive tests of the PW1100G engine involving measurements by more than 400 different sensors. The goal was to measure and evaluate alternating stress and temperature distributions in the MTU low-pressure turbine. The high point of the year was the successful maiden flight of the Airbus A320neo equipped with PW1100G engines, which took place in Toulouse on September 25. In December, the engine was greenlighted by the U.S. Federal Aviation Administration (FAA). Rollout of the Mitsubishi Regional Jet (MRJ), which is equipped exclusively with PW1200G engines, began in October.

Geared turbofan™ engines have already been deployed by five different aircraft manufacturers. With firm orders and options for more than 6,000 units placed by the end of 2014, the GTF promises to become a major commercial success.

MTU – GTF engine programs

Engine	MTU programm share	Aircraft manufacturer	Aircraft Type	Number of seats	Entry into service (EIS)
PW1100G	18%	Airbus	A320neo	150–200	2015
PW1200G	15%	Mitsubishi	MRJ	70–90	2017
PW1400G	18%	Irkut	MS-21	150–200	2017
PW1500G	17%	Bombardier	CSeries	110–150	2015
PW1700G	15%	Embraer	E-Jet E175	80–90	2020
PW1900G	17%	Embraer	E-Jet E190/E195	100–140	2018/2019

MTU has secured a significant share in the market for high-thrust engines for long-haul jets through its participation in General Electric's GE9X program for the new Boeing B777X, where it will take responsibility for the development and manufacture of the turbine center frame.

MTU has also scored successes with smaller engines. In October, Gulfstream announced that its new family of G500 and G600 business jets would be fitted with PW800 engines, the core engine of which has the same configuration as the GTF engine. MTU is responsible for developing and manufacturing the low-pressure turbine and the forward stages of the high-pressure compressor. The PW814GA and PW815GA engines were certified in early 2015.

The V2500-E5 engine for Embraer's new KC-390 military transporter was approved in August, thus adding to the V2500 engine family.

Military engine programs

Development activities in the military segment continued to focus on the TP400-D6 for the Airbus A400M military transporter. This three-shaft engine is the most powerful turboprop engine in the Western world. MTU is contributing the entire intermediate-pressure section, comprising compressor, turbine and spool. It is also developing the engine- and propeller-control systems in cooperation with its French partner Snecma. The program has now shifted from the development phase to series production and launch. The first A400M destined for the German air force completed its maiden flight in October and was delivered in late 2014.

The GE38 program is the first U.S. military program in which MTU has been involved right from the development phase. This engine powers the CH-53K heavy-lift cargo helicopter that Sikorsky is developing for the United States Marine Corps. In numerous tests – some carried out at MTU – the engine proved it can meet the required technical specifications and demonstrated its suitability for flight approval. The maiden flight with the engine is scheduled for mid-2015.

Technologies for manufacturing and maintenance

The last few years have seen MTU carve out a leading position in the manufacture of blisk rotors for compressors. Since demand for blisk rotors is set to rise substantially as the geared turbofan™ goes into production, MTU has established a new center of excellence for blisk manufacturing in Munich. The center covers an area 10,000 m² and comprises one of the biggest and most flexible blisk production systems ever constructed. In the year under review, a number of new machining systems and coordinate measuring machines as well as an automated transportation system were installed and came on stream. MTU has already been able to boost production capacity from 600 to 1,500 blisks per year, and plans to reach the center’s full capacity of 3,500 blisks per year by early 2017. A new logistics center was also built for the ramp-up of the new programs and inaugurated in November 2014.

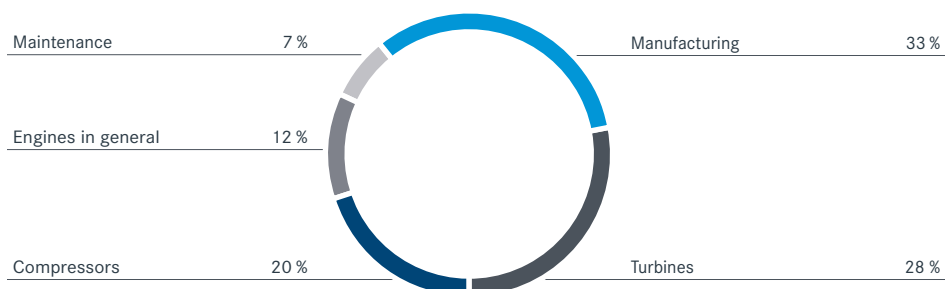
Production capacity 2017:
3,500 blisks

Additive manufacturing processes are opening up new possibilities in the production field. These processes involve melting material in powder form and applying it in very thin layers by means of laser technology to create components. MTU is one of the first companies to use additive manufacturing to series-produce boroscope eyepieces for use on PW1100G engines. These devices are deployed to carry out visual inspections of components (similar to the use of endoscopes in the medical field). In the long term, additive manufacturing processes will be used to produce complex components or create new designs that are either impossible or extremely costly to make using traditional technologies.

Protecting technology assets (intellectual capital)

At December 31, 2014, MTU’s portfolio of intellectual property comprised 2,779 patents and other industrial property rights. This portfolio covers the following fields of technology:

Distribution of the group’s intellectual property portfolio over MTU’s various fields of technology



COOPERATION IN SCIENCE AND RESEARCH

For decades, cooperation arrangements with universities and research institutions have formed a key component of MTU's research and development activities. For instance, specimen engines are made available to universities and colleges, and MTU experts hold lectures or act as mentors for students working on experimental projects or writing theses and dissertations for diplomas and doctorates; students are also given support while carrying out their assignments and preparing their final thesis presentations. In the year under review, MTU presented Technische Universität Braunschweig with a V2500 engine to help the university with experiments in acoustics, combustion and wear behavior. In addition, MTU honors outstanding achievements by awarding the annual Heilmann prize to a young scientist meriting recognition for achievements in engine technology.

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centers of competence and
university partnerships

Strategic alliances have been established with research partners in order to strengthen ties between universities and industry and safeguard MTU's innovative capabilities. In recent years, these partnerships with leading German universities and research institutions have been strengthened, and six centers of competence focusing on specific areas of research have been set up with the aim of optimizing collaboration. Based in Munich, "Bauhaus Luftfahrt" is a visionary think tank that pursues novel, unconventional, cross-company and interdisciplinary research. It brings industry and science together under one roof, focusing primarily on exploring the socioeconomic, political and ecological perspectives of aviation, designing visionary aircraft, unearthing promising technologies for the future, and devising knowledge management strategies.

Cooperation with universities and centers of competence

Centers of competence

- RWTH Aachen
Compressor technology

- Uni & LZ Hannover
Maintenance Repair Overhaul

- DLR Cologne
2020 plus engine

- Bauhaus Luftfahrt
Munich
Future concepts

- TU Munich
Structural design and production

- UniBW Munich
More Electric Engine

- University of Stuttgart
Turbine technology

Cooperation with universities

- BAM Berlin

- DLR Berlin

- TU Berlin

- TU Braunschweig

- BTU Cottbus

- TU Darmstadt

- TU Dresden

- Uni Erlangen

- FHG Fürth

- TU Göttingen

- TU Hannover

- TU Heidelberg

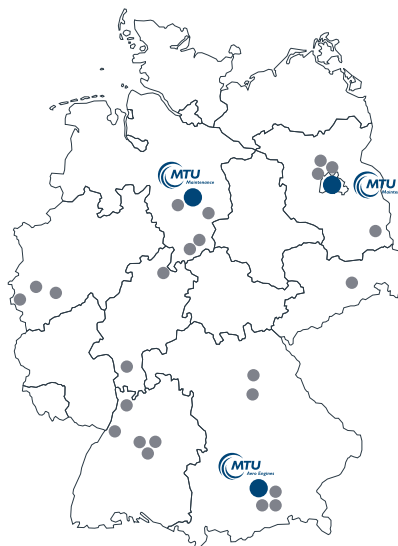
- KFA Jülich

- TH Karlsruhe

- Uni GH Kassel

- DLR Stuttgart

- MPA Stuttgart



CAPITAL EXPENDITURE ON RESEARCH AND DEVELOPMENT

Research and development expenditure

in € million	Change 2014-2013		2014	2013	2012	2011	2010
	in € million	in %					
Commercial engine business	21.6	15.0	165.6	144.0	146.9	147.4	126.1
Commercial maintenance business	-0.2	-4.2	4.6	4.8	5.3	8.4	11.1
Military engine business	-19.3	-43.5	25.1	44.4	89.2	106.1	101.5
Research and development expenditure prior to capitalization	2.1	1.1	195.3	193.2	241.4	261.9	238.7

Research and development expenditure in 2014 totaled € 195.3 million, up € 2.1 million on 2013. At 5.0%, R&D as a percentage of revenues was slightly lower than the 2013 figure of 5.4%.

Externally funded development expenditure, which amounted to € 35.3 million in 2014 (2013: € 50.4 million), primarily relates to the military engine business. Due to the fact that the work is conducted under contract to national and international consortia on a customer-specific basis, it is accounted for as construction contracts and disclosed in [Part II of the Notes to the consolidated financial statements \(under Note 2.\)](#).

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Company-funded development expenditure originates from the group's own resources. If such expenditure meets the criteria for capitalization as an internally generated intangible asset, it is removed from the income statement and reported in the balance sheet. Capitalized development costs are amortized on a straight-line basis over the estimated economic life of the product. Company-funded expenditure is disclosed in [Part II of the Notes to the consolidated financial statements \(under Note 3.\)](#).

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Company-funded research and development expenditure (P&L)

in € million	Change 2014-2013		2014	2013	2012	2011	2010
	in € million	in %					
Commercial engine business	23.9	19.1	148.9	125.0	146.9	147.4	126.1
Commercial maintenance business	-0.2	-4.2	4.6	4.8	5.3	8.4	11.1
Military engine business	-6.5	-50.0	6.5	13.0	8.5	10.0	10.9
Company-funded R&D expenditure	17.2	12.0	160.0	142.8	160.7	165.8	148.1
Expenditure meeting recognition criteria for intangible assets							
Commercial and military engine business	-35.4	-72.4	-84.3	-48.9	-46.9	-30.8	-14.0
Commercial maintenance business	0.7	100.0		-0.7	-0.8	-3.4	-5.1
Development costs recognized as expense	-17.5	-18.8	75.7	93.2	113.0	131.6	129.0
Capitalized development costs in %			52.7	34.7	29.7	20.6	12.9

The amount of € 84.3 million (2013: € 48.9 million) posted in the OEM segment (commercial and military engine business) as company-funded R&D expenditure meeting the recognition criteria for intangible assets relates especially to the PW1000G family of GTF engines and to the GE38, GE9X and PW800 engine programs.

The MRO segment (commercial maintenance business) utilizes company funding to develop special repair techniques for engine parts and components. An amortization expense of € 1.8 million was recognized for these capitalized, self-created repair techniques in the reporting period (2013: € 1.1 million).

BUSINESS ENVIRONMENT

MACROECONOMIC FACTORS

Global economic growth

2.3%

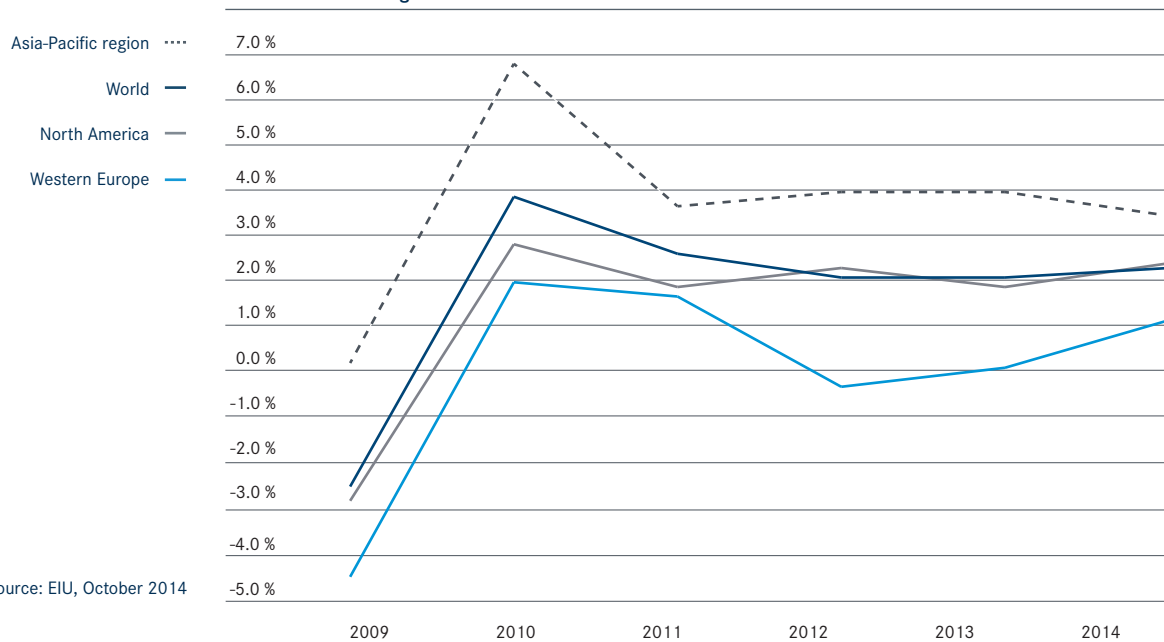
The global economy grew by 2.3% in 2014, compared with 2.1% in 2013. The economic performance of a number of industrialized countries in 2014 failed to live up to the promise shown at the start of the year. This lackluster performance is attributable to the long-term effects of the great recession of six years ago. While geopolitical risks became more acute in the course of the year, the drop in oil prices in the second half of the year reduced the burden on the global economy.

Economic growth was disappointing in the eurozone, especially in Germany, France and Italy, the region's biggest economies. Responsibility for this lay with the governments' austerity policies, higher levels of debt and a lack of structural reform. Western Europe posted growth of 1.2% in 2014 after managing only 0.2% in 2013.

The U.S. economy was more dynamic in 2014, with robust consumer spending and the continuing positive credit environment contributing to a stable growth rate of 2.4%.

With a plus of 3.4%, the Asia-Pacific region was the global growth driver in 2014. The economy in China grew by 7.3%, which was slightly below the target of 7.5% set by the Chinese government.

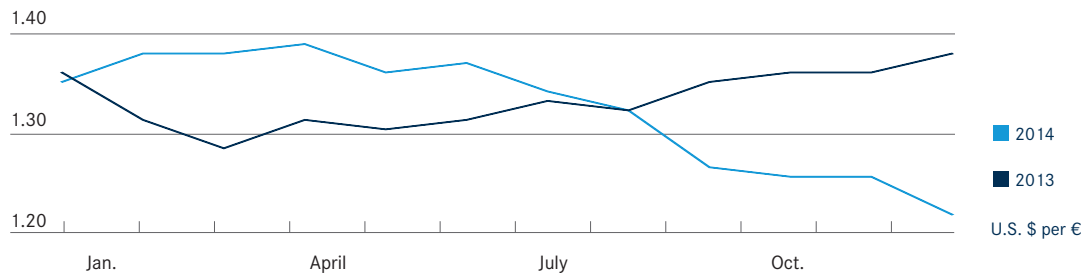
Worldwide economic growth rates



Source: EIU, October 2014

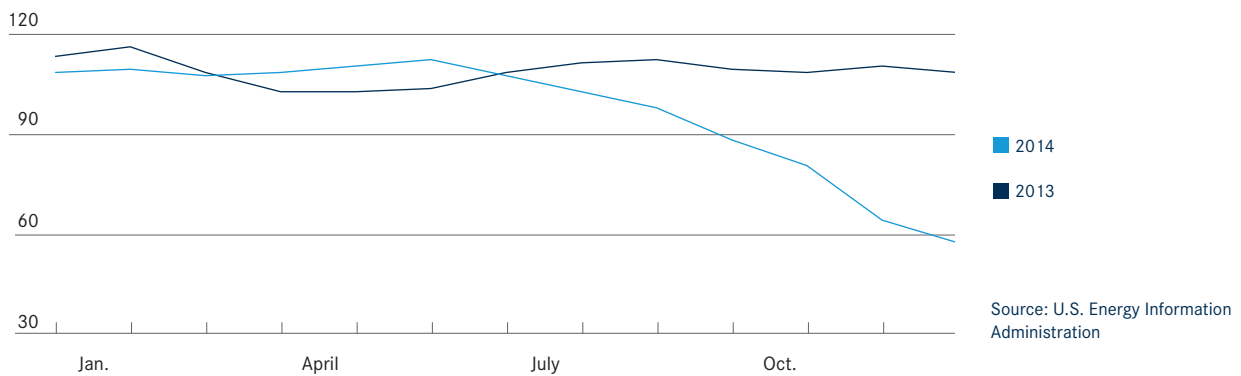
As an export-oriented aviation company, MTU has a strong interest in the euro/U.S. dollar exchange rate. As in previous years, that rate was again highly volatile in 2014. The average exchange rate for the period January 1 to December 31, 2014, was 1.3285 U.S. dollars to the euro, and thus close to the previous year's average of 1.3281 U.S. dollars to the euro. The highest rate (U.S. \$ 1.3953) was reached on May 8, 2014; the lowest (U.S. \$ 1.2141) on December 31, 2014. The closing rate for the year was thus significantly lower than the 2013 closing rate of 1.3791.

U.S. dollar exchange rate movements 2014 and 2013



Oil prices continued their downward trend in 2014, plummeting from their highest point in June by 50% to U.S. \$ 55 per barrel (source: EIA).

Brent Crude prices in U.S. dollars / barrel in 2014 and 2013



MICROECONOMIC FACTORS IN THE AVIATION INDUSTRY

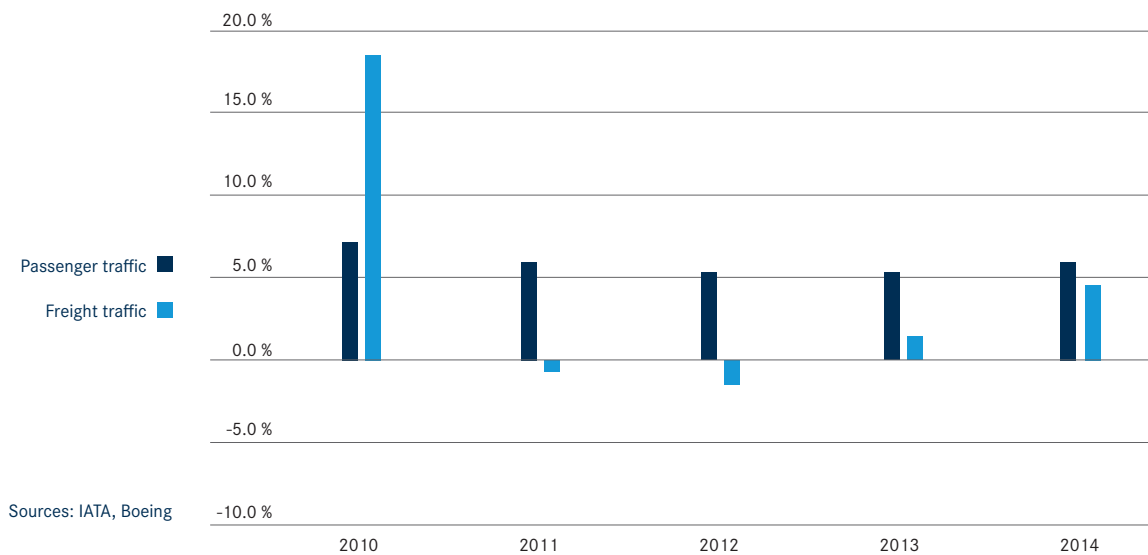
Global passenger traffic rose by 5.9% in 2014, with Middle Eastern, Asian and Latin American airlines posting above-average growth. With an increase of 4.5%, freight traffic, too, returned to a growth trajectory for the first time in four years (source: IATA February 2015).

According to IATA, the aviation industry posted profits of U.S. \$ 19.9 billion in 2014. This robust earnings performance was the result of growing demand for air travel and sinking oil prices.

The number of aircraft in use in flight operations and the number of hours they are flown are key indicators of trends in the spare-parts business. Both of these indicators developed well in 2014. The fleet in service rose by 4.3% (source: Ascend) and the flying hours of jet-propelled Airbus and Boeing aircraft increased by 5.4% (source: Innovata).

Fleet in service up
4.3%

Growth in the volume of global passenger and freight traffic



Airbus and Boeing together manufactured 1,350 aircraft in 2014, up 6% on 2013. The total order backlog of the two manufacturers rose from 11,200 aircraft in 2013 to 12,800 in 2014 (source: Ascend Online).

No less than 460 business jets were delivered in the first 9 months of 2014. This represents a growth rate of 9% – signifying that the business aviation sector is also well on the way to recovery (Source: GAMA, November 7, 2014).

OVERALL ASSESSMENT OF THE BUSINESS ENVIRONMENT

In 2014, the global economy did not grow in line with expectations. Whereas the U.S. economy experienced a pronounced upswing, the economy in the eurozone was static. The eurozone's sovereign debt problems and the resulting crisis of confidence remain unresolved. China's booming economy has peaked, but growth rates there are still substantially higher than in either the United States or Europe.

The aviation industry defied the weak economic environment in 2014, with global passenger traffic rising by 5.9%. Airbus and Boeing together notched up a new delivery record of 1,350 aircraft, and the order backlog for both short- and medium-haul aircraft and widebody aircraft continued to grow. Sales of business jets also recovered.

Rise in passenger traffic

5.9%

FINANCIAL SITUATION

The following explanatory comments and analyses are based on the audited MTU consolidated financial statements for the financial years ending December 31, 2014, and 2013. The consolidated financial statements are drawn up in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), to the extent that these have been adopted by the European Union.

In accordance with IFRS requirements, new or revised / amended standards and interpretations were applied for the first time in the financial statements for 2014. Their effect on the group's financial situation, net assets and operating results is dealt with in more detail in Part I of the Notes to the consolidated financial statements (under Accounting standards and interpretations, and revised / amended accounting standards and interpretations, applied for the first time in 2014).

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INFORMATION ON EXCHANGE RATES

The exchange rates used for converting the company's key foreign currencies into euros are the following official rates set by the European Central Bank.

Foreign currency exchange rates

Currency	ISO code	Rate at reporting date		Average rate	
		Dec. 31, 2014 1 euro =	Dec. 31, 2013 1 euro =	2014 1 euro =	2013 1 euro =
United States dollar	USD	1.2141	1.3791	1.3285	1.3281
Canadian dollar	CAD	1.4063	1.4671	1.4661	1.3684
Chinese yuan renminbi	CNY	7.5358	8.3491	8.1857	8.1646
Polish zloty	PLN	4.2732	4.1543	4.1843	4.1975

OPERATING RESULTS

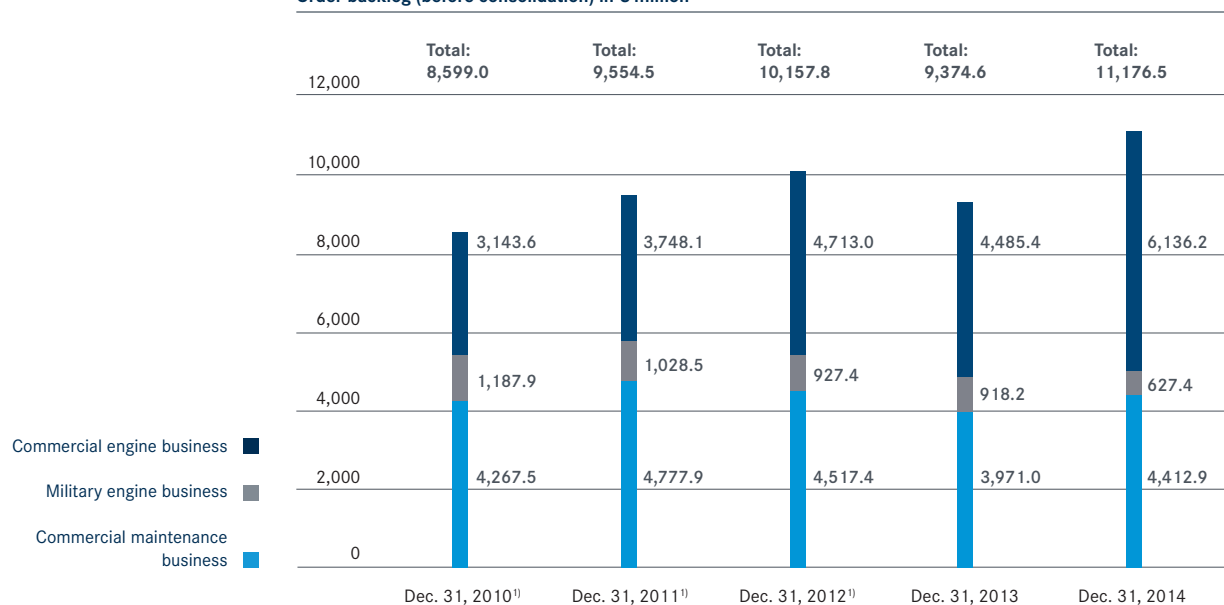
GROUP

Order backlog

Order backlog
€11.2 billion

MTU's order backlog consists of firm customer orders that commit the group to delivering products or providing services, plus the contractual value of service agreements. At December 31, 2014, the order backlog amounted to € 11.2 billion (2013: € 9.4 billion).

Order backlog (before consolidation) in € million



¹⁾ Amounts for 2010-2012 adjusted to account for changed method of accounting for MTU Maintenance Zhuhai.

Consolidated income statement

in € million	Change 2014-2013		2014	2013
	in € million	in %		
Revenues	339.8	9.5	3,913.9	3,574.1
Cost of sales	-327.0	-10.7	-3,375.4	-3,048.4
Gross profit	12.8	2.4	538.5	525.7
Costs by function	3.4	1.6	-205.0	-208.4
Depreciation /amortization effects of purchase price allocation / V2500 stake increase	-10.9	-18.1	49.2	60.1
Adjusted earnings before interest and tax (adjusted EBIT)	5.3	1.4	382.7	377.4
Depreciation /amortization effects of purchase price allocation / V2500 stake increase	10.9	18.1	-49.2	-60.1
Earnings before interest and tax (EBIT)	16.2	5.1	333.5	317.3
Financial result	-10.9	-24.8	-54.8	-43.9
Earnings before tax	5.3	1.9	278.7	273.4
Income taxes	23.8	22.2	-83.3	-107.1
Earnings after tax	29.1	17.5	195.4	166.3
Undiluted earnings per share in €	0.57	17.4	3.84	3.27
Diluted earnings per share in €	0.56	17.1	3.83	3.27

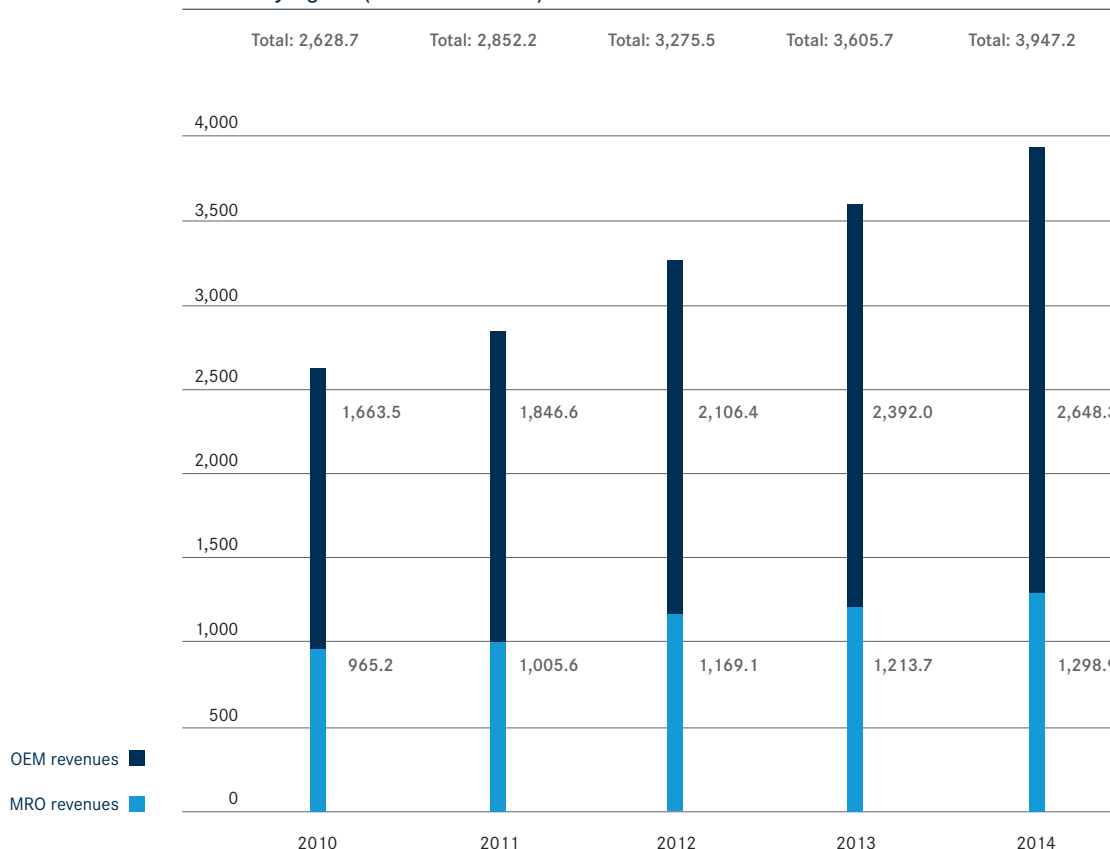
Revenues

Group revenues in the financial year 2014 increased by € 339.8 million (9.5%) to € 3,913.9 million. Compared with the previous year, revenues in the OEM segment (commercial and military engine business), before consolidation, rose by € 256.3 million (10.7%) to € 2,648.3 million in 2014, while the corresponding revenues in the MRO segment (commercial maintenance business) grew by € 85.2 million (7.0%) to € 1,298.9 million.

Group revenues up

9.5%

Revenues by segment (before consolidation) in € million¹⁾



¹⁾ Amounts for 2010-2012 adjusted to account for changed method of accounting for MTU Maintenance Zhuhai.

Cost of sales and gross profit

The cost of sales increased by € 327.0 million (10.7%) to € 3,375.4 million. Gross profit increased by € 12.8 million (2.4%) to € 538.5 million. The gross margin amounted to 13.8% (2013: 14.7%). The change in the gross margin is once again shaped by the series production ramp-up for new engine programs, as in the previous year.

Reconciliation of adjusted performance indicators

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

Examples of adjusted performance indicators include adjusted EBIT and the adjusted EBIT margin. The International Financial Reporting Standards (IFRS) do not stipulate any requirements concerning such indicators. Adjusted performance indicators are to be viewed as supplementary to the performance indicators reported in accordance with IFRS. In order to facilitate comparison, adjustments have been applied to eliminate the effect on earnings of income and expense items resulting from the purchase price allocation and the increase in the company's stake in the IAE V2500 engine program. These effects are described in more detail below.

As of January 1, 2004, MTU passed into the ownership of Kohlberg Kravis Roberts & Co. Ltd. (KKR), following the investment company's purchase of 100% of the MTU shares from the then DaimlerChrysler AG. In the context of the acquisition, assets, liabilities and contingent liabilities were identified in accordance with IFRS 3 and measured at fair value. Since then, the identified intangible assets, in particular, have led to considerable scheduled amortization expenses. These expenses are referred to collectively as "effects of the purchase price allocation."

Another effect on EBIT eliminated by means of adjustments is the increase of MTU's stake in the IAE V2500 engine program, acquired in 2012. This resulted in the creation of an intangible asset that will be amortized over its estimated economic life of 25 years.

Reconciliation of the consolidated income statement

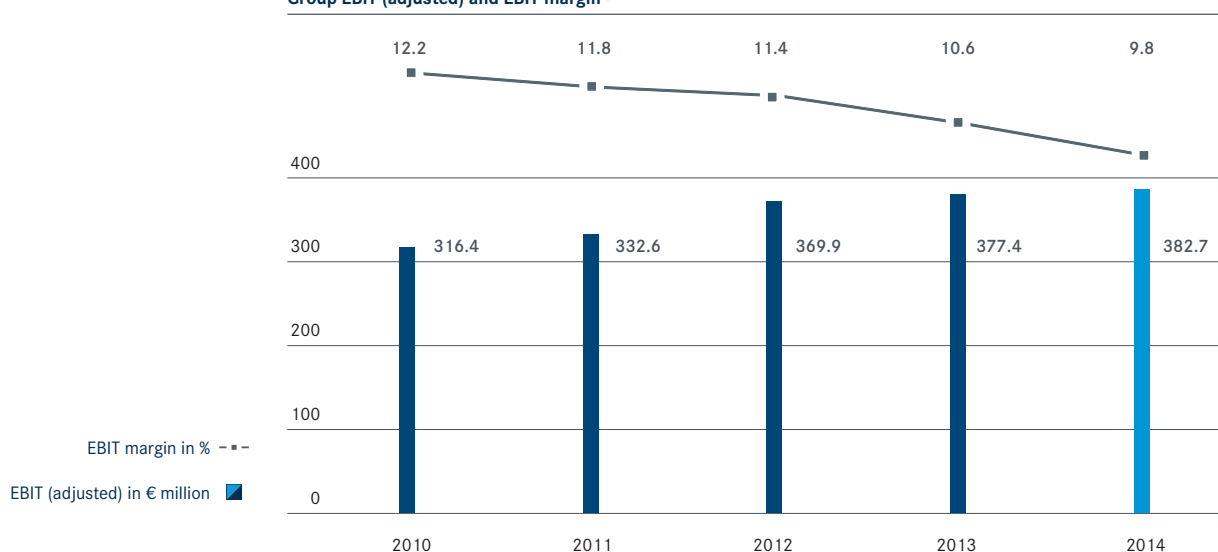
in € million	2014			2013		
	Financial year	Non-recurring items	Financial year w/o non-recurring items	Financial year	Non-recurring items	Financial year w/o non-recurring items
Revenues	3,913.9		3,913.9	3,574.1		3,574.1
Cost of sales	-3,375.4	38.2	-3,337.2	-3,048.4	51.9	-2,996.5
Gross profit	538.5	38.2	576.7	525.7	51.9	577.6
Research and development expenses	-75.7	1.2	-74.5	-93.2	2.4	-90.8
Selling expenses	-87.7	0.6	-87.1	-84.8	0.9	-83.9
General administrative expenses	-62.6	9.2	-53.4	-62.8	4.9	-57.9
Other operating income and expenses	-3.0		-3.0	12.4		12.4
Profit/loss of companies accounted for using the equity method	22.0		22.0	17.9		17.9
Profit/loss of companies accounted for at cost	2.0		2.0	2.1		2.1
Earnings before interest and tax (EBIT)	333.5	49.2	382.7	317.3	60.1	377.4
Financial result	-54.8	24.6	-30.2	-43.9	11.8	-32.1
Earnings before tax	278.7	73.8	352.5	273.4	71.9	345.3
Income taxes	-83.3	-15.9	-99.2	-107.1	0.4	-106.7
Earnings after tax	195.4	57.9	253.3	166.3	72.3	238.6
EBIT	333.5	49.2	382.7	317.3	60.1	377.4
Depreciation/amortization of:						
Intangible assets						
- Effects of purchase price allocation / V2500 stake increase	48.4	-48.4		58.9	-58.9	
Property, plant and equipment						
- Effects of purchase price allocation	0.8	-0.8		1.2	-1.2	
Adjusted EBIT	382.7		382.7	377.4		377.4

Adjusted EBIT
€ 382.7 million

Earnings before interest and tax (EBIT)

In 2014, EBIT rose by 5.1% to € 333.5 million (2013: € 317.3 million), while the EBIT margin decreased to 8.5% (2013: 8.9%). Adjusted earnings before interest and tax (adjusted EBIT) increased by 1.4% to € 382.7 million (2013: € 377.4 million). The adjusted EBIT margin was 9.8% (2013: 10.6%).

Group EBIT (adjusted) and EBIT margin¹⁾



¹⁾ Amounts for 2010-2012 adjusted to account for changed method of accounting for MTU Maintenance Zhuhai.

Financial result

MTU's financial result weakened by € 10.9 million in the financial year 2014 to a net expense of € 54.8 million (2013: € 43.9 million). The net interest expense improved by € 3.4 million in 2014 compared with 2013, mainly due to an increase in capitalized borrowing costs for qualifying assets. As in 2013, this item also included emission fees for the registered bond. The financial result on other items deteriorated in the financial year 2014, with the net expense increasing by € 14.3 million to € -46.0 million (2013: € -31.7 million). The main factors responsible for this change were fair-value losses on derivatives amounting to € 19.8 million (2013: fair-value gains of € 11.4 million), which were only partially offset by lower expenses associated with the interest portion included in the measurement of receivables, provisions, liabilities and advance payments from customers, which amounted to € -21.3 million (2013: € -37.5 million).

Earnings before tax (EBT)

The company's operating performance had a positive impact on earnings which outweighed the negative impact of the weakened financial result. As a result, earnings before tax (EBT) increased by € 5.3 million to € 278.7 million (2013: € 273.4 million).

Income taxes

The income tax expense amounted € 83.3 million in the financial year 2014 (2013: € 107.1 million). The effective group tax rate, relative to earnings before tax, stood at 29.9% (2013: 39.2%). A table showing the reconciliation of the expected tax expense with the actual tax expense can be found in [Part II of the Notes to the consolidated financial statements \(under Note 10.\)](#).

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Earnings after tax (EAT)

Earnings after tax increased by € 29.1 million (17.5%) to € 195.4 million (2013: € 166.3 million) and adjusted earnings after tax by € 14.7 million (6.2%) to € 253.3 million (2013: € 238.6 million).

Consolidated statement of comprehensive income

In the consolidated statement of comprehensive income, earnings after tax in the amount of € 195.4 million (2013: € 166.3 million) are reconciled with the total comprehensive income for the period of € -4.4 million (2013: € 178.7 million).

The main income and expense items recognized directly in other comprehensive income in 2014, net of deferred taxes, were losses of € 115.1 million (2013: gains of € 20.8 million) on the fair value of financial instruments designated as cash flow hedges and an increase of € 98.9 million in actuarial losses on plan assets and pension obligations (2013: decrease of € 5.9 million). Translation differences arising from the financial statements of international entities resulted in a positive effect of € 14.2 million (2013: negative effect of € 14.3 million).

Earnings per share

Undiluted earnings per share amounted to € 3.84 (2013: € 3.27). The potential dilutive effects of the Share Matching Plan for the Executive Board are negligible. Diluted earnings per share amounted to € 3.83 (2013: € 3.27).

Earnings per share

€ 3.84

Net profit available for distribution and dividend

For an explanation of how the net profit available for distribution is calculated, please refer to [Part VII of the Notes to the consolidated financial statements](#). On condition that the Annual General Meeting approves the dividend of € 1.45 per share proposed by the Executive Board and Supervisory Board, the total amount distributed will be € 74.0 million for the 51,008,023 shares entitled to receive a dividend.

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OEM SEGMENT

Order backlog

The order backlog for the OEM segment (commercial and military engine business) is reported on the basis of list prices. Given that orders for spare parts for commercial engines are generally completed within a short time of their receipt, the order backlog does not contain a substantial volume of such orders. The order backlog in the OEM segment stood at € 6,763.6 million as of December 31, 2014, compared with € 5,403.6 million at the end of 2013.

Order backlog for commercial and military engine business (OEM)

in million	Change 2014-2013		Dec. 31, 2014	Dec. 31, 2013
	in million	in %		
Commercial engines in U.S. \$	1,264.2	20.4	7,450.0	6,185.8
Commercial engines in €	1,650.8	36.8	6,136.2	4,485.4
Military engines in €	-290.8	-31.7	627.4	918.2
Total order backlog in €	1,360.0	25.2	6,763.6	5,403.6

Commercial engine business

The total volume of orders held by MTU for commercial engines, which are invoiced in U.S. dollars and valued at list prices, stood at U.S. \$ 7,450.0 million as of December 31, 2014, and was thus U.S. \$ 1,264.2 million (20.4%) higher than the 2013 figure of U.S. \$ 6,185.8 million.

Translated into euros at the 2014 year-end closing rate, the order backlog increased by € 1.650.8 million (36.8%) to € 6,136.2 million (2013: € 4,485.4 million).

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 volume of orders for military engines, which are contracted in euros, totaled € 627.4 million at the end of 2014. This is € 290.8 million (31.7%) below the previous year's amount of € 918.2 million.

In arithmetical terms, the order backlog for the OEM segment (commercial and military engine business) corresponds to over two years' production capacity.

Revenues

OEM revenues increased by

10.7%

The company generated revenues of € 2,648.3 million in the OEM segment, € 256.3 million (10.7%) higher than in 2013.

In 2014, revenues in the commercial engine business (before consolidation) increased by € 225.5 million (11.9%) to € 2,116.8 million. Deliveries of GENx and V2500 engines played a prominent role in this increase. Adjusted for the effect of the U.S. dollar exchange rate, revenues grew by 12.0%.

Revenues in the military engine business were higher in 2014 than in 2013, increasing by € 30.8 million (6.2%) from € 500.7 million to € 531.5 million. In addition to the EJ200 engine for the Eurofighter, the TP400-D6 for the A400M and the RB199 for the Tornado are key programs.

Revenues and adjusted EBIT (OEM)

in € million	Change 2014-2013		2014	2013
	in € million	in %		
Revenues	256.3	10.7	2,648.3	2,392.0
Cost of sales	-256.0	-12.7	-2,274.4	-2,018.4
Gross profit	0.3	0.1	373.9	373.6
Gross margin in %			14.1	15.6
Adjusted EBIT	-2.0	-0.7	266.2	268.2
Adjusted EBIT margin in %			10.1	11.2

Adjusted EBIT

Adjusted earnings before interest and tax (adjusted EBIT) in the OEM segment decreased by € 2.0 million to € 266.2 million (2013: € 268.2 million). The adjusted EBIT margin was reduced from 11.2% to 10.1%.

Capital expenditure

Capital expenditure on intangible assets amounted to € 293.7 million (2013: € 157.5 million) and mainly concerned additions to program assets for new programs and payments in connection with the V2500 stake increase. This item also includes capitalized development costs for the GTF engines and for the GE38, GE9X and PW800 engine programs. Capital expenditure on property, plant and equipment amounted to € 82.9 million (2013: € 62.1 million). In addition to the construction of the new logistics center in Munich, this expenditure mainly related to the expansion of the Polish site operated by MTU Aero Engines Polska and technical equipment, plant and machinery required to build up production capacity for components in connection with the new engine programs.

Employees

The average number of employees increased by 51 to 5,249 (2013: 5,198), mainly due to continued expansion of the company's site in Poland.

5,249
employees in the
OEM segment

MRO SEGMENT**Order backlog**

The order backlog in the MRO segment (commercial maintenance business) comprises the value of orders for separately contracted maintenance and repair work on engines that have been delivered to the maintenance shop plus the value of long-term service agreements.

Order backlog for commercial maintenance business (MRO)

in million	Change 2014-2013		Dec. 31, 2014	Dec. 31, 2013
	in million	in %		
Order backlog in U.S. \$	-118.7	-2.2	5,357.7	5,476.4
Order backlog in €	441.9	11.1	4,412.9	3,971.0

The majority of contracts in the MRO segment are priced in U.S. dollars. The order backlog for the commercial maintenance business in 2014 amounted to U.S. \$ 5,357.7 million, which is U.S. \$ 118.7 million or 2.2% lower than the 2013 figure of U.S. \$ 5,476.4 million.

Translated into euros at the 2014 year-end closing rate, the order backlog increased by € 441.9 million (11.1%) to € 4,412.9 million (2013: € 3,971.0 million).

In arithmetical terms, the order backlog represents more than three years' production capacity.

Revenues

MRO revenues increased by

7.0%

MTU's revenues in the commercial maintenance business (before consolidation) increased by € 85.2 million (7.0%) year on year to € 1,298.9 million (2013: € 1,213.7 million). Adjusted for the effect of the U.S. dollar exchange rate, MRO revenues grew by 7.1%.

Revenues and adjusted EBIT (MRO)

in € million	Change 2014-2013		2014	2013
	in € million	in %		
Revenues	85.2	7.0	1,298.9	1,213.7
Cost of sales	-72.5	-6.8	-1,139.6	-1,067.1
Gross profit	12.7	8.7	159.3	146.6
Gross margin in %			12.3	12.1
Adjusted EBIT	7.7	7.1	116.3	108.6
Adjusted EBIT margin in %			9.0	8.9

Adjusted EBIT

In 2014, the adjusted EBIT for the MRO segment increased by € 7.7 million (7.1%) to € 116.3 million. The adjusted EBIT margin rose to 9.0% (2013: 8.9%).

Capital expenditure

Capital expenditure on intangible assets and property, plant and equipment decreased by € 12.7 million to € 18.9 million (2013: € 31.6 million). In 2014, this expenditure included new and replacement purchases of technical equipment, plant and machinery and of operational and office equipment.

Employees

The average number of employees in 2014 was slightly lower than in 2013, decreasing by 26 to 3,068 (2013: 3,094).

FINANCIAL SITUATION

PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

The main objectives of financial management are to ensure the constant availability of adequate liquid reserves, avoid financial risks, and diversify sources of financing in the interests of flexibility. In order to ensure the company's liquidity and reduce risks, MTU makes use of a variety of internal and external funding sources with differing maturities.

Longer-term liquidity forecasts are based on the group's operational planning. Short-term forecasts are updated once a month.

The business operations of the operating segments and the resulting cash inflow represent the group's main source of liquidity. MTU utilizes cash flow surpluses generated by individual group companies to cover the funding requirements of other companies in the group (cash pooling). This reduces both interest expenses and the need for external loans. MTU also makes use of a variety of internal and external funding instruments to assure its future liquidity, including long-term financing via pension provisions, the issue of bonds, or credit arrangements. These sources of financing are supplemented by finance and operating lease agreements. For information on the company's capacity to raise funds through authorized and conditional capital increases, please refer to [Part III of the Notes to the consolidated financial statements \(Note 24.\)](#). Through these diverse measures, MTU has created a sound basis for ensuring its financial sustainability.

Adequate
liquid
reserves

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FINANCING INSTRUMENTS

The banking policy including procedures for the approval of banking relationships, loan agreements, liquidity and financial asset management, and the management of currency and interest rate risks are set down in the treasury principles. It is a basic principle of the group that its lines of credit are administered at corporate level. Thanks to centralized liquidity management, the group is able to allocate resources efficiently within the organization.

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 are required to have a long-term credit rating of at least investment grade.

Financing sources

Financing instruments	Maturity date	Currency	Interest rate
Registered bond	June 12, 2028	Euro	Fixed
Corporate bond	June 21, 2017	Euro	Fixed
Note purchase agreement	March 27, 2021	Euro	6-month Euribor + margin
Pension obligations	Continuous	Euro	Yield as for premium fixed-income industrial
Revolving credit facility	October 30, 2019	Euro	Euribor rate + margin
Operating lease agreements	1-5 years	Euro / U.S. dollar	Fixed
Finance-lease-agreements	December 31, 2025	Euro	Fixed

The availability of financial resources is unrestricted. MTU's credit line, only a small part of which has been utilized, grants the company even greater scope in its financing activities.

The factors considered when choosing financial instruments include flexibility, credit terms, the profile of maturity dates, and borrowing costs. In keeping with standard banking practice, the main sources of financing include covenants requiring the company to ensure that its performance indicators remain within defined limits. MTU complied with the contractual obligations arising from such covenants at December 31, 2014 and at the end of every quarter. Further information on agreed covenants is provided in [Part III of the Notes to the consolidated financial statements \(Note 28.\)](#). Significant agreements relating to a change of control subsequent to a takeover bid are dealt with under the heading ["Other disclosures."](#)

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In the risk report and in [Part IV of the Notes to the consolidated financial statements \(Note 36.\)](#), information is provided on MTU's approach to the financial risks inherent in credit arrangements and valuation processes, methods used to hedge risks associated with interest rates and foreign currencies, and methods of dealing with price-change, non-payment and liquidity risks.

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

With the exception of operating lease arrangements and sale-and-leaseback agreements, MTU did not engage in any transactions involving off-balance-sheet financial instruments – such as the sale of receivables in connection with asset-backed securities or obligations toward special-purpose entities – either in 2014 or in prior years.

CAPITAL STRUCTURE

Net financial debt

Net financial debt serves as an indicator of the MTU group's overall liquidity and is defined as the difference between gross financial debt and current financial assets. MTU's net financial debt at December 31, 2014 amounted to € 737.3 million, following a year-on-year increase of € 366.8 million (Dec. 31, 2013: € 370.5 million).

Net financial debt

in € million	Change 2014-2013		Dec. 31, 2014	Dec. 31, 2013
	in € million	in %		
Corporate bonds	0.4	0.1	352.7	352.3
Financial liabilities arising from IAE-V2500 stake increase	128.2	44.8	414.6	286.4
Financial liabilities to banks				
Promissory notes	-12.0	-100.0		12.0
Note purchase agreement	30.1		30.1	
Revolving credit facility	9.6		9.6	
Financial liabilities to related companies	-4.7	-97.9	0.1	4.8
Finance lease liabilities	7.8	>100	14.2	6.4
Derivatives without hedging relationship	8.7	>100	12.2	3.5
Derivatives with hedging relationship	71.2	>100	71.4	0.2
Gross financial debt	239.3	36.0	904.9	665.6
Less:				
Cash and cash equivalents				
Demand deposits and cash	0.9	1.8	49.6	48.7
Fixed-term and overnight deposits with an original maturity of 3 months or less	-95.9	-86.5	15.0	110.9
Derivative financial assets	-66.7	-96.2	2.6	69.3
Other financial assets	34.2	51.7	100.4	66.2
Financial assets	-127.5	-43.2	167.6	295.1
Net financial debt	366.8	99.0	737.3	370.5

Corporate bonds

In order to finance the components of the purchase price for the increase in the company's stake in the IAE V2500 engine program, MTU AG issued a bond for a nominal amount of € 250 million with effect from June 21, 2012. The bond earns an annual rate of interest of 3% from the date of issue (June 21, 2012) until the repayment date (June 21, 2017). The interest is payable in arrears on June 21 of each year. The bond, including transaction costs and a discount of € 1.5 million, was recognized at amortized cost.

MTU AG issued a registered bond on June 12, 2013 for a total nominal amount of € 100.0 million. The registered bond is repayable on June 12, 2028 and is subject to interest of 3.55% p.a. Interest is payable in arrears on June 12 of each year, for the first time on June 12, 2014. The registered bond, including transaction costs and a discount of € 2.7 million, was recognized at amortized cost.

If a change of control occurs, every bondholder is entitled to declare due part or all of his/her bond units for the nominal amount plus any accrued interest. A change-of-control event occurs if the rating is lowered in the course of the change of control. A lowering of the rating occurs if, (1) during the change-of-control period, a rating previously granted by a rating agency to MTU or to one of its outstanding non-current liabilities is withdrawn or is changed from an investment grade rating (equivalent to or higher than Baa3 (Moody's) or BBB- (Fitch or S&P)), or if, (2) at the time of the change of control, no investment grade rating has been awarded by a rating agency to the bonds or to MTU and no rating agency awards an investment grade rating to the bond within the change-of-control period.

Financial liabilities arising from the IAE V2500 stake increase

A condition precedent included in the purchase price agreement signed by MTU in the financial year 2012 in order to increase its stake in the V2500 engine program by five percentage points to 16% made it necessary to recognize a financial liability contingent upon the number of flight hours over the next 15 years. After deduction of partial settlement payments and discounts, this liability amounted to € 414.6 million at December 31, 2014 (2013: € 286.4 million). For detailed information on the development of the financial liability arising from the IAE V2500 stake increase, please refer to [Part I of the Notes to the consolidated financial statements \(under Fundamentals and methods\)](#).

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Financial liabilities to banks

Promissory notes

MTU placed four promissory notes for a nominal amount of € 65.0 million (less transaction costs of € 0.4 million) on June 3, 2009. Of this amount, promissory notes for a nominal amount of € 40.0 million were repurchased in 2010 and a further € 13.5 million repaid on maturity on June 5, 2012. The remainder of € 11.5 million was repaid on maturity on June 5, 2014.

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 [Part I of the Notes to the consolidated financial statements \(under Accounting policy and measurement methods\)](#) and [Part III of the Notes to the consolidated financial statements \(under Note 15.\)](#).

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Derivative financial assets and liabilities

In the financial year 2014, 95% of the surplus income denominated in U.S. dollars with respect to expenses denominated in U.S. dollars was covered by forward foreign exchange contracts. At December 31, 2014, forward foreign exchange contracts were in place for the financial years 2015, 2016 and 2017, covering 68%, 45% and 17% respectively of the surplus U.S. dollar income. The increase in derivative financial liabilities and the decrease in other financial assets are principally the result of fair-value losses on forward foreign exchange transactions concluded for hedging purposes. Detailed information on the financial instruments used to hedge future cash flows is provided in [Part IV of the consolidated financial statements \(under Note 36.\)](#).

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Borrowing arrangements

The company has access to a revolving credit facility of € 400.0 million (2013: € 400.0 million) with five banks which, under the original agreement, was scheduled to run until October 30, 2018. In 2014, this revolving credit facility was extended by a further year and now runs until October 30, 2019. At December 31, 2014, funds drawn down under this credit facility amounted to € 22.5 million (December 31, 2013: € 15.2 million), including € 12.9 million as guarantees in favor of third parties. The remaining available amount of € 377.5 million ensures the group's financial flexibility in the medium term. Interest is payable on the amount of credit drawn down at the customary market reference rates plus an additional margin. Unused credit facilities are subject to a loan commitment fee.

Revolving credit facility
extended

CAPITAL EXPENDITURE

Capital expenditure in the reporting period relates to additions to intangible assets, property, plant and equipment, and financial assets:

Capital expenditure by class of asset

in € million	Change 2014-2013		2014	2013
	in € million	in %		
OEM	136.2	86.5	293.7	157.5
MRO	-2.0	-87.0	0.3	2.3
Intangible assets	134.2	84.0	294.0	159.8
OEM	20.8	33.5	82.9	62.1
MRO	-10.7	-36.5	18.6	29.3
Property, plant and equipment	10.1	11.1	101.5	91.4
OEM	5.4	24.5	27.4	22.0
MRO	5.1	28.2	23.2	18.1
Financial assets¹⁾	10.5	26.2	50.6	40.1
Total capital expenditure	154.8	53.1	446.1	291.3

¹⁾ Financial assets accounted for using the equity method or at cost.

Capital expenditure on intangible assets

In the financial year 2014, additions to intangible assets amounted to € 294.0 million (2013: € 159.8 million), of which expenditure totaling € 78.4 million (2013: € 97.0 million) relates to program assets recognized in connection with the GTF engine family and the GE9X. In addition, development costs of € 87.5 million (2013: € 51.4 million) were incurred in the OEM segment (commercial and military engine business) as a result of MTU's cooperation with P&W on the PW1000G and PW800 engine families and with GE on the GE38 and GE9X programs. And lastly an amount of € 126.5 million (2013: € 7.4 million) was attributable to the amortization of program assets resulting from the V2500 stake increase. Detailed information on capital expenditure on intangible assets is provided in [Part I of the Notes to the consolidated financial statements \(under Adjustment of prior-year figures\)](#) and [Part III \(under Note 13.\)](#).

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Capital expenditure on property, plant and equipment

Additions to land, leasehold rights and buildings, including buildings on non-owned land, amounted to € 7.8 million in the financial year 2014 (2013: € 8.2 million) and relate mainly to the newly constructed logistics center in Munich. Capital expenditure on technical equipment, plant and machinery totaling € 12.8 million (2013: € 15.6 million) relates mainly to the purchase of CNC lathes and CNC grinding / milling machines. The capital expenditure on other equipment, operational and office equipment and the additions to advance payments and construction in progress in the financial year 2014 totaling € 35.5 million (2013: € 36.3 million) relate mainly to the ongoing procurement of machine tools and the expansion of manufacturing facilities at MTU Aero Engines Polska. Further information on capital expenditure on property, plant and equipment is provided in Part III of the Notes to the consolidated financial statements (under Note 13.).

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LIQUIDITY ANALYSIS

One of MTU's indicators of operational performance is free cash flow, which it determines by combining cash flow from business activities with cash flow from investing activities.

free cash flow
€ 42.5 million

Free cash flow does not include investments in and disinvestments of financial assets in the amount of € 8.0 million (2013: € -0.2 million) or aircraft financing loans in the amount of € 17.8 million (2013: € 16.1 million), as they are not related to operating activities. Free cash flow also excludes expenditure on stakes in engine programs and acquired development costs on behalf of aircraft manufacturers. In the financial year 2014, these mainly comprised payments in the amount of € 46.4 million (2013: € 58.9 million) for stakes in engine programs, in particular the new PW1000G, PW800 and GE9X programs.

Taking into account these adjustments, free cash flow amounted to € 42.5 million (2013: € 80.3 million).

Consolidated cash flow statement (abridged)

in € million	Change 2014-2013		2014	2013
	in € million	in %		
Cash flow from operating activities	16.0	8.5	204.8	188.8
Cash flow from investing activities	-51.2	-27.9	-234.5	-183.3
Cash flow from financing activities	-77.6	<-100	-72.7	4.9
Translation differences	13.4	>100	7.4	-6.0
Change in cash and cash equivalents	-99.4	<-100	-95.0	4.4
Cash and cash equivalents at beginning of financial year			159.6	155.2
Cash and cash equivalents at end of financial year			64.6	159.6

Cash flow from operating activities

The cash inflow from operating activities in 2014 amounted to € 204.8 million and was € 16.0 million (8.5%) higher than in the previous year (€ 188.8 million).

Cash flow from investing activities

The cash outflow from investing activities in the financial year 2014 amounted to € 234.5 million (2013: € 183.3 million). The outflow of capital expenditure on intangible assets amounted to € 100.8 million (2013: € 94.1 million) and mainly comprised investments in program assets and development costs for the PW1000G family, PW800, GE38 and GE9X engine programs. Capital expenditure on property, plant and equipment amounted to € 100.7 million, compared with € 85.0 million in 2013. The net expenditure on financial assets is mainly the result of expenses in connection with the financing of aircraft development services. The cash flow from investing activities includes proceeds from the disposal of intangible assets and property, plant and equipment amounting to € 1.0 million (2013: € 13.5 million).

MTU has significant
investing
activities

Cash flow from financing activities

In the financial year 2014, the net cash outflow from financing activities amounted to € 72.7 million (2013: net cash inflow of € 4.9 million). Cash outflows mainly comprised an amount of € 68.7 million paid out as dividend for the financial year 2013 and an amount of € 49.6 million relating to scheduled payments in connection with the purchase of GTF program assets and the increased stake in the V2500 program, while the note purchase agreement provided a cash inflow of € 30.0 million.

Cash and cash equivalents

Development of the cash flow resulted in a decrease in cash and cash equivalents of € 95.0 million (2013: increase of € 4.4 million).

NET ASSETS

Total assets grew by € 348.5 million year on year (7.8%) to € 4,806.3 million (2013: € 4,457.8 million), while the equity ratio decreased to 24.7% (2013: 28.1%) owing to fair-value losses on financial instruments designated as cash flow hedges and an increase in actuarial losses on pension obligations and plan assets.

Changes in balance sheet items

MTU consolidated balance sheet

	Change 2014-2013		Dec. 31, 2014		Dec. 31, 2013	
	in € million	in %	in € million	in %	in € million	in %
Assets						
Non-current assets						
Intangible assets and property, plant and equipment	216.1	8.7	2,710.9	56.4	2,494.8	56.0
Other assets	33.7	17.5	226.3	4.7	192.6	4.3
Total non-current assets	249.8	9.3	2,937.2	61.1	2,687.4	60.3
Current assets						
Inventories	-4.2	-0.6	741.0	15.4	745.2	16.7
Trade and construction contract receivables, other assets and advance payments	197.9	22.9	1,063.5	22.1	865.6	19.4
Cash and cash equivalents	-95.0	-59.5	64.6	1.4	159.6	3.6
Total current assets	98.7	5.6	1,869.1	38.9	1,770.4	39.7
Total assets	348.5	7.8	4,806.3	100.0	4,457.8	100.0
Equity and liabilities						
Equity	-62.7	-5.0	1,188.3	24.7	1,251.0	28.1
Non-current debt						
Provisions	163.2	26.4	781.4	16.3	618.2	13.9
Liabilities	71.9	7.7	1,001.2	20.8	929.3	20.8
Total non-current debt	235.1	15.2	1,782.6	37.1	1,547.5	34.7
Current debt						
Provisions / income tax liabilities	-35.4	-8.1	404.0	8.4	439.4	9.8
Liabilities	211.5	17.3	1,431.4	29.8	1,219.9	27.4
Total current debt	176.1	10.6	1,835.4	38.2	1,659.3	37.2
Total equity and liabilities	348.5	7.8	4,806.3	100.0	4,457.8	100.0

ASSETS

Intangible assets and property, plant and equipment increased by a total of € 216.1 million to € 2,710.9 million (2013: € 2,494.8 million). In the financial year 2014, additions to intangible assets amounted to € 294.0 million (2013: € 159.8 million). The main components of this increase were investments in program assets and development costs in connection with the new PW1000G, PW800, GE38 and GE9X engine programs and the subsequent measurement of program assets resulting from the V2500 stake increase. The increase in property, plant and equipment relates principally to the newly constructed logistics center in Munich and the expansion of the MTU facility in Poland. Additional technical equipment, plant and machinery was also required to ramp up blisk manufacturing capacity. Additions to operational and office equipment comprised special tools and equipment, fixtures and other tools for current and future programs.

In 2014, total inventories decreased by € 4.2 million or 0.6% to € 741.0 million (2013: € 745.2 million). Inventories of raw materials and supplies increased by € 24.3 million to € 274.6 million (2013: € 250.3 million), while finished goods and work in progress increased by € 5.1 million to € 447.3 million (2013: € 452.4 million). Advance payments decreased by € 23.4 million to € 19.1 million (2013: € 42.5 million). Altogether, inventories accounted for 15.4% of net assets, a lower ratio than in 2013 (16.7%). The sales to inventory ratio was 5.3 (2013: 4.7). The sum of trade receivables, construction and service contract receivables (after deduction of the corresponding advance payments received) and other current assets including prepayments rose by € 197.9 million (22.9%) year on year to € 1,063.5 million. Trade receivables increased by € 127.6 million (23.1%) to € 679.7 million. Construction and service contract receivables, net of the corresponding advance payments received, rose year on year by € 77.8 million (40.2%) to € 271.2 million. Factors contributing to this increase were the amortization of construction contract receivables in the military engine business and the lower level of advance payments received.

Financial assets (including those accounted for using the equity method) decreased by € 9.5 million (3.4%) to € 273.6 million, mainly due to losses on the fair value of financial instruments designated as cash flow hedges.

Cash and cash equivalents amounted to € 64.6 million at the reporting date (2013: € 159.6 million). This corresponds to 1.4% of total assets, which is lower than the 3.6% reported in 2013.

In terms of the structure of assets, the proportion of non-current assets increased by 0.8 percentage points to 61.1% (2013: 60.3%).

GROUP EQUITY

Changes in group equity

in € million	2014	2013
Group equity at January 1	1,251.0	1,131.2
Other comprehensive income		
Financial instruments designated as cash flow hedges	-115.1	20.8
Actuarial gains and losses on plan assets and pension obligations	-98.9	5.9
Translation differences arising from the financial statements of international entities	14.2	-14.3
Earnings after tax	195.4	166.3
Dividend payment to shareholders of MTU Aero Engines AG	-68.7	-68.5
Fair-value measurement and issue of treasury shares under the Share Matching Plan	2.5	2.2
Sale of treasury shares under the MAP employee stock option program	7.9	7.4
Total change in group equity	-62.7	119.8
Group equity at December 31	1,188.3	1,251.0

Forward foreign
exchange contracts
in place
to 2017

CHANGES IN THE FAIR VALUE OF FINANCIAL INSTRUMENTS DESIGNATED AS CASH FLOW HEDGES

At December 31, 2014, MTU held forward foreign exchange contracts covering the period up to April 2017 to sell a nominal volume of U.S. \$ 1,080.0 million (which translates to € 889.5 million at the exchange rate prevailing at the reporting date). In addition, the company held further financial instruments designated as cash flow hedges under contracts extending to 2027 to sell a nominal volume of U.S. \$ 603.3 million (2013: U.S. \$ 463.7 million), which translates to € 496.9 million at the exchange rate prevailing at the reporting date. Measurement of the fair value of the MTU cash flow hedge portfolio at the end of 2014, based on the euro-U.S. dollar exchange rate of 1.21 prevailing at the reporting date, resulted in a negative change of € 115.1 million in the fair value recognized under other comprehensive income (OCI) compared with December 31, 2013. 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).

POSITIVE CHANGES IN GROUP EQUITY

Positive changes in group equity in 2014 included an amount of € 195.4 million (2013: € 166.3 million) attributable to the earnings after tax (EAT) generated in the financial year and an amount of € 14.2 million attributable to translation differences arising from the financial statements of international entities (2013: negative change of € 14.3 million). A further € 10.4 million increase in group equity (2013: € 9.6 million) was due to the sale of shares to group employees under the MAP employee stock option program and the Share Matching Plan. A breakdown of the share-based compensation components is provided in [Part III of the Notes to the consolidated financial statements \(under 27.\)](#).

→ further information
on page 199

NEGATIVE CHANGES IN GROUP EQUITY

Negative changes in group equity in 2014 include an amount of € 68.7 million for the dividend payment to shareholders of MTU Aero Engines AG for the financial year 2013 (2013: dividend payment of € 68.5 million for the financial year 2012). Fair-value losses on cash flow hedges also produced a negative change, reducing group equity in 2014 by € 115.1 million (2013: group equity increased by € 20.8 million). A further negative change was caused by actuarial losses on plan assets and pension obligations amounting to € 98.9 million (2013: actuarial gains amounting to € 5.9 million).

FINANCIAL DEBT

Non-current liabilities increased by € 235.1 million (15.2%) to € 1,782.6 million, their share in total liabilities rising by 2.4 percentage points to 37.1% (2013: 34.7%). In total, non-current provisions increased by € 163.2 million to € 781.4 million. This figure includes pension provisions of € 761.9 million (2013: € 585.5 million), which represent the main cause of this increase, due to the reduction of the discount rate in Germany from 3.4% to 1.7%. Non-current other provisions decreased to € 19.5 million at December 31, 2014, compared with € 32.7 million at December 31, 2013.

Non-current liabilities totaling € 1,001.2 million (2013: € 929.3 million) were made up of gross financial debt amounting to € 801.5 million (2013: € 599.7 million), other financial liabilities of € 139.8 million (2013: € 125.7 million) and deferred tax liabilities amounting to € 59.9 million at December 31, 2014 (December 31, 2013: € 203.9 million). The increase in gross financial debt is attributable mainly to the remeasurement of financial liabilities arising from the IAE-V2500 stake increase and to the issue of a registered bond.

The combined total of equity and non-current debt increased in the financial year 2014 by € 172.4 million (6.2%) to € 2,970.9 million (2013: € 2,798.5 million). This means that 101.1% (2013: 104.1%) of the company's non-current assets are matched by financing funds available on a medium- to long-term basis.

Current debt capital increased by € 176.1 million (10.6%) to € 1,835.4 million, including a decrease of € 35.4 million (8.1%) to € 404.4 million in provisions and income tax liabilities. This item includes pension provisions amounting to € 21.7 million (2013: € 37.6 million), current other provisions of € 352.0 million, which were € 11.7 million (3.2%) lower than in 2013, and income tax liabilities, which decreased from € 38.1 million to € 30.3 million. Current liabilities increased by € 211.5 million (17.3%) to € 1,431.4 million. These include trade payables amounting to € 633.6 million (2013: € 467.5 million), the balance of construction and service contract payables after deduction of the corresponding receivables amounting to € 485.7 million (2013: € 547.8 million), gross financial debt amounting to € 103.4 million (2013: € 65.9 million) and sundry other identifiable obligations.

Within the structure of equity and financial debt, the equity ratio decreased by 3.4 percentage points to 24.7% (2013: 28.1%), while current liabilities increased by one percentage point.

Equity ratio

24.7%

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

FINANCIAL PERFORMANCE INDICATORS

The original forecasts for adjusted EBIT and adjusted earnings after tax were updated in the half-yearly report and specified as being around € 375 million and € 245 million respectively. At the same time, the revenue forecast was lowered to € 3,650 million because the MRO segment had not performed very well in the first six months of the year.

At the time of the third-quarter report, there were indications of an across-the-board improvement in revenues. As a result, the revenue forecast was restored to its original level of € 3,750 million. The forecasts for adjusted EBIT and adjusted earnings after tax were both raised slightly, by roughly € 5 million each.

Forecast and actual results

in € million	Actual 2014	Forecast 2014 dated October 23, 2014	Forecast 2014 dated July 24, 2014	Forecast 2014 dated March 11, 2014	Actual 2013
Revenues	3,913.9	3,750	approx. 3,650	3,750	3,574.1
Adjusted earnings before interest and tax (adjusted EBIT)	382.7	380	approx. 375	stable	377.4
Adjusted earnings after tax	253.3	250	approx. 245	stable	238.6

REVENUE FORECAST

On March 11, 2014, the Executive Board forecast that revenues in 2014 would increase by 5% (revenues in 2013: € 3,574.1). In its third-quarter report, published on October 23, 2014, MTU confirmed the absolute amount of its revenue forecast of February 18, 2014 as € 3,750 million. At year end, revenues amounted to € 3,913.9 million and were thus 4.4% higher than forecast. Revenues in the OEM segment rose, as planned, by around 11%. Revenues in the MRO segment grew by 7% in U.S. dollar terms, confirming the forecast of an increase in the upper single-digit percentage range.

EARNINGS FORECAST (ADJUSTED EBIT)

MTU initially forecast that adjusted EBIT in 2014 would remain stable compared with the previous year. On October 23, 2014, the group specified its forecast, stating a figure of around € 380 million. Year-end adjusted EBIT amounted to € 382.7 million, which was slightly higher than the figure for 2013.

EARNINGS FORECAST (ADJUSTED EARNINGS AFTER TAX)

In its initial forecast, the Executive Board said it expected adjusted earnings after tax to remain stable in 2014. This forecast was specified at around € 250 million on October 23, 2014. At December 31, 2014, adjusted earnings after tax amounted to € 253.3 million, which is higher than the figure for 2013.

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE IN 2014

MTU's revenues in the financial year 2014 rose by 10% to € 3,913.9 million. At € 382.7 million, adjusted EBIT was slightly higher than in 2013 (€ 377.4 million). A central focus of activities at MTU in the financial year 2014 was the production ramp-up for new engine programs, which led to growth of 11% in the OEM segment. Revenues in the MRO segment grew by 7%. In 2014, MTU continued to invest in engine programs of strategic importance for the future, such as the successful GTF programs. In addition to that, MTU announced in the course of the year that it would be taking a stake in the new GE9X engine program. Further, in the third quarter Gulfstream chose the PW800, currently at the development stage, as the exclusive engine for its new generation of business jets. Despite the additional expenditure required to ramp up the new engine programs, MTU achieved an operating margin of 9.8% (adjusted EBIT margin).

Operating margin of
9.8%

At € 42.5 million, free cash flow in 2014 remained in the mid double-digit million range but below the level of 2013, despite the reductions in inventory made possible by the "WOC@MTU" project, which compensated to a large extent for the decrease in advance payments in the military engine business. The projected key performance indicators for the group published at the beginning of 2014 were adjusted in the company's quarterly reports to reflect the latest developments. By year end, MTU had achieved its forecast, which had been most recently adjusted upward in October. In the case of revenues, the result was significantly higher as a result of exchange rate improvements in the second half of the year.

NON-FINANCIAL PERFORMANCE INDICATORS

SOCIAL RESPONSIBILITY

MTU assumes responsibility for the environment and society in the same measure as it does for its products, processes, employees, customers and partners. This is anchored in the MTU Principles under the heading “Environment and Society.” Product development forms the focus of MTU’s efforts to achieve sustainability. The company can make its most significant contribution to society by developing outstanding innovations to make aircraft engines more eco-efficient and conserve the resources required for aviation. That is why safe, sustainable products are the central goal of MTU’s sustainability strategy (see also “Environment” section). In 2014, for the first time, the company developed and published its climate strategy on the basis of its sustainability strategy.

MTU’s commitment to society is focused on the areas of education, science and research, which is why the company collaborates with numerous research institutions. It attaches particular importance to arousing the interest of young people and talented researchers in the work of developing more eco-efficient engines.

In Germany, for instance, MTU throws opens its factory buildings once a year to interested female students as part of the nationwide Girls’ Day, while several of the company’s sites also take part in the Training Night, an information event for potential trainees. It offers internships and scholarships that are specially tailored to female school and university students.

MTU assists schools in the neighborhood of its sites throughout Germany in presenting technical subjects to school students. It is also partner for events organized by schools, such as “nature and technology days.” MTU’s maintenance site in Hannover participates in the “IdeenExpo” science exhibition. The company museum in Munich opens its doors to the public both during the annual “Lange Nacht der Münchner Museen” (Long Night of the Munich Museums) and once a quarter.

MTU is a signatory to the Standards of the Aerospace and Defence Industries Association of Europe (ASD), which are designed to combat corruption and bribery and to promote fair competition among equal parties. At a national level, this initiative is supported by the German Aerospace Industries Association (BDLI). In 2014, MTU made its compliance-related activities public in a comprehensive online presentation.

As a member of the United Nations Global Compact, MTU acknowledges its responsibility to protect the environment, promote human rights, uphold labor standards and combat corruption. This pact between international corporations and the United Nations was drawn up with the goal of making globalization more socially and ecologically compatible. MTU joined the compact in May 2011. Every year, the company publishes a report detailing the improvements it has achieved in the areas of activity associated with the principles outlined in the compact. MTU sets great store by maintaining a dialog with its stakeholders on the subject of sustainability and, since late 2013, has also invited them to discuss its sustainability strategy online.

MTU expects its suppliers to act responsibly as well, which is why the company introduced its Supplier Code of Conduct in spring 2014 on the basis of its voluntary commitment as a member of the UN Global Compact.

Collaboration with
universities

Prime status as an ethical investment

→ more information available
online under Company >
Corporate Responsibility

MTU is a major employer at each of its three locations in Germany, and supports social and charitable institutions. Numerous employees do volunteer work in their private time, and MTU expressly approves their personal initiative and the role-model function they embody. The company supports local and supra-regional associations, organizations and institutions as a promoter, sponsor and network participant.

In late 2013, oekom research AG rated MTU's commitment to sustainability as C+, a "prime status" rating for the company. oekom research AG is one of the world's leading rating agencies in the sustainable investment sector. The rating measured MTU's ecological and social achievements across more than 100 selected sustainability criteria developed for the aviation industry. "Prime status" demonstrates that MTU has met the minimum standards set by oekom research AG.

In early December, MTU was honored at the Deutsches Wirtschaftsforum (German Economic Forum) with the investor prize for sustainable business practices. The jury recognized MTU's climb in the year's ESG (Environment, Social, Governance) ratings and its determined progress in sustainability management.

Further information on how the company views its social responsibility and the key areas on which its corporate responsibility (CR) activities are focused can be found on the MTU website. In addition, the MTU Sustainability Report and the UN Global Compact Progress Report can be downloaded from <http://www.mtu.de/company/corporate-responsibility/reports/>. Any questions concerning social responsibility can be addressed by e-mail to the CR team: corporateresponsibility@mtu.de.

EMPLOYEES

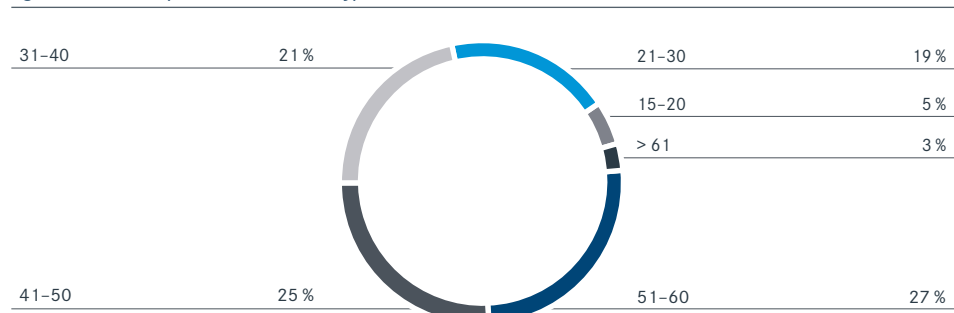
Global MTU workforce

	Change 2014-2013		Dec. 31, 2014	Dec. 31, 2013
	Employees	in %		
Locations in Germany	-51	-0,7	7,227	7,278
International locations	41	3,8	1,106	1,065
Total workforce	-10	-0,1	8,333	8,343

At December 31, 2014, MTU had 8,333 employees, after reducing its workforce by 0.1% in the course of the year. The employee turnover rate at MTU's German locations was 3.9% in the financial year 2014 (2013: 4.5%).

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

Age structure in % (German locations only)



Vocational training 2014

MTU invested heavily in future talent in 2014, with an apprenticeship quota of 5.1%. At year-end 2014, 381 trainees were employed at the company's locations in Germany. The share of women amounted to 14.4%.

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

Apprenticeship quota

5.1%

Personnel and organizational development

The ramp-up of various engine programs over the next few years calls for faster communication and decision-making processes.

Shop floor management has long been an integral part of the aviation industry. What is new about the project launched in summer 2013 is the team of consultants – consisting mainly of staff from the company's Continuous Improvement and Personnel & Organizational Development units – that has been put in place to accompany and advise the managers. In the very first year of the new system, it became apparent just how useful the constant feedback from local process coaches is in enabling the managers to make proper use of the shop floor management tools at their disposal, and to analyze and hone their own leadership skills. As a consequence of the project, the profile of the participants as proactive managers has been raised substantially – they make their decisions on the spot, recognize problems faster and find permanent solutions to them. In this way, all employees get to experience at close quarters how continuous improvement is being driven forward.

In 2014, a new feedback tool, the "team barometer," was launched. Unlike the leadership feedback tool introduced in 2013, the new tool is all about gaging the mood within teams. In individual workshops, managers and their respective teams work together to identify action points and improve their collaboration. From the managers' standpoint, the team barometer is a tool that provides regular feedback, and a useful supplement to the employee satisfaction survey.

Compensation and employee profit-sharing

The compensation that MTU offers its employees recognizes individual performance and is in line with market benchmarks. The performance-related variable compensation component is based on KPIs that apply to employees at all hierarchical levels.

For more detailed information on the compensation model for the Executive Board, we refer you to the management compensation report and to the relevant pages of the Notes to the consolidated financial statements.

MTU's MAP employee stock option program and the Share Matching Plan for senior managers offer to match each participant's investment at the end of a two-year vesting period with a supplementary cash payment corresponding to a percentage of the original amount they invested in MTU shares. In 2014, 20.6% of employees took part in these programs – the highest take-up ratio since it was launched in 2008 – investing a total amount of € 9.3 million.

Work-life balance

MTU enhances the work-life balance of its employees with a range of offers and services. It provides its employees with a wide range of working-time models, teleworking options, a working time corridor from 5:15 a.m. to 8:00 p.m. as well as flexibility in taking time off. In 2014, a works agreement on mobile working was concluded and piloted in several areas, representing a further option for flexibility in where and when employees work.

Parental leave and child/elderly care sabbaticals are arrangements that enable staff to spend more time with their families when this need is uppermost in their lives. What is more, external family-service providers offer employees a comprehensive package of additional services, including debt counseling, help in finding child minders, and advice when next of kin require long-term nursing care. MTU also provides funding for the daycare center of “TurBienchen,” a non-profit association run by a parents’ initiative. The center is located on the company’s premises in Munich. The holiday care program for children aged three to 12 that was launched in 2012 was offered again in 2014.

Health management

A company’s ability to perform and, ultimately, its success hinge upon the health of its employees and their own ability to perform. That is why MTU places such emphasis on maintaining and promoting the health of its workforce, far beyond what is required of it under occupational health and safety legislation.

MTU is progressively adapting to the changing working and leisure-time patterns of its employees. The company’s sustainable health management regime helps prevent physical and mental health risks, creates a working environment that is conducive to good health, and encourages employees to take on responsibility for a healthy lifestyle. Even though the average age of the company’s workers continues to rise, this program helps to secure their ability to work and their employability, and to stabilize the long-term health rate at a high level.

In 2014, MTU expanded its range of on-site facilities and programs for preventing illness and improving health at all of its locations. The company offers a traditional program of health promotion in key areas such as site medical services, psychosocial counseling and local health studios, including a physiotherapy practice. This program is complemented by other options such as vibration training close to the workplace, preventive back pain training in the workplace, training in ergonomic seating, health days for different divisions/departments, seminars on preventive health care, the “active break,” light meals offered by the company restaurant, and partnerships with independent fitness studios.

In addition to tried-and-tested aspects of health promotion – such as exercise, diet, coping with stress and supporting employees in their efforts to adopt a healthy lifestyle – a growing emphasis in being placed on topics such as mental health and ergonomics.

Managers, who bear a particular responsibility for their employees’ health, receive support from MTU through awareness-raising programs as well as courses designed to enhance their knowledge and enable them to take appropriate action.

Awards for MTU’s attractiveness as an employer

For MTU, it is important to be perceived as an attractive employer – both by current and potential employees and in comparative analyses with other enterprises.

In its ranking of Germany's top employers, the Top Employers Institute assesses companies across the country in terms of what they offer their employees in the categories of corporate culture, training and development, career perspectives, primary benefits, fringe benefits, and work-life balance. In recent years, MTU has maintained its very high ranking. MTU achieved the top mark in the "career perspectives" category, placing it among the top 20% of the companies taking part.

In 2014, MTU Aero Engines Polska became the company's first international location to successfully take part in the Top Employers certification process, receiving a very positive assessment in the "secondary benefits" category. The location also gained exceptionally high ratings for corporate culture, placing MTU among the best employers in Poland.

Based in Vancouver, MTU Maintenance Canada put in an excellent performance in 2013, being named best employer in the British Columbia region. The company was assessed in the categories of Physical Workplace, Work Atmosphere & Social, Health, Financial & Family Benefits, Vacation & Time Off, Employee Communications, Performance Management, Training & Skills, Development and Community Involvement.

MTU's positive image was also confirmed by the Universum Young Professionals Study carried out by WirtschaftsWoche magazine, in which the company ranked 30th among the most popular employers for engineers.

In terms of image, MTU also scores well with entry-level employees. In the 2014 employer rankings published by Berlin-based research institute trendence, engineering graduates ranked MTU in the top third of the companies listed.

MTU is given high marks by potential applicants and its own employees, as is underscored by the findings of kununu, the biggest employer assessment platform in the German-speaking countries. On the kununu platform MTU was named a "TOP Company," the seal of approval for employers with high ratings.

Ensuring the company's future success through diversity

For MTU, workforce diversity is an important element in ensuring the company's long-term competitiveness and innovative strength. Diversity puts the company in a better position to confront the challenges of demographic change, in particular as regards the looming shortage of qualified workers.

The MTU Principles make it clear that the company wants to ensure its success by harnessing the creativity stemming from the diversity of its workforce. In this context, MTU is referring especially to employees from different age groups and cultures, and to broad-based professional expertise.

In its "Charter of Diversity," MTU espouses its commitment to supporting diversity in the workplace and thus promoting an open corporate culture.

Above and beyond this, MTU has set itself the goal of substantially increasing the percentage of women employees – both overall and in management positions – in the years ahead. In order to achieve this, the company has not only established a variety of mentoring programs, but also offers career counseling for women. In the "Munich Memorandum for Women" MTU has pledged itself to equal opportunities for men and women.

MTU scores
top marks
for career perspectives

Over ten years ago, MTU set up a non-profit foundation, the MTU Studien-Stiftung, with the aim of actively supporting the personal development of female students in the STEM disciplines (science, technology, engineering and mathematics) and preparing them for their careers. In addition to providing extensive professional and personal counseling, the foundation also functions as a platform for an intensive dialog. It encourages young women to make the most of their strengths in technical professions, with the intention of raising the percentage of women in this field.

→ more information
available online under
Careers

Further information on HR activities at MTU can be found in the separate Human Resources Report 2013/2014, which can be downloaded from the MTU website under [“Careers / Work at MTU.”](#)

ENVIRONMENT

For MTU, protecting the environment is not simply an obligation, but part and parcel of the responsibility it shoulders on behalf of its employees, customers, partners, neighbors and society.

Eco-friendly, sustainable aviation

MTU plays active part in
numerous
green
initiatives

If aviation is to become more eco-friendly and sustainable, all those involved in it will have to work together closely. That is why MTU is playing an active part in numerous initiatives. The German Aerospace Industries Association (BDLI), for example, has drawn up a roadmap for the period until 2050, which defines all the necessary technologies and assigns responsibilities. While the industry focuses on addressing short- and medium-term concerns, long-term issues are more the domain of university researchers. With the support of MTU, institutes of higher education are already working on some of these topics in the context of the “eco-efficient flying” initiative of the German Federal Ministry of Economics and Technology and the EU’s “Breakthrough and Emerging Technologies” program. The studies in progress are focusing, for example, on innovative fuels, such as the production of synthetic kerosene using solar energy, on thermoelectric generators and on the integration of distributed engines in aircraft. Studies into electrical and hybrid propulsion systems and new work processes are being carried out on behalf of MTU by the Bauhaus Luftfahrt think tank. What is more, together with 20 other aviation companies, bioenergy producers, universities and research institutes, MTU has launched the Aviation Initiative for Renewable Energy in Germany (aireg e.V.) to coordinate the introduction of alternative aviation fuels.

Eliminating environmentally harmful production processes and materials

MTU reduces its environmental footprint not only by complying with existing and newly introduced statutory requirements.

It also ensures that all production processes and techniques undergo an assessment and approval process prior to introduction and that they are subsequently enforced as standards across the company. Compliance with these standards is regularly checked and certified by internal and external audits in accordance with DIN EN ISO 14001 – and, at the German locations in Munich and Hannover, also in accordance with the European Union's EMAS (Eco-Management and Audit Scheme) Regulation (EC) No. 1221/2009. The company's eco-management system was successfully audited in 2014.

Saving energy and cutting carbon dioxide emissions

MTU's production and maintenance processes also meet exacting environmental protection requirements. The company has put in place a comprehensive energy management system to monitor and control the consumption of electricity and gas, the main fuels used at its plants. The Clean Air – Industrial Site (CLAIR-IS) program was set up for this purpose at MTU's headquarters in Munich in 2009. The objective of this program is to achieve a reduction of more than 30% in carbon dioxide emissions at the Munich site by 2020 (taking 1990 as a baseline), despite steadily increasing production rates.

A variety of measures have been implemented to achieve this goal. For example, non-potable groundwater drawn from wells is used as a coolant for machinery. That is highly efficient in terms of energy as it means that MTU no longer has to construct and run its own electric-powered cooling systems, saving the company around 3,000 metric tons of CO₂ every year. The increased use of building automation systems has already cut carbon emissions by some 70,000 metric tons. The cogeneration plant at the Munich site, which produces both electricity and heat, is powered using emissions-neutral vegetable oil, thus saving around 7,400 metric tons of CO₂ a year.

Energy efficiency and economy are given top priority when designing new buildings and renovating existing ones. Wherever possible, waste heat from production or from auxiliary plants is used to heat buildings, e.g. by means of air compressors in combination with heat pumps. The recovery of waste heat as well as additional thermal insulation on buildings mean that energy consumption is substantially lower than for conventional production facilities.

30 %
lower CO₂ emissions
at the Munich site

MTU AG (DISCLOSURES IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB))

The management report of MTU AG and the group management report for the financial year 2014 have been combined in accordance with Sections 298 (3) and 315 (3) of the German Commercial Code (HGB). The annual financial statements of MTU AG were prepared in accordance with the provisions of the German Commercial Code (HGB) and are published together with the combined management report in the electronic version of the Federal Gazette (Bundesanzeiger).

The business environment of MTU AG corresponds for the most part with that of the group as described above under the heading "Business environment".

BUSINESS ACTIVITIES

MTU AG develops and manufactures commercial and military aircraft engines and aero-derivative industrial gas turbines. The company also carries out maintenance of military engines. In the military sector, MTU AG has for many decades been the leading company in the national market and lead industrial partner to the German armed forces.

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

DISCLOSURES RELATING TO OPERATING RESULTS

Income statement of MTU Aero Engines AG

in € million	Change 2014-2013		2014	2013
	in € million	in %		
Revenues	62.1	2.8	2,286.8	2,224.7
Cost of sales	-156.8	-8.4	-2,028.6	-1,871.8
Gross profit	-94.7	-26.8	258.2	352.9
Selling costs	-7.4	-13.5	-62.4	-55.0
General administrative costs	2.0	7.0	-26.6	-28.6
Balance of other operating income and expenses	-0.3	-0.6	47.9	48.2
Financial result	43.8	>100	79.6	35.8
Earnings from normal operating activities (operating profit)	-56.6	-16.0	296.7	353.3
Non-recurring earnings	-31.1	-90.9	3.1	34.2
Tax expense	35.2	28.4	-88.6	-123.8
Net profit for the year	-52.5	-19.9	211.2	263.7
Allocation to revenue reserves				
allocations to other reserves	26.3	19.9	-105.6	-131.9
Net profit available for distribution	-26.2	-19.9	105.6	131.8

Revenues

Revenues in the financial year 2014 rose by € 62.1 million (2.8%) to € 2,286.8 million, mainly as a result of increased business volumes in series production. Compared with the previous year, revenues from externally funded development projects decreased by € 40.2 million, while revenues from the manufacture and delivery of engine components and parts increased by € 82.8 million and revenues from military engine maintenance and the provision of other services increased by € 19.5 million.

Cost of sales and gross profit

The cost of sales increased by € 156.8 million (8.4%) to € 2,028.6 million. Gross profit was reduced by € 94.7 million (26.8%) to € 258.2 million. The gross margin amounted to 11.3% (2013: 15.9%). The downward movement in the gross margin is consistent with the company's business model and due to expenses in connection with series production ramp-up for new engine programs.

Balance of other operating income and expenses

This item mainly comprises income and expenses from foreign currency translation and measurement of currency holdings. Other operating income includes income of € 48.0 million from the reversal of provisions. In 2013, the main component of other operating income was an amount of € 46.9 million due to the appreciation of GP7000 engine program assets.

Financial result

MTU AG's financial result improved by € 43.8 million in the financial year 2014 to a net gain of € 79.6 million (2013: € 35.8 million). The profit and loss transfer agreement with MTU Maintenance Hannover GmbH, Langenhagen, and MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde, accounts for a total amount of € 103.6 million (2013: € 80.8 million).

The net interest expense improved year on year by € 20.3 million from € -52.9 million to € -32.6 million, mainly because the previous year's amount included transaction costs in connection with the bond issue, fees related to the extension of the revolving credit facility, and interest payments pursuant to Section 233a of the German Tax Code (AO).

Operating profit

Operating profit decreased in 2014 by 16.0% to € 296.7 million (2013: € 353.3 million).

Non-recurring earnings

One-time capital gains of € 3.1 million resulting from the liquidation of MTU Aero Engines Finance B.V., i.L. Amsterdam, Netherlands, were recognized in 2014.

Tax expense

Income taxes amounted to € 87.3 million in the financial year 2014 (2013: € 122.6 million). The actual tax expense amounted to € 138.6 million (2013: € 97.7 million), which was offset by deferred tax income of € 51.3 million (2013: deferred tax expense of € 24.9 million). The tax expense includes income of € 9.2 million in connection with prior years (2013: expenses of € 2.7 million).

Net profit available for distribution

After allocation by the Executive Board and Supervisory Board of € 105.6 million to revenue reserves, the net profit available for distribution to the shareholders of MTU Aero Engines AG for the financial year 2014 amounted to € 105.6 million (2013: € 131.8 million).

An amount totaling € 34.5 million, arising mainly from the recognition of internally generated intangible assets, was excluded from the net profit available for distribution and is matched in full by free reserves as required by Section 268 (8) of the German Commercial Code (HGB).

As the company continues to perform well, the Executive Board and Supervisory Board of MTU Aero Engines AG, Munich, will propose to the Annual General Meeting on April 15, 2015, that a dividend of € 1.45 per share (2013: € 1.35) should be paid out to shareholders. After deduction of the proposed allocation to revenue reserves, the total dividend payment amounts to € 74.0 million (2013, by resolution of the Annual General Meeting: € 68.7 million), resulting in a dividend yield of 2.0% (2013: 1.9%) – based on the quoted share price at the end of 2014 of € 72.16 (2013: € 71.39). Pending approval by the Annual General Meeting, the dividend for the financial year 2014 is to be paid on April 16, 2015.

DISCLOSURES RELATING TO FINANCIAL SITUATION AND NET ASSET POSITION

Balance sheet of MTU Aero Engines AG

in € million	Change 2014-2013		Dec. 31, 2014		Dec. 31, 2013	
	in € million	in %	in € million	in %	in € million	in %
Assets						
Intangible assets and property, plant and equipment	122.0	9.9	1,355.2	33.6	1,233.2	32.6
Financial assets	20.5	2.6	802.7	19.9	782.2	20.7
Total assets	142.5	7.1	2,157.9	53.5	2,015.4	53.3
Inventories	35.5	4.3	853.6	21.2	818.1	21.6
Receivables and other assets	170.2	22.2	936.5	23.2	766.3	20.2
Cash and cash equivalents	-124.4	-99.8	0.3		124.7	3.3
Current assets	81.3	4.8	1,790.4	44.4	1,709.1	45.1
Prepaid expenses	6.2	>100	8.0	0.2	1.8	
Deferred tax assets	14.6	23.7	76.2	1.9	61.6	1.6
Total assets	244.6	6.5	4,032.5	100.0	3,787.9	100.0
Capital						
Subscribed capital	0.1	0.2	51.0	1.3	50.9	1.3
Capital reserves	7.4	2.0	371.2	9.2	363.8	9.6
Revenue reserves	171.6	51.0	507.9	12.6	336.3	8.9
Net profit available for distribution	-26.2	-19.9	105.6	2.6	131.8	3.5
Total equity	152.9	17.3	1,035.7	25.7	882.8	23.3
Pension provisions	25.9	5.2	520.2	12.9	494.3	13.0
Other provisions	154.1	20.5	906.8	22.5	752.7	19.9
Total provisions	180.0	14.4	1,427.0	35.4	1,247.0	32.9
Liabilities						
Bonds			356.0	8.8	356.0	9.4
Liabilities to banks	27.8	>100	39.8	1.0	12.0	0.3
Advance payments received	-132.2	-18.2	594.2	14.7	726.4	19.2
Liabilities	52.8	14.7	411.6	10.2	358.8	9.5
Total Liabilities	-51.6	-3.6	1,401.6	34.7	1,453.2	38.4
Deferred tax liabilities	-36.7	-17.9	168.2	4.2	204.9	5.4
Total equity and liabilities	244.6	6.5	4,032.5	100.0	3,787.9	100.0

Total assets increased by € 244.6 million (6.5%) year on year to € 4,032.5 million.

Intangible assets and property, plant and equipment increased by a total of € 122.0 million to € 1,355.2 million (2013: € 1,233.2 million). In the financial year 2014, intangible assets in the amount of € 159.4 million were capitalized. Costs in connection with the acquisition of program assets totaling € 82.1 million (2013: € 97.3 million) were also capitalized, principally for the PW800 and GE9X programs and the GTF programs. Other capital expenditure included acquired development costs amounting to € 48.5 million (2013: € 17.7 million) and internally generated development costs amounting to € 27.6 million (2013: € 23.6 million), which mainly concerned the PW1000G engine family and the PW800 and GE9X programs. Research and development expenses (recognized under cost of sales) in 2014 totaled € 78.3 million, down € 16.1 million on 2013. At 3.4%, R&D as a percentage of revenues was lower than the 2013 figure of 4.2%. For further information on R&D, please refer to the earlier section headed "Research and development". Property, plant and equipment increased in particular as a result of new and replacement purchases of special tools and equipment, fixtures and other tools for existing and new engine programs, and IT equipment.

In 2014, inventories increased by € 35.5 million or 4.3% to € 853.6 million (2013: € 818.1 million), in particular to meet the requirements of new engine programs now entering the series production phase. Of this sum, inventories of raw materials and supplies rose by € 18.3 million to € 103.6 million (2013: € 85.3 million), work in progress by € 24.7 million to € 599.0 million (2013: € 574.3 million) and finished goods in inventory by € 15.9 million to € 131.9 million (2013: € 116.0 million). Advance payments decreased by € 23.4 million to € 19.1 million (2013: € 42.5 million). Altogether, inventories accounted for 21.2% of net assets, which was lower than the previous year's ratio (2013: 21.6%). The sales to inventory ratio was unchanged at 2.7 (2013: 2.7).

Receivables and other assets increased by € 170.2 million year on year to € 936.5 million. The main items contributing to this increase relative to the previous year were trade receivables, which rose by € 78.7 million to € 394.2 million, accounts receivable from related companies, which rose by € 46.6 million to € 260.1 million, and accounts receivable from entities in which MTU holds an equity interest, which increased by € 55.9 million to € 203.1 million. Compared with the financial year 2013, other assets decreased by € 11.0 million to € 79.1 million, mainly due to income tax refunds.

Cash and cash equivalents amounted to € 0.3 million at the reporting date (2013: € 124.7 million). This corresponds to less than 1% of total assets, which is lower than the 3.3% reported in 2013.

Equity comprises the capital stock less the nominal amount of treasury shares, capital and revenue reserves and the net profit available for distribution. The increase in the equity ratio from 23.3% to 25.7% is primarily attributable to the net profit for 2014 of € 211.2 million.

Provisions increased by € 180.0 million to € 1,427.0 million. This figure includes pension provisions of € 520.2 million (2013: € 494.3 million), which were up by € 25.9 million (5.2%). Sundry other provisions increased by € 140.5 million, while tax obligations rose by € 13.6 million.

The change in total liabilities compared with the previous year is mainly due to an increase in liabilities to banks, resulting from the issue of promissory notes for a nominal amount of € 30.0 million, and the increase in trade payables from € 57.4 million to € 67.1 million, due to the increased volume of business and exchange rate effects. Other liabilities, which increased by € 41.5 million from € 269.0 million to € 310.5 million, mainly comprise liabilities arising from the acquisition of program stakes in the amount of € 271.3 million and personnel-related liabilities amounting to € 6.7 million.

OTHER DISCLOSURES

The opportunities, risks and future development of MTU AG essentially correspond to the opportunities, risks and future development of the MTU group as described in later sections of this combined management report (“Forecasts” and “Risk and opportunity report”).

As the group’s parent company, MTU AG is integrated in the group-wide risk management system that is described in detail in the risk and opportunity report. The description of the internal control system of MTU AG required under Section 289 (5) of the German Commercial Code (HGB) can be found under the heading “The internal control and risk management system in relation to the group accounting process”.

For further information on the use of financial instruments, please refer to the Notes to the consolidated financial statements and to the section of the risk and opportunity report entitled “Use of financial instruments”.

Owing to its dominant role within the OEM operating segment (commercial and military engine business), and in view of the profit and loss transfer agreements that exist between the parent company and its German maintenance subsidiaries in the MRO operating segment, the outlook for MTU AG is closely aligned with the expected future development of the group as described later on in this combined management report under the heading “Future development of MTU”.

Looking ahead to the annual financial statements for MTU AG in 2015, prepared in accordance with the provisions of the German Commercial Code (HGB), the Executive Board expects that revenues will increase significantly compared with 2014, by an estimated 5-10%, and that the net profit for the year will lie between € 160 million and € 210 million.

SUBSEQUENT EVENTS

With the exception of supplementary clauses added to the risk- and revenue-sharing agreement between GE and MTU with a view to the development, manufacturing and marketing of the GE9X engine program, no events of material importance with any significant impact on the financial situation, net assets or operating results of the MTU group occurred after the end of the reporting period.

FORECASTS

MACROECONOMIC FACTORS

The global economy grew by 2.3% in 2014. The International Monetary Fund (IMF) expects global economic output to rise by 3.3% in 2015. The Economist Intelligence Unit (EIU) forecasts global economic growth of 2.8% for 2015. Strong growth in the United States, low oil prices, and continuing high growth rates in China are having a beneficial effect on the global economy. The IMF and EIU warn of stagnant economies and low inflation in the eurozone and in Japan. What is more, slower growth in the newly industrialized countries and the geopolitical crises in Ukraine and the Middle East could also lead to a weakening of the global economy.

MICROECONOMIC FACTORS IN THE AVIATION INDUSTRY

An industry with growth prospects

According to the International Air Transport Association (IATA) in its December 2014 forecast, passenger traffic will grow in 2015 by 7.0%, while freight traffic will increase by 4.3%. Rising passenger volumes and efficiency gains by airlines are expected to lift airlines' profits to around U.S. \$ 25 billion in 2015. IATA's forecast is based on an average price of U.S. \$ 85 per barrel of Brent crude. In February 2015, the U.S. Energy Information Administration (EIA) was even predicting that the price of Brent crude would drop to U.S. \$ 58 in 2015.

Aircraft manufacturers have 12,800 orders on their books for commercial single-aisle and widebody aircraft. That is equivalent to a production workload of 9 years, securing the delivery horizon in the long term. At present there is no indication that the low oil price will lead to any significant cancellations or postponements of orders already placed for new aircraft. Airlines do not plan their fleets on the basis of short-term fluctuations, and are not expecting the current drop in oil prices to last – for 2016, the EIA predicts a level of U.S. \$ 75. A moderate shift toward making more intensive use of existing fleet capacity cannot be ruled out, but that would have a positive effect on demand for spare parts.

In order to meet market demand faster, manufacturers are set to increase their production output over the next three to four years. Airbus is contemplating raising its monthly output of A320 aircraft from its current level of 42 to 46 by 2016. Boeing, too, plans to expand production of its 787 and 737 series, manufacturing 12 Boeing 787 aircraft per month by 2016. Aircraft deliveries by Airbus and Boeing in 2015 are expected to increase to a combined total of around 1,400 (source: Ascend Online, Boeing Guidance).

FUTURE DEVELOPMENT OF MTU

The statements below are based on the knowledge available at the beginning of 2015. Owing to the large number of new programs, any delays that might occur in development or in the ramp-up of series production could have an effect on the performance indicators.

EXPENDITURE ON NEW PRODUCTS AND SERVICES

Preparations for the highly successful new GTF programs and the ramp-up of further programs require substantial capital expenditure on development and production resources.

In order to keep cost growth in check, MTU began implementing measures in 2013 that together make up the “Cash for Future” project. The measures are designed to achieve lasting cost savings of several tens of millions of euros per year. These savings have ensured the company has sufficient scope to invest in additional engine programs such as the GE9X.

The imminent ramp-up of the new engine programs means that MTU has had to invest heavily in building up highly productive manufacturing and logistics capacities at its main site in Munich. What is more, the company has begun expanding its Polish subsidiary, MTU Aero Engines Polska, where some 300 new jobs are to be created by 2019.

Cash for Future
project

OUTLOOK FOR 2015

Targets

MTU's targets for the financial year 2015, based for planning purposes on an assumed exchange rate of U.S. \$ 1.20 to the euro (average rate 2014: U.S. \$ 1.33 to the euro) are as follows:

Outlook for 2015

in € million	Forecast for 2015	Actual 2014
Revenues	~4,400	3,913.9
Adjusted earnings before interest and tax (adjusted EBIT)	~420	382.7
Adjusted earnings after tax	~285	253.3

The company expects its revenues in 2015 to rise by around 12% compared with 2014. MTU's risk- and revenue-sharing agreements with leading engine makers and its strong presence in its home market will serve to keep the regional distribution of the company's revenues essentially stable.

Revenues by operating segment

MTU expects to see a strong increase in its commercial engine business in 2015, with higher growth in series production (in U.S.-\$ terms) than in the considerably more profitable spare parts business.

These assumptions are based on the rising number of deliveries of the GP7000 engine for the Airbus A380 and the start of deliveries under GTF engine programs for the A320neo family and the Bombardier CSeries. Identified risks in the OEM segment relate particularly to the possibility of delays in ramping up the new aircraft programs and a potentially challenging spare parts market.

As for the military engine business, which also forms part of the OEM segment, MTU expects revenues to decrease by a percentage in the mid-single-digit range.

MTU's forecast for its commercial maintenance business (MRO segment) in 2015 is for revenue growth in the mid to high single-digit percentage range in U.S.-\$ terms. Demand for maintenance in connection with the V2500 and GE90 programs is expected to rise.

Operating profit
expected to rise by

10%

Operating profit

MTU expects adjusted EBIT to reach around € 420 million in 2015, which is higher than in 2014. This increase is due principally to the exchange rate assumptions used for planning purposes.

Adjusted earnings after tax (adjusted EAT)

In 2015, adjusted earnings after tax are expected to rise to around € 285 million, for the same reasons as the operating profit.

Free cash flow

2015 will be another year of substantial investment spending and a further reduced level of advance payments in the military engine business. However, MTU plans to compensate for these cash flow effects through its operating activities, thereby achieving a free cash flow similar to that of 2014.

Future dividend

It is MTU's policy to pay an attractive dividend. Based on the prognosis of future business developments, MTU expects to be able to offer a stable dividend for 2015, subject to the approval of the corporate bodies responsible for this decision.

Employees

Due to the "Cash for Future" efficiency improvement project launched in 2013, MTU's workforce will grow only at its site in Poland in 2015, leading to moderate personnel growth for the group as a whole.

OVERALL PROGNOSIS OF FUTURE BUSINESS DEVELOPMENTS IN 2015

The Executive Board of MTU remains optimistic that it will be able to profitably expand the company's business, especially given the advantage of more favorable exchange rate conditions than in 2014. The company can expect to benefit from the strong growth of the V2500 and GP7000 programs as well as from a positive MRO business trend. The military engine business is expected to shrink slightly.

RISK AND OPPORTUNITY REPORT

RISK REPORT

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

MTU has an integrated opportunity and risk management system in place, which is linked to the group's value-oriented performance indicators and its organizational structure. The system ensures compliance with statutory requirements and is based on the internationally recognized COSO II Enterprise Risk Management (ERM) Framework. To assist in implementing risk management in the MTU group, the central risk management department provides the risk owners with guidance in the shape of information and working aids. These include the MTU risk guidelines as well as a risk checklist and risk manual, which give specific examples of what is set down in the guidelines and provide help in everyday practice.

The systematic consideration of significant risk factors is of vital importance to the MTU group, and serves as a fundamental basis for value-oriented controlling functions and sustainable business success. MTU identifies risks, analyzes their possible consequences and develops measures to limit them. The key areas of risk exposure are as follows:

- risks arising from macroeconomic factors and corporate strategy,
- market and program risks,
- risks associated with product development and manufacturing,
- other risks pertaining to business operations.

STRATEGY AND RISK MANAGEMENT SYSTEM

CONTROL ENVIRONMENT

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

- management style and philosophy,
- integrity and ethical values,
- no-blame culture,
- staff training and development.

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

RISK MANAGEMENT OBJECTIVES AND RISK STRATEGY

The ultimate objective of MTU's risk management system is to ward off risks to MTU's status as a going concern and to safeguard the company's future business success.

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

Integrated
opportunity and
risk management
system

Risks exceeding
€ 1 million
 reported at corporate
 level

IDENTIFICATION, ANALYSIS AND MANAGEMENT OF RISKS

MTU regards risk management as a continuous, end-to-end process that ensures responsible behavior when dealing with specific risks at business unit level and general risks affecting several business units or the entire group.

The risk inventory of the group, which encompasses all the business units and all the risk factors to which MTU is exposed, forms the basis for identifying risks. According to the COSO II Framework, it is divided into governance and compliance, strategy and planning, operations and infrastructure, and reporting. In the interests of a more detailed assessment of risks, MTU has divided this framework into 15 risk categories covering all corporate areas.

Each subsidiary and business unit is responsible for identifying, assessing, controlling and monitoring the risks in their specific areas, and documenting them in risk maps. To this end, they use a general risk checklist derived from the risk inventory. They submit reports to the central risk management department for risks exceeding an amount of € 1 million over the five-year period under consideration, at dates allowing them to be reviewed together with the quarterly financial results. The risk maps also serve to document risks below the threshold of € 1 million. Risks valued at more than € 5 million are reported immediately to the central risk management department. Risk assessment is based on uniform definitions of the probabilities of loss occurrence and rated in terms of possible deviations of the group performance indicator “adjusted EBIT” from the currently valid operational planning figures and potential impact on liquidity.

The central risk management department aggregates and consolidates the risks, provides assistance during the risk management process, and evaluates the overall risk position at group level.

A cross-divisional Risk Management Board has been set up at group level to perform centralized control and monitoring functions. At its quarterly meetings, the Risk Management Board discusses the interactions between individual risks, ensures that all risks have been reported in full, and assesses the risk exposure of the group as a whole.

RISK REPORTING AND COMMUNICATION

The Executive Board receives a risk report once a quarter that has been coordinated with the Risk Management Board, and is kept informed of the group’s current risk situation. The Top Risk Map comprises all risks and opportunities above € 5 million in value over a five-year period and gives details of their probability of occurrence as well as potential countermeasures. Risks are not offset against opportunities.

MONITORING THE RISK MANAGEMENT PROCESS

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

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

- regular checks by the internal auditing department,
- oversight by the Supervisory Board,
- process reviews by the Risk Management Board in the form of a self-assessment.

STRATEGY RISKS

Risks arising from macroeconomic factors

In general, the MTU group's business development is subject to a number of different risks, especially the U.S. dollar exchange rate, the level of commodity prices, the development of air traffic, and general economic risks. Taking the latest market forecasts into account, MTU does not currently discern any major negative impacts for the company arising from the high sovereign debt in certain nations of the world economy or from the resulting monetary policy of the central banks. Political crises in some regions and restrictions on air travel imposed as a result of epidemics are regularly discussed during the risk management process, but are currently not classified as critical. If the current economic situation should deteriorate, this could impact the volume of passenger or freight traffic and prompt a more cautious approach to orders for new air transportation capacity. In addition, national budget cuts could negatively impact the military engine business. Other risks affecting industry in general include fluctuating energy costs, the unavailability of suppliers, and delays in deliveries from suppliers. A further risk factor affecting engine programs is the possibility of higher interest expenses and delayed delivery schedules due to the typically long lead times.

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. During the decision-making phase of a program, highly qualified specialists perform cost-benefit analyses based on set procedures that include the obligation to carry out a risk analysis on the basis of different scenarios. MTU's business model is based on long-term processes, particularly in the OEM segment. Many years of development, preproduction and series production may lie between the decision to invest in a new commercial engine and the breakeven point. The risk is that the original economic and technological parameters on which the decision was based might change over the course of time, hence the need for frequent reassessments that take into account the most recent economic and technological developments. Decisive factors in this regard are, in particular, the success of the aircraft platforms on which the engines are deployed and any changes made to those platforms. MTU counters such strategy risks by means of a broad portfolio. That means that the company limits the impact of an individual program or aircraft platform by holding an interest in a wide range of products across all thrust classes.

In the longer term, a further identifiable risk in addition to that arising from MTU's strategic decisions is the arrival on the market of new competitors, e.g. from Russia or China. But given the high barriers to market entry, this risk is not regarded as critical at the present time. In fact, the arrival of new competitors could also open up additional opportunities for partnerships.

MTU has not identified any strategy risks at the present time that might endanger its status as a going concern.

MTU's broad portfolio helps to mitigate risk

MARKET AND PROGRAM RISKS

The profit to be gained from specific engine programs currently depends to a large extent on spare parts sales. Many airlines are experiencing financial difficulties as a result of competitive pressure in the aviation market and because their business is strongly influenced by economic factors beyond their control, including the effects of crises. This already strained situation may be further strongly impacted by changes in fuel prices or by state intervention in the aviation industry. Given this, many airlines are striving to keep their aircraft and engine maintenance costs as low as possible and thus enhance their margins, for example by delaying shop visits or replacing defective parts with used ones. Competition is generally getting fiercer, too, with the MRO shops of the major engine manufacturers lowering their prices in an attempt to squeeze independent providers out of the market and also erecting barriers for new market entrants. The MTU group must tackle this new aftermarket situation head on if the company is to counter the risks it poses. That will have repercussions for the entire MTU group, especially in view of the trend toward integration of the MRO and OEM segments.

Owing to the difficult financial situation of some airlines, as described above, engine manufacturers frequently offer loan arrangements to the end customer. These agreements are provided in two basic forms: predelivery payment (PDP) and backstop commitments. Within the scope of its partnerships in engine programs, MTU has been a party to aircraft financing agreements with end customers since 2013 and has made initial payments to finance the purchase of aircraft. MTU's share of these loan agreements is equivalent to its proportional stake in the engine program. It is a fundamental condition that the funds are made available to the aircraft manufacturer for the exclusive benefit of a specific airline. The risk of suffering a loss because an airline becomes insolvent is considered to be low, due to the collateral rights pertaining to retained goods. For a detailed description please refer to [Part III of the Notes to the consolidated financial statements \(under 32.\)](#).

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MTU's military engine business customers are national and international agencies, whose spending capacity is strongly dependent on public spending policies. When they are faced with budgetary constraints, there is a risk that contracts might be rescheduled or canceled. For similar reasons, it may become necessary to renegotiate the scope of deliveries already agreed in existing contracts. In the military engine business, MTU is firmly embedded in international cooperative ventures, which tends to have a limiting effect on risks because the partners work together to protect their common interests. The terms of existing contracts in the military sector are generally defined to cover a prolonged period of time, thus effectively excluding price risks.

The customer base at some MRO sites is dominated by a single major customer. If the contract with this customer is not renewed, these sites would thus be faced with the risk of a low level of customer diversification. Some engine programs in the MRO phase are already at an advanced stage of their lifecycle. This harbors the risk of MTU's MRO portfolio becoming too focused on aging products with a limited future. MTU strives to maintain a balanced portfolio that is constantly being expanded to include maintenance services for new engine programs. However, new programs also harbor a ramp-up risk.

Dependency on cooperative agreements

The commercial engine market is dominated by a small number of major manufacturers. MTU sells most of its products under risk- and revenue-sharing arrangements with market leaders. The major engine manufacturers, who are the lead partners in the consortia, determine the prices, conditions and concessions. They also define the engine development processes prior to the market launch phase of new engines, e.g., the scope of development costs and the payments toward development made by the individual partners in the consortia. As one such partner, MTU has rights of objection and control, and can improve its own position through negotiations. By virtue of these partnerships, MTU is able to participate in the industry-leading engine programs of the major engine manufacturers. In the commercial engine and maintenance sector, the customers of the consortium leaders are airlines and aircraft leasing companies. The marketing of commercial engines always involves making concessions to the end customers. 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 with the end customers.

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. MTU is involved in further joint ventures in the fields of engine leasing, maintenance and development, which are listed in [Part IV of the Notes to the consolidated financial statements \(under 38. Major shareholdings\)](#). In jointly controlled entities, where decisions have to be made by consensus, there is always a risk of differences of opinion.

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From today's standpoint, MTU does not expect these market and program risks or its dependency on cooperative agreements to have any significant impact on the group's continued existence as a going concern.

RISKS ASSOCIATED WITH PRODUCT DEVELOPMENT AND MANUFACTURING

Development risks

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

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

Risks are spread
through collaborative
ventures

Supply chain
diversity makes
risks manageable

Production risks

Highly sophisticated components and new materials are called for to meet the requirements of the airlines and OEMs in respect of engine weight, fuel consumption and noise emissions. In order to produce and process such components, MTU develops – and gains official approval for – innovative new manufacturing techniques suited to meeting these challenges and ensuring efficient processing. This can lead to delays in the start of production or temporarily reduce the volume of deliveries to a level below that originally agreed. It could also happen that the new manufacturing processes are not yet sufficiently mature to fully meet requirements when volume production is due to start. MTU counters this risk by providing systematic support for the development and implementation process in the context of technology projects.

Procurement and purchasing risks

MTU is dependent on suppliers and third-party vendors for some raw materials, individual parts and components, and for the provision of specific services. 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.

Delays may arise when ramping up production of new, high-volume programs involving new production capacities, production processes or workflow systems, thus affecting the agreed delivery deadlines. MTU minimizes this risk through strict project management, the deployment of specialists and the implementation of program-specific preventive measures.

Liability risks

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

By limiting liability risks and taking out insurance cover, the risks are rendered transparent and manageable. MTU has not identified any risks related to its production, development or procurement activities at the present time that might endanger its status as a going concern.

USE OF FINANCIAL INSTRUMENTS

More than 80% of MTU's revenues are generated in U.S. dollars. On the other hand, a large proportion of expenses is likewise invoiced in U.S. dollars, thus providing a "natural hedge." Most other expenses are incurred in euros and, to a lesser extent, in Polish zloty, Chinese yuan renminbi and Canadian dollars. In line with the corporate policy of generating profit solely on the basis of 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 forward foreign exchange contracts concluded by MTU cover the greater part of the net exposure to currency risk, leaving only a small portion of the U.S. dollar surplus exposed to this type of risk. The unhedged portion of forecast transactions is calculated at the average euro exchange rate on the date of settlement.

MTU holds a long-term hedge portfolio comprising forward foreign exchange contracts with terms to maturity stretching over several years. At December 31, 2014, the value of the portfolio of hedging instruments with terms until 2017 amounted to U.S. \$ 1,080.0 million (which translates to € 889.5 million at the exchange rate prevailing on the reporting date).

Detailed information on the financial instruments used to hedge future cash flows is provided in Part IV of the Notes to the consolidated financial statements (under 36.).

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

For a detailed description of MTU's financial management system, please refer to the section entitled Financial situation (under the subheading Principles and objectives of financial management).

Currency risks
are manageable

OTHER RISKS PERTAINING TO BUSINESS OPERATIONS

Compliance risks

Compliance risks arise when managers or employees of the company fail to comply with laws and regulations or fail to observe internal rules. These risks can arise in all areas of the company.

MTU has implemented a number of measures to minimize risks and to safeguard compliance. The corporate units ensure that laws are complied with and internal regulations observed. The quality department, for example, is responsible for compliance with aviation authority regulations, while the environmental health and safety department ensures that environmental protection regulations are adhered to.

Above and beyond that, measures have been put in place to minimize the risks associated with compliance issues:

- binding rules of conduct valid throughout the group,
- establishment of a central office to receive reports of suspected misconduct,
- establishment of a Compliance Board,
- continuous security checks of employees,
- regular training courses.

Criminal intent can never completely be ruled out.

Full
precautions
taken
before signing contracts

Non-payment risk

Airlines in particular are direct and indirect customers of MTU. These companies may find themselves facing financial difficulties that affect the receivables of MTU and its partners. The consortium leaders in the OEM business have extensive receivables management systems in place. In the MRO business, the responsible MTU departments track open accounts receivable in short cycles. A risk assessment is carried out before any new contract is signed and all necessary precautions are taken, for instance by requesting an export credit guarantee (Hermes coverage) – if available – as protection against political credit risk. As a matter of principle, the group avoids signing contracts for which the parameters cannot be calculated. Hence MTU considers non-payment risks to be transparent and manageable.

Environmental risks

MTU is subject to numerous laws and regulations aimed at protecting the environment. Any tightening of the applicable environmental or health and safety requirements may give rise to additional investment costs in connection with the use of chemicals in manufacturing and test rig emissions. It may even become necessary to find replacement substances for those in use. Further information on this can be found under the section heading “Non-financial performance indicators”. MTU requires special certification in order to operate certain production facilities. The regulations must be strictly observed and all procedures fully documented. An environmental management system certified to EMAS and DIN EN ISO 14001 minimizes the risks in this area.

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IT risks

The main IT risks are loss of confidential data through espionage and system failures. Through its experience in dealing with military customers, MTU is particularly aware of the need to safeguard confidential data and operates a strictly controlled, highly advanced data security system that is regularly upgraded. When new IT systems are introduced, there is a possibility of workflows being disrupted. MTU minimizes these risks by employing qualified experts and using professional project management. Although dealing with these risks is becoming more and more costly for MTU, the company still considers them to be manageable at the present time.

Risks arising from general and tax legislation

The legal proceedings currently pending do not present any risks that might endanger MTU's continued existence as a going concern. Risks arising out of ongoing tax audits or from events of a non-recurring nature have been taken into account in the financial statements where necessary.

OVERALL ASSESSMENT OF MTU'S RISK EXPOSURE

Risks in each key area of exposure as described above are assessed for the coming financial year according to their probability of occurrence and quantified as a deviation of EBIT from the currently valid operational planning figures. In MTU's risk management process, risks are assigned to one of four probability levels: Almost certain (> 80%), Likely (> 50%), Possible (> 20%) or Unlikely (\leq 20%). The assessment below showing the risk to EBIT in the financial year 2015 is based on the top individual risks identified in the MTU group's risk management process. The group considers it extremely improbable that all of these risks might arise concurrently. Therefore, the aggregated figures presented below must be viewed merely as a rough indication of MTU's overall risk exposure.

Assessment of MTU's risk exposure

in € million	OEM	MRO
Market and program risks	18.2	2.8
Manufacturing and development risks	0	0
Other operative risks	0	0

As well as the risks listed in this table, the risk management process is also used to monitor unplanned events with an impact on free cash flow. In addition to the impact of identified risks on EBIT, this assessment revealed further risk factors affecting liquidity evaluated at approximately € 20 million. However, these cash outflows are easily accommodated by the company's € 400 million line of credit, an extension of which was agreed in the financial year 2013.

At December 31, 2014, there had been no substantial changes in MTU's risk exposure compared with the end of the previous year. MTU considers the level of risk exposure to be manageable. From the present vantage point, the MTU group's continued 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.

No substantial change in
risk exposure

OPPORTUNITIES REPORT

MARKET AND PROGRAM OPPORTUNITIES

Basic research and the constant refinement of engine technologies followed by their deployment in the final products have made MTU one of the world's leading manufacturers of engine components. MTU's new products lead the field in terms of efficiency because they save fuel and reduce emissions, noise and costs. The technologies developed by MTU have been successfully integrated into new engine programs in recent years. The geared turbofan™ (GTF) engines of the PW1000G family, which are being developed in partnership with Pratt & Whitney, have helped MTU bolster its portfolio of cutting-edge engines and make it fit for the future. The GTF is the exclusive engine of all major regional jets developed in recent years – namely the Embraer E2 E-Jets and the Mitsubishi Regional Jet – as well as the Bombardier CSeries business jet, and is offered as an option for the Airbus A320neo and Irkut MS-21. Through its stakes in the GTF programs, MTU will benefit over the decades ahead from growth in the markets for regional jets and small narrowbody aircraft. What is more, MTU has an opportunity to secure bigger market shares in the medium-haul sector because, in addition to its longstanding partnership in the V2500 engine program for the current A320 family, it also has a stake in the A320neo engine, which has been selling very well.

MRO services integrated in engine sales contracts

In order to achieve a balanced engine portfolio across different market segments, MTU is in the process of finalizing a contract for the engine that is destined to power the Boeing 777X, the successor to the Boeing 777, which premiered at the Dubai Airshow in November 2013. The Boeing 777X will be exclusively powered by General Electric's GE9X engine. As was the case with other engine programs for widebody aircraft – e.g. the GEnx – MTU has an opportunity with the GE9X to continue its success as an engine component manufacturer in the widebody segment.

Among its customers in the military sector, MTU has established a reputation as a qualified partner with comprehensive system know-how in product development, manufacture and maintenance. In particular by driving forward its military-engine maintenance partnership with the German air force, MTU sees chances for strengthening its ties with Germany's armed forces. There are opportunities for building on existing customer relationships in the military MRO sector. What is more, ongoing export campaigns – especially for the Eurofighter EJ200 engine and the TP400-D6 engine for the A400M – present opportunities to acquire new customers for military business.

The military-program partnership with GE Aviation is doing well and could generate further opportunities to participate in transatlantic programs going forward.

While the changed aftermarket scenario in the aviation industry, in which MRO services are increasingly being offered together with engine sales contracts, presents risks to MTU, it also opens up opportunities to develop customer loyalty through integrated service agreements that promise to soften the impact of risks associated with the spare parts market. This integrated approach to MRO enables program partners to become members of an MRO network, giving them access to the entire volume of MRO work associated with an engine series, the so-called network volume, in accordance with their share in the program. Various different work-sharing arrangements are possible. For instance, partners in the MRO network might only perform repairs on their own components, or be allocated a quota of complete shop visits corresponding to their program share. Membership in an MRO network offers lower margins than operating as an independent MRO provider.

The global nature of MRO work regularly presents opportunities to tap new markets and acquire new customers, but such opportunities depend largely on the pace of global economic growth. Geopolitical changes such as embargoes can make it difficult or impossible to do business with individual countries.

The MRO market for the GE90 opens up the longer-term prospect of participating in the steadily growing GE90 market as an independent MRO provider. In particular, as the number of aircraft resold to new owners by the original purchaser begins to rise, there will be opportunities for independent MRO providers like MTU to win new customers in the GE90 market, because in the pre-owned segment the airlines tend to have much weaker ties to the OEM.

Together with Sumitomo Corporation, MTU has established two joint ventures in the market for engine leasing. The aim is to expand the company's leasing activities and make the most of the opportunities they present for MRO services.

OPPORTUNITIES ASSOCIATED WITH PRODUCT DEVELOPMENT AND MANUFACTURING

The risk report describes the risks associated with product development and manufacturing, but MTU's ongoing development activities also open the way to new business opportunities. For example, the new technologies and materials developed by MTU to improve the performance of its products create opportunities for the company to acquire new partnership roles in future engine programs, and thereby maintain a balanced product portfolio covering engines at all different stages of their lifecycle.

The risk report also refers to the challenges involved in ramping up new programs, and here again these challenges can be transformed into opportunities. Progress is achieved in the manufacturing sector by optimizing processes and introducing new production technologies. Advances in these two areas are not only beneficial to the new programs for which they were intended but can also be implemented in existing programs, resulting in cost savings and other advantages.

OTHER OPPORTUNITIES

As a large part of the company's revenues is based on contracts invoiced in U.S. dollars – especially in the commercial engine business and commercial MRO – a strengthening of the U.S. dollar against the euro would improve MTU's earnings. If energy prices were to stabilize or retreat to a lower level, and if commodity prices were to fall, this would have a positive effect on MTU's cost structure and hence on its business results.

Other opportunities are listed in the SWOT analysis. See the risk report for information on how the opportunities identified can be exploited and the associated risks avoided.

OVERALL ASSESSMENT OF OPPORTUNITIES

At December 31, 2014, the opportunities identified by MTU had not changed substantially compared with the end of the previous year. MTU has taken all the organizational measures necessary to recognize potential opportunities in good time and respond to them adequately. MTU applies the same methods in its assessment of specific opportunities as it does when evaluating risks. By taking a conservative approach to the identification of risks and opportunities, the opportunities are necessarily limited compared to the risks. Moreover, due to the long cycles on which MTU's business model is based, the company does not foresee the emergence of any major opportunities until after 2014 because the future engine programs (and especially the GTF programs) are currently still in the development phase. The total projected earnings for the financial year 2015 associated with the top opportunities identified are presented in the table below:

No substantial change in
identified
opportunities

Assessment of opportunities

in € million	OEM	MRO
Market and program opportunities	3.0	1.2
Manufacturing and development opportunities	0	0
Other operative opportunities	0	0

In addition to the opportunities presented in the above table, the risk management process is also used to monitor unplanned events with an impact on liquidity. If realized, these additional earnings could have a potential positive impact on cash flow of around € 1 million. MTU does not anticipate any fundamental changes in its opportunities at the present time.

SWOT ANALYSIS

The results of an analysis of the main strengths, weaknesses, opportunities and threats (SWOT) identified in the course of MTU's planning and risk management processes are as follows:

SWOT analysis of the MTU group

Corporate	Market
<p>Strengths</p> <hr/> <p>Technological leadership</p> <ul style="list-style-type: none"> - OEM: Low-pressure turbine, high-pressure compressor and turbine center frame - MRO: Excellence in advanced repair techniques - Manufacturing technologies <hr/> <p>Balanced mix of services across all phases of the engine lifecycle</p> <hr/> <p>Balanced engine portfolio across all market segments</p> <hr/> <p>Sustained capacity utilization assured by high order backlog</p> <hr/> <p>Focus on high-profit-margin engine business</p> <hr/> <p>Long-term contracts in the OEM business, involvement in consortia and cooperative ventures</p> <hr/> <p>Quality and on-time delivery form basis for reliable partnerships</p> <hr/>	<p>Opportunities</p> <hr/> <p>Market environment of business units on a long-term growth trend</p> <hr/> <p>Increasing technological complexity of future engines</p> <hr/> <p>Good market opportunities in the regional jet, narrowbody and widebody segment</p> <hr/> <p>Export opportunities for military engine applications</p> <hr/> <p>Solid financing structure and technological leadership open the way to program investments</p> <hr/> <p>Growth opportunities in the attractive GE90 market (MRO)</p> <hr/> <p>Greater exploitation of synergies between areas of commercial business (Integration MRO in new engine business)</p> <hr/> <p>Positive changes in U.S. dollar exchange rate</p> <hr/>
<p>Weaknesses</p> <hr/> <p>High dependency on U.S. dollar</p> <hr/> <p>Earnings dependent on requirements of OEMs and market success of their products</p> <hr/> <p>High wage levels at home manufacturing sites</p> <hr/>	<p>Threats</p> <hr/> <p>Low and volatile earnings of end customers (airlines)</p> <hr/> <p>Changes to business model in aftermarket</p> <ul style="list-style-type: none"> - Price competition in maintenance - Integration of MRO in new engine business - Changes to price and demand in spare parts business <hr/> <p>Inherent risk with regard to schedules prior to market launch of advanced technology developments</p> <hr/> <p>Dependency on OEMs</p> <hr/> <p>Restrained public spending leads to changes in demand for military engine products</p> <hr/> <p>Negative changes in U.S. dollar exchange rate</p> <hr/>

THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE GROUP ACCOUNTING PROCESS

The current recommendations of German Accounting Standard No. 20 (DRS 20) have been applied in this section of the combined management report concerning the main features of the accounting-related internal control and risk management system.

OBJECTIVES AND COMPONENTS

The Executive Board, Supervisory Board and Audit Committee of MTU attach the greatest importance to ensuring the regularity, accuracy and reliability of MTU's financial reporting. The accounting-related internal control and risk management system, which provides the yardstick for the MTU group's financial statements, helps ensure that these internal and external accounting requirements are systematically complied with. The Executive Board of MTU bears overall responsibility for establishing and refining the required control and monitoring systems. The systems are tailored to the MTU group's business model and company-specific requirements, and are an important part of the comprehensive approach to corporate governance that defines the basic framework for creating sustainable value for shareholders, customers, employees and the public.

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

Systems of controls tailored to MTU's business model

Internal auditing
also helps to
improve
processes

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

MAIN FEATURES

- MTU has a clearly defined management and corporate structure. Key functions spanning more than one business unit are managed centrally. The individual subsidiaries nevertheless enjoy an adequate level of autonomy
- The integrity and responsibility of all employees, also in terms of finances and financial reporting, are ensured by their undertaking to observe the group-wide code of conduct.
- An adequate system of guidelines has been drawn up and is updated as required.
- The departments and business units involved in the accounting process are suitably equipped and regularly trained both in quantitative and qualitative terms.
- The IT systems are protected against unauthorized access by appropriate installations in the IT area. As far as possible, standard software is used in the finance systems area. Within the framework of the comprehensive IT strategy and the IT architecture, the IT system's application controls are reviewed internally and externally on a regular basis against a background of a high level of automatic (plausibility) checks. The general IT controls are checked during internal and external IT audits.
- Suitable controls are in place in all accounting-relevant process, such as dual control, analytical checks, and programmed plausibility checks during payment cycles in accounting or during the consolidation process.
- The consolidated financial statements and all financial data submitted for inclusion by the group companies are audited by an external auditor once a year. The same auditor also reviews the condensed consolidated financial statements and interim group management report in the half-yearly financial report.

- Accounting-relevant processes are also checked by the process-independent corporate audit department.
- The subsidiaries report directly to the group accounting department, to which they submit their annual and monthly financial statements. This information is used to prepare the consolidated financial statements in accordance with IFRS, which are compiled in consultation with the business administration departments of the group companies.
- The financial data communicated by the group companies for inclusion in the consolidated financial statements are processed and validated on a decentralized basis by the respective business administration departments, taking the group-wide reporting guidelines into account. As a supplementary control measure, (plausibility) checks of the reported data are carried out by the group accounting department during the compilation of its monthly reports and during the consolidation process in connection with the consolidated financial statements.
- The group accounting department is also the central point of contact for complex financial reporting issues at group level or within individual subsidiaries and joint ventures. If necessary, external consultants are called in for support in connection with specific questions concerning accounting rules.
- All subsidiaries and joint ventures are obligated to report their business figures to the group in a standardized reporting format on a monthly basis in compliance both with local GAAP and with IFRS requirements. This enables any deviation from the planned result to be detected at an early stage, and allows the company to implement measures to identify risks and limit their consequences in good time.

Subsidiaries report
directly to group
accounting

DISCLOSURES IN CONNECTION WITH THE TAKEOVER DIRECTIVE

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

COMPOSITION OF SUBSCRIBED CAPITAL

The company's subscribed capital (capital stock) amounts to € 52,000,000 and is divided into 52,000,000 registered non-par-value shares. All shares have equal rights and each share entitles the holder to one vote at the Annual General Meeting.

RESTRICTIONS CONCERNING VOTING RIGHTS AND THE TRANSFER OF SHARE OWNERSHIP

At December 31, 2014, MTU held 991,977 treasury shares (2013: 1,144,374). No voting rights are exercised in respect of treasury shares. The articles of association of MTU Aero Engines AG do not contain any restrictions concerning voting rights or the transfer of share ownership. The Executive Board has no knowledge of any agreement between shareholders that could give rise to any such restrictions.

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 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 EXECUTIVE BOARD

The rules for the appointment and dismissal of members of the Executive Board are based on Sections 84 and 85 of the German Stock Corporation Act (AktG) and Section 31 of the German Co-Determination Act (MitbestG) in conjunction with Article 5 of the company's articles of association.

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 (Article 18 (1) of the articles). The right to add amendments of a purely formal nature, for instance changes to the share capital as the result of utilization of the authorized capital, is devolved to the Supervisory Board under the terms of Article 13 of the articles of association.

AUTHORIZATIONS CONFERRED ON THE EXECUTIVE BOARD, ESPECIALLY CONCERNING THE ISSUE AND PURCHASE OF SHARES

Authorized capital

In accordance with Article 4 (5) of the articles of association, the Executive Board is authorized until April 21, 2015, to increase the company's capital stock by up to € 5.2 million, with the prior approval of the Supervisory Board, by issuing, either in a single step or in several steps, new registered non-par-value shares in return for cash contributions (Authorized capital I 2010).

In accordance with Article 4 (6) of the articles of association, the Executive Board is further authorized until April 21, 2015, to increase the company's capital stock by up to € 15.6 million, with the prior approval of the Supervisory Board, by issuing either in a single step or in several steps, new registered non-par-value shares in return for cash contributions (Authorized capital II 2011).

In accordance with Article 4 (7) of the articles of association, the Executive Board is authorized until April 21, 2015, to increase the company's capital stock by up to € 5.2 million, with the prior approval of the Supervisory Board, by issuing, either in a single step or in several steps, new registered non-par-value shares in return for cash and/or noncash contributions (Authorized capital III 2011).

Conditional capital

In accordance with Article 4 (8) of the articles of association, the company's capital stock may be conditionally increased by up to € 3.64 million through the issue of up to 3,640,000 new registered non-par-value shares. The purpose of this conditional capital increase is to issue shares to owners or creditors of convertible bonds and/or bonds with warrants in accordance with the authorization granted to the company's Executive Board 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.

In accordance with Article 4 (9) of the articles of association, the company's capital stock may be conditionally increased by up to € 22.36 million through the issue of up to 22,360,000 new registered non-par-value shares, each corresponding to a proportional amount (one euro) of the company's total capital stock (conditional capital). The purpose of this conditional capital increase is to issue shares to owners or creditors of convertible bonds and/or bonds with warrants in accordance with the authorization granted to the company's Executive Board under a resolution passed by the Annual General Meeting on April 22, 2010. Shares may be issued at a conversion price or warrant exercise price determined on the basis of the conditions laid down in the relevant authorization.

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

Resolution concerning the authorization to purchase and use treasury shares pursuant to Section 71 (1) item 8 of the German Stock Corporation Act (AktG) and to exclude subscription rights

By resolution of the Annual General Meeting of April 22, 2010, the company was authorized:

- to purchase treasury shares accounting for a proportion of up to 10% of the company's issued capital stock, as applicable on the date of the resolution, during the period from April 23, 2010, through April 22, 2015, pursuant to Section 71 (1) item 8 of the German Stock Corporation Act (AktG). At no point in time may the value of the acquired shares, together with other treasury shares in the company's possession or which are assigned to it pursuant to Section 71a et seq. of the German Stock Corporation Act (AktG), exceed 10% of the company's capital stock. At the discretion of the Executive Board, the shares may be purchased through the stock exchange or by means of a public offering addressed to all shareholders (or – if legally acceptable – through an open invitation to submit offers for sale). The shares must be sold in return for proceeds that do not lie more than 10% above or below the quoted share price, net of any supplementary transaction charges. In the case of a sale through the stock exchange, the reference for the quoted share price as defined in the above ruling is the average value of share prices in the closing session of Xetra trading (or a comparable successor system) on the last three trading days prior to the publication of the offering or invitation. In the case of shares purchased by means of a public offering addressed to all shareholders (or an open invitation to submit offers for sale), the reference for the quoted share price is the average value of share prices in the closing session of Xetra trading (or a comparable successor system) on the last three trading days prior to the publication of the offering or invitation. In the event of substantial fluctuations in the share price, the Executive Board is authorized to publish a new public offering or invitation to submit offers for sale, based on a recalculated average value of share prices according to the previously mentioned formula. The volume of the offer can be limited in the case of shares purchased by means of a public offering addressed to all shareholders (or an open invitation to submit offers for sale). If the take-up of the offering (or the total number of offers) exceeds this volume, the purchase must be transacted in proportion to the number of shares offered. Preferential treatment may be given to small packages (up to 100 shares) offered for sale. Further conditions may be imposed in the offering or invitation to submit offers;
- 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;
- with the prior approval of the Supervisory Board, to sell the purchased treasury shares in another manner than through the stock exchange or by means of an offering addressed to all shareholders if the treasury shares are sold to program participants in conjunction with the company's stock option programs and those participants are, or were, employees or officers of the company or one of its associated companies. If shares are to be issued to active or former members of the MTU Executive Board under the terms of the company's stock option programs, the Supervisory Board is authorized to transact this issue;

- to use the purchased treasury shares as partial or complete payment in conjunction with business combinations or the acquisition, whether direct or indirect, of businesses, parts of businesses or equity investments;
- with the prior approval of the Supervisory Board, to use the purchased treasury shares to discharge obligations or exercise rights relating to convertible bonds, bonds with warrants, certificates of beneficial interest or income bonds (or combinations of such instruments) issued by the company or by a dependent group company;
- with the prior approval of the Supervisory Board and without any requirement for a further resolution to be passed by the Annual General Meeting, to retire purchased treasury shares in whole or in part. Their retirement may be effected by employing a simplified procedure without any capital reduction, by adapting the actuarial value of the outstanding portion of shares to that of the company's stock capital. The retirement may be limited to a defined fraction of the purchased shares. The authorization to retire shares may be utilized on one or more occasions. If the simplified procedure is employed, the Executive Board is authorized to amend the number of outstanding shares stated in the articles of association.

The above-stated authorizations may be exercised on one or more occasions, in whole or in part, singly or in combination. They may be exercised also by group companies as defined in Section 17 of the German Stock Corporation Act (AktG).

The subscription rights of existing shareholders in respect of these treasury shares are excluded insofar as the shares are utilized in the manner described in the above-stated authorizations.

The authorization to purchase treasury shares granted to the company on May 26, 2009, was revoked as of the effective date of this new authorization. The authorization to use the treasury shares purchased under the terms of the above-mentioned earlier resolution dated May 26, 2009, remains in force.

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

MTU Aero Engines AG issued a listed bond in June 2012, a registered bond in June 2013 and a note purchase agreement in March 2014. All of these grant the creditor a right of early repayment in the event that a third party acquires a controlling interest in the company, defined as a holding of over 50% of the company's share capital with voting rights, and that this change of control has a negative impact on the company's credit rating.

In October 2013, MTU Aero Engines AG agreed a revolving credit facility with a banking syndicate. According to the terms of the agreement, the lenders are entitled to revoke this line of credit in the event that an individual or group of individuals should acquire a controlling interest in MTU Aero Engines AG or hold more than 50% of the company's issued capital.

MTU Aero Engines AG has risk- and revenue-sharing agreements with an engine manufacturer containing clauses that allow the risk- and revenue-sharing agreement to be converted into a long-term supplier contract in the event that a major competitor of the contracting party acquires more than 25% of the company's voting rights or assets, thus constituting a controlling interest.

In addition, MTU Aero Engines AG has a cooperative agreement with another engine manufacturer that entitles the contracting party to terminate the agreement for cause in the event that one of the latter's competitors acquires more than 50% of the voting rights in MTU. MTU Aero Engines AG has further cooperative agreements with the same engine manufacturer that entitle the manufacturer to terminate the agreement for cause in the event that one of its competitors acquires more than 30% of MTU's voting rights.

MTU Aero Engines AG also has equity investments in various joint ventures with other engine manufacturers, the purpose of which is to cooperate in the development and production of aircraft engines. According to the provisions of the corresponding agreements, MTU Aero Engines AG's share in the joint venture may be withdrawn and its participation in the accompanying cooperative agreements terminated if MTU Aero Engines AG is taken over by a competitor of the partners in these consortia.

It is standard market practice to confer contractual rights of this kind. Should an event meeting any of the above definitions of change of control take place, the exercise of rights ensuing from these agreements could have a substantial impact on MTUs net assets, financial position or operating results.

OTHER AGREEMENTS

Claims for compensation in the event of a takeover bid

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

OTHER DISCLOSURES

CORPORATE GOVERNANCE STATEMENT

DECLARATION OF CONFORMITY

The executive and supervisory boards of listed companies issue an annually renewed declaration stating that the recommendations of the Government Commission on the German Corporate Governance Code have been and are being complied with, where necessary citing those recommendations that have not been or are not being applied. The declaration of conformity of MTU Aero Engines is included in the corporate governance section on page 28.

There is also a section devoted to corporate governance on the MTU website at www.mtu.de under Investor Relations.

MANAGEMENT PRACTICES EXTENDING BEYOND STATUTORY REQUIREMENTS

A full description of management practices that extend beyond statutory requirements is provided in the corporate governance report published as part of the 2014 Annual Report.

WORKING PROCEDURES OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

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

REFERENCE TO MANAGEMENT COMPENSATION REPORT

The compensation awarded to members of the Executive Board 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.

DIRECTORS' DEALINGS

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

The total number of shares in MTU Aero Engines AG, Munich, held by members of the company's Executive Board and Supervisory Board at December 31, 2014, equaled less than 1% of the company's share capital (at December 31, 2013, less than 1%).

Other mandates held by members of the Executive Board in the financial year 2014 are as follows: Dr. Rainer Martens: chairman of the supervisory board of MTU Aero Engines Polska Sp. z o.o., Dr. Stefan Weingartner: chairman of the supervisory boards of MTU Maintenance Berlin-Brandenburg GmbH and MTU Maintenance Hannover GmbH. Other mandates of Supervisory Board members are listed in the corporate governance section of this Annual Report. Information on related-party transactions is provided in Part IV of the Notes to the consolidated financial statements (under 38.).

EJ200

More than 400 EJ200- powered Eurofighters delivered to customers

The EJ200 powers the Eurofighter military jet, also known as the Typhoon in export markets. MTU holds an approximately 30-percent production workshare in the EJ200 program, which is the largest source of revenues for its military engine business. This workshare includes manufacturing of the low- and high-pressure compressors and the digital control unit, as well as final assembly of the engines destined for the German armed forces. To date, more than 400 Eurofighter Typhoons have been delivered to the customer nations of Germany, the United Kingdom, Italy, Spain, Saudi Arabia and Austria. Under the terms of a cooperation agreement with the Bundeswehr, MTU has shared responsibility for maintaining the EJ200 engines of the Eurofighters operated by the German air force for over 10 years.

A technician in a blue MTU Aero Engines uniform is shown from the side, working on the engine of a Eurofighter Typhoon jet. The technician is holding a tool and looking into the engine's intake. The engine's intake is large and circular, with a complex internal structure. The background is a clear blue sky with some light clouds. The MTU Aero Engines logo is visible on the technician's uniform.

MTU
Aero Engines



EJ200



The EJ200 is MTU's main source of revenues in the military engine business. More than 400 Eurofighter jets equipped with EJ200 engines are currently in service with different customers. The German fleet is maintained jointly by MTU and the Luftwaffe.

CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The prior-year figures in the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and group segment reporting were adjusted. For details of these adjustments, please refer to the Notes relating to changes in the reporting of the consolidated financial statements on page 151 et seq. of this Annual Report.

CONSOLIDATED INCOME STATEMENT

Consolidated Income Statement

in € million	Note	2014	2013
Revenues	(1.)	3,913.9	3,574.1
Cost of sales	(2.)	-3,375.4	-3,048.4
Gross profit		538.5	525.7
Research and development expenses	(3.)	-75.7	-93.2
Selling expenses	(4.)	-87.7	-84.8
General administrative expenses	(5.)	-62.6	-62.8
Other operating income	(6.)	11.9	15.9
Other operating expenses	(6.)	-14.9	-3.5
Profit/loss of companies accounted for using the equity method	(7.)	22.0	17.9
Profit/loss of companies accounted for at cost	(7.)	2.0	2.1
Earnings before interest and tax (EBIT)		333.5	317.3
Interest income		1.3	4.2
Interest expenses		-10.1	-16.4
Interest result	(8.)	-8.8	-12.2
Financial result on other items	(9.)	-46.0	-31.7
Financial result		-54.8	-43.9
Earnings before tax		278.7	273.4
Income taxes	(10.)	-83.3	-107.1
Earnings after tax		195.4	166.3
Thereof:			
Shareholders of MTU Aero Engines AG		195.6	166.3
Shares of non-controlling interest		-0.2	
Earnings per share in €			
Undiluted (EPS)	(11.)	3.84	3.27
Diluted (DEPS)	(11.)	3.83	3.27

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income

in € million	Note	2014	2013
Earnings after tax		195.4	166.3
Translation differences arising from the financial statements of international entities		14.2	-14.3
Financial instruments designated as cash flow hedges		-115.1	20.8
Items that may subsequently be recycled to profit or loss		-100.9	6.5
Actuarial gains and losses on plan assets and pension obligations		-98.9	5.9
Items that will not be recycled to profit or loss		-98.9	5.9
Other comprehensive income after tax	(24.7.)	-199.8	12.4
Total comprehensive income		-4.4	178.7
Thereof:			
Shareholders of MTU Aero Engines AG		-4.2	178.7
Shares of non-controlling interest		-0.2	

CONSOLIDATED BALANCE SHEET – ASSETS

Assets

in € million	Note	Dec. 31, 2014	Dec. 31, 2013	Jan. 1, 2013
Non-current assets				
Intangible assets	(14.)	2,100.8	1,888.5	1,815.3
Property, plant and equipment	(15.)	610.1	606.3	582.9
Financial assets accounted for using the equity method	(16.)	139.9	114.0	107.1
Other financial assets	(16.)	52.0	67.1	34.7
Prepayments	(23.)	4.8	0.2	0.1
Deferred tax assets	(33.)	29.6	11.3	12.0
Total non-current assets		2,937.2	2,687.4	2,552.1
Current assets				
Inventories	(17.)	741.0	745.2	789.3
Trade receivables	(18.)	679.7	552.1	519.0
Construction contract and service business receivables	(19.)	271.2	193.4	159.5
Income tax claims	(22.)	0.3	0.9	13.8
Other financial assets	(16.)	81.7	102.0	79.7
Other assets	(20.)	24.3	12.9	15.7
Cash and cash equivalents	(21.)	64.6	159.6	155.2
Prepayments	(23.)	6.3	4.3	4.8
Total current assets		1,869.1	1,770.4	1,737.0
Total assets		4,806.3	4,457.8	4,289.1

CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES

Consolidated Balance Sheet – Equity and Liabilities

in € million	Note	Dec. 31, 2014	Dec. 31, 2013	Jan. 1, 2013
Equity	(24.)			
Subscribed capital		52.0	52.0	52.0
Capital reserves		397.5	390.2	383.2
Revenue reserves		1,002.0	875.1	777.3
Treasury shares		-32.2	-35.3	-37.9
Other comprehensive income		-230.8	-31.0	-43.4
Thereof:				
Shareholders of MTU Aero Engines AG		1,188.5	1,251.0	1,131.2
Shares of non-controlling interest		-0.2		
Total equity		1,188.3	1,251.0	1,131.2
Non-current liabilities				
Pension provisions	(25.)	761.9	585.5	585.3
Other provisions	(27.)	19.5	32.7	99.2
Financial liabilities	(28.)	941.3	725.4	663.0
Deferred tax liabilities	(33.)	59.9	203.9	207.1
Total non-current liabilities		1,782.6	1,547.5	1,554.6
Current liabilities				
Pension provisions	(25.)	21.7	37.6	31.4
Income tax liabilities	(26.)	30.3	38.1	17.2
Other provisions	(27.)	352.0	363.7	344.8
Financial liabilities	(28.)	271.0	169.2	136.5
Trade payables	(29.)	633.6	467.5	409.4
Construction contract and service business payables	(30.)	485.7	547.8	630.3
Other liabilities	(31.)	41.1	35.4	33.7
Total current liabilities		1,835.4	1,659.3	1,603.3
Total equity and liabilities		4,806.3	4,457.8	4,289.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For further explanatory comments on the components of equity, please refer to Note 24.

Consolidated Statement of Changes in Equity

	Subscribed capital	Capital reserves	Revenue reserves	Treasury shares	Other comprehensive income			Thereof:		Total equity
					Translation differences arising from the financial statements of international entities	Actuarial gains and losses ¹⁾	Financial instruments designated as cash flow hedges	Shareholders of MTU Aero Engines AG	Shares of non-controlling interest	
in € million										
Carrying amount at Jan. 1, 2013 (adjusted)	52.0	383.2	777.3	-37.9	18.1	-100.9	39.4	1,131.2		1,131.2
Earnings after tax			166.3					166.3		166.3
Other comprehensive income					-14.3	5.9	20.8	12.4		12.4
Total comprehensive income			166.3		-14.3	5.9	20.8	178.7		178.7
Total dividend payment			-68.5					-68.5		-68.5
MAP employee stock option program		5.1		2.3				7.4		7.4
Share Matching Plan		1.9		0.3				2.2		2.2
Carrying amount at Dec. 31, 2013	52.0	390.2	875.1	-35.3	3.8	-95.0	60.2	1,251.0		1,251.0
Earnings after tax			195.6					195.6	-0.2	195.4
Other comprehensive income					14.2	-98.9	-115.1	-199.8		-199.8
Total comprehensive income			195.6		14.2	-98.9	-115.1	-4.2	-0.2	-4.4
Total dividend payment			-68.7					-68.7		-68.7
MAP employee stock option program		5.5		2.4				7.9		7.9
Share Matching Plan		1.8		0.7				2.5		2.5
Carrying amount at Dec. 31, 2014	52.0	397.5	1,002.0	-32.2	18.0	-193.9	-54.9	1,188.5	-0.2	1,188.3

¹⁾ Relates to plan assets and pension obligations.

CONSOLIDATED CASH FLOW STATEMENT

Consolidated Cash Flow Statement

in € million	Note	2014	2013
Operating activities			
Earnings after tax (EAT)		195.4	166.3
Depreciation / appreciation, amortization and impairment of non-current assets		154.7	164.7
Profit/loss of companies accounted for cost		-2.0	-2.1
Profit/loss of companies accounted for using the equity method		-22.0	-17.9
Gains/losses on the disposal of assets		3.9	-6.7
Change in pension provisions	(25.)	13.7	14.5
Change in other provisions	(27.)	-24.9	-47.6
Other non-cash items		54.7	-5.2
Change in working capital		-102.4	-105.9
Interest result	(8.)	8.8	12.2
Interest paid		-15.4	-16.6
Interest received		1.3	4.2
Dividends received		13.5	9.3
Income taxes	(10.)	83.3	107.1
Income taxes paid		-157.8	-87.5
Cash flow from operating activities		204.8	188.8
Investing activities			
Capital expenditure on:			
Intangible assets	(14.)	-100.8	-94.1
Property, plant and equipment	(15.)	-100.7	-85.0
Financial assets	(16.)	-79.5	-89.6
Proceeds from disposal of:			
Intangible assets / property, plant and equipment	(14.) / (15.)	1.0	13.5
Financial assets	(16.)	45.5	71.9
Cash flow from investing activities		-234.5	-183.3
Financing activities			
Corporate bond issue, net of transaction costs and discount	(28.)	30.0	97.3
Repayment of promissory notes	(28.)	-11.5	
Increase in current financial liabilities	(28.)	10.8	
Increase in non-current financial liabilities	(28.)	6.0	
Repayment of current financial liabilities	(28.)		-3.6
Total dividend payment		-68.7	-68.5
Sale of shares under the MAP employee stock option program / Share Matching Plan	(31.)	10.3	8.3
Settlement of purchase price liability for PW1000G program shares / V2500 stake increase		-49.6	-28.6
Cash flow from financing activities		-72.7	4.9
Net change in cash and cash equivalents during the year		-102.4	10.4
Effect of translation differences on cash and cash equivalents		7.4	-6.0
Cash and cash equivalents at beginning of financial year (January 1)		159.6	155.2
Cash and cash equivalents at end of financial year (December 31)		64.6	159.6

REPORTING BY OPERATING SEGMENT

Reporting by operating segment

in € million	Commercial and military engine business (OEM)	
	2014	2013
External revenues	2,620.1	2,364.4
Intersegment revenues	28.2	27.6
Total revenues	2,648.3	2,392.0
Gross profit	373.9	373.6
Amortization	54.5	64.8
Depreciation	70.9	68.6
Impairment loss	1.7	
Total depreciation / amortization and impairment	127.1	133.4
Earnings before interest and tax (EBIT)	219.5	211.5
Depreciation / amortization effects of purchase price allocation	21.9	32.3
IAE-V2500 stake increase	24.8	24.4
Earnings before interest, tax and depreciation / amortization (adjusted EBIT)	266.2	268.2
Profit / loss of companies accounted for using the equity method	-1.2	-0.2
Carrying amount of companies accounted for using the equity method	24.9	22.8
Assets	4,285.2	3,992.0
Liabilities	3,214.8	2,835.3
Significant non-cash items	53.8	-4.8
Capital expenditure on:		
Intangible assets	293.7	157.5
Property, plant and equipment	82.9	62.1
Total capital expenditure on intangible assets and property, plant and equipment	376.6	219.6
Key segment data:		
EBIT in % of revenues	8.3	8.8
Adjusted EBIT in % of revenues	10.1	11.2

Detailed explanatory comments on the information disclosed for the operating segments is provided in the following tables and in Part V. of these Notes, together with information on major customers, and an analysis by geographical area. The key indicator used by management to measure the operating performance of each segment is adjusted earnings before

interest, tax, depreciation and amortization (adjusted EBIT). The contribution to EBIT (earnings before interest and tax) by associated companies and joint ventures accounted for using the equity method amounted to € 22.0 million in the financial year 2014 (2013: € 17.9 million).

Commercial maintenance business (MRO)		Total reportable segments		Consolidation / reconciliation		MTU group	
2014	2013	2014	2013	2014	2013	2014	2013
1,293.8	1,209.7	3,913.9	3,574.1			3,913.9	3,574.1
5.1	4.0	33.3	31.6	-33.3	-31.6		
1,298.9	1,213.7	3,947.2	3,605.7	-33.3	-31.6	3,913.9	3,574.1
159.3	146.6	533.2	520.2	5.3	5.5	538.5	525.7
9.4	9.6	63.9	74.4			63.9	74.4
23.2	21.7	94.1	90.3			94.1	90.3
		1.7				1.7	
32.6	31.3	159.7	164.7			159.7	164.7
113.8	105.2	333.3	316.7	0.2	0.6	333.5	317.3
2.5	3.4	24.4	35.7			24.4	35.7
		24.8	24.4			24.8	24.4
116.3	108.6	382.5	376.8	0.2	0.6	382.7	377.4
23.2	18.1	22.0	17.9			22.0	17.9
115.0	91.2	139.9	114.0			139.9	114.0
1,084.3	987.0	5,369.5	4,979.0	-563.2	-521.2	4,806.3	4,457.8
625.4	554.0	3,840.2	3,389.3	-222.2	-182.5	3,618.0	3,206.8
-1.6	-0.2	52.2	-5.0	2.5	-0.2	54.7	-5.2
0.3	2.3	294.0	159.8			294.0	159.8
18.6	29.3	101.5	91.4			101.5	91.4
18.9	31.6	395.5	251.2			395.5	251.2
8.8	8.7	8.4	8.8			8.5	8.9
9.0	8.9	9.7	10.5			9.8	10.6

Intersegment sales are transacted on an arm's-length basis at normal market transfer prices – no different from those employed in transactions with external third parties. Significant non-cash items mainly comprise translation differences recognized in other comprehensive income.

Compared with the previous year, there were no changes in the delimitation of the segments.

Information on the components of these assets is provided in Part V. of these Notes.

Information on revenues derived from products and services

in € million	2014	2013
Commercial engine business		
Manufacturing	2,048.2	1,822.2
Other products	68.6	69.1
Total commercial engine business	2,116.8	1,891.3
Military engine business		
Manufacturing	307.0	288.9
Other products	224.5	211.8
Total military engine business	531.5	500.7
Total commercial and military engine business (OEM)	2,648.3	2,392.0
Commercial maintenance business (MRO)		
Engine maintenance, repair and overhaul	1,145.2	1,090.9
Other products	153.7	122.8
Total commercial maintenance business (MRO)	1,298.9	1,213.7
Total other products of other entities		
Consolidation	-33.3	-31.6
Group revenues	3,913.9	3,574.1

The amount stated for other products under military engine business mainly comprises revenues from engine maintenance.

INFORMATION ON REVENUES FROM MAJOR CUSTOMERS

In the reporting period, three major customers each separately accounted for more than 10% of total group revenues. Business with the first customer led to revenues of € 1,043.9 million (2013: € 857.5 million), with the second € 735.5 million (2013: € 640.7 million) and with the third € 518.9 million (2013: € 526.2 million). In each case, the revenues were generated in both operating segments.

ANALYSIS BY GEOGRAPHICAL AREA**Revenues according to customer's country of domicile**

in € million	2014	2013
Germany	488.6	465.5
Europe	304.5	281.6
North America	2,755.2	2,485.8
Asia	138.0	158.2
Other regions	227.6	183.0
Total	3,913.9	3,574.1

In 2014, approximately 70% (2013: 70%) of MTU's revenues were generated from business with customers in North America, of which the U.S. market accounted for a share of 68% (2013: 64%).

Capital expenditure on intangible assets and property, plant and equipment

in € million	2014	2013
Germany	252.0	236.1
Europe	140.6	11.5
North America	2.9	3.6
Total	395.5	251.2

Approximately 64% (2013: approximately 94%) of the capital expenditure on intangible assets and on property, plant and equipment relates to expenditure by group companies in Germany.

Non-current assets

in € million	Dec. 31, 2014	Dec. 31, 2013
Germany	2,157.3	2,019.8
Europe	756.8	644.7
North America	23.1	22.9
Total	2,937.2	2,687.4

IMPAIRMENT LOSSES

In the financial year 2014, an amount of € 1.7 million was recognized under other operating expenses in respect of the identified impairment loss on the shareholder loan granted to AES Aerospace Embedded Solutions GmbH, Munich, which belongs to the OEM segment, owing to this company's poor business performance. There was no need to recognize impairment losses in 2013.

RECONCILIATION OF SEGMENT INFORMATION WITH MTU CONSOLIDATED FINANCIAL STATEMENTS**Reconciliation with MTU consolidated financial statements - Earnings**

in € million	2014	2013
Consolidated earnings before interest and tax (EBIT)	333.5	317.3
Interest income	1.3	4.2
Interest expenses	-10.1	-16.4
Financial result on other items	-46.0	-31.7
Earnings before tax	278.7	273.4

The cash and cash equivalents belonging to the assets of the German group companies are managed centrally by the parent company in a cash pooling system. The parent company's operating activities are allocated to the OEM segment, and so for this reason, the associated interest income and expense mainly arises in the OEM segment.

I. ACCOUNTING POLICIES AND PRINCIPLES

FUNDAMENTALS AND METHODS

MTU Aero Engines AG, Munich, together with its consolidated group of companies (hereinafter referred to as MTU or the MTU group) ranks among the world's largest manufacturers of engine modules and components, and is one of the leading providers of MRO services for commercial aero engines in the world.

The business activities of the MTU group range through the entire lifecycle of an engine program, i.e. from development, construction, testing and production of new commercial and military engines and spare parts, through to maintenance, repair and overhaul of commercial and military engines. MTU divides its activities into two operating segments: the OEM segment (commercial and military engine business) and the MRO segment (commercial maintenance business).

MTU's commercial and military engine business covers the development and production of modules, components and spare parts for engine programs, including final assembly. MTU's military engine business additionally includes maintenance services for these engines. The commercial maintenance business covers activities in the areas of maintenance and logistical support for commercial engines.

The parent company, MTU Aero Engines AG, 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 Executive Board of MTU Aero Engines AG, Munich, on February 9, 2015.

MTU's consolidated financial statements have been drawn up in accordance with International Financial Reporting Standards (IFRS), such as they apply in the European Union (EU), and the supplementary requirements of Section 315a (1) of the German Commercial Code (HGB). All IFRSs issued by the International Accounting Standards Board (IASB) that were effective at the time these consolidated financial statements were drawn up and that were applied by MTU have been endorsed by the European Commission for use in the EU.

The consolidated financial statements as at December 31, 2014 and the combined management report for the financial year 2014 have been compiled in accordance with Section 315a (1) of the German Commercial Code (HGB) and published in the electronic version of the Federal Gazette (Bundesanzeiger).

The financial year is identical with the calendar year. Comparative data for the previous year are disclosed in the consolidated financial statements.

In the presentation of the balance sheet, a distinction is made between non-current and current assets and liabilities. A more detailed presentation of certain of these items in terms of their timing is provided in the Notes to the consolidated financial statements. An asset or liability is classified as current if:

- the asset or liability is held primarily for trading purposes,
- the asset is expected to be realized or the liability is expected to be paid within twelve months of the reporting date,
- it is cash or a cash equivalent, unless the exchange or utilization of the asset for the purpose of fulfilling an obligation is restricted for a period of at least twelve months after the reporting date or
- it is a construction or service contract receivable or payable that will be realized during MTU's normal business cycle, even if the period for realization exceeds twelve months.

The income statement is laid out in accordance with the cost-of-sales accounting format, in which revenues are balanced against the expenses incurred in order to generate these revenues, and the expenses are recorded in the appropriate line items by function: manufacturing, development, selling and general administration. The consolidated financial statements have been compiled in euros. All amounts are stated in millions of euros (€ million), unless otherwise specified.

The financial statements prepared by MTU Aero Engines AG, Munich, and its subsidiaries are included in the consolidated financial statements. Uniform methods of recognition and measurement are applied throughout the group.

Accounting standards and interpretations, and revised / amended accounting standards and interpretations, applied for the first time in the financial year 2014

New and revised standards and interpretations

Standard	Title
IAS 27 (revised 2011)	Separate Financial Statements
IAS 28 (revised 2011)	Investments in Associates and Joint Ventures
IAS 32	Amendment to IAS 32 Financial Instruments: Presentation (Offsetting financial assets and financial liabilities)
IAS 36	Amendment to IAS 36 Impairment of Assets (Recoverable amount disclosures for non-financial assets)
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and Measurement (Novation of derivatives and continuation of hedge accounting)
IFRS 10, 12, IAS 27 (revised 2011)	Amendments to IFRS 10, 11, IAS 27 (Investment entities)
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 10, 11 and 12	Amendments to IFRS 10, 11, 12 (Transition guidance)

In the interests of clarity, this presentation includes only those standards and interpretations that can be expected to have an impact on MTU's financial reporting processes to the best of the company's knowledge at the present time. Other standards and interpretations not mentioned here will probably have little or no impact on MTU's accounting practices.

IFRS 10, Consolidated Financial Statements

IFRS 10 supersedes the previous provisions concerning consolidated financial statements in IAS 27 and concerning special-purpose entities in SIC 12. In IFRS 10, the IASB makes a uniform principle of the concept of control. IFRS 10 states that a company has controlling interest in another entity when all of the following three conditions are met:

- the investor has power over the investee,
- the investor is exposed to, or has rights to, variable returns from its equity interest in the investee, and
- the investor has the ability to use its power to affect the amount of those returns.

The standard also provides comprehensive application guidance for complex circumstances. The application of this standard has no significant impact on MTU's consolidated financial statements.

IFRS 11, Joint Arrangements

IFRS 11, which replaces the previous provisions in IAS 31 and SIC 13, deals with the classification of joint arrangements. A joint arrangement is defined as a contractual arrangement via which two or more parties exercise joint control over another entity. A joint arrangement is either a joint operation or a joint venture. In contrast with IAS 31, the recognition of assets under joint control is no longer addressed separately in IFRS 11 – instead the rules for joint business activities apply. Whether a joint arrangement is classified as a joint operation or as a joint venture depends on the rights and obligations accruing to the parties under the agreement.

In addition, IFRS 11 stipulates that joint ventures must be accounted for using the equity method whereas IAS 31 states that either the equity method or the proportional consolidation method is permissible for the accounting of jointly controlled entities.

IFRS 12, Disclosure of Interests in Other Entities

The IFRS 12 standard concerns disclosures in the notes to financial statements relating to the group accounting process. It is to be applied by companies that hold interests in subsidiaries, joint arrangements (joint operations or joint ventures), associates and/or non-consolidated structured entities. The disclosures required under IFRS 12 are much more extensive than those of the standards currently in force and are presented in the Notes to the consolidated financial statements as at December 31, 2014. Beyond that, the application of this standard has no significant impact on MTU's consolidated financial statements.

IAS 28 (as amended in 2011), Investments in Associates and Joint Ventures

IAS 28 describes how, with certain limited exceptions, the equity method is to be applied to investments in associates and joint ventures. The standard defines an associate by reference to the concept of “significant influence,” which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those policies). The application of this standard has no significant impact on MTU’s consolidated financial statements.

ADJUSTMENT OF PRIOR-YEAR FIGURES

“Joint ventures”

The first-time adoption of IFRS 11 in the financial year 2014 entails changes in reporting of the joint venture MTU Maintenance Co. Ltd., Zhuhai, China, which was previously accounted for using the proportionate consolidation method. In accordance with the transition guidance in IFRS 11, the carrying amounts of this investment at January 1, 2013 and December 31, 2013 have been adjusted retrospectively. The joint venture is now accounted for using the equity method.

“Reinsurance claim”

At the reporting date, a valuation unit specific to a reinsurance claim was reversed. The balanced amount of the reinsurance claim was adjusted compared with the prior year and the underlying cash equivalents, current financial assets and construction contract payables were recognized separately. The above-mentioned assets are subject to contractual drawing restrictions insofar as liquidity or current financial assets must be held for the amount of the liability. The carrying amounts at January 1, 2013, and December 31, 2013 have been adjusted retrospectively.

“V2500 stake increase”

The purchase price agreement concluded by MTU in the financial year 2012 in order to increase its stake in the V2500 program included deferred payments conditional upon the future number of flight hours registered by the fleet of in-service V2500 engines, in addition to the fixed component of the purchase price (for more details of this liability’s initial measurement, please refer to page 129 et seq. of the 2012 Annual Report – Effects of increased stake in the IAE V2500

engine program as of June 29, 2012). Given that there is no specific IFRS requirement concerning the acquisition of intangible assets where the purchase price includes deferred, conditional components, this liability was accounted for by analogy with IFRS 3. The fair value of the purchase price obligation is remeasured at each reporting date, as required by IFRS 3, and the carrying amount recognized in the income statement is immediately increased or decreased accordingly.

In the financial year 2014, MTU decided to voluntarily change its accounting policy and intends to account for the deferred payments that form part of the purchase price for the increased stake in the V2500 program by analogy with IFRIC 1. In this way, any change in the number of flight hours on which these price components are dependent does not lead to an unbalanced increase in the conditional financial liability to the detriment of the net income for the year, but instead to an increase or decrease in the purchase price allocation for the stake in the V2500 program.

Future changes in the number of flight hours will lead to changes in the conditional payment obligation. However, they will also affect the inflow of future benefits from the program to MTU, because the compensating returns in terms of income from spare parts sales and MRO business for the V2500 also depend on the future number of flight hours. The new method enables changes in the conditional payment obligation to be realized as earnings in installments through the amortization of the V2500 program share over its useful economic life, and thus over a time scale that includes future spare parts sales and MRO business. In MTU’s view, this results in a more realistic presentation of the company’s net assets, financial situation and operating results.

As a result of the new accounting treatment, an estimate-based adjustment of € 126.5 million has been applied to the deferred, conditional purchase price obligation, reallocating it to the program asset instead of recognizing it as an expense in the period in which it was incurred. Consequently the amortization expense for the program asset in the reporting period has been increased from € 22.0 million to € 24.8 million. The corresponding carrying amounts at January 1, 2013, and December 31, 2013, have been adjusted retrospectively.

“Tax credits”

MTU Aero Engines Polska Sp. z o. o. receives government support in the context of Poland’s economic development program by virtue of its location in a special economic zone. Because its business investments help to create jobs, the company has been awarded tax credits in respect of the profits it expects to achieve through its production activities, with separate amounts being accorded each year through to 2026 (a partial extension was granted in 2014). The amount of this government support recognized as deferred tax assets at December 31, 2013 was based not only on realized business investments but also on planned future investments. After renewed consultation with the funding agency, MTU is now of the opinion that the amount of the tax assets arising from the support program should only be recognized in respect of investments that have actually been made. It would therefore be more appropriate to recognize tax insofar as they relate to the amount of funds invested in a specific financial year – which also corresponds to general accounting practice. The relevant carrying amounts at January 1, 2013, and December 31, 2013, have been adjusted retrospectively.

“Recognition of provisions”

In order to account for uncertainties attached to the amount and due date of financial obligations that until now have been recognized as liabilities (in particular to customers, suppliers and employees), an allocation to provisions was recognized in 2014. The corresponding carrying amounts at January 1, 2013, and December 31, 2013 have been adjusted retrospectively.

The retrospective adjustments made to the consolidated balance sheet as at January 1, 2013 and December 31, 2013 as well as the adjustments made to the comparative figures in the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement from January 1, 2013 through December 31, 2013 are shown below. In addition, the consolidated statement of changes in equity and group segment reporting were also adjusted retrospectively, although the resulting changes are not material.

Consolidated income statement

in € million	Amount after adjustment Jan. 1– Dec. 31 2013	Adjustments					Originally stated amount Jan. 1– Dec. 31 2013
		Re-insurance claim	V2500 stake increase	Tax credits Poland	Joint venture Zhuhai	Recognition of provisions	
Revenues	3,574.1				-167.6		3,741.7
Cost of sales	-3,048.4		2.2		141.0		-3,191.6
Gross profit	525.7		2.2		-26.6		550.1
Research and development expenses	-93.2						-93.2
Selling expenses	-84.8				2.9		-87.7
General administrative expenses	-62.8		-0.5		3.5		-65.8
Other operating income and expenses	12.4				-0.2		12.6
Profit/loss of companies accounted for using the equity method	17.9				16.2		1.7
Profit/loss of companies accounted for at cost	2.1						2.1
Earnings before interest and tax (EBIT)	317.3		1.7		-4.2		319.8
Interest income	4.2				-0.1		4.3
Interest expenses	-16.4				1.0		-17.4
Interest result	-12.2				0.9		-13.1
Financial result on other items	-31.7		11.7		-1.5		-41.9
Financial result	-43.9		11.7		-0.6		-55.0
Earnings before tax (EBT)	273.4		13.4		-4.8		264.8
Income taxes	-107.1			-19.5	4.8		-92.4
Earnings after tax (EAT)	166.3		13.4	-19.5			172.4
Earnings per share in €							
Undiluted (EPS)	3.27						3.39
Diluted (DEPS)	3.27						3.39

Consolidated statement of comprehensive income

in € million	Amount after adjustment Jan. 1– Dec. 31 2013	Adjustments					Originally stated amount Jan. 1– Dec. 31 2013
		Re-insurance claim	V2500 stake increase	Tax credits Poland	Joint venture Zhuhai	Recognition of provisions	
Earnings after tax (EAT)	166.3		13.4	-19.5			172.4
Translation differences arising from the financial statements of international entities	-14.3		-0.6				-13.7
Financial instruments designated as cash flow hedges	20.8		0.3				20.5
Items that may subsequently be recycled to profit or loss	6.5		-0.3				6.8
Actuarial gains and losses on plan assets and pension obligations	5.9						5.9
Items that will not be recycled to profit or loss	5.9						5.9
Other comprehensive income after tax	12.4		-0.3				12.7
Total comprehensive income	178.7		13.1	-19.5			185.1

Assets – Adjustments as of January 1, 2013

in € million	Amount after adjustment Jan. 1, 2013	Adjustments					Originally stated amount Jan. 1, 2013
		Re-insurance claim	V2500 stake increase	Tax credits Poland	Joint venture Zhuhai	Recognition of provisions	
Non-current assets							
Intangible assets	1,815.3		64.5		-23.6		1,774.4
Property, plant and equipment	582.9				-17.0		599.9
Financial assets accounted for using the equity method	107.1				75.9		31.2
Other financial assets	34.7						34.7
Prepayments	0.1						0.1
Deferred tax assets	12.0		-1.1		-2.5		15.6
Total non-current assets	2,552.1		63.4		32.8		2,455.9
Current assets							
Inventories	789.3				-19.5		808.8
Trade receivables	519.0				-49.5		568.5
Construction contract and service business receivables	159.5				-23.5		183.0
Income tax claims	13.8						13.8
Other financial assets	79.7	27.3			-1.7		54.1
Other assets	15.7				-0.5		16.2
Cash and cash equivalents	155.2	0.5			-6.5		161.2
Prepayments	4.8				-0.4		5.2
Total current assets	1,737.0	27.8			-101.6		1,810.8
Total assets	4,289.1	27.8	63.4		-68.8		4,266.7

Assets – Adjustments as of December 31, 2013

in € million	Amount after adjustment Dec. 31, 2013	Adjustments					Originally stated amount Dec. 31, 2013
		Re-insurance claim	V2500 stake increase	Tax credits Poland	Joint venture Zhuhai	Recognition of provisions	
Non-current assets							
Intangible assets	1,888.5		68.0		-22.8		1,843.3
Property, plant and equipment	606.3				-16.1		622.4
Financial assets accounted for using the equity method	114.0				83.9		30.1
Other financial assets	67.1						67.1
Prepayments	0.2						0.2
Deferred tax assets	11.3		-1.2	-19.5	-1.0		33.0
Total non-current assets	2,687.4		66.8	-19.5	44.0		2,596.1
Current assets							
Inventories	745.2				-26.6		771.8
Trade receivables	552.1				-48.0		600.1
Construction contract and service business receivables	193.4				-30.0		223.4
Income tax claims	0.9						0.9
Other financial assets	102.0	21.0			-3.6		84.6
Other assets	12.9				-0.3		13.2
Cash and cash equivalents	159.6	9.5			-13.8		163.9
Prepayments	4.3				-0.5		4.8
Total current assets	1,770.4	30.5			-122.8		1,862.7
Total assets	4,457.8	30.5	66.8	-19.5	-78.8		4,458.8

Equity and liabilities – Adjustments as of January 1, 2013

in € million	Amount after adjustment Jan. 1, 2013	Adjustments					Originally stated amount Jan. 1, 2013
		Re-insurance claim	V2500 stake increase	Tax credits Poland	Joint venture Zhuhai	Recognition of provisions	
Equity							
Subscribed capital	52.0						52.0
Capital reserves	383.2						383.2
Revenue reserves	777.3		32.9		-0.9		745.3
Treasury shares	-37.9						-37.9
Other comprehensive income	-43.4		5.1				-48.5
Total equity	1,131.2		38.0		-0.9		1,094.1
Non-current liabilities							
Pension provisions	585.3						585.3
Other provisions	99.2				-0.5	27.2	72.5
Financial liabilities	663.0		23.1		-2.3	-13.2	655.4
Other liabilities						-14.0	14.0
Deferred tax liabilities	207.1		0.1		-0.4		207.4
Total non-current liabilities	1,554.6		23.2		-3.2		1,534.6
Current liabilities							
Pension provisions	31.4						31.4
Income tax liabilities	17.2				-2.6		19.8
Other provisions	344.8				-6.2	168.1	182.9
Financial liabilities	136.5		2.2		-38.6	-9.6	182.5
Trade payables	409.4				-15.3	-158.5	583.2
Construction contract and service business payables	630.3	27.8			-1.5		604.0
Other liabilities	33.7				-0.5		34.2
Total current liabilities	1,603.3	27.8	2.2		-64.7		1,638.0
Total equity and liabilities	4,289.1	27.8	63.4		-68.8		4,266.7

Equity and liabilities – Adjustments as of December 31, 2013

in € million	Amount after adjustment Dec. 31, 2013	Adjustments					Originally stated amount Dec. 31, 2013
		Re-insurance claim	V2500 stake increase	Tax credits Poland	Joint venture Zhuhai	Recognition of provisions	
Equity							
Subscribed capital	52.0						52.0
Capital reserves	390.2						390.2
Revenue reserves	875.1		46.3	-19.5	-0.9		849.2
Treasury shares	-35.3						-35.3
Other comprehensive income	-31.0		4.8				-35.8
Total equity	1,251.0		51.1	-19.5	-0.9		1,220.3
Non-current liabilities							
Pension provisions	585.5						585.5
Other provisions	32.7				-0.3	22.4	10.6
Financial liabilities	725.4		15.5		-15.7	-12.1	737.7
Other liabilities						-10.3	10.3
Deferred tax liabilities	203.9				-0.4		204.3
Total non-current liabilities	1,547.5		15.5		-16.4		1,548.4
Current liabilities							
Pension provisions	37.6						37.6
Income tax liabilities	38.1				-1.4		39.5
Other provisions	363.7				-6.9	188.5	182.1
Financial liabilities	169.2		0.2		-25.6	-6.9	201.5
Trade payables	467.5				-24.3	-181.6	673.4
Construction contract and service business payables	547.8	30.5			-2.8		520.1
Other liabilities	35.4				-0.5		35.9
Total current liabilities	1,659.3	30.5	0.2		-61.5		1,690.1
Total equity and liabilities	4,457.8	30.5	66.8	-19.5	-78.8		4,458.8

Consolidated cash flow statement

in € million	Amount after adjustment Jan. 1– Dec. 31 2013	Adjustments					Originally stated amount Jan. 1– Dec. 31 2013
		Re-insurance claim	V2500 stake increase	Tax credits Poland	Joint venture Zhuhai	Recognition of provisions	
Operating activities							
Earnings after tax (EAT)	166.3		13.4	-19.5			172.4
Depreciation / appreciation, amortization and impairment of non-current assets	164.7		2.6		-2.2		164.3
Profit/loss of companies accounted for at cost	-2.1						-2.1
Profit/loss of companies accounted for using the equity method	-17.9				-16.2		-1.7
Gains/losses on the disposal of assets	-6.7						-6.7
Change in pension provisions	14.5						14.5
Change in other provisions	-47.6				-0.5	15.6	-62.7
Other non-cash items	-5.2	1.1	-16.0		0.6		9.1
Change in working capital	-105.9	2.7			4.1	-15.6	-97.1
Interest result	12.2				-0.9		13.1
Interest paid	-16.6				1.0		-17.6
Interest received	4.2				-0.1		4.3
Dividends received	9.3				6.9		2.4
Income taxes	-107.1			-19.5	-4.8		92.4
Income taxes paid	-87.5				4.5		-92.0
Cash flow from operating activities	188.8	3.8			-7.6		192.6
Investing activities							
Capital expenditure on:							
Intangible assets	-94.1				0.1		-94.2
Property, plant and equipment	-85.0				1.0		-86.0
Financial assets	-89.6	-41.7					-47.9
Proceeds from disposal of:							
Intangible assets / property, plant and equipment	13.5						13.5
Financial assets	71.9	46.9					25.0
Cash flow from investing activities	-183.3	5.2			1.1		-189.6
Financing activities							
Corporate bond issue, net of transaction costs and discount	97.3						97.3
Increase in non-current financial liabilities					-13.4		13.4
Repayment of current financial liabilities	-3.6				12.5		-16.1
Total dividend payment	-68.5						-68.5
Sale of shares under the MAP employee stock option program / Share Matching Plan	8.3						8.3
Settlement of purchase price liability for PW1000G program shares / V2500 stake increase	-28.6						-28.6
Cash flow from financing activities	4.9				-0.9		5.8
Net change in cash and cash equivalents during the year	10.4	9.0			-7.4		8.8
Effect of translation differences on cash and cash equivalents	-6.0				0.1		-6.1
Cash and cash equivalents at beginning of financial year (January 1)	155.2	0.5			-6.5		161.2
Cash and cash equivalents at end of financial year (December 31)	159.6	9.5			-13.8		163.9

Accounting standards and interpretations, and revised / amended accounting standards and interpretations, issued but not yet applied

The following new or revised / amended standards and interpretations have been issued by the IASB but were not yet obligatory as of January 1, 2014:

New and revised standards and interpretations

Standard	Title
IFRS 9	Financial Instruments ^{5/6)}
IFRS 14	Regulatory Deferral Accounts ^{3/6)}
IFRS 15	Revenue from Contracts with Customers ^{4/6)}
IAS 1	Amendments (Disclosure initiative) ^{3/6)}
Amendments to IFRS 10, IFRS 12, IAS 28	Investment entities: applying the consolidation exception ^{3/6)}
Amendments to IFRS 10, IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ^{3/6)}
Amendments to IFRS 11	Joint Arrangements ^{3/6)}
Amendments to IAS 16 / IAS 38	Property, Plant and Equipment / Intangible Assets ^{3/6)}
Amendments to IAS 16 / IAS 41	Property, Plant and Equipment / Agriculture ^{3/6)}
Amendments to IAS 19	Employee Benefits (Employee contributions) ^{2/9)}
Amendments to IAS 27	Amendment: Equity method in separate financial statements ^{3/6)}
IFRIC 21	Levies (Recognition of liabilities for levies imposed by a government) ^{1/7)}
Annual improvements to IFRS 2010 – 2012	IFRS 2 – Share-based Payment ^{3/9)} IFRS 3 – Business Combinations ^{3/9)} IFRS 8 – Operating Segments ^{3/9)} IFRS 13 – Fair Value Measurement ³⁾ IAS 16 – Property, Plant and Equipment ^{3/9)} IAS 24 – Related Party Disclosures ^{3/9)} IAS 38 – Intangible Assets ^{3/9)}
Annual improvements to IFRS 2011 – 2013	IFRS 1 – First-time Adoption of International Financial Reporting Standards ^{3/8)} IFRS 3 – Business Combinations ^{3/8)} IFRS 13 – Fair Value Measurement ^{3/8)} IAS 40 – Investment Property ^{3/8)}

Standard	Title
Annual improvements to IFRS 2012 – 2014	IFRS 5 – Non-current Assets Held for Sale ^{3/6)} IFRS 7 – Financial Instruments: Disclosures ^{3/6)} IAS 19 – Amendment: Determination of discount rate ^{3/6)} IAS 34 – Interim Financial Reporting (Inclusion of cross-references) ^{3/6)}

¹⁾ Effective for annual periods beginning on or after January 1, 2014.

²⁾ Effective for annual periods beginning on or after July 1, 2014.

³⁾ Effective for annual periods beginning on or after January 1, 2016.

⁴⁾ Effective for annual periods beginning on or after January 1, 2017.

⁵⁾ Effective for annual periods beginning on or after January 1, 2018.

⁶⁾ Still awaiting EU endorsement.

⁷⁾ Effective date deferred until June 17, 2014, due to EU endorsement process.

⁸⁾ Effective date deferred until January 1, 2015, due to EU endorsement process.

⁹⁾ Effective date deferred until February 1, 2015, due to EU endorsement process.

MTU does not intend voluntarily to apply any of these standards and interpretations, or any amendments made to them, in advance of their effective date.

In the interests of clarity, this presentation includes only those standards and interpretations that can be expected to have an impact on MTU's financial reporting processes to the best of the company's knowledge at the present time.

IAS 19, Employee Benefits

In "Defined Benefit Plans: Employee Contributions" (Amendments to IAS 19, Employee Benefits), the IASB amended the provisions with respect to the contributions paid by employees or third parties that are linked to service.

- If the amount of the contributions is independent of the number of years of service, the contributions may be recognized as a reduction in the service cost in the period in which the related service is rendered. (This approach is permitted, but is not mandatory.)

- If the amount of the contributions is dependent on the number of years of service, the contributions must be attributed to the periods of service using the same attribution method as used for the gross benefit in accordance with paragraph 70 of IAS 19.

IFRS 11, Joint Arrangements

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) amends IFRS 11 such that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. Accordingly, a joint operator that is an acquirer of such an interest has to:

- measure most identifiable assets and liabilities at fair value;
- expense acquisition-related costs (other than debt or equity issuance costs);
- recognize deferred tax assets and liabilities;
- recognize any goodwill or bargain purchase gain;
- perform impairment tests for the cash generating units to which goodwill has been allocated; and
- disclose information required in relation to business combinations.

The amendments apply to the acquisition of an interest in an existing joint operation and also to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business.

IAS 16, Property, Plant and Equipment / IAS 38, Intangible Assets

The requirements of IAS 16 were amended to clarify that a depreciation method that is based on revenue generated by an activity that includes the use of an asset is not appropriate. This is because such a method reflects a pattern of generation of economic benefits that arises from the operation of the business of which an asset is part, rather than the pattern of consumption of an asset's expected future economic benefits.

The requirements of IAS 38 are amended to introduce a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate for the same reasons as in IAS 16. However, the IASB states that there are limited circumstances when the presumption can be overcome:

- the intangible asset is expressed as a measure of revenue (the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold); and
- it can be demonstrated that revenue and the consumption of economic benefits of the intangible asset are highly correlated (the consumption of the intangible asset is directly linked to the revenue generated from using the asset).

Guidance has been introduced into both standards to explain that expected future reductions in selling prices could be indicative of a higher rate of consumption of the future economic benefits embodied in an asset.

IFRS 10, IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address a conflict between the requirements of IAS 28, Investments in Associates and Joint Ventures, and IFRS 10, Consolidated Financial Statements and clarify that in a transaction involving an associate or joint venture the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers, applies to all contracts with customers except for: leases within the scope of IAS 17, Leases; financial instruments and other contractual rights or obligations within the scope of IFRS 9, Financial Instruments, IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IAS 27, Separate Financial Statements and IAS 28, Investments in Associates and Joint Ventures;

insurance contracts within the scope of IFRS 4, Insurance Contracts; and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

The new standard provides a single, principles-based five-step model to be applied to all contracts with customers. The five steps are:

- identify the contract with the customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract;
- recognize revenue when (or as) the entity satisfies a performance obligation.

There is new guidance on whether revenue should be recognized at a point in time or over time, which replaces the previous distinction between goods and services.

Where revenue is variable, a new recognition threshold has been introduced by the standard. This threshold requires that variable amounts are only included in revenue if, and to the extent that, it is highly probable that a significant revenue reversal will not occur in the future as a result of re-estimation. However, a different approach is applied for sales- and usage-based royalties from licenses of intellectual property; for such royalties, revenue is recognized only when the underlying sale or usage occurs.

The standard provides detailed guidance on various issues such as identifying distinct performance obligations, accounting for contract modifications, and accounting for the time value of money.

Detailed implementation guidance is included on topics such as sales with a right of return, customer options for additional goods or services, principal versus agent considerations, licensing, and bill-and-hold arrangements.

The standard also introduces new guidance on the costs of fulfilling and obtaining a contract and specifying the circumstances in which such costs should be capitalized. Costs that do not meet the criteria must be expensed when incurred.

The standard introduces new, increased requirements for disclosure of revenue in a IFRS-reporter's financial statement.

IFRS 9, Financial Instruments

The final version of this standard adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income (FVTOCI) category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test.

The impairment model in IFRS 9 is based on the concept of providing for expected losses at inception of a contract, except in the case of purchased or originated credit-impaired financial assets, for which expected credit losses are incorporated into the effective interest rate.

IFRS 9 also provides new guidance on hedge accounting and aims to provide a clear picture of an entity's risk management activities.

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

MTU Maintenance Hannover GmbH, Langenhagen, and MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde, which are consolidated affiliated companies of MTU Aero Engines AG, Munich, and for which the consolidated financial statements of MTU Aero Engines AG, Munich, constitute the exempting consolidated financial statements, have invoked the provisions of Section 264 (3) of the German Commercial Code (HGB). The official notice of these companies' invocation of the exemption was published in the electronic version of the Federal Gazette (Bundesanzeiger) in the name of MTU Aero Engines AG, Munich, on January 12, 2015.

GROUP REPORTING ENTITY

At December 31, 2014, the MTU group including MTU Aero Engines AG, Munich, comprised 29 companies (2013: 30). These are presented in detail in the list of major shareholdings in Note 38.1.2.

Further information on the changes in the group reporting entity is given later on in this Note. The assets of MTU München Unterstützungskasse GmbH, Munich, are classified as plan assets as defined in IAS 19. The fair value of these plan assets was included in the calculation of the group's defined benefit obligation for pensions. For this reason, MTU München Unterstützungskasse GmbH, Munich, is not consolidated.

CHANGE IN COMPOSITION OF GROUP REPORTING ENTITY

The number of group companies and equity investments in associated companies and joint ventures included in the consolidated financial statements developed as follows:

Group reporting entity

	Germany	Inter-national	Total
Shareholdings at December 31, 2012	13	15	28
Acquisitions 2013		3	3
Disposals 2013	-1		-1
Shareholdings at December 31, 2013	12	18	30
Acquisitions 2014		1	1
Disposals 2014	-1	-1	-2
Shareholdings at December 31, 2014	11	18	29

As of September 13, 2013, MTU and Japanese enterprise Sumitomo Corporation, one of the world's largest trading companies, set up two joint ventures with the goal of expanding their aircraft engine leasing operations together. MTU Maintenance Lease Services B.V., an 80:20 joint venture between MTU Aero Engines AG and Sumitomo Corporation, is domiciled in Amsterdam, Netherlands, and provides short- and medium-term leasing arrangements for airlines, MRO companies and lessors. Sumisho Aero Engine Lease B.V., a

90:10 joint venture between Sumitomo Corporation and MTU Aero Engines AG, focuses on providing its customers with long-term leasing arrangements. MTU initially held 100% of the shares in MTU Maintenance Lease Services B.V., while Sumitomo Corporation held 100% of the shares in Sumisho Aero Engine Lease B.V. In the first quarter of 2014, the antitrust authorities approved the two joint ventures, and the exchange of shares took place with effect from May 8, 2014. MTU Maintenance Lease Services B.V. is fully consolidated in the financial statements of the MTU group. In the future, Sumitomo Corporation will be entitled to a share in MTU Aero Engines AG's earnings and capital equivalent to the shares it holds in MTU Maintenance Lease Services B.V. Those shares are designated as a "non-controlling interest." The shares in Sumisho Aero Engine Lease B.V. are recognized at cost.

RSZ Beteiligungs- und Verwaltungs GmbH, Munich, was merged with MTU Aero Engines AG, Munich. The merger was entered in the commercial registry on April 16, 2014.

After fulfilling its business purpose, MTU Aero Engines Finance B.V., Amsterdam, Netherlands, has been liquidated.

SUBSIDIARIES

The consolidated financial statements of MTU Aero Engines AG, Munich, include all significant companies in which MTU Aero Engines AG, Munich, has a controlling interest by virtue of directly or indirectly holding more than 50% of the voting rights in those subsidiaries. There were no changes in the assessment of these controlling interests during the reporting period.

ASSOCIATED COMPANIES

Associated companies are companies in which MTU has significant powers of control and which are neither subsidiaries nor joint ventures. Entities corresponding to this definition over whose financial and operating policies MTU directly or indirectly exercises significant influence are accounted for using the equity method, or at cost if they have no significant impact on the presentation of MTU's net assets, financial situation or operating results. Significant powers of control are assumed to exist if MTU directly or indirectly owns 20% or more of the voting stock of an entity. The shares in IAE International Aero Engines AG, Zurich, Switzerland, are accounted for using the equity method. There were no changes in the classification of these associated companies during the reporting period.

JOINT VENTURES

Joint ventures are companies over which MTU exercises joint control together with another entity or entities. Joint control is assumed to exist if MTU directly or indirectly owns 50% of the voting stock of an entity.

MTU's principal joint ventures, namely

- MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China,
- Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde,
- Ceramic Coating Center S.A.S., Paris, France,
- Airfoil Services Sdn.Bhd., Kota Damansara, Malaysia,
- AES Aerospace Embedded Solutions GmbH, Munich,

are accounted for in the consolidated financial statements using the equity method. Detailed information on the assets, liabilities and earnings of the joint ventures and associated companies is presented in Note 16.

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.

RESTRICTIONS

In individual cases, MTU or its subsidiaries may be subject to restrictions on their ability to transfer liquid funds or other assets to other group companies. Such restrictions may stem from regulatory requirements or from contractual agreements between the investors in the individual companies.

CONSOLIDATION PRINCIPLES

All business combinations are accounted for using the acquisition method in accordance with IFRS 3. Under the acquisition method, the acquirer accounts for the business combination by measuring and recognizing the identifiable assets acquired and the liabilities and contingent liabilities assumed. The identifiable assets, liabilities, and contingent liabilities are measured at fair value. 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 3.36.

The effects of intragroup transactions are eliminated. When accounting for dealings between entities of the consolidated group, accounts receivable are offset against accounts payable and expenses are offset against income. Internal sales are transacted on the basis of market prices and intragroup profits and losses are eliminated.

In accordance with IAS 12, deferred tax assets and liabilities are recognized on temporary differences arising from the elimination of intragroup profits and losses.

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 reporting 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 reporting date. In the income statements of foreign group companies whose functional currency is not the euro, income and expense items are translated each month using the exchange rate applicable at the end of the month; from these can be derived the average exchange rate for the year. The translation differences arising in this way are recognized in other comprehensive income and do not have any impact on the net profit/loss for the year.

ACCOUNTING POLICY AND MEASUREMENT METHODS

The financial statements of MTU Aero Engines AG, Munich, and of its subsidiaries are drawn up using uniform accounting policies.

REVENUES

Revenues from the sale of goods are recognized in accordance with IAS 18. This means that certain criteria must be met, in particular that the significant risks and rewards of ownership of the goods have been transferred to the purchaser and that MTU retains neither continuing managerial involvement nor effective control over the goods sold. The company's customers are risk- and revenue-sharing partners in engine programs, cooperation entities, public-sector contractors, airlines and other third parties.

Revenues arising from the rendering of services, provided that the criteria specified in IAS 18 are met, are recognized by reference to the stage of completion of the transaction and measured relative to costs incurred or, if the criteria are not met, to the extent of the expenses recognized that are recoverable. Contracts are recognized in the balance sheet under "service business receivables" (Note 19.) or "service business payables" (Note 30.).

Revenues from construction contracts are similarly recognized by reference to the percentage of completion in accordance with IAS 11. Further explanation of the measurement of percentage of completion is given in connection with "construction contract receivables". Contracts are recognized in the balance sheet under "construction contract receivables" (Note 19.) or "construction contract payables" (Note 30.). Revenues are reported net of trade discounts and concessions and customer loyalty awards.

The group's forward foreign currency contracts satisfy the conditions for applying hedge accounting in accordance with IAS 39. The instruments used to hedge cash flows are measured at fair value, with gains and losses recognized initially under other comprehensive income. They are subsequently recorded as revenues when the hedged item is recognized.

COST OF SALES

The cost of sales comprises the manufacturing cost of goods and services sold, including development services paid, and the cost of products purchased for resale. In addition to direct material and production costs, it also comprises allocated overheads, including amortization / depreciation of the production-related intangible assets and production installations, write-downs on inventories and an appropriate portion of production-related administrative overheads. The cost of sales also includes expenses charged by OEMs for marketing new engines in conjunction with risk- and revenue-sharing partnerships.

RESEARCH AND DEVELOPMENT EXPENSES

Research costs are charged to expense in the period in which they are incurred.

In the case of development costs, a distinction is drawn between purchased ("externally acquired") development assets and self-created ("internally generated") development assets. Services provided as part of externally funded development projects are allocated to cost of sales.

Development costs generated in the context of company-funded R&D projects are capitalized in accordance with IAS 38 or recognized as an expense in the period in which they are incurred. The capitalized development costs comprise all costs directly attributable to the development process. Capitalized development costs are amortized over the expected product lifecycle from the start of production onward.

Previously capitalized, company-funded development projects that have not been completed by the end of the financial year are subjected to an impairment test at least once a year. An impairment loss is recognized if the carrying amount of the capitalized asset exceeds its recoverable amount.

INTANGIBLE ASSETS

Externally acquired and internally generated intangible assets are recognized in accordance with IAS 38 if it is probable that a future economic benefit associated with the asset will flow to the entity and the cost of the asset can be measured reliably.

When intangible assets are acquired that include significant deferred, conditional purchase price components, they are accounted for by analogy with IFRIC 1. When the intangible asset is remeasured, the conditional purchase price components are accounted for as subsequent costs of acquisition.

Intangible assets with a finite useful life are carried at cost and amortized on a straight-line basis over their useful lives.

Amortization is based on the following useful lives:

Useful lives of assets (in years)

Program assets including development costs	maximum 30
Program-independent technologies	10
Customer relations	4 - 26
Other intangible assets	3 - 5

Goodwill is tested for impairment on a yearly basis in accordance with IAS 36. Each of the two operating segments, commercial and military engine business (OEM) and commercial maintenance business (MRO), are tested separately.

PUBLIC SECTOR GRANTS AND ASSISTANCE

Public sector grants and assistance are recognized in accordance with IAS 20 only if there is reasonable assurance that the conditions attached to them will be complied with and that the grants will be received. Grants are recognized as income over the period necessary to match them with the related costs that they are intended to compensate. In the case of capital expenditure on property, plant and equipment and on intangible assets, the amount of the public sector grant awarded for this purpose is deducted from the acquisition or construction costs of the asset. The grants are then recognized in the income statement using reduced depreciation / amortization amounts over the lifetime of the asset.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are subject to wear and tear and are carried at their acquisition or construction cost less cumulative depreciation charges and impairment losses. The acquisition and construction costs contain expenses for external services and, in the case of qualifying assets as defined in IAS23, borrowing costs. The qualifying assets are assigned to an appropriate category once they have been completed or are operational. The revaluation model is not applied. Depreciation on property, plant and equipment is calculated using the linear method in accordance with the useful life of the asset.

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 useful lives and depreciation methods pertaining to property, plant and equipment are regularly assessed for relevance, at least at every reporting date, and adjustments are made where necessary to the estimates used when compiling the financial statements.

The cost of items of self-constructed plant and equipment comprises all directly attributable costs and an appropriate proportion of production-related overheads.

BORROWING COSTS

Borrowing costs directly related to the acquisition, construction or production of qualifying assets are added to the acquisition or construction costs of those assets until such time as the assets have been made ready for sale or for their intended use. Qualifying assets are those that require a substantial period of time to be made ready for sale or for their intended use.

In accordance with the requirements of IAS 23, borrowing costs as presented in Note 8. are capitalized insofar as they relate to the purchase and preparation of qualifying assets for their intended use or sale, if these activities commenced on or after January 1, 2009.

LEASING

Leasing contracts are classified either as operating leases or as finance leases, depending on which party is attributed the beneficial ownership of the leased assets and bears the substantial risks and rewards associated with ownership of the leased asset. If the lessor retains the substantial risks and rewards (operating lease), the leased asset is recognized in the lessor's balance sheet. The lessee in an operating lease arrangement recognizes lease payments as an expense throughout the duration of the lease arrangement.

If the substantial risks and rewards associated with ownership of the leased asset are transferred to the lessee (finance lease), the leased asset is recognized in the lessee's balance sheet. The leased object is recognized at its fair value as measured at the date of acquisition, or at the present value of future minimum lease payments if lower, and depreciated over its estimated useful life, or the contract duration if shorter. The lessee immediately recognizes a finance lease liability corresponding to the carrying amount of the leased asset. The effective interest rate method is employed to amortize and update the lease liability in subsequent periods.

IMPAIRMENT LOSSES ON INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

At each reporting date, an analysis is carried out to reveal any indication that the value of intangible assets or assets of property, plant and equipment might be impaired. If impairment is indicated, the value of the asset in question is assessed on the basis of the recoverable amount.

Assets with an indefinite useful life, intangible assets that are not yet ready for use, and goodwill acquired in connection with a business combination are not subject to amortization, but are instead reviewed for impairment at least once each year.

The impairment loss on intangible assets and property, plant and equipment is determined by comparing the carrying amount with the recoverable amount. The recoverable amount is the higher amount of the fair value of the asset, or of the cash-generating unit, less costs to sell and value in use. The recoverable amount is usually determined using a discounted cash flow (DCF) method. If it is not possible to attribute separate future cash flows to discrete assets that have been generated independently of other assets, then an impairment test must be carried out on the basis of the cash-generating unit to which the asset ultimately belongs. That involves making forecasts of the cash flow that can be generated by the asset or cash-generating unit, and applying a discount rate that takes into account the risks associated with the asset or cash-generating unit.

If the reasons for impairment losses recognized in a prior period no longer exist, the impairment loss on these assets is reversed, except in the case of goodwill.

NON-CURRENT FINANCIAL ASSETS

Investments in subsidiaries that are neither consolidated nor proportionately consolidated, investments in associated companies, and other equity investments do not have a significant impact on the MTU group's net assets, financial situation and operating results. Since in most cases it is not possible to reliably measure their fair value because an active market does not exist, these investments are carried at cost – with appropriate adjustments for impairment loss where necessary. Dividend income and shares in the profit / loss of these investments are included in the financial result on other items.

The group's share in the profit or loss of companies accounted for using the equity method is allocated on a pro rata basis to profit / loss and to the corresponding carrying amount of the investment. This profit / loss is reported as a separate line item under "profit / loss of companies accounted for using the equity method."

INVENTORIES

Raw materials and supplies are measured at the lower of average acquisition cost and net realizable value. Trade discounts and concessions and customer loyalty awards are taken into account when determining acquisition costs. Advance payments for inventories are capitalized. Acquisition cost comprises all direct costs of purchasing and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price generated in the ordinary course of business for the finished product in question, less estimated costs necessary to make the sale (costs to complete and selling costs).

Finished products and work in progress are recognized at the lower of manufacturing cost and net realizable value. Manufacturing cost comprises all production-related expenses based on normal capacity utilization. In addition to direct costs, these include an appropriate and necessary portion of the cost of material and production overheads, including production-related depreciation. Administrative expenses are also included to the extent that they can be attributed to production operations.

CONSTRUCTION CONTRACT AND SERVICE BUSINESS RECEIVABLES

All receivables arising from construction contracts are recognized in accordance with IAS 11 using the percentage-of-completion (PoC) method. If the outcome of a specific construction contract can be estimated reliably, revenues and income are recognized in proportion to the percentage of completion. The percentage of completion is determined as the ratio of contract costs incurred to total contract costs or as a verifiable amount of completed work (measured by means of milestones). If the outcome of a contract cannot be estimated reliably, the zero-profit method is applied, whereby revenues are recognized only to the extent that contract costs have been incurred. If settlement has not yet been received for a construction contract, the construction costs – taking pro rata income into account where relevant – are recognized as construction contract receivables in the balance sheet and as revenues arising from construction contracts in the income statement. These items are defined as the difference between the sum of incurred contract costs as measured at the reporting date and income arising from the contract less losses incurred and partial settlements.

If advance payments received from customers are lower than the amount of receivables, the difference is deducted from the amount of construction contract receivables and accounted for as an asset. If the advance payments received are higher than the construction contract receivables, the negative balance of the construction contracts is recognized under construction contract payables. Construction contract receivables and construction contract payables are not offset against one another.

These principles apply by analogy to receivables and payables arising from the service business.

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. At MTU, financial instruments are recognized on the date of settlement.

FINANCIAL ASSETS

Financial assets include, in particular, cash and cash equivalents, trade receivables, loans, other receivables, financial investments held to maturity, and non-derivative and derivative financial assets held for trading.

Financial assets are measured in accordance with their classification as per IAS 39. The measurement of a financial asset subsequent to initial recognition depends on whether the financial instrument is “held for trading,” “held to maturity,” “available for sale,” or whether it falls into the “loans and receivables” category. The assignment of an asset to a measurement category is performed at the time of acquisition and is primarily determined by the purpose for which the financial asset is held. No financial assets were reclassified in the financial year 2014 or in prior reporting periods.

At initial recognition, financial assets are measured at their fair value. In the case of financial assets that are not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition of the financial asset are included in the initial measurement.

Financial instruments held for trading are measured at fair value through profit or loss. This category primarily includes derivative financial instruments that do not form part of an effective hedging relationship as defined in IAS 39. Any gain or loss resulting from remeasurement is recognized in the income statement.

Financial assets acquired through financial investments that are intended and expected, with reasonable certainty, to be held to maturity are measured at amortized cost using the effective interest method.

Financial assets classified as loans and receivables are measured at amortized cost less impairment, using the effective interest method where appropriate.

Other non-derivative financial assets are classified as available for sale. These are always measured at fair value. Resulting gains or losses are recognized directly in equity. If it is not possible to reliably measure the fair value of an equity instrument that is not quoted in an active market, the investment is measured at cost (less impairment where appropriate).

IMPAIRMENT LOSS ON FINANCIAL ASSETS

At each reporting date, the carrying amounts of financial assets that are not measured at fair value through profit or loss are assessed for any indication of impairment.

Examples of such indications include significant financial difficulties of the debtor or a high probability that the debtor will enter bankruptcy or financial reorganization, the closure of an active market, significant changes in technological, economic, legal or market conditions affecting the issuer, or a significant or persistent decline in the fair value of the financial asset below its (amortized) cost. The amount of the impairment loss is recognized in the income statement. If impairment is indicated for “available-for-sale” financial assets, the amounts previously recognized in other comprehensive income are eliminated from equity up to the amount of the assessed impairment loss and recognized in the income statement.

If, in a subsequent period, there is objective evidence that the fair value has increased due to an event occurring after the impairment was originally recognized, the impairment loss is reversed through profit or loss. Impairment losses affecting “available-for-sale” equity instruments and equity instruments not quoted in an active market are not allowed to be reversed through profit or loss until the loss becomes recoverable.

The fair value of securities classified as “held-to-maturity” financial instruments and of loans and receivables corresponds 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 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.

FINANCIAL LIABILITIES

Financial liabilities often oblige the holder to return the instrument to the issuer in return for cash or another financial asset. Financial liabilities include, in particular, bonds and other debts evidenced by certificates, trade payables, liabilities to banks, finance lease liabilities, borrowers’ note loans and derivative financial liabilities.

Financial liabilities are measured at their fair value at the time of acquisition, which is normally equivalent to the net loan proceeds. Transaction costs directly attributable to the acquisition are deducted from the amount of all financial liabilities. 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.

CASH AND CASH EQUIVALENTS

The salient features of cash and cash equivalents, which include demand deposits and short-term bank deposits, are that they have a maturity of three months or less from the date of acquisition, and are measured at their nominal value.

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 and when measured subsequently, derivative financial instruments are measured at their fair value, using quoted market prices in an active market. If no quoted market prices in an active market are available, the fair value is calculated using recognized actuarial models (DCF method). The fair value of derivative financial instruments is represented by the amount that MTU would receive or would have to pay at the reporting date when the financial instrument is terminated. This value is determined on the basis of the relevant exchange rates, interest rates and credit standing of the contractual partners at the reporting date.

HEDGE ACCOUNTING (HEDGING RELATIONSHIPS)

MTU satisfies the requirements relating to hedging instruments in accordance with IAS 39 to hedge future payment cash flows. This reduces volatility in cash flows that could affect profit or loss. When a hedge is undertaken, the relationship between the financial instrument designated as the hedging instrument and the underlying transaction is documented, as are the risk management objective and strategy for undertaking the hedge. This includes assessing the effectiveness of the hedging instrument used. Existing cash flow hedges are checked 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 in equity under other comprehensive income, together with attributable deferred taxes, until such time as the outcome of the hedged transaction is recognized.

The effective hedge is recycled to the income statement as soon as the hedged transaction is recognized in profit or loss. The ineffective portion of the change in value of the hedging instrument is recognized on each reporting date in the financial result.

ACTUAL AND DEFERRED TAXES

Actual and deferred tax assets and liabilities are recognized in the consolidated financial statements according to the relevant tax jurisdictions. Actual and deferred tax assets and liabilities are recognized in equity if they relate to business transactions that directly lead to a decrease or increase in equity. Interest in connection with tax payments and refunds for prior periods resulting from tax field audits is recognized under income taxes.

Deferred tax assets and liabilities are established for temporary differences between the tax bases of assets and liabilities and the carrying amount of these assets and liabilities in the consolidated balance sheet ("balance sheet liability method"). Tax assets are established on tax credits available for carry-forward at such time as the conditions attached to the award of the tax credit have been fulfilled. Similarly, deferred tax assets are established on tax losses available for carry-forward. Deferred tax assets are recognized to the extent of the probability that taxable income will be available against which the deductible temporary difference can be applied together with tax losses and credits available for carry-forward. Deferred tax assets and liabilities are measured using the tax rates applicable on the date when the temporary differences are reversed. Deferred tax assets and liabilities are offset insofar as this meets the requirements of IAS 12.74.

PENSION OBLIGATIONS

Pension provisions are accounted for using the projected unit credit method in accordance with IAS 19. This method takes account not only of pension and other vested benefits known at the reporting date, but also of expected increases in pensions and salaries, applying a conservative assessment of the relevant parameters.

Actuarial gains and losses – from the measurement of the defined benefit obligation (DBO) and the plan assets – may arise either from changes in the actuarial assumptions used or when the actual development diverges from those assumptions. They are recognized in other comprehensive income in the period in which they arise, and are recognized separately in the statement of comprehensive income. Past service cost is recognized directly in profit and loss. Where reinsurance claims exist and the criteria given in IAS 19 are met, these claims are treated as plan assets and netted against the pension obligations. Interest income from plan assets and the interest cost on obligations are recognized under the financial result on other items. Service cost is recognized in the income statement as personnel expenses allocated to the relevant costs by function, while the interest expense on the net debt is recognized as interest expense in the interest result.

OTHER PROVISIONS

Provisions are recognized to cover the cost of legal disputes and claims for damages if the group incurs an obligation from a lawsuit or government investigation or from other claims, if it is likely that an outflow of economic resources will be necessary to fulfill the obligation, and if it is possible to reliably estimate the amount of the obligation. Non-current provisions due in more than one year are measured on the basis of their settlement amount, discounted to the reporting date. The company measures provisions for pending losses on onerous contracts at the lower of the expected costs on settlement of the contract and the expected costs on termination of the contract.

Provisions for pre-retirement part-time working arrangements and long-service awards are measured on the basis of actuarial reports prepared in accordance with IAS 19.

CONTINGENT LIABILITIES

Contingent liabilities are potential obligations arising from past events whose existence depends on the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of MTU. It is considered that there is unlikely to be an outflow of economic resources, or that the amount of the obligation cannot be reliably estimated.

SHARE-BASED PAYMENT TRANSACTIONS

Under IFRS 2 (Share-based Payment), a distinction is made between payment transactions settled in cash and those settled using equity. In the case of both instruments, the fair value is calculated at the grant date using recognized option pricing models and recognized as a compensation expense over the period during which the beneficiary earns a vested right to the promised instruments. MTU recalculates the fair value of cash-settled commitments at the end of every reporting period and again on the relevant settlement date.

DIVIDEND PAYMENT AND PROFIT DISTRIBUTION

The claims of shareholders to dividend payments and profit distribution relating to a specific reporting period (financial year) are recognized as a liability in the period in which the corresponding resolution is passed. Disclosures relating to the Executive Board's proposal to the Annual General Meeting concerning the dividend payment are provided in Part VII. of these Notes under the subheading "Proposed profit distribution."

DISCRETIONARY SCOPE, MEASUREMENT UNCERTAINTIES AND SENSITIVITY

Preparation of the consolidated financial statements in accordance with IFRS requires that assumptions and estimations be made that have an impact not only on the amounts of the assets and liabilities, income and expenses, and contingent liabilities, but also on how these items are recognized. These assumptions and estimations conform with the circumstances prevailing at the reporting date and, to that extent, also influence the amount of income and expenditure recognized in the financial years presented. The assumptions and estimations relate primarily to the determination of the useful lives of assets that apply group-wide, the calculation of the fair value of financial instruments, the measurement and recognition of provisions and tax credits, and assumptions in connection with impairment tests and the purchase-price allocation.

Actual values may occasionally deviate from the assumed and estimated values. Changes are made when more reliable information becomes available and these have an impact on the figures of the period in which the changes are effected and, where applicable, on subsequent periods.

- Due to the prolonged product lifecycle, changes in the applied interest rates and payment flows have a significant impact on the measurement of engine programs.
- A sensitivity analysis of the extent of possible consequences of price changes or contract penalties is not sufficiently detailed to assess the consequences of individual events, due to the multitude of sensitivity scenarios and associated high degrees of uncertainty.
- The measurement of property, plant and equipment, intangible assets and financial assets involves the use of estimations. 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 impairment losses, 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, e.g. changes in the competitive situation, expectations concerning the growth of aviation and the aircraft industry, changes in the cost of capital, changes in the future availability of financing funds, aging and obsolescence of technologies, replacement costs, or purchase prices paid in comparable transactions.
- Estimates are also involved when calculating the recoverable amounts for the group's two operating segments and the fair value of assets in connection with the impairment testing of goodwill. They concern the identification and verification of indicated impairments, expected cash flows, relevant discount rates, corresponding useful lives and residual values. In particular, the estimation of cash flows on which the recoverable amounts are based in the case of new engine programs depends on the assumption that it will be possible to raise funds on a continuous basis and that it will be necessary to make continuous ongoing investments. If the demand for engines is lower than expected, this could reduce earnings and cash flows and possibly lead to the recognition of impairment losses. These estimations and the method used to obtain them have a significant impact on the recoverable amount determined and on the amount of the impairment loss recognized on goodwill. Reference is made to Note 35. for a sensitivity analysis of the goodwill of the two operating segments.
- Management creates allowances for doubtful accounts. The judgments made are based on the repayment structure of the balance of settlements and past experience with the writing-off of debts, the customer's credit standing, and changes in the conditions of payment. If the customer's financial situation should deteriorate, the volume of the allowances that then have to be created may exceed that of the ones already made.
- In certain cases, financial liabilities may be linked to deferred, conditional purchase price components, resulting in the need to make predictions about the conditions upon which their subsequent measurement is dependent. A particular case in point, as in 2013, is the purchase price obligation arising from the IAE-V2500 stake increase. To account for changes in this financial liability, MTU makes use on the one hand of publicly available market data (interest rates, U.S.-\$ exchange rates) and on the other hand, in particular, an input parameter that is not publicly observable, namely the number of flight hours that a part of the V2500 engine fleet is expected to accumulate up to the year 2027, on which the deferred payments are based. To predict the future number of flight hours, MTU makes use of an in-house forecasting model that is based on internally available information concerning the in-service V2500 fleet. The sensitivity analysis takes into account both the absolute number of flight hours on which payments are based and the time scale over which these flight hours are accomplished (see Part I of these Notes, under Adjustment of prior-year figures). In 2014, the estimated future number of flight hours by the relevant V2500 fleet for the period 2015 to 2027 was updated, resulting in a new forecast that foresees a slower decrease in the number of V2500 flight hours.
- Revenues arising from construction contracts and from the provision of services are recognized in progressive stages as the work advances, using the percentage-of-completion method, if it is sufficiently probable that future economic benefits associated with the business will flow to MTU. Because in some cases it may not be possible to reliably estimate the outcome, revenues calculated using the percentage-of-completion method are recognized on the basis of the contract costs incurred up to the reporting date, to the extent that it is probable that those costs can be recovered. The measurement uncertainty is consistent with the complexity and long-term nature of the contracts (accounting item). Management regularly reviews all estimations made in connection with these construction and service contracts, making adjustments to the recognized amounts where necessary.

- Revenues from the sale of engine components in the month of December are estimated for bookkeeping purposes. These estimations are derived principally from preliminary data supplied by the consortium leaders and from material flow data. Moreover, the settlement of insurance claims in connection with construction contracts and customized MRO services may in certain cases require the use of estimations as to the probability that the claimed amount will ultimately be paid.
- Income taxes must be determined for each tax jurisdiction in which the group operates. Estimates are required when measuring current and deferred taxes. The utilization of deferred tax assets depends on the possibility of generating sufficient taxable income in a particular tax category and tax jurisdiction. 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 and the periods over which losses can be carried forward. If the actual results deviate from these estimations, or if these estimations have to be adjusted in a future period, this may have an impact on the group's net asset position, financial situation and operating results.
- The discount rate is an important factor when determining the provisions to be allocated for pensions and similar obligations. 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, the implementation of optional payment modalities, salary and pension trends and life expectancy. If it should become necessary to modify these assumptions, this could have a significant effect on the future amount of pension provisions or the expenses for pensions.
- The recognition and measurement of other provisions, accrued liabilities (as defined in IAS 37) and contingent liabilities involve substantial estimations on the part of MTU. Similarly, when accounting for aircraft financing agreements, estimations are required concerning the probability that the loans will be realized, the consistency of the terms with

market conditions, and the change in value of the pledged securities. Due to the uncertainties attached to this assessment, the actual expenses may deviate from those originally estimated, and hence from the amount of the provision.

All assumptions and estimates are based on the prevailing conditions and judgments made at the reporting date. Any subsequent changes occurring before the financial statements are published are taken into account. 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 also relies on the services of 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

1. REVENUES

Revenues have developed as follows:

Revenues	2014	2013
in € million		
Commercial engine business		
Manufacturing	2,048.2	1,822.2
Other products	68.6	69.1
Total commercial engine business	2,116.8	1,891.3
Military engine business		
Manufacturing	307.0	288.9
Other products	224.5	211.8
Total military engine business	531.5	500.7
Total commercial and military engine business (OEM)	2,648.3	2,392.0
Commercial maintenance business (MRO)	1,298.9	1,213.7
Other entities / consolidation	-33.3	-31.6
Total revenues	3,913.9	3,574.1

The item "Other products" under the subheading "Military engine business" includes revenues from engine maintenance services.

A more detailed presentation of revenues, with tables showing external and intersegment revenues, their derivation from products and services and their attribution to major customers, is provided in the section preceding these Notes, under "Reporting by operating segment". Additional information can be found in the combined management report under the heading "Operating results".

2. COST OF SALES

Cost of sales

in € million	2014	2013
Cost of materials	-2,696.1	-2,404.1
Personnel expenses	-458.4	-432.9
Depreciation and amortization	-143.1	-150.2
Other cost of sales	-77.8	-61.2
Total cost of sales	-3,375.4	-3,048.4

The change in cost of sales is consistent with the growth in revenues in the reporting period and continues to reflect the production ramp-up for new engine programs.

The change in the item "Other cost of sales" compared with 2013 is mainly due to a decrease of € -20.0 million in inventories for work in progress and finished products (2013: a decrease of € -36.3), and the effect of translation differences on trade payables, which amounted to a loss of € -40.0 million (2013: a gain of € 5.4 million).

3. RESEARCH AND DEVELOPMENT EXPENSES

Company-funded research and development expenditure developed as follows:

Research and development expenses

in € million	2014	2013
Cost of materials	-98.8	-69.0
Personnel expenses	-59.3	-68.5
Depreciation and amortization	-1.9	-5.3
Company-funded research and development expenditure	-160.0	-142.8
of which the following amounts were capitalized:		
Development costs (OEM)	84.3	48.9
Development costs (MRO)		0.7
Capitalized development costs	84.3	49.6
Research and development expenditure recognized as expense	-75.7	-93.2

4. SELLING EXPENSES

Selling expenses

in € million	2014	2013
Cost of materials	-16.2	-14.8
Personnel expenses	-57.5	-55.7
Depreciation and amortization	-1.7	-2.3
Other selling expenses	-12.3	-12.0
Total selling expenses	-87.7	-84.8

Selling expenses comprise expenses for advertising and marketing, expenses in connection with air shows, trade fairs and exhibitions, media relations expenses, and valuation allowances and write-downs on trade receivables.

5. GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses

in € million	2014	2013
Cost of materials	-6.7	-6.4
Personnel expenses	-40.8	-42.5
Depreciation and amortization	-11.3	-6.9
Other administrative expenses	-3.8	-7.0
Total general administrative expenses	-62.6	-62.8

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

6. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses

in € million	2014	2013
Income		
Gains from the disposal of intangible assets and property, plant and equipment	0.4	7.3
Reimbursement of insurance claims	4.3	0.7
Rental income from		
property owned by MTU	2.1	2.4
sublet property owned by third parties	0.8	0.8
Sundry other operating income	4.3	4.7
Total other operating income	11.9	15.9
Expenses		
Losses from the disposal of intangible assets and property, plant and equipment	-4.3	-0.6
Rental payments for sublet property	-0.8	-0.8
Expenses associated with insurance claims	-5.2	-1.9
Sundry other operating expenses	-4.6	-0.2
Total other operating expenses	-14.9	-3.5
Balance of other operating income and expenses	-3.0	12.4

In 2013, the gains from the disposal of intangible assets and property, plant and equipment included the proceeds of the sale of lease engines to Sumisho Aero Engines Lease B.V., Amsterdam, Netherlands, under the terms of a sale and lease back agreement.

Total other operating expenses includes the disposal of intangible assets in the MRO segment representing repair techniques that have become obsolete, and impairment losses on financial assets recognized under sundry other operating expenses.

The MTU group does not hold any investment property. An insignificant part of the buildings recognized under property, plant and equipment is rented out to external third parties.

In 2014, as in the previous year, other operating income did not include any government grants.

7. PROFIT/LOSS OF COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD / AT COST

Profit / loss of companies accounted for using the equity method / at cost		
in € million	2014	2013
Profit / loss of companies accounted for using the equity method		
Associates	-0.1	0.3
Joint ventures	22.1	17.6
Total profit / loss of companies accounted for using the equity method	22.0	17.9
Profit / loss of companies accounted for at cost		
Military program coordination and management companies	0.6	0.4
Other related companies	1.4	1.7
Total profit/loss of companies accounted for at cost	2.0	2.1

Specific business risks that in previous years had made it necessary to write down the carrying amount of the investment in Pratt & Whitney Canada Service Centre Europe GmbH, Ludwigsfelde, which belongs to the MRO segment, were considered to be no longer valid in 2014. As a result, a share of the profit / loss of this company, which is accounted for using the equity method, was once again transferred to MTU, resulting in income of € 2.1 million from the reversal of the valuation allowance and a further € 1.2 million from adjustments to the current carrying amount of the investment.

The profit / loss of related companies accounted for at cost amounted to € 2.0 million (2013: € 2.1 million).

8. INTEREST RESULT

Interest result		
in € million	2014	2013
Interest income	1.3	4.2
Interest expense on		
Corporate bonds and notes	-11.5	-10.0
Liabilities to banks	-1.0	-1.3
Finance lease agreements	-0.3	-0.4
Other interest expenses	-2.6	-7.4
Capitalized borrowing costs for qualifying assets	5.3	2.7
Interest expenses	-10.1	-16.4
Interest result	-8.8	-12.2
Thereof: on financial instruments classified in accordance with IAS 39 as:		
Loans and receivables	1.1	4.7
Available-for-sale financial assets	1.1	0.1
Financial liabilities measured at amortized cost	-10.1	-16.5

In the financial year 2014, borrowing costs in the amount of € 5.3 million (2013: € 2.7 million) were capitalized, thus reducing the net interest expense. The amount recognized is based on an interest rate of 3.32% (2013: 3.95%). Where the borrowing costs can be directly attributed to a specific qualifying asset, the actual amount of those borrowing costs is capitalized.

9. FINANCIAL RESULT ON OTHER ITEMS

Financial result on other items

in € million	2014	2013
Effects of currency translation: exchange rate gains / losses on		
Currency holdings	-12.0	-4.8
Financing transactions	4.4	-0.9
Finance leases		0.1
Fair-value gains / losses on derivatives		
Currency and interest rate derivatives	-19.9	12.1
Forward commodity sales contracts	0.1	-0.7
Interest portion included in measurement of assets and liabilities		
Pension provisions	-21.4	-19.9
Contingent liabilities		-2.3
Receivables, other provisions, plan assets, liabilities and advance payments from customers	0.1	-15.3
Financial result on sundry other items	2.7	
Financial result on other items	-46.0	-31.7
Thereof: on financial instruments classified in accordance with IAS 39 as:		
Financial assets at fair value through profit or loss - held for trading	22.7	18.6
Financial liabilities at fair value through profit or loss - held for trading	-40.4	-7.2

The financial result on other items deteriorated in the financial year 2014. The net expense increased by € 14.3 million to € -46.0 million (2013: € -31.7 million). The main factors responsible for this change were fair-value losses on derivatives, which amounted to € 19.8 million (2013: fair-value gains of € 11.4 million), together with the compensatory effect of the interest portion included in the measurement of assets and liabilities, which accounted for a lower proportion of overall interest expenses and totaled € 21.3 million (2013: € 37.5 million) and in 2014 was mainly attributable to the subsequent measurement of provisions.

The financial result on other items includes all income and expense components of financial instruments classified as "held for trading" in accordance with IAS 39.

FAIR-VALUE GAINS/LOSSES ON DERIVATIVES

The fair-value measurement of currency and interest rate derivatives resulted in fair-value losses of € 19.9 million (2013: fair-value gains of € 12.1 million), owing to exchange rate developments. The collective forward transactions concluded with German banks had a particular effect on this result. More detailed information on these transactions is given in Note 36. (subheading: Market risks).

INTEREST PORTION INCLUDED IN MEASUREMENT OF ASSETS AND LIABILITIES

Expenses from the unwinding of the discount on pension provisions amounted to € 21.4 million (2013: € 19.9 million), rising in line with the pension obligations. A discount rate of 3.4% was applied in 2014 (2013: 3.2%). Other components of the interest portion included in the measurement of assets and liabilities decreased, which is related to the reduction in the amount of advance payments from customers in connection with construction contracts, which in turn reduced the interest expense recognized under financial result on other items by € 10.3 million.

10. INCOME TAXES

Recognized income taxes comprise current income taxes paid or payable in the countries in which the group operates, and deferred tax income or expense, including interest in connection with tax payments and refunds for prior periods resulting from tax field audits.

Analysis of current and deferred tax expense

in € million	2014	2013
Tax expense incurred in current period	-112.6	-99.9
Tax expense incurred in prior periods	-38.0	-22.0
Current tax expense	-150.6	-121.9
Deferred tax income resulting from temporary differences	50.7	10.2
Deferred tax income resulting from tax credits	9.0	4.6
Deferred tax income resulting from tax losses carried forward	7.6	
Deferred tax income	67.3	14.8
Recognized tax expense	-83.3	-107.1

The tax expense incurred in prior periods includes interest payments amounting to € 4.1 million.

TAX RECONCILIATION

As a basic principle, deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on current tax legislation in the countries concerned.

In the financial year 2014, the tax assets and liabilities of the German entities were measured using an income tax rate of 32.6% (2013: 32.6%). This rate comprises the uniform corporate tax rate of 15.0% plus a solidarity surcharge of 5.5% on the calculated corporation tax expense, and takes into account an average municipal trade tax rate of 16.8%.

The tax assets and liabilities of companies outside Germany were measured using the relevant tax rates for the countries in question, which range between 15% and 39%.

Information on changes in deferred tax assets and liabilities is provided in Note 33.

Reconciliation of expected tax expense to recognized tax expense:

Tax reconciliation		
in € million	2014	2013
Earnings before tax	278.7	273.4
Income tax rate (including municipal trade tax)	32.6%	32.6%
Expected tax expense	-90.9	-89.1
Impact of		
Recognition and measurement adjustments and write-downs on deferred tax assets	-8.8	-8.3
Non-tax-deductible expenses and tax-exempt income	-0.4	0.9
Lower tax rate for companies outside Germany	-3.1	-1.8
Investments accounted for using the equity method	5.3	5.9
Tax field audit	3.4	-22.0
Tax credits available for carry-forward	11.3	7.5
Other impacts	-0.1	-0.2
Recognized tax expense	-83.3	-107.1

11. EARNINGS PER SHARE

Diluted earnings per share are calculated by dividing earnings after tax by the sum obtained by adding the number of common shares that could potentially be issued through the granting of equity instruments to the weighted average number of outstanding shares.

In 2014, earnings after tax amounted to € 195.4 million (2013: € 166.3 million).

In 2014, the weighted average number of outstanding shares was 50,946,842 (2013: 50,807,378 shares). A further 13,413 shares (2013: 16,628 shares) could potentially be issued through the Share Matching Plan as part of the deferred share-based compensation for members of the Executive Board.

Based on these parameters, undiluted earnings per share amounted to € 3.84 in 2014 (2013: € 3.27), and diluted earnings per share amounted to € 3.83 (2013: € 3.27).

12. ADDITIONAL DISCLOSURES RELATING TO THE INCOME STATEMENT

After adjustments to eliminate the effect of purchase price allocation in connection with the acquisition of the group companies, and of non-recurring items, and after addition of depreciation and amortization, the following intermediate results are obtained:

Reconciliation of EBIT to adjusted EBIT, depreciation / amortization expense and non-recurring items		
in € million	2014	2013
Earnings before interest and tax (EBIT)	333.5	317.3
+ Depreciation / amortization effect of purchase price allocation / V2500 stake increase		
Intangible assets	48.4	58.9
Property, plant and equipment	0.8	1.2
Total depreciation/amortization expense	49.2	60.1
Adjusted EBIT	382.7	377.4

Costs by function include the following personnel expenses items:

Personnel expenses

in € million	2014	2013
Wages and salaries	513.0	498.8
Social security, pension and other benefit expenses	96.3	94.1
Total personnel expenses	609.3	592.9

Pension benefits account for € 15.1 million (2013: € 15.6 million) of these expenses. Other social security expenses amounted to € 81.2 million (2013: € 78.5 million).

The average number of persons employed during the financial year 2014 breaks down as follows:

Disclosures relating to the average number of employees

Average number of	2014	2013
Industrial staff	3,600	3,528
Administrative staff	3,691	3,682
Employees on temporary contracts	417	493
Trainees	352	330
Students on work experience projects	257	259
Total average number of employees	8,317	8,292

Costs by function include the following cost-of-materials items:

Cost of materials

in € million	2014	2013
Cost of raw materials and supplies	1,006.8	958.9
Cost of purchased services	1,729.2	1,455.6
Total cost of materials	2,736.0	2,414.5

The fees charged in the financial year 2014 by the accounting firm Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft for services that include the auditing of the consolidated financial statements amounted to a total of € 0.7 million (according to Section 314 (1) no. 9 of the German Commercial Code (HGB)).

The fees charged in the financial year 2013 by the company's former accounting firm Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft for services that include the auditing of the consolidated financial statements amounted to a total of € 1.0 million (according to Section 314 (1) no. 9 of the German Commercial Code (HGB)).

Fees paid to the auditor

in € million	2014	2013
Financial statement auditing services	0.6	0.6
Tax consulting services		0.3
Other independent auditing services	0.1	0.1
Total fees paid to the auditor	0.7	1.0

III. NOTES TO THE CONSOLIDATED BALANCE SHEET

13. ANALYSIS OF CHANGES IN INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT 2014

Changes in non-financial assets – Cost of acquisition and construction 2014

in € million	Balance at Jan. 1, 2014	Translation differences	Additions	Transfers	Disposals	Balance at Dec. 31, 2014
Program assets	1,613.2	-17.4	166.4			1,762.2
Program-independent technologies	124.7					124.7
Customer relations	56.5					56.5
Rights and licenses	102.9	1.1	1.6	1.4		107.0
Goodwill	391.0	0.5				391.5
Prepayments on intangible assets			38.5			38.5
Development costs	225.8		87.5		-3.9	309.4
Intangible assets	2,514.1	-15.8	294.0	1.4	-3.9	2,789.8
Land, leasehold rights and buildings, including buildings on non-owned land	406.6	-0.4	7.8	5.1	-0.7	418.4
Technical equipment, plant and machinery	472.1	-0.3	12.8	19.8	-6.4	498.0
Other equipment, operational and office equipment	374.9	0.4	45.4	11.7	-22.2	410.2
Advance payments and construction in progress	52.3	-0.2	35.5	-38.0	-0.2	49.4
Property, plant and equipment	1,305.9	-0.5	101.5	-1.4	-29.5	1,376.0
Total	3,820.0	-16.3	395.5		-33.4	4,165.8

Changes in non-financial assets – Depreciation / amortization and carrying amount 2014

	Balance at Jan. 1, 2014	Translation differences	Depre- ciation/ amor- tization	Disposals	Balance at Dec. 31, 2014	Carrying amount Dec. 31, 2014
in € million						
Program assets	390.8	-1.5	50.8		440.1	1,322.1
Program-independent technologies	124.7				124.7	
Customer relations	33.8		2.4		36.2	20.3
Rights and licenses	71.4	1.2	8.4		81.0	26.0
Goodwill						391.5
Prepayments on intangible assets						38.5
Development costs	4.9		2.3	-0.2	7.0	302.4
Intangible assets	625.6	-0.3	63.9	-0.2	689.0	2,100.8
Land, leasehold rights and buildings, including buildings on non-owned land	100.6		12.4	-0.2	112.8	305.6
Technical equipment, plant and machinery	353.1	0.2	37.2	-6.2	384.3	113.7
Other equipment, operational and office equipment	245.9	0.3	44.3	-21.9	268.6	141.6
Advance payments and construction in progress			0.2		0.2	49.2
Property, plant and equipment	699.6	0.5	94.1	-28.3	765.9	610.1
Total	1,325.2	0.2	158.0	-28.5	1,454.9	2,710.9

ANALYSIS OF CHANGES IN INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT 2013

Changes in non-financial assets – Cost of acquisition and construction 2013

in € million	Balance at Jan. 1, 2013	Translation differences	Additions	Transfers	Disposals	Balance at Dec. 31, 2013
Program assets	1,522.8	-12.2	104.4		-1.8	1,613.2
Program-independent technologies	124.7					124.7
Customer relations	56.5					56.5
Rights and licenses	93.0	-0.9	3.3	9.6	-2.1	102.9
Goodwill	391.1	-0.1				391.0
Prepayments on intangible assets	8.9			-8.8	-0.1	
Development costs	173.7		52.1			225.8
Intangible assets	2,370.7	-13.2	159.8	0.8	-4.0	2,514.1
Land, leasehold rights and buildings, including buildings on non-owned land	398.3	-1.2	8.2	2.0	-0.7	406.6
Technical equipment, plant and machinery	446.1	-1.9	15.6	24.5	-12.2	472.1
Other equipment, operational and office equipment	339.1	-0.7	63.2	6.6	-33.3	374.9
Advance payments and construction in progress	50.2	-0.1	36.3	-33.9	-0.2	52.3
Property, plant and equipment	1,233.7	-3.9	123.3	-0.8	-46.4	1,305.9
Total	3,604.4	-17.1	283.1		-50.4	3,820.0

Changes in non-financial assets – Depreciation / amortization and carrying amount 2013

in € million	Balance at Jan. 1, 2013	Translation differences	Depre- ciation / amorti- zation	Disposals	Balance at Dec. 31, 2013	Carrying amount Dec. 31, 2013
Program assets	343.2		49.2	-1.6	390.8	1,222.4
Program-independent technologies	112.2		12.5		124.7	
Customer relations	31.3	0.1	2.4		33.8	22.7
Rights and licenses	65.4	-0.7	8.7	-2.0	71.4	31.5
Goodwill						391.0
Prepayments on intangible assets						
Development costs	3.3		1.6		4.9	220.9
Intangible assets	555.4	-0.6	74.4	-3.6	625.6	1,888.5
Land, leasehold rights and buildings, including buildings on non-owned land	88.9	-0.3	12.1	-0.1	100.6	306.0
Technical equipment, plant and machinery	327.9	-0.9	36.2	-10.1	353.1	119.0
Other equipment, operational and office equipment	234.0	-0.3	42.0	-29.8	245.9	129.0
Advance payments and construction in progress						52.3
Property, plant and equipment	650.8	-1.5	90.3	-40.0	699.6	606.3
Total	1,206.2	-2.1	164.7	-43.6	1,325.2	2,494.8

14. INTANGIBLE ASSETS

Intangible assets mainly comprise program assets and program-independent technologies, a portion of which were capitalized as part of the purchase price allocation, and software (the latter mostly for engineering applications), and acquired goodwill.

In the financial year 2014, capitalized intangible assets totaling € 294.0 million (2013: € 159.8 million) were recognized, of which € 255.6 million (2013: € 125.9 million) were externally acquired and € 38.4 million (2013: € 33.9 million) were internally generated. New engine programs accounted for € 165.9 million (2013: € 148.4 million) of this amount, while € 120.6 million (2013: € 143.7 million) derived from the partnership with Pratt & Whitney and € 45.3 million (2013: € 4.7 million) from that with General Electric.

Additions to program assets in the financial year 2014 also included an increase in the value of the V2500 program asset of € 126.5 million (2013: € 7.4 million) stemming from the increase in the conditional purchase price obligation for the increased stake in the V2500 engine program that was acquired in 2012. This increase was due to the re-estimation of the future number of flight hours on which payments are based. For information on the effects of the changed method of accounting for the increased stake in the V2500 engine program, please see Part I of these Notes (under Adjustment of prior-year figures).

The amortization expense on intangible assets is included in the following line items at the following amounts: cost of sales € 52.0 million (2013: € 65.8 million), research and development expenses € 1.3 million (2013: € 2.3 million), selling expenses € 0.7 million (2013: € 1.2 million), and general administrative expenses € 9.9 million (2013: € 5.1 million). Significant intangible assets are program assets for which the cost of acquisition and construction exceeds € 100 million. They are amortized on a straight-line basis over a period of up to 30 years.

15. PROPERTY, PLANT AND EQUIPMENT

Through its capital expenditure on property, plant and equipment, MTU aims to consolidate and extend its position as a leading engine manufacturer, improve efficiency, and modernize equipment and machinery to state-of-the-art standards.

In the financial year 2014, the group's total capital expenditure on property, plant and equipment amounted to € 101.5 million (2013: € 91.4 million). The depreciation expense on property, plant and equipment is included in the presentation of the following line items: cost of sales € 91.1 million (2013: € 84.4 million), research and development expenses € 0.6 million (2013: € 3.0 million), selling expenses € 1.0 million (2013: € 1.1 million), and general administrative expenses € 1.4 million (2013: € 1.8 million).

Additions to land, leasehold rights and buildings, including buildings on non-owned land, in the financial year 2014 amounted to € 7.8 million (2013: € 8.2 million) and relate mainly to the logistics center constructed at the Munich site, to provide support for the production ramp-up of the new engine programs.

Capital expenditure on technical equipment, plant and machinery totaling € 12.8 million (2013: € 15.6 million) relates mainly to the purchase of CNC lathes and CNC grinding/milling machines.

The capital expenditure on other equipment, operational and office equipment primarily comprises special tools and equipment, fixtures and other tools, particularly those required for the ramp-up of new programs.

Additions to advance payments and construction in progress in the financial year 2014 in the amount of € 35.5 million (2013: € 36.3 million) relate mainly to the expansion of the manufacturing facilities at the Polish site and the purchase of technical equipment, plant and machinery and of operational and office equipment for the Munich site.

Capitalized assets under finance lease agreements are based on the following components:

Lease payments under finance lease agreements

in € million	2014	2013
Lease payments		
due in less than one year	1.7	0.4
due in more than one and less than five years	6.7	1.3
due in more than five years	6.6	5.0
Total future minimum lease payments	15.0	6.7
Interest included in lease payments		
due in less than one year	0.3	
due in more than one and less than five years	0.6	0.2
due in more than five years	1.8	1.8
Total interest portion of future minimum lease payments	2.7	2.0
Present value of lease payments		
due in less than one year	1.4	0.4
due in more than one and less than five years	6.1	1.1
due in more than five years	4.8	3.2
Total present value of future minimum lease payments	12.3	4.7

A net carrying amount of € 14.2 million (2013: € 6.3 million) was recognized for the capitalized assets under finance lease agreements at the reporting date. Property, plant and equipment acquired under such agreements are subject to restrictions of use.

A significant part of these assets is accounted for by a logistics center in Langenhagen, for which a net carrying amount of € 6.0 million (2013: € 6.1 million) was capitalized at December 31, 2014. The lessor is Wirtschaftsförderungs-Gesellschaft Langenhagen Flughafen mbH (WFG). The center is situated on land owned partly by MTU and partly by the Entwicklungs-

gesellschaft Langenhagen mbH. In order to construct this facility, MTU obtained heritable building rights from WFG permitting the site and its buildings to be utilized for a total period of 33 years. The lease became effective in 2013 and has a fixed contractual term that expires at the end of 2025, with a renewal option that allows the contract to be extended over subsequent five-year periods. The lease payments are on a level with those normally charged in the region, and include ground rent, interest charges, depreciation charges and administrative expenses. MTU is responsible for the upkeep of the property, including general maintenance and repairs. The contract also includes a clause allowing MTU to purchase the real estate, comprising land and buildings, based on terms equivalent to those that prevail in arm's-length transactions.

Taking advantage of the currently attractive financing conditions, MTU Aero Engines AG has adopted the finance lease model to fund the expansion of production capacity through the addition of technical equipment, plant and machinery as well as operational and office equipment, in particular at its site in Munich. In 2014, the volume of additional assets financed in this way amounted to € 8.0 million (2013: € 0.2 million). The underlying finance lease agreements run for contractual periods of up to 84 months. At the end of the contractual period, the machinery becomes the property of MTU. The agreements do not include price adjustment clauses.

16. FINANCIAL ASSETS

FINANCIAL ASSETS ACCOUNTED FOR USING THE EQUITY METHOD

The financial assets accounted for using the equity method amount to € 139.9 million (2013: € 114.0 million).

ASSOCIATED COMPANIES

MTU owns 25.25% of the shares in IAE International Aero Engines AG, Zurich, Switzerland (IAE). The company IAE was formed for the purpose of coordinating the development, production and marketing of the V2500 engine and the provision of related services. MTU's investment in IAE is accounted for in the MTU consolidated financial statements using the equity method. A summary of financial data for IAE is provided below:

IAE International Aero Engines AG

in € million	Dec. 31, 2014	Dec. 31, 2013
Current assets	1,969.0	1,783.0
Non-current assets	516.3	392.8
Current liabilities	1,471.0	1,386.2
Non-current liabilities	948.7	734.6
Equity	65.6	55.0
Proportional share of equity	16.6	13.9
Reconciliation	5.4	5.5
Carrying amount of the equity investment in IAE	22.0	19.4
	2014	2013
Revenues	2,444.6	2,118.2
Earnings after tax	2.9	3.3
Other comprehensive income	0.0	0.0
Total comprehensive income	2.9	3.3
Dividend received from associate	0.0	0.0

JOINT VENTURES

Information on the principal joint ventures in which MTU holds an equity investment is provided in the table below:

Principal joint ventures

Name of joint venture	Domicile	Shareholding
MTU Maintenance Zhuhai Co. Ltd.	Zhuhai, China	50%
Airfoil Services Sdn. Bhd.	Kota Damansara, Malaysia	50%
Ceramic Coating Center S.A.S.	Paris, France	50%
AES Aerospace Embedded Solutions GmbH	Munich, Germany	50%
Pratt & Whitney Canada Customer Service Centre Europe GmbH	Ludwigsfelde, Germany	50%

All of the companies listed in this table are accounted for using the equity method in the 2014 consolidated financial statements.

MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China, specializes in the maintenance, repair and overhaul of V2500 (IAE) and CFM56 (CFMI) engines, and serves the regions of China and Southeast Asia.

The business purpose of Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia, is the repair of blades used in low-pressure turbines and high-pressure compressors.

Ceramic Coating Center S.A.S., Paris, France, specializes in high-tech coatings. One of its most important products is high-performance ceramic thermal insulation coatings for turbine parts.

AES Aerospace Embedded Solutions GmbH, Munich, develops safety-critical software and hardware for applications in military and commercial aviation. A focal point of the company is its access to numerous future development programs in the aerospace and defense industries around the globe.

The business purpose of Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde, is the maintenance, repair and overhaul of combustion engines (especially gas turbines and engines) and gearboxes and accessories for vehicles of all types (especially aircraft) and for stationary applications.

A summary of financial data concerning the principal joint ventures in the MTU group for the reporting period is provided below:

Disclosures concerning the income statements, statements of comprehensive income and balance sheets of the principal joint ventures 2014

in € million	Pratt & Whitney Canada Customer Service Centre Europe GmbH	Ceramic Coating Center S.A.S.	AES Aerospace Embedded Solutions GmbH	Airfoil Services Sdn. Bhd.	MTU Maintenance Zhuhai Co. Ltd.
Income statement disclosures					
Revenues	145.2	7.1	15.4	16.4	475.4
Depreciation/amortization and valuation allowances	-0.6	-0.7	-0.6	-1.8	-4.2
Interest income					0.2
Interest expenses			-0.1	-0.1	-1.8
Income tax credits					
Income tax expense	-0.1	-0.2		-0.1	-6.3
Other income and expenses	-142.1	-5.2	-19.4	-13.2	-425.2
Earnings after tax	2.4	1.0	-4.7	1.2	38.1
Other comprehensive income			-0.4	0.9	
Total comprehensive income	2.4	1.0	-5.1	2.1	38.1
Balance sheet disclosures					
Non-current assets	1.1	4.1	2.1	14.5	87.0
Cash and cash equivalents	39.1	0.2	4.0	3.6	20.5
Other current assets	49.0	3.4	1.9	4.4	321.4
Total assets	89.2	7.7	8.0	22.5	428.9
Equity	6.6	5.9	-2.6	16.3	207.1
Non-current financial liabilities			7.5	2.5	26.7
Other non-current liabilities				0.9	
Current financial liabilities	32.0	1.1	2.6	2.8	168.0
Other current liabilities	50.6	0.7	0.5		27.1
Total equity and liabilities	89.2	7.7	8.0	22.5	428.9
Dividends received from the joint ventures					
Proportional share of equity	3.3	2.9	-1.3	8.2	103.5
Reconciliation of carrying amount			1.3		
Carrying amount of companies accounted for using the equity method	3.3	2.9		8.2	103.5

The comparative data for 2013 are as follows:

Disclosures concerning the income statements, statements of comprehensive income and balance sheets of the principal joint ventures 2013

in € million	Pratt & Whitney Canada Customer Service Centre Europe GmbH	Ceramic Coating Center S.A.S.	AES Aerospace Embedded Solutions GmbH	Airfoil Services Sdn. Bhd.	MTU Maintenance Zhuhai Co. Ltd.
Income statement disclosures					
Revenues	136.1	6.7	25.0	19.7	398.6
Depreciation/amortization and valuation allowances	-0.2	-0.7	-0.2	-1.6	-4.4
Interest income					0.2
Interest expenses			-0.1	-0.1	-2.0
Income tax credits	0.6		0.3	0.2	
Income tax expense					-9.6
Other income and expenses	-135.1	-5.0	-27.3	-14.4	-350.4
Earnings after tax	1.4	1.0	-2.3	3.8	32.4
Other comprehensive income				0.3	
Total comprehensive income	1.4	1.0	-2.3	4.1	32.4
Balance sheet disclosures					
Non-current assets	1.2	4.0	1.2	12.3	79.8
Cash and cash equivalents	16.2	0.4	3.2	5.4	27.6
Other current assets	38.6	4.8	4.8	3.5	220.8
Total assets	56.0	9.2	9.2	21.2	328.2
Equity	4.1	6.9	-0.3	14.7	167.8
Non-current financial liabilities			3.5	2.9	31.4
Other non-current liabilities				0.7	0.6
Current financial liabilities	12.1	1.8	5.1	2.9	105.2
Other current liabilities	39.8	0.5	0.9		23.2
Total equity and liabilities	56.0	9.2	9.2	21.2	328.2
Dividends received from the joint ventures					
Proportional share of equity	2.1	3.4	-0.2	7.3	83.9
Reconciliation of carrying amount	-2.1		0.2		
Carrying amount of companies accounted for using the equity method		3.4		7.3	83.9

Losses generated by AES Aerospace Embedded Solutions GmbH, Munich (AES), amounting to € 1.1 million (2013: € 0.2 million) were not recognized. Cumulated non-recognized losses amounted to € 1.3 million (2013: € 0.2 million). Moreover, MTU granted additional loans to AES in 2014, amounting € 2.0 million, for which a qualified letter of subordination was issued. In view of business developments, MTU has written down the full amount of the outstanding loan repayments owed by this

company, which amount to € 3.7 million (2013: € 1.7 million) as of December 31, 2014, and recognized this amount under other operating expenses.

The reporting date for Ceramic Coating Center S.A.S., Paris, France, and for Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde, Germany, is November 30.

OTHER FINANCIAL ASSETS

The carrying amounts of financial assets included in the consolidated financial statements are presented below:

Composition of other financial assets

in € million	Total		Non-current		Current	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Loans and receivables (LaR) and sundry other financial assets	61.7	38.9	43.8	16.9	17.9	22.0
Long-term loans to third parties	37.4	15.2	37.4	15.2		
Long-term loans to related companies	6.4	1.7	6.4	1.7		
Receivables from employees	1.1	0.8			1.1	0.8
Receivables from suppliers	8.3	9.1			8.3	9.1
Sundry other financial assets	8.5	12.1			8.5	12.1
Available-for-sale financial assets (AFS)	69.4	60.9	6.4	9.9	63.0	51.0
Other interests in related companies	6.4	9.9	6.4	9.9		
Securities	63.0	51.0			63.0	51.0
Derivatives without hedging relationship (FAHfT)	2.6	26.1	1.8	20.3	0.8	5.8
Derivatives with hedging relationship (n.a.)		43.2		20.0		23.2
Total other financial assets	133.7	169.1	52.0	67.1	81.7	102.0

The additions to long-term loans to third parties relate primarily to payments to aircraft manufacturers for the purpose of funding development activities and to sales financing in connection with MTU's partnership in commercial engine programs.

The receivables from suppliers primarily include short-term credit notes which were received for returned goods, amendments to invoices, and trade discounts and concessions.

Sundry other financial assets amounting to € 8.5 million (2013: € 12.1 million) relate mainly to outstanding credit notes for trade discounts and a multiplicity of separate non-significant items. At the reporting date, these financial assets, and the receivables from employees and suppliers, did not require adjustment, were not past due, and had a due date of less than one year.

At the reporting date, derivative financial assets comprised the following instruments:

Derivative financial instruments

in € million	Total		Non-current		Current	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Forward foreign exchange contracts		43.2		20.0		23.2
Currency options / collective forward transactions	2.6	26.1	1.8	20.3	0.8	5.8
Total derivative financial instruments	2.6	69.3	1.8	40.3	0.8	29.0

Other interests in related companies include the carrying amounts of MTU's share in companies that are neither consolidated nor accounted for using the equity method.

Securities refer to investments with an original maturity of more than three months.

17. INVENTORIES

The carrying amount of inventories, after write-downs, comprises the following components:

Inventories

in € million	Change in valuation allowance	Dec. 31, 2014			Dec. 31, 2013		
		Gross	Valuation allowance	Carrying amount	Gross	Valuation allowance	Carrying amount
Raw materials and supplies	-5.9	309.6	-35.0	274.6	279.4	-29.1	250.3
Finished products	-11.4	157.1	-19.0	138.1	148.7	-7.6	141.1
Work in progress	15.8	317.5	-8.3	309.2	335.4	-24.1	311.3
Advance payments		19.1		19.1	42.5		42.5
Total inventories	-1.5	803.3	-62.3	741.0	806.0	-60.8	745.2

Out of the total volume of inventories, an amount valued at € 217.6 million (2013: € 173.6 million) was considered to be impaired at the reporting date.

18. TRADE RECEIVABLES

Trade receivables

in € million	Dec. 31, 2014	Dec. 31, 2013
Third parties	617.6	515.1
Related companies	62.1	37.0
Total trade receivables	679.7	552.1

Transactions with related companies are presented in more detail in Note 38. (under Business with related companies).

The valuation allowances on trade receivables changed as follows:

Valuation allowances

in € million	2014	2013
Allowances at January 1	6.0	6.7
Translation differences	0.2	-0.1
Additions (expense for specific allowances)	3.5	1.5
Utilized	-1.9	-1.1
Reversed	-0.9	-1.0
Allowances at December 31	6.9	6.0

The net expense for bad debts on trade receivables written off as uncollectable offset against income from bad debts recovered amounted to € -2.2 million (2013: € -1.1 million).

All expense and income amounts arising from valuation allowances and the write-off of uncollectable bad debts on trade receivables are recognized as selling expenses.

The following table shows the impairment status and due dates of trade receivables and of construction contract receivables (see Note 19.) at the reporting date:

Impairment status / due dates of trade receivables and of construction contract and service business receivables

in € million	Dec. 31, 2014	Dec. 31, 2013
Neither impaired nor past due at the reporting date	1,105.6	876.3
Not impaired and due in the following time windows	112.8	175.2
Less than 90 days	72.7	137.2
Between 90 and 180 days	25.0	17.3
Between 181 and 360 days	10.3	15.3
More than 360 days	4.8	5.4
Impaired	6.9	6.0
Total receivables	1,225.3	1,057.5

The impaired portion of these receivables amounting to € 6.9 million is due to payments owed by insolvent customers. The majority of the impaired receivables are due in more than 360 days.

In order to minimize the non-payment risk, the consortium leaders in the OEM business have extensive receivables management systems in place, while in the MRO business open accounts receivable are tracked in short cycles. Should doubts arise as to a debtor's creditworthiness, the corresponding receivables are written down to the amount that is likely to be recovered.

19. CONSTRUCTION CONTRACT AND SERVICE BUSINESS RECEIVABLES

Construction contract and service business receivables

in € million	Dec. 31, 2014	Dec. 31, 2013
Construction contract receivables (based on percentage of completion)	431.1	399.2
Thereof: Advance payments received for construction contracts	-274.4	-312.0
Service business receivables (based on percentage of completion)	114.5	106.2
Total construction contract and service business receivables	271.2	193.4

The increase compared with the previous year corresponds to costs incurred in connection with work on military construction contracts that has been completed but cannot yet be invoiced. No amounts were retained for partial settlement of construction contract receivables.

Advance payments directly attributable to a specific construction contract are offset against the amount of receivables for that contract. If the amount of the directly attributable advance payments received exceeds the amount of the receivables, the balance is recognized under construction contract payables (see Note 30.).

Construction contracts in progress at the reporting date

in € million	Dec. 31, 2014	Dec. 31, 2013
Incurring construction costs incl. recognized income and losses	600.1	498.9
Partial settlements	-169.0	-99.7
Total construction contract receivables	431.1	399.2

Revenues arising from construction contracts amounting to € 249.5 million in the financial year 2014 (2013: € 237.0 million) were recognized using the percentage-of-completion method, measured on the basis of the relative proportion of contract costs incurred or on the basis of milestones reached.

20. OTHER ASSETS

Other assets mainly comprise claims for tax refunds, in particular resulting from input tax surpluses.

21. CASH AND CASH EQUIVALENTS

The cash and cash equivalents of € 64.6 million (2013: € 159.6 million) comprise cash in hand and bank deposits. This item also includes foreign currency holdings amounting to the equivalent of € 62.3 million (2013: € 97.6 million). The change reflects the company's investing and financing activities in the reporting period.

22. INCOME TAX CLAIMS

Income tax claims in the financial year 2014 amounted to € 0.3 million (2013: € 0.9 million).

23. PREPAYMENTS

The prepayments of € 6.3 million (2013: € 4.3 million) consist primarily of prepayments for insurance premiums and rents.

24. EQUITY

Changes in group equity are set out in the consolidated statement of changes in equity.

24.1. SUBSCRIBED CAPITAL

The company's subscribed capital (capital stock) is unchanged at € 52.0 million and is divided into 52.0 million non-par bearer shares.

24.2. AUTHORIZED CAPITAL

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

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

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

24.3. CONDITIONAL CAPITAL

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

- The company's capital stock may be conditionally increased by up to € 3.64 million through the issue of up to 3,640,000 new registered non-par-value shares. The purpose of this conditional capital increase is to issue shares to holders or creditors of convertible bonds and/or bonds with warrants.
- The company's capital stock may be conditionally increased by up to € 22.36 million through the issue of up to 22,360,000 new registered non-par-value shares, each corresponding to a proportional amount (one euro) of the company's total capital stock. The purpose of this conditional capital increase is to issue shares to holders or creditors of convertible bonds and/or bonds with warrants.

The Executive Board is authorized until April 21, 2015 to issue, in a single step or several steps and with the prior approval of the Supervisory Board, bearer convertible bonds and/or bonds with warrants (collectively referred to as "bonds") with or without maturity date, with a total nominal value of up to €500 million. At the same time, the holders of convertible bonds and/or bonds with warrants are to be granted the right, obligation or option to convert them into registered non-par-value shares of the company representing a stake in the capital stock of up to € 22.36 million under the conditions established for the issue of convertible bonds or bonds with warrants. The bonds may

be issued in return for cash contributions only. They may be issued in euros or in any other legal currency. They may also be issued by an affiliated company in which MTU holds a controlling interest. In such cases, and subject to the prior approval of the Supervisory Board, the Executive Board is authorized to act as guarantor for the bonds.

24.4. CAPITAL RESERVES

Capital reserves include premiums from the issue of shares and the equity component (net of proportional transaction costs) of the bond issued in 2007 and repaid/converted in the first quarter of 2012. In addition, they contain the fair value of shares granted under the Share Matching Plan, and an amount of € 5.5 million (2013: € 5.1 million) representing the difference between the proceeds of shares sold under the MAP employee stock option program and their original acquisition cost. The MAP employee stock option program is described in Note 31.

Share Matching Plan (SMP) for the MTU Executive Board

The members of the Executive Board are entitled to use the post-tax benefits payable under each tranche of the Performance Share Plan (PSP) (see description under "Other provisions") to purchase MTU Aero Engines AG shares, provided the Supervisory Board resolves to offer the Share Matching Plan in the year in question. At the end of the three-year vesting period, these shares are matched on the basis of the Share Matching Plan (SMP), with each Executive Board member being awarded one additional free share for every three MTU shares acquired in this way. The total value of the

free shares allocated at the end of the vesting period is limited to three times the purchase price of the shares originally acquired through the PSP. Alternatively, the Supervisory Board may decide to offer a cash payment equivalent to the value of the matching shares.

The number of future matching shares depends on the cash amount paid out under the PSP. In order to determine the fair value of the SMP, a combined Monte Carlo simulation and Black-Scholes pricing model was used. The expected cash settlement was determined on the basis of the exact same assumptions used to measure the value of the PSP. The amount of the cash settlement serves as a basis for measuring the value of the forward options granted under the terms of the SMP. The fair value of the forward options at the grant date was calculated on the basis of defined parameters; an option period of 52 months, a vesting period of 88 months and a fluctuation rate of 4% were assumed for all tranches.

For a detailed description of the Share Matching Plan, please refer to the management compensation report.

The total expense incurred in the financial year 2014 for share-based compensation settled through the issuance of equity instruments amounted to € 0.2 million (2013: € 0.3 million). The total expense incurred for share-based compensation settled by cash payment is presented under other provisions.

24.5. REVENUE RESERVES

Revenue reserves comprise the post-acquisition and non-distributed earnings of consolidated group companies.

24.6. TREASURY SHARES

Purchase of treasury shares in accordance with the authorization granted by the Annual General Meeting on April 22, 2010

The Executive Board of MTU Aero Engines AG, Munich, has been authorized by resolution of the Annual General Meeting to buy back shares. These shares may be purchased on the stock market or by means of a public offering addressed to all shareholders. The purchase price paid in consideration of these shares must not exceed or undercut the market value by more than 10%, net of any supplementary transaction fees.

The Executive Board of MTU was thus authorized to purchase treasury shares with an aggregate nominal value not exceeding 10% of the company's issued capital stock, as applicable on the date of the resolution, during the period from April 23, 2010, through April 22, 2015, pursuant to Section 71 (1) item 8 of the German Stock Corporation Act (AktG). At no point in time may the value of the acquired shares, together with other treasury shares in the company's possession or which are assigned to it pursuant to Section 71a et seq. of the German Stock Corporation Act (AktG), exceed 10% of the company's capital stock.

Purchase of treasury shares

The shares purchased by MTU in prior years served and still serve to meet contractual obligations attached to the convertible bond issue, to issue shares under the Matching Stock Program (MSP) and the MAP employee stock option program, and to make shares available for issue under the Share Matching Plan (SMP). As in 2013, MTU did not purchase any treasury shares in the financial year 2014.

Reconciliation of weighted average number of outstanding shares

In 2014, the weighted average number of outstanding shares totaled 50,946,842 (2013: 50,807,378). At December 31, 2014, the number of outstanding shares of MTU Aero Engines AG, Munich, totaled 51,008,023 (December 31, 2013: 50,855,626). The number of treasury shares amounted to 991,977 at December 31, 2014 (December 31, 2013: 1,144,374).

Issue of shares

A total of 117,575 shares (2013: 103,400 shares) were sold to group employees in the financial year 2014 under the MAP employee stock option program. A further 34,822 treasury shares (2013: 12,396 treasury shares) were sold to eligible senior managers and members of the Executive Board under the Share Matching Plan.

24.7. OTHER COMPREHENSIVE INCOME (OCI)

In the financial year 2014, other comprehensive income (OCI) was reduced by € 199.8 million to a negative balance of € -230.8 million (2013: € -31.0 million), principally as a result of translation differences arising from the financial statements of international entities, actuarial gains and losses on plan assets and pension obligations and the change in fair value of hedging instruments.

The table below shows the income and expenses recognized in other comprehensive income, including fair-value changes, both before and after income taxes:

Items recognized in other comprehensive income

in € million	2014			2013		
	Before	Income taxes	After	Before	Income taxes	After
Translation differences arising from the financial statements of international entities	14.2		14.2	-14.3		-14.3
Actuarial gains and losses on plan assets and pension obligations	-146.8	47.9	-98.9	8.1	-2.2	5.9
Financial instruments designated as cash flow hedges	-161.3	46.2	-115.1	30.2	-9.4	20.8
Income and expenses recognized in other comprehensive income	-293.9	94.1	-199.8	24.0	-11.6	12.4

24.8. 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. It observes the statutory requirements on capital maintenance as part of its capital management and the company's articles of association do not stipulate any capital requirements. In general, the dividend policy is based on distributing at least 25% of the annual profit to shareholders if the financial situation permits this and the corporate bodies give their approval. The group's capital management activities are focused on optimizing the balance between equity and net financial debt and on optimizing the equity ratio. For a description of the financial indicators MTU is obliged to meet in the context of its liabilities to banks, please refer to Note 28. (under Liabilities to banks – Revolving credit facility).

25. PENSION PROVISIONS

Defined benefit and defined contribution plans are in place for MTU employees. In the case of defined contribution plans, the company has no further obligations beyond the payment of fixed contributions to the plan. In the case of defined benefit plans, the company has an obligation to fulfill commitments to current and former employees. For group companies in Germany, these benefits are financed primarily by provisions recognized in the financial statements, which are covered only to a minor extent by plan assets. In contrast, MTU Maintenance Canada Ltd., Richmond, Canada, has a fund-financed retirement benefit plan.

In some cases, it is difficult to differentiate between defined contribution and defined benefit plans. In Germany, for example, a minimum level of benefits is guaranteed for defined contribution plans, such that, even when the plan is organized via an external fund or insurance company, it is still the employer that remains liable. The so-called "ultimate liability of the employer" is governed by Section 1 (1) sentence 3 of the German Law on Retirement Pensions (BetrAVG). For financial reporting purposes, the term "defined benefit plans" is required to be interpreted on the basis of the underlying economic substance of the arrangements. Insofar as the MTU group has no further obligations beyond its so-called ultimate liability once the contributions have been paid to state and private retirement funds, these plans are classified as defined contribution plans. Current contributions are recognized as expenses in the period in which payments are made.

25.1. DEFINED CONTRIBUTION PLANS

Since January 1, 2007, no direct pension commitments have been granted to new employees in Germany other than senior managers. Instead, in 2014 MTU paid contributions in the amount of € 1.1 million (2013: € 0.9 million) to a company-sponsored external fund for employees who joined the company after that date. Other plans that exist within the MTU group are direct insurance contracts funded by employee contributions.

Employer's contributions to the state pension scheme in the financial year 2014 totaled € 38.1 million (2013: € 35.8 million).

25.2. DEFINED BENEFIT PLANS

The pension obligations of MTU are measured using the projected unit credit method in accordance with IAS 19, taking account of future salary and pension increases and other adjustments expected to be made to benefits and pension plans. The provision for defined benefit plans recognized in the balance sheet corresponds to the present value of the benefits payable for current and past service (the defined benefit obligation) of beneficiaries less the fair value of plan assets at the reporting date. Extensive actuarial reviews and computations are carried out annually for each pension plan by independent actuaries.

Actuarial gains or losses can result from increases or decreases either in the present value of the defined benefit obligations or in the fair value of the plan assets. Causes of actuarial gains or losses include the effect of changes in the measurement parameters, changes in the assessment of risks on pension obligations, and differences between the actual return on plan assets and the proportional share of interest on the net liability.

In order to calculate the funding status or the pension obligation recognized, the present value of the provision-financed and fund-financed obligations is offset against the fair value of the plan assets. In Germany, there are no laws or regulations stipulating a minimum required allocation of funds in this context.

The present value and funding status of the defined benefit obligation is as follows:

Present value of the defined benefit obligation (DBO)

in € million	Dec. 31, 2014	Dec. 31, 2013
Present value of provision-financed pension obligations	784.8	624.8
Fair value of plan assets	-1.8	-3.5
Total Germany	783.0	621.3
Present value of fund-financed pension obligations	26.1	24.2
Fair value of plan assets	-25.5	-22.4
Total other countries	0.6	1.8
Recognized pension obligations	783.6	623.1

The following parameters were applied to measure the pension obligations at December 31 of the respective year and to measure the pension plan expense in the respective year under review:

Actuarial assumptions: Germany

in %	Dec. 31, 2014	Dec. 31, 2013
Interest rate for accounting purposes	1.70	3.40
Salary trend	2.50	2.50
Pension trend	1.50	1.50

Actuarial assumptions: Other countries

in %	Dec. 31, 2014	Dec. 31, 2013
Interest rate for accounting purposes	4.00	4.50
Salary trend	3.00	3.00
Pension trend	2.50	2.50

The market yields on high-quality, fixed-interest corporate bonds with similar maturities in Germany have dropped significantly compared to the prior year. For this reason, pension obligations were discounted at December 31, 2014, using a discount rate of 1.7%, in view of the duration of the obligations, which currently stands at 12 years. The biometric tables issued by Prof. Dr. Heubeck (RT 2005G) were used for the purpose of measuring the obligations of pension plans in Germany. In the case of group companies in other countries, up-to-date biometric assumptions for each relevant country were applied. The expected salary trend refers to the expected rate of increases in salaries and other compensation, which is estimated depending on inflation and the length of service of employees within the group. Employee turnover, mortality and disability rates were estimated on the basis of statistical data.

The present value of pension obligations changed as follows in the financial year 2014:

Change in present value of pension obligations

in € million	2014	2013
Defined benefit obligation at January 1	649.0	644.1
Current service cost	12.1	10.6
Past service cost		2.5
Contributions for pension plan subscribers	5.8	5.9
Interest cost	21.4	19.9
Translation differences	1.1	-3.0
Actuarial gains (-) / losses (+)		
Financial assumptions	141.9	-13.9
Assumptions based on experience	6.1	8.8
Plan settlements / transfers	-4.5	-4.6
Pension benefit and capital payments	-22.0	-21.3
Defined benefit obligation at December 31	810.9	649.0

The obligations resulting from plan settlements and curtailments are attributable to the deconsolidation of group companies and the conversion of pension benefits into fixed-sum payments.

The fair value of plan assets changed as follows in the financial year 2014:

Change in the fair value of plan assets

in € million	2014	2013
Fair value of plan assets at January 1	25.9	27.4
Interest income on plan assets	1.1	0.9
Actuarial gains / losses resulting from:		
Income / expenses (-) arising from plan assets	1.4	1.9
Transfers / translation differences	1.0	-2.3
Employer contributions	1.1	1.1
Employee contributions to plan	0.1	0.1
Pension benefit payments	-3.3	-3.2
Fair value of plan assets at December 31	27.3	25.9

Composition of plan assets

in %	2014	2015
Share investments	59.1	51.7
Fixed-interest securities	40.9	34.4
Cash and cash equivalents and other assets		13.9
Total plan assets	100.0	100.0

Each year, the company's investment strategy for the plan assets is reviewed on the basis of a risk and reward profile for the purpose of asset / liability management and adjusted where necessary. The pension fund's statement of principles defines restrictions to be observed when choosing investments. Accordingly, at the reporting date, the plan assets were made up of 60% equity and 40% debt instruments. The group has made no changes to its risk management process compared with that used in previous years.

The expense from defined benefit pension plans and similar obligations recognized in the income statement for the relevant reporting periods comprised the following items:

Expense from defined benefit pension plans and similar obligations		
in € million	2014	2013
Current service cost	12.1	10.6
Past service cost		2.5
Total service cost	12.1	13.1
Interest cost	21.4	19.9
Interest income on plan assets	-1.1	-0.9
Net interest cost	20.3	19.0
Total expense	32.4	32.1

Current and past service cost are recognized under personnel expenses. The other components of the expense from defined benefit pension plans and similar obligations are recognized in the financial result on other items. Remeasurement of the net benefit obligation is recognized in the statement of comprehensive income as part of other comprehensive income.

Expected future pension benefit payments

The company expects the following pension benefit payments, including payments in installments and non-recurrent payments, in the coming years:

Expected yearly amounts of pension benefit payments				
in € million	2015	2016	2017	2018
Expected amount of pension benefit payments	28.3	28.7	30.4	32.3

The expected yearly amounts of pension benefit payments are based on the assumption that all beneficiaries will choose to receive their retirement benefits either as payments by installment (management staff) or as an immediate cash payment (Executive Board) or according to one of the alternative payment options available at the reporting date.

The main actuarial assumptions used to calculate the defined benefit obligation (DBO) are the discount rate, salary and pension trends, and life expectancy trends. The following sensitivity analyses show how the DBO would have been influenced by potential changes in the underlying assumptions:

Sensitivity analysis of the defined benefit obligation		
in € million	Dec. 31, 2014	Dec. 31, 2013
Discount rate 50 basis points higher	-45.7	-30.1
Discount rate 20 basis points lower	19.1	12.9
Pension trend 50 basis points higher	15.8	14.2
Assumed life expectancy 1 year higher	13.0	10.7

There are interdependencies between certain of the actuarial assumptions, especially between changes in the discount rate and the expected pension and purchasing power trends. The sensitivity analysis does not take these interdependencies into account.

26. INCOME TAX PAYABLE

The income tax payable amounting to € 30.3 million at the reporting date (2013: € 38.1 million) relates exclusively to German corporation and municipal trade tax, whereas in 2013 taxes on the income of group companies outside Germany amounting to € 0.1 million were also included.

Income tax payable		
in € million	2014	2013
Balance at January 1	38.1	17.2
Utilized	-38.1	-17.2
Allocated	30.3	38.1
Balance at December 31	30.3	38.1

The income tax liabilities are due for payment within one year.

27. OTHER PROVISIONS

Other provisions

in € million	Total		Non-current		Current	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Warranty obligations and risks from pending losses on onerous contracts	142.2	138.9			142.2	138.9
Personnel obligations	67.9	65.7	18.7	22.3	49.2	43.4
Losses arising from the settlement of accounts	56.6	60.1			56.6	60.1
Subsequent costs	77.6	100.0			77.6	100.0
Other obligations	27.1	31.6	0.8	10.4	26.3	21.2
Other tax obligations	0.1	0.1			0.1	0.1
Total other provisions	371.5	396.4	19.5	32.7	352.0	363.7

Non-current other provisions developed as follows:

Non-current other provisions 2014

in € million	Balance at Jan. 1, 2014	Transferred	Utilized	Dissolved	Allocated	Discount reversed	Balance at Dec. 31, 2014
Personnel obligations	22.3	-9.1	-0.4	-0.3	5.7	0.5	18.7
Other obligations	10.4			-10.3	0.7		0.8
Total non-current other provisions	32.7	-9.1	-0.4	-10.6	6.4	0.5	19.5

Non-current other provisions 2013

in € million	Balance at Jan. 1, 2013	Transferred	Utilized	Dissolved	Allocated	Discount reversed	Balance at Dec. 31, 2013
Warranty obligations and risks from pending losses on onerous contracts	6.8		-7.2			0.4	
Personnel obligations	27.1	-12.3	-0.6		7.5	0.6	22.3
Contingent liabilities arising from business combinations	51.3		-53.6			2.3	
Other obligations	14.0			-3.7	0.1		10.4
Total non-current other provisions	99.2	-12.3	-61.4	-3.7	7.6	3.3	32.7

The following cash outflows are expected from the carrying amounts of non-current other provisions:

Expected cash outflow from non-current other provisions

in € million	Carrying amount	Probable cash outflow / financial year	
	Dec. 31, 2014	2015	2016
Personnel obligations	18.7		9.0
Other obligations	0.8		
Total expected cash outflow from non-current other provisions	19.5		9.0

Expected cash outflow from non-current other provisions

in € million	Carrying amount	Probable cash outflow / financial year	
	Dec. 31, 2013	2014	2015
Personnel obligations	22.3		9.3
Other obligations	10.4		0.1
Total expected cash outflow from non-current other provisions	32.7		9.4

MTU expects that the stated personnel obligations will become due within the next five years.

Current other provisions developed as follows:

Current other provisions 2014

in € million	Balance at Jan. 1, 2014	Transferred	Utilized	Dissolved	Allocated	Translation differences	Balance at Dec. 31, 2014
Warranty obligations and risks from pending losses on onerous contracts	138.9		-39.1	-10.4	52.7	0.1	142.2
Personnel obligations	43.4	9.1	-41.6	-0.8	38.9	0.2	49.2
Losses arising from settlement of accounts	60.1		-21.4	-11.5	28.7	0.7	56.6
Subsequent costs	100.0		-42.0	-22.9	42.5		77.6
Other obligations	21.2		-10.2	-1.6	16.7	0.2	26.3
Other tax obligations	0.1						0.1
Total current other provisions	363.7	9.1	-154.3	-47.2	179.5	1.2	352.0

Current other provisions 2013

in € million	Balance at Jan. 1, 2013	Transferred	Utilized	Dissolved	Allocated	Translation differences	Balance at Dec. 31, 2013
Warranty obligations and risks from pending losses on onerous contracts	123.7		-22.6	-7.8	46.4	-0.8	138.9
Personnel obligations	52.6	12.3	-52.1	-0.8	31.5	-0.1	43.4
Losses arising from settlement of accounts	67.3		-38.5	-3.5	36.4	-1.6	60.1
Subsequent costs	84.8		-39.3		54.5		100.0
Other obligations	16.3		-4.3	-0.4	9.7	-0.1	21.2
Other tax obligations	0.1						0.1
Total current other provisions	344.8	12.3	-156.8	-12.5	178.5	-2.6	363.7

The cash outflows resulting from the carrying amounts of current other provisions are expected to be realized in the

calendar year following the reporting period.

Warranty obligations and risks from pending losses on onerous contracts

The main component of this item of provisions is an amount of € 141.1 million (2013: € 136.0 million) for the liabilities associated with warranty obligations in connection with the delivery of goods and services.

MTU has identified onerous contracts in which the unavoidable costs of fulfilling contractual obligations are higher than the expected inflow of economic benefits from these contracts. A provision of € 1.1 million (2013: € 2.9 million) was recognized to cover the difference. When measuring and recognizing this provision, priority was given to impairment losses on assets relating to these contracts.

Personnel obligations

The provisions for personnel expenses include provisions for long-service awards amounting to € 4.6 million (2013: € 4.7 million). The provisions for pre-retirement part-time working arrangements are based on the collective agreement on phased retirement and related works agreements. On the basis of these agreements, obligations amounting to € 13.3 million (2013: € 15.5 million) – after deduction of corresponding plan assets amounting to € 11.2 million (2013: € 11.0 million) – were recognized at December 31, 2014. A further line item is provisions for profit-sharing bonuses, which amounted to € 48.5 million (2013: € 44.7 million) and relates to the annual performance bonus for the Executive Board, senior managers, employees covered by the collective wage agreement and exempt employees, and to the long-term compensation for the Executive Board and senior managers.

For more detailed explanatory comments concerning the annual performance bonus (APB) for the Executive Board, please refer to the management compensation report in the Corporate Governance section of this Annual Report. One half of the annual performance bonus is paid in the calendar year following the financial year in which it was awarded. The remaining 50% of the APB is deferred and paid out in two equal portions over the following two financial years. The deferred components of the APB are measured on the basis of the level of goal achievement attained in the subsequent financial years.

A portion of the annual performance bonus for senior managers – 70% for tier-1 (OFK) and 80% for tier-2 (FK) – is paid in the calendar year following the financial year in which it was

awarded. Payment of the remaining 30% (OFK) or 20% (FK) is deferred to the subsequent year. The deferred component is measured on the basis of the level of goal achievement attained in the subsequent financial year.

The long-term compensation awarded to members of the Executive Board and senior management is granted in annual tranches under the Performance Share Plan (PSP). Through this plan, part of the target direct compensation is paid in the form of virtual shares (so-called performance shares), with different conditions applying to the Executive Board, tier-1 senior managers (OFK) and tier-2 senior managers (FK).

The number of performance shares granted to the Executive Board is determined in accordance with the level of performance-related compensation as approved by the Supervisory Board, taking into account the average MTU share price (Xetra) in the period preceding the grant date.

In the case of the Executive Board, the cash settlement for performance shares is disbursed after a vesting period of four years; in the case of senior managers, the vesting period is three years for the first tier and two years for the second. The value of the performance shares is measured on the basis of the average MTU share price (Xetra) prior to the end of the vesting period. The number of performance shares on which payment is based depends on the MTU share performance during the vesting period compared with that of other MDAX companies, in terms of total shareholder return (TSR). Depending on the relative performance level, the PSP participants can expect to receive a payment equivalent to between 0% and 150% of the value of the individually allocated performance shares. If the minimum performance threshold – ranking at least 45th in the MDAX TSR rating – is not achieved, the participants receive no payment. The amount paid out is capped at three times the individual participant's long-term target compensation as assigned at the grant date.

The fair value of the expected payout of the performance shares was calculated for each tranche and for each particular group entitled to receive it using a combined Monte Carlo simulation and Black-Scholes pricing model. In this way, the fair values of the PSP tranches were reduced to make allowance for the residual probability that they might lapse. The calculation therefore incorporated an assumed fluctuation rate of 4% p.a. Given that a collective method of calculation was used, no individual departure probabilities based on age or years of service were factored in.

Performance Share Plan (PSP)

(number of shares or value in €)	Average Xetra share price ¹⁾	Granted performance shares			Exercisable performance shares	Performance shares not yet exercisable at year end		Time to end of vesting period for performance shares
		Number at Jan. 1, 2014 shares	Acquired in 2014 shares	Number at Dec. 31, 2014 shares		Performance shares 2014 shares	Number at Dec. 31, 2014 shares	
Financial year 2014	€							Time at Dec. 31, 2014 months
Executive Board								
Performance shares tranche 2 granted 2011	47.03	22,325		22,325	22,325			
Performance shares tranche 3 granted 2012	47.47	23,448		23,448		23,448	36.68	12
Performance shares tranche 4a granted 2013	67.16	16,573		16,573		16,573	30.08	24
Performance shares tranche 4b granted 2013	76.59	1,763		1,763		1,763	31.96	30
Performance shares tranche 5 granted 2014	69.87		22,464	22,464		22,464	49.30	36
Total / average (Executive Board)	57.53	64,109	22,464	86,573	22,325	64,248	39.26	24
Tier-1 senior managers (OFK)								
Performance shares tranche 3 granted 2012	47.47	17,816		17,816	17,816			
Performance shares tranche 4 granted 2013	67.16	14,171		14,171		14,171	24.83	12
Performance shares tranche 5 granted 2014	69.87		14,250	14,250		14,250	50.64	24
Total / average (tier-1 senior managers)	60.41	31,987	14,250	46,237	17,816	28,421	37.77	18
Tier-2 senior managers (FK)								
Performance shares tranche 4 granted 2013	67.16	26,811		26,811	26,811			
Performance shares tranche 5 granted 2014	69.87		26,053	26,053		26,053	51.14	12
Total / average (tier-2 senior managers)	68.50	26,811	26,053	52,864	26,811	26,053	51.14	12
Total / average (all participants)	61.37	122,907	62,767	185,674	66,952	118,722	41.51	20

Note: No performance shares lapsed or were forfeited in the financial year 2014.

¹⁾ Average Xetra share price during the 30 days preceding the grant date.

The comparative data for the financial year 2013 are presented below:

Performance Share Plan (PSP)

(number of shares or value in €)	Average Xetra share price ¹⁾	Granted performance shares			Exercisable performance shares	Performance shares not yet exercisable at year end		Time to end of vesting period for performance shares
		Number at Jan. 1, 2013 shares	Acquired in 2013 shares	Number at Dec. 31, 2013 shares		Number at Dec. 31, 2013 shares	Fair value at Dec. 31, 2013 €	
Financial year 2013	€							
Executive Board								
Performance shares tranche 1a granted 2010	36.63	28,666		28,666	28,666			
Performance shares tranche 1b granted 2010	46.64	6,031		6,031	6,031			
Performance shares tranche 2 granted 2011	47.03	34,285		34,285	11,960	22,325	57.93	12
Performance shares tranche 3 granted 2012	47.47	36,009		36,009	12,561	23,448	44.75	24
Performance shares tranche 4a granted 2013	67.16		25,451	25,451	8,878	16,573	37.67	36
Performance shares tranche 4b granted 2013	76.59		1,763	1,763		1,763	38.58	42
Total / average (Executive Board)	49.15	104,991	27,214	132,205	68,096	64,109	47.34	23
Tier-1 senior managers (OFK)								
Performance shares tranche 2 granted 2011	47.03	18,204		18,204	18,204			
Performance shares tranche 3 granted 2012 ²⁾	47.47	17,816		17,816		17,816	41.81	12
Performance shares tranche 4 granted 2013 ²⁾	67.16		14,171	14,171		14,171	34.71	24
Total / average (tier-1 senior managers)	52.87	36,020	14,171	50,191	18,204	31,987	38.66	17
Tier-2 senior managers (FK)								
Performance shares tranche 3 granted 2012	47.47	36,476		36,476	36,476			
Performance shares tranche 4 granted 2013 ²⁾	67.16		26,811	26,811		26,811	28.39	12
Total / average (tier-2 senior managers)	55.81	36,476	26,811	63,287	36,476	26,811	28.39	12
Total / average (all participants)	51.62	177,487	68,196	245,683	122,776	122,907	40.95	19

Note: No performance shares lapsed or were forfeited in the financial year 2013.

¹⁾ Average Xetra share price during the 30 days preceding the grant date.

²⁾ Adjusted prior-year data.

The fair value of the performance shares granted under each tranche of the PSP was as follows:

Performance Share Plan (PSP)

Fair value of performance shares at the grant date	Tranche 5 granted in financial year 2014	Tranche 4b granted in financial year 2013	Tranche 4a granted in financial year 2013	Tranche 3 granted in financial year 2012	Tranche 2 granted in financial year 2011	Tranche 1b granted in financial year 2010	Tranche 1a granted in financial year 2010
Executive Board	50.42	52.20	47.98	34.26	31.26	27.13	22.96
Tier-1 senior managers (OFK)	52.56		50.15	36.27	34.40		
Tier-2 senior managers (FK)	54.37		51.93	37.91	37.25		

Share-based compensation gave rise to the following expenses:

Performance Share Plan (PSP)

in € million	Expense 2014	Balance at Dec. 31, 2014	Expense 2013	Balance at Dec. 31, 2013
Expense recognized for cash settlement of share-based compensation	2.9		4.0	
Carrying amount of liabilities arising from the cash settlement of share-based compensation		5.7		9.6
Total	2.9	5.7	4.0	9.6

Losses arising from the settlement of accounts

Losses arising from the settlement of accounts relate to retrospective price adjustments or special conditions agreed with end customers and expected sales adjustments on the part of commercial customers, consortium leaders and public-sector customers.

Supplementary costs

Supplementary costs mainly comprise amounts recognized in respect of costs incurred in connection with outstanding contractual payments owed by suppliers, con-sortium partners and other customers.

Other obligations

Provisions for other obligations cover a multitude of identifiable individual risks and contingent liabilities of immaterial importance.

Other tax obligations

Other tax obligations relate to amounts recognized in respect of outstanding trade taxes and other taxes on business operations for the current financial year.

28. FINANCIAL LIABILITIES

Financial liabilities

in € million	Total		Non-current		Current	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Corporate bonds	352.7	352.3	346.7	346.3	6.0	6.0
Financial liabilities arising from IAE-V2500 stake increase	414.6	286.4	367.8	245.1	46.8	41.3
Financial liabilities to banks						
Promissory notes		12.0				12.0
Note purchase agreement	30.1		30.0		0.1	
Revolving credit facility	9.6				9.6	
Liabilities to related companies	0.1	4.8			0.1	4.8
Derivatives without hedging relationship	12.2	3.5	10.0	2.1	2.2	1.4
Derivatives with hedging relationship	71.4	0.2	34.1		37.3	0.2
Finance lease liabilities	14.2	6.4	12.9	6.2	1.3	0.2
Total gross financial debt	904.9	665.6	801.5	599.7	103.4	65.9
Other financial liabilities (FLAC/n.a.)						
Repayment of grants toward development costs	46.3	57.3	36.9	49.9	9.4	7.4
Sundry other financial liabilities	243.1	156.0	96.5	71.3	146.6	84.7
Personnel-related financial liabilities	18.0	15.7	6.4	4.5	11.6	11.2
Total other financial liabilities	307.4	229.0	139.8	125.7	167.6	103.3
Total financial liabilities	1,212.3	894.6	941.3	725.4	271.0	169.2

Corporate bonds

In order to finance the purchase price components of the increase in the company's stake in the IAE V2500 engine program, MTU Aero Engines AG, Munich, issued a bond for a nominal amount of € 250.0 million with effect from June 21, 2012. The bond earns an annual rate of interest of 3% from the date of issue (June 21, 2012) until the repayment date (June 21, 2017). The interest is payable in arrears on June 21 of each year. The bond, including transaction costs and a discount of € 1.5 million, was recognized at amortized cost.

MTU Aero Engines AG issued a registered bond on June 12, 2013 for a total nominal amount of € 100.0 million. The registered bond is repayable on June 12, 2028 and is subject to

interest of 3.55% p.a. Interest is payable in arrears on June 12 of each year, for the first time on June 12, 2014. The registered bond, including transaction costs and a discount of € 2.7 million, was recognized at amortized cost.

The following rules apply to both bonds in the event of a change of control: every bondholder is entitled to declare due part or all of his/her bond units for the nominal amount plus any accrued interest. This does not apply if the issuer has already called in the bonds. A change-of-control event occurs if the rating is lowered in the course of the change of control. A lowering of the rating occurs if, (1) during the change-of-control period, a rating previously granted by a rating agency to MTU or to one of its outstanding non-current liabilities is withdrawn or is changed from an investment grade rating (equivalent to or

higher than Baa3 (Moody's) or BBB- (Fitch or S&P)), or if, (2) at the time of the change of control, no investment grade rating has been awarded by a rating agency to the bonds or to MTU and no rating agency awards an investment grade rating to the bond within the change-of-control period.

Financial liabilities arising from IAE-V2500 stake increase

A condition precedent included in the purchase price agreement signed by MTU in the financial year 2012 in order to increase its stake in the V2500 engine program by five percentage points to 16% made it necessary to recognize a financial liability contingent upon the number of flight hours performed by the in-service fleet of V2500 engines over the next 15 years. After interest cost and repayments were taken into account, this liability amounted to € 414.6 million at December 31, 2014 (2013: € 286.4 million). This increase is the result of an updated estimation of the future number of flight hours, and was recognized as post-acquisition costs under program assets. For a detailed description of the initial measurement of the IAE-V2500 stake increase, please refer to page 129 et seq. of the 2012 Annual Report. Further information on subsequent measurements, and in particular the change in carrying amount in the financial year 2014, please refer to Part I of these Notes (Fundamentals and methods – Adjustment of prior-year figures).

Financial liabilities to banks

Promissory notes

MTU placed four promissory notes for a nominal amount of € 65.0 million (less transaction costs of € 0.4 million) on June 3, 2009. Of this amount, promissory notes for a nominal amount of € 40.0 million were repurchased in 2010 and a further € 13.5 million repaid on maturity on June 5, 2012. The remaining nominal amount of € 11.5 million was repaid on maturity on June 5, 2014. These notes were subject to a fixed interest rate of 7.57% per annum.

Note purchase agreement

MTU Aero Engines AG issued a note purchase agreement on March 28, 2014 for a total nominal amount of € 30.0 million and with a maturity date of March 27, 2021. The note purchase agreement has a variable interest rate corresponding to the 6-month Euribor rate plus a percentage margin. The initial interest rate amounts to 1.72%. The interest is calculated and paid twice a year, in March and September.

Revolving credit facility

The company has access to a revolving credit facility of € 400.0 million (2013: € 400.0 million) with five banks, which originally ran until October 30, 2018. This facility was renewed for a further year in 2014 and now runs until October 30, 2019. Any credit utilized is subject to interest at the customary market reference rates plus an additional margin. Unused credit facilities are subject to a loan commitment fee. A total of € 22.5 million (2013: € 15.2 million) had been drawn down under this facility at December 31, 2014, € 12.9 million of which in the form of guarantees in favor of third parties.

MTU has undertaken to ensure that certain financial indicators remain within defined boundaries throughout the respective terms of the revolving credit facility as follows: MTU's debt-equity ratio (consolidated net financial debt in relation to the adjusted EBITDA) at the end of each quarter shall not exceed 3.0; the times interest earned ratio (adjusted EBITDA in relation to the consolidated net interest expense) at the end of each quarter shall not fall below 4.0. These financial indicators are obtained from the quarterly interim financial reports.

Liabilities arising out of derivatives

The financial liabilities arising out of derivatives stem from the portfolio of derivative financial instruments in the amount of € 83.6 million (December 2013: € 3.7 million) held at the reporting date for the purposes of hedging exchange-rate and commodity-price risks. The increase in these liabilities is a result of the development of the euro / U.S.-dollar exchange rate in 2014.

Finance lease liabilities

Finance lease liabilities represent obligations under finance lease arrangements that are capitalized and amortized using the effective interest method; see Note 15.

Personnel-related financial liabilities

Personnel-related financial liabilities amounting to € 18.0 million (2013: € 15.7 million) include liabilities to group employees in Germany under the MAP employee stock option program of € 4.6 million (2013: € 4.5 million), which was offered again in

the financial year 2014 by the Executive Board of MTU Aero Engines AG, Munich. Under this program, MTU offers all eligible employees covered by the collective wage agreement and exempt employees who do not form part of senior management the opportunity to invest in MTU shares and in return to receive a taxable matching payment at the end of a two-year vesting period corresponding to 50% of the amount invested by the employee in MTU shares at the beginning of the program.

The number of shares sold to group employees under the terms of the MAP employee stock option program in the financial years 2014 and 2013 was as follows:

MAP employee stock option program

Issue date	Number of shares sold	Average cost of acquisition in € million	Total proceeds of sale in € million	Selling price per share in €
June 2014	117,575	2.4	7.9	67.34
June 2013	103,400	2.3	7.4	71.81

The total expense for the matching exercise in connection with the MAP employee stock option program in the financial year 2014 amounted to € 3.1 million (2013: € 3.9 million) and was recognized in the income statement on a pro rata basis over the duration of the respective tranche.

The purchase price for the MTU shares allocated in the financial year 2014 amounted to € 67.34 per share. The shares transferred to the employees, measured at the average acquisition cost, were removed from the equity item "treasury shares". The difference between the proceeds of the sale and the original acquisition cost amounted to € 5.5 million (2013: € 5.1 million) and was allocated to capital reserves.

Personnel-related financial liabilities additionally include liabilities amounting to € 0.4 million (2013: € 0.1 million) arising from the Share Matching Plan (SMP) for senior managers, which was offered again in the financial year 2014 by the Executive Board of MTU Aero Engines AG, Munich. Under the SMP, MTU offers all eligible senior managers the opportunity to invest in MTU shares and in return to receive a taxable matching payment at the end of a two-year vesting period corresponding to one third of the amount originally invested by the senior manager in MTU shares.

Share Matching Plan for senior managers (OFK/FK)

Issue date	Number of shares sold	Average cost of acquisition in € million	Total proceeds of sale in € million	Selling price per share in €
June 2014	20,917	0.4	1.4	67.34
June 2013	12,396	0.3	0.9	71.81

The total expense for the matching exercise in connection with the Share Matching Plan for senior managers in the financial year 2014 amounted to € 0.3 million (2013: € 0.1 million) and was recognized in the income statement on a pro rata basis over the duration of the respective tranche.

The purchase price for the MTU shares allocated in the financial year 2014 amounted to € 67.34 per share. The shares transferred to senior managers, measured at the average acquisition cost, were removed from the equity item "treasury shares". The difference between the proceeds of the sale and the original acquisition cost amounted to € 1.0 million (2013: € 0.6 million) and was allocated to capital reserves.

Finally, personnel-related financial liabilities also include one-time capital payments and payments by installment totaling € 7.3 million (2013: € 4.7 million) relating to the company pension scheme, together with numerous other, non-significant payment obligations in connection with daily allowances and out-of-pocket expenses.

Repayment of grants toward development costs

In the financial years from 1976 through 1991, MTU received grants from the German Federal Ministry of Economics and Technology toward the development costs of the PW2000 engine program. Once the sales figures of PW2000 production engines for the Boeing 757 and C-17 as set down in the grant notice have been reached, MTU is obliged to pay back the full sum of the grants received within a time frame of ten years. In the financial years 2011 through 2013, a total amount of € 8.1 million was repaid and in 2014 a further € 7.4 million.

Sundry other financial liabilities

Sundry other financial liabilities amount to € 243.1 million (2013: € 156.0 million) and include obligations from the purchase of stakes in engine programs and externally acquired development services in the amount of € 206.2 million (2013: € 133.0 million), principally for the PW1000G family and PW800 engine programs. Sundry other financial liabilities also include numerous minor individual obligations.

29. TRADE PAYABLES

Trade payables

in € million	Dec. 31, 2014	Dec. 31, 2013
Accounts payable to:		
Third parties	572.4	451.4
Related companies	61.2	16.1
Total trade payables	633.6	467.5

Trade payables totaling € 633.6 million (2013: € 467.5 million) include amounts payable for purchased goods and services. The remeasurement of accounts payable to related companies, on the basis of new information obtained in the course of the year, made it necessary to increase accrued liabilities by € 73.0 million in one case and reverse accrued liabilities in the amount of € 20.0 million in another case. Over and above these significant changes, numerous other, individually insignificant, amortization effects arose during the year.

The total amount of trade payables is due within one year.

30. CONSTRUCTION CONTRACT AND SERVICE BUSINESS PAYABLES

Construction contract and service business payables represent the excess amount after advance payments received have been offset against the corresponding receivables, measured using the percentage-of-completion method (see Note 19. Construction contract and service business receivables).

Construction contract and service business payables

in € million	Dec. 31, 2014	Dec. 31, 2013
Advance payments received for construction contracts	594.3	726.4
Amount of above offset against construction contract receivables	-274.4	-312.0
Advance payments received for service business	165.8	133.4
Total construction contract and service business payables	485.7	547.8

The advance payments received relate to future deliveries of engine modules and parts and to the provision of engine maintenance services.

31. OTHER LIABILITIES

Other liabilities

in € million	Total		Non-current		Current	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Personnel-related liabilities						
Social security	2.0	2.4			2.0	2.4
Other personnel-related liabilities	27.6	25.7			27.6	25.7
Other tax liabilities	11.3	7.3			11.3	7.3
Sundry other liabilities	0.2				0.2	
Total other liabilities	41.1	35.4			41.1	35.4

Personnel-related liabilities

Amounts due for social security principally comprise contributions to social insurance against occupational accidents amounting to € 0.2 million (2013: € 0.7 million) and amounts due to health insurers totaling € 1.8 million (2013: € 1.7 million). Other personnel-related liabilities concern vacation entitlements and flextime credits.

Other tax liabilities

The tax liabilities amounting to € 11.3 million (2013: € 7.3 million) concern payable wage and church taxes, solidarity surcharges and domestic and foreign transactional taxes.

32. 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, irrespective of whether or

not the instruments fall within the scope of IFRS 7 or IAS 39. The information presented also includes separate amounts for each category as a function of the measurement / recognition method applied. Finally, the carrying amounts are set opposite the fair values for comparison.

Disclosures relating to financial instruments:

Carrying amounts, measurement/recognition methods and fair value aggregated by category 2014

in € million	Category as defined in IAS 39 / other categories	Carrying amount Dec. 31, 2014
ASSETS		
Other assets		
Loans and receivables and sundry other financial assets	LaR	61.7
Held-to-maturity investments	HtM	
Available-for-sale financial assets	AfS	69.4
Financial assets held for trading	FAHFT	
Trade receivables	LaR	679.7
Construction contract and services business receivables	LaR	271.2
Derivative financial assets		
Derivatives without hedging relationship	FAHFT	2.6
Derivatives with hedging relationship	n. a.	
Cash and cash equivalents	LaR	64.6
EQUITY AND LIABILITIES		
Trade payables	FLAC	633.6
Financial liabilities		
Corporate bonds	FLAC	352.7
Financial liabilities arising from IAE-V2500 stake increase	FLAC	414.6
Other gross financial debt	FLAC	39.8
Derivative financial liabilities		
Derivatives without hedging relationship	FLHFT	12.2
Derivatives with hedging relationship	n. a.	71.4
Finance lease liabilities	n. a.	14.2
Other financial liabilities	FLAC / n.a.	307.4
Thereof aggregated by category as defined in IAS 39		
Loans and receivables	LaR	1.077.2
Held-to-maturity investments	HtM	
Available-for-sale financial assets	AfS	69.4
Financial assets held for trading	FAHFT	2.6
Financial liabilities measured at amortized cost	FLAC / n.a.	1.748.1
Financial liabilities held for trading	FLHFT	12.2

Abbreviations:

LaR = Loans and Receivables

HtM = Held-to-Maturity

AfS = Available-for-Sale Financial Assets

FAHFT = Financial Assets Held for Trading

FLAC = Financial Liabilities Measured at Amortised Cost

FLHFT = Financial Liabilities Held for Trading

FLtPL = Financial liabilities measured at fair value through profit or loss

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, 2014
Measured at amortized cost	Measured at cost	Fair value recognized in equity	Fair value recognized in income statement				
61.7						61.7	61.7
	6.4	63.0				69.4	69.4
679.7						679.7	679.7
271.2						271.2	271.2
			2.6			2.6	2.6
64.6						64.6	64.6
633.6						633.6	633.6
352.7						352.7	365.0
414.6						414.6	415.4
39.8						39.8	39.8
			12.2			12.2	12.2
		71.4				71.4	71.4
				14.2		14.2	14.2
287.3				2.6	17.5	307.4	312.9
1,077.2						1,077.2	1,077.2
	6.4	63.0				69.4	69.4
			2.6			2.6	2.6
1,728.0				2.6	17.5	1,748.1	1,766.7
			12.2			12.2	12.2

Financial instruments not within the scope of IFRS 7 or IAS 39 mainly comprise liabilities arising from employee benefits and the corresponding plan assets accounted for in accordance with IAS 19, and income tax liabilities and claims accounted for in accordance with IAS 12.

The table below provides comparative information on the carrying amounts, measurement / recognition methods and fair values aggregated by category for the financial year 2013:

Disclosures relating to financial instruments:

Carrying amounts, measurement/recognition methods and fair value aggregated by category 2013

in € million	Category as defined in IAS 39 / other categories	Carrying amount Dec. 31, 2013
ASSETS		
Other assets		
Loans and receivables and sundry other financial assets	LaR	38.9
Held-to-maturity investments	HtM	
Available-for-sale financial assets	AfS	60.9
Financial assets held for trading	FAHFT	
Trade receivables	LaR	552.1
Construction contract and services business receivables	LaR	193.4
Derivative financial assets		
Derivatives without hedging relationship	FAHFT	26.1
Derivatives with hedging relationship	n.a.	43.2
Cash and cash equivalents	LaR	159.6
EQUITY AND LIABILITIES		
Trade payables	FLAC	467.5
Financial liabilities		
Corporate bonds	FLAC	352.3
Financial liabilities arising from IAE-V2500 stake increase	FLAC	286.4
Other gross financial debt	FLAC	16.8
Derivative financial liabilities		
Derivatives without hedging relationship	FLHFT	3.5
Derivatives with hedging relationship	n.a.	0.2
Finance lease liabilities	n.a.	6.4
Other financial liabilities	FLAC / n.a.	229.0
Thereof aggregated by category as defined in IAS 39		
Loans and receivables	LaR	944.0
Held-to-maturity investments	HtM	
Available-for-sale financial assets	AfS	60.9
Financial assets held for trading	FAHFT	26.1
Financial liabilities measured at amortized cost	FLAC / n.a.	1,352.0
Financial liabilities held for trading	FLHFT	3.5

Abbreviations:

LaR = Loans and Receivables

HtM = Held-to-Maturity

AfS = Available-for-Sale Financial Assets

FAHfT = Financial Assets Held for Trading

FLAC = Financial Liabilities Measured at Amortised Cost

FLHfT = Financial Liabilities Held for Trading

FLtPL = Financial liabilities measured at fair value through profit or loss

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, 2013
Measured at amortized cost	Measured at cost	Fair value recognized in equity	Fair value recognized in income statement				
38.9						38.9	38.9
	9.9	51.0				60.9	60.9
552.1						552.1	552.1
193.4						193.4	193.4
			26.1			26.1	26.1
		43.2				43.2	43.2
159.6						159.6	159.6
467.5						467.5	467.5
352.3						352.3	362.9
286.4						286.4	279.6
16.8						16.8	16.8
			3.5			3.5	3.5
		0.2				0.2	0.2
				6.4		6.4	6.4
211.4				1.9	15.7	229.0	222.0
944.0						944.0	944.0
	9.9	51.0				60.9	60.9
			26.1			26.1	26.1
1,334.4				1.9	15.7	1,352.0	1,348.8
			3.5			3.5	3.5

Cash and cash equivalents, trade receivables and other receivables are generally due within a relatively short time. The carrying amounts of these assets therefore correspond approximately to their fair value at the reporting date.

As a rule, trade payables and other payables are due within a relatively short time. The amounts recognized for these liabilities therefore correspond approximately to their fair value at the reporting date.

Classification of fair-value measurements of financial assets and liabilities according to the fair-value hierarchy

In order to evaluate the significance of the factors used as input when measuring financial assets and liabilities at their fair value, MTU assigns these assets and liabilities to three levels of a fair value hierarchy.

The three levels of the fair value hierarchy are described below, together with their utilization when measuring financial assets and liabilities:

- Level 1 Quoted prices in active markets for identical assets or liabilities (unadjusted input);
- Level 2 Prices of assets and liabilities that can be observed directly or indirectly (derived);
- Level 3 Unobservable inputs used to measure prices of assets or liabilities.

The following tables show the allocation of financial assets and liabilities measured at fair value to the three levels of the fair value hierarchy for 2014 and 2013:

Classification within the fair-value hierarchy for the financial year 2014

in € million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair-value				
Derivative financial instruments		2.6		2.6
Available-for-sale financial assets		63.0		63.0
Total financial assets		65.6		65.6
Financial liabilities measured at fair-value				
Derivative financial instruments		83.6		83.6
Total financial liabilities		83.6		83.6

Classification within the fair-value hierarchy for the financial year 2013

in € million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair-value				
Derivative financial instruments		69.3		69.3
Available-for-sale financial assets		51.0		51.0
Total financial assets		120.3		120.3
Financial liabilities measured at fair-value				
Derivative financial instruments		3.7		3.7
Total financial liabilities		3.7		3.7

The fair-value of the derivative financial instruments and securities assigned to level 2 is measured using the discounted cash flow method.

Payment cash flows for financial liabilities

financial liabilities and derivative financial instruments held by MTU, measured at fair value through profit or loss.

The following tables list the contractually agreed, discounted payments of interest and principal on the non-derivative

Payment cash flows for financial liabilities 2014

in € million	Carrying amount Dec. 31, 2014	Cash flows 2015			Cash flows 2016			Cash flows 2017			Cash flows 2018 ff.		
		Fixed interest	Variable interest	Principal	Fixed interest	Variable interest	Principal	Fixed interest	Variable interest	Principal	Fixed interest	Variable interest	Principal
Trade payables	633.6			633.6									
Corporate bonds	352.7	11.0			11.0			11.0		250.0	38.5		100.0
Financial liabilities arising from IAE-V2500 stake increase	414.6			47.7			47.9			47.9			353.3
Other gross financial debt	39.8		0.5	9.7		0.5			0.5			1.7	30.0
Derivative financial liabilities													
Derivatives without hedging relationship	12.2			2.2			1.8			8.2			
Derivatives with hedging relationship	71.4			37.3			28.5			5.6			
Finance lease liabilities	14.2	0.4		1.3	0.4		1.4	0.3		1.4	3.0		10.1
Other financial liabilities	307.4			167.6			55.9			39.2			61.6

Payment cash flows for financial liabilities 2013

in € million	Carrying amount Dec. 31, 2013	Cash flows 2014			Cash flows 2015			Cash flows 2016			Cash flows 2017 ff.		
		Fixed interest	Variable interest	Principal	Fixed interest	Variable interest	Principal	Fixed interest	Variable interest	Principal	Fixed interest	Variable interest	Principal
Trade payables	467.5			467.5									
Corporate bonds	352.3	11.0			11.0			11.0			49.5		350.0
Financial liabilities arising from IAE-V2500 stake increase	286.4			42.1			42.9			42.0			209.2
Other gross financial debt	16.8	0.9		16.8									
Derivative financial liabilities													
Derivatives without hedging relationship	3.5			1.4									2.1
Derivatives with hedging relationship	0.2			0.2									
Finance lease liabilities	6.4	0.2		0.2	0.2		0.1	0.2		0.1	3.0		6.0
Other financial liabilities	229.0			103.3			26.2			36.3			66.1

The statement includes all instruments in the portfolio at December 31, 2014 for which payment terms had been contractually agreed. Amounts denominated in a foreign currency are translated at the exchange rate prevailing on the respective reporting date. The variable rate interest payments on the financial instruments are based on the most recent interest rate fixed prior to December 31, 2014. Financial liabilities with no fixed repayment date are always assigned to cash flows on the basis of the earliest likely repayment dates.

Within the scope of its partnerships in engine programs, MTU is a party to aircraft financing agreements for the purpose of promoting sales. These agreements are provided in two basic forms: predelivery payment (PDP) and backstop commitments. In both cases, any funds made available to the purchaser are always transferred directly to the aircraft manufacturer.

MTU classifies loan commitments offered up to the reporting date totaling a nominal amount of € 413.5 million (2013: € 593.2 million) as part of its gross risk in accordance with the requirements of IFRS 7. However, based on experience, it is considered to be very unlikely that these notional loan amounts will actually be utilized to their full extent. In the event that loan commitments are utilized, MTU considers the associated liquidity and credit risks to be manageable.

There are several reasons for this. Firstly, the proposed financing agreement does not become effective until it is taken up in contractual form. The conditions of the loan are adapted to the specific market and in the case of backstop commitments are cost-prohibitive. In the case of PDP financing, the consortium has collateral rights to the aircraft

while it is still in production and thus in the possession of the aircraft manufacturer – in the case of backstop commitments, the consortium retains direct ownership of the asset up to the delivery date. After delivery the lender retains a security interest in the aircraft. It is probable that other lenders will become third parties to any loans that are established, particularly in view of the offered modes of financing. Another factor that will tend to limit credit risks is the incorporation of supplementary restrictive clauses in the proposed agreements, which require the aircraft purchaser to provide evidence that their financial means are sufficient before the loan contract is signed.

With respect to the impact on MTU's liquidity of the notional loan amounts of the proposed financing agreements, the company always makes sure that its existing lines of credit (see Note 28.) provide adequate liquidity reserves, even in the unlikely case that all offers of financing agreements are taken up at the same time, and bears in mind the possibility of extending these lines of credit if it should become necessary in order to take on additional loan commitments.

Explanatory comments relating to net gain/loss on financial instruments by category

The tables below show the gains/losses arising from transactions involving financial instruments, aggregated by category, for 2014 and 2013. Interest income and expense in connection with financial assets and liabilities that are measured at fair value through profit or loss are not included here:

Net gain/loss on financial instruments by category 2014

Aggregated by category as defined in IAS 39	from interest	from investments	from remeasurement			from disposal	Net gain/loss 2014
			at fair value through profit or loss	currency translation	valuation allowances		
in € million							
Loans and receivables (LaR)	1.1			77.6	-3.2		75.5
Held-to-maturity investments (HtM)							
Available-for-sale financial assets (AFS)	1.1	2.1				0.6	3.8
Financial assets held for trading (FAHFT)			22.7				22.7
Financial liabilities measured at amortized cost (FLAC)	-10.1		-11.3	-35.6			-57.0
Financial liabilities held for trading (FLHFT)			-40.4				-40.4
Financial instruments not within the scope of IFRS 7 or IAS 39		22.0		-12.0			10.0
Total	-7.9	24.1	-29.0	30.0	-3.2	0.6	14.6

Net gain/loss on financial instruments by category 2013

Aggregated by category as defined in IAS 39	from interest	from investments	from remeasurement			from disposal	Net gain/loss 2013
			at fair value through profit or loss	currency translation	valuation allowances		
in € million							
Loans and receivables (LaR)	4.7			-10.9	-0.5		-6.7
Held-to-maturity investments (HtM)							
Available-for-sale financial assets (AFS)	0.1	2.1					2.2
Financial assets held for trading (FAHFT)			18.6				18.6
Financial liabilities measured at amortized cost (FLAC)	-16.5		-15.5	4.6			-27.4
Financial liabilities held for trading (FLHFT)			-7.2				-7.2
Financial instruments not within the scope of IFRS 7 or IAS 39		17.9		-4.8			13.1
Total	-11.7	20.0	-4.1	-11.1	-0.5		-7.4

The interest component of financial instruments is recognized under net interest expense (see Note 8.). Other components of net income or loss are recorded in MTU's financial statements in the financial result on other items (Note 9.), with the exception of the expense for valuation allowances on trade receivables, which comes under the category of loans and receivables and is recognized under selling expenses. Gains/losses arising from translation differences on trade receivables and payables are recognized under revenues or cost of sales respectively.

Explanatory comments relating to net interest expense

The net interest expense of € 10.1 million (2013: € 16.5 million) on financial liabilities classified as "financial liabilities measured at amortized cost" mainly comprises interest expenses attributable to the corporate bonds, credit agreements with banks, and finance lease liabilities.

Explanatory comments relating to measurement subsequent to initial recognition

The net gain/loss on financial instruments measured at fair value mainly comprises exchange rate gains and losses arising from the measurement of derivatives. The item "Financial liabilities measured at amortized cost" contains changes in the discount rate applied in the measurement of this category of liabilities and provisions.

Gains amounting to € 77.6 million (2013: losses amounting to € 10.9 million) from the currency translation of financial assets classified as loans and receivables are mainly attributable to the measurement of trade receivables. These gains are offset by currency translation losses amounting to € 35.6 million (2013: gains amounting to € 4.6 million) on trade payables, which are classified as financial liabilities measured at amortized cost.

33. DEFERRED TAX ASSETS AND LIABILITIES

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. Deferred tax assets and liabilities were created for assets and liabilities as well as for actuarial gains and losses on plan assets and pension obligations and for derivative financial instruments. Deferred tax assets were also recognized for tax credits and losses available for carry-forward.

Changes in deferred tax assets and liabilities

in € million	Dec. 31, 2014		Dec. 31, 2013		2014	
	Deferred tax assets in the balance sheet	Deferred tax liabilities in the balance sheet	Deferred tax assets in the balance sheet	Deferred tax liabilities in the balance sheet	Tax income / expense (-) in the P&L	Direct
Assets						
Intangible assets	0.2	225.5	0.3	240.1	12.6	1.9
Property, plant and equipment	4.5	57.3	3.3	59.0	3.0	-0.1
Financial assets		0.8			-0.8	
Inventories	7.6	4.8	5.5	21.3	18.5	0.1
Receivables and other assets	1.3	16.3	1.3	16.0	-0.3	
Total assets	13.6	304.7	10.4	336.4	33.0	1.9
Equity						
Balance of hedging instrument assets and liabilities	24.9			21.3		46.2
Actuarial gains and losses on plan assets and pension obligations	93.2		45.3			47.9
Total equity	118.1		45.3	21.3		94.1
Liabilities						
Pension provisions	12.8	1.9	9.5	2.5	3.9	
Other provisions	21.3	0.4	22.6	0.5	-1.5	0.3
Liabilities	109.4		83.7		27.0	-1.3
Total liabilities	143.5	2.3	115.8	3.0	29.4	-1.0
Deferred tax on assets and liabilities	275.2	307.0	171.5	360.7	62.4	95.0
Tax credits and tax losses available for carry-forward						
Tax credits available for carry-forward	19.7		11.1		9.0	-0.4
Tax losses available for carry-forward	21.7		16.0		5.9	-0.2
Valuation allowances and unrecognized recoverable tax payments						
Valuation allowance on tax losses carried forward	-14.1		-16.0		1.7	0.2
Temporary differences for which no deferred tax assets were recognized	-25.8		-14.5		-11.7	0.4
Tax credits and losses carried forward	1.5		-3.4		4.9	
Deferred tax assets / liabilities before offset	276.7	307.0	168.1	360.7	67.3	95.0
Offset	-247.1	-247.1	-156.8	-156.8		
Net deferred tax assets / liabilities	29.6	59.9	11.3	203.9	67.3	95.0

Reference is made to Note 10. for further information relating to actual and deferred tax assets and liabilities resulting from the balance sheet and other items listed above and to the reconciliation between expected and recognized tax expense.

Deferred tax assets and liabilities are offset only if the balances relate to the same type of tax with similar maturities levied by the same taxation authority.

Deferred tax assets were recognized for deferred tax losses / credits available for carry-forward in the case of the following group companies:

Deferred tax assets recognized for tax losses / credits available for carry-forward at December 31

in € million	U.S. 2014	Poland 2014	Netherlands 2014	Total 2014	Total 2013
Unused tax losses	18.7	74.9	1.0	94.6	64.8
Tax credits available for carry-forward		19.7		19.7	11.1
Potential tax impact of tax losses / credits available for carry-forward	7.2	34.0	0.2	41.4	27.1
Valuation allowance on tax losses carried forward	7.2	-6.9		-14.1	-16.0
Balance sheet effect of deferred tax assets on tax losses / credits available for carry-forward		27.1	0.2	27.3	11.1

United States

Unused tax losses amounting to € 12.6 million incurred by MTU Aero Engines North America Inc., Rocky Hill, USA, (AENA) related to federal tax. In addition, both AENA and Vericor Power Systems LLC., Alpharetta, USA, had unused tax losses relating to state tax. In the interests of efficient reporting practice, the stated amount of these tax losses available for carry-forward was calculated using the respective basic tax rates for U.S. companies. The deferred tax assets derived from these losses were fully written down through valuation allowances, as in previous years, in view of the principle that the tax accounts should be identical with the commercial accounts, and therefore no deferred tax assets were recognized for these companies. In the United States, tax losses can be carried forward for 20 years.

Temporary differences for which no deferred tax assets were recognized totaled € 0.5 million in 2014 (2013: € 0.4 million) and related to MTU Aero Engines North America Inc., Rocky Hill, USA. The resulting potential tax impact of € 0.2 million (2013: € 0.2 million) was not taken into account in the computation of income tax expense.

Poland

MTU Aero Engines Polska Sp. z o. o. receives government support in the context of Poland's economic development program by virtue of its location in a special economic zone. Because its business investments help to create jobs, the company has been awarded tax credits in respect of the profits it expects to achieve through its production activities, with separate amounts being accorded each year through to 2026. In 2014, the time limit imposed on the utilization of some of the tax credits that already existed in 2013 was extended from 2017 to 2026. Deferred tax assets amounting to € 19.7 million (2013: € 11.1 million) were recognized on the basis of the business investments realized up to the reporting date, taking into account the currently expected earnings from the qualifying investment activities.

In addition to the activities for which tax advantages are granted, the company also provides services that are subject to normal taxation. In the financial years 2012 through 2014, this area of business resulted in tax losses totaling € 74.9 million. These losses can be carried forward only for five years and a ceiling is imposed on the amount carried forward. As a result, it was only possible to recognize deferred tax assets amounting to € 7.4 million (2013: € 0.0 million) in view of the currently expected earnings from the relevant activities. A valuation allowance corresponding to the maximum allowable amount of deferred tax assets was therefore recognized in the balance sheet.

At the reporting date, there were temporary differences amounting to € 134.7 million (2013: € 75.3 million) for which no deferred tax assets were recognized. The resulting potential tax impact of € 25.6 million (2013: € 14.3 million) was therefore not taken into account in the computation of income tax expense.

Netherlands

MTU Maintenance Lease Services B.V., Amsterdam, Netherlands, generated a loss of € 1.0 million in 2014. This resulted in tax losses available for carry-forward for which deferred tax assets amounting to € 0.2 million were recognized. In the Netherlands, tax losses can be carried forward for 9 years.

Deferred tax liabilities for taxable differences arising from investments in subsidiaries and joint ventures

In accordance with IAS 12, no deferred tax liabilities were recognized for permanent differences amounting to € 141.2 million (2012: € 68.2 million) that arose in connection with investments in subsidiaries and joint ventures. If these differences were to lead to the creation of deferred tax liabilities, they would result in a tax liability amounting to € 8.5 million (2013: € 5.0 million), based on the current tax law provisions.

IV. OTHER DISCLOSURES

34. MEASUREMENT OF THE RECOVERABLE AMOUNT OF OPERATING SEGMENTS TO WHICH GOODWILL HAS BEEN ATTRIBUTED

The group tests the goodwill of the cash-generating units for impairment annually. At MTU, the two operating segments – OEM (commercial and military engine business) and MRO (commercial maintenance business) – are viewed as cash-generating units. The value in use of each of the two operating segments at June 30, 2014, was calculated in order to determine their respective recoverable amounts. In the period between the reporting date and the impairment testing date, no new information came to our knowledge that might affect goodwill measurement. The recoverable amount determined for each operating segment was compared with the corresponding carrying amount. The calculations are based on the following assumptions:

In order to determine the value in use for each operating segment, which in turn determines their recoverable amount, it was necessary to predict future changes in the engine fleet and the corresponding market share of engines for which MTU holds or expects to hold the responsibility for supplying series-production modules and spare parts, including an estimation of the present and future value of related contracts of present or future significance to its service business, especially in the MRO segment. MTU uses these forecasting models as a basis for its capacity planning and corresponding revenue forecasts, from which are derived the planned EBIT and cash flow for each of the two operating segments. The planning figures are therefore necessarily based on expectations as regards future market shares, growth in the individual markets, the profitability of products as well as macroeconomic developments such as trends in exchange rates, interest rates and commodity prices. The future cash flows on which the value in use is based are planned without reference to financing activities or taxation.

The weighted average cost of capital (WACC) before tax is determined iteratively on the basis of an after-tax discount rate. The variables that enter into the calculation of weighted average cost of capital (WACC) after tax include the cost of

equity capital after tax, which comprises a risk-free base interest rate and a risk premium for the company (market risk premium multiplied by the beta coefficient calculated on the basis of a peer group analysis). The second component of WACC is the cost of debt capital, taken as the average cost of debt capital of the peer-group companies. Cost of equity and cost of debt capital are weighted according to the average capital structure of the peer-group companies.

In order to determine the weighted average cost of capital (WACC) in 2014, MTU used a risk-free base interest rate of 2.50%, a market risk premium of 6.00% and a beta coefficient of 1.08. The cost of debt capital was 2.35% after tax. The parameters taken into account when determining the value of the perpetuity for the period beyond the 5-year detailed planning horizon, based on an assumed perpetuity growth rate of 1%, were: for the OEM segment, the average of the revenues and EBIT margin used for long-term planning purposes and for the MRO segment, the revenues and EBIT margin of the last year of the planning period. The assumptions for the value in use included an average growth rate within the detailed planning horizon of 2.3% per annum (2013: 6.4% per annum), EBITDA margins of between 12.0% and 17.9% (2013: 9.4% – 15.4%) and a discount rate of 10.8% (2013: 10.1%) for the OEM segment (commercial and military engine business). The corresponding assumptions for the MRO segment (commercial maintenance business) were based on an average growth rate within the detailed planning horizon of 6.3% per annum (2013: 5.8% per annum), EBITDA margins of between 10.2% and 12.4% (2013: 10.5% – 12.0%) and a discount rate of 11.1% (2013: 10.3%).

The carrying amount of goodwill in the OEM segment (commercial and military engine business) was unchanged compared with 2013, at € 304.4 million, and the carrying amount for goodwill in the MRO segment (commercial maintenance business) was € 87.1 million (2013: € 86.6 million). The value in use of the OEM segment is € 2,949.2 million, and that of the MRO segment is € 1,379.2 million.

The calculations present no indications at the present time that could lead MTU to the conclusion that an impairment loss on goodwill for either of the operating segments is necessary.

35. SENSITIVITY ANALYSIS OF GOODWILL

Sensitivity analyses were carried out to determine the possible impact that a sustained reduction in planned earnings before interest and tax (EBIT) might have on the goodwill amounts allocated to each of the two operating segments. This analysis included sensitivity factors affecting the calculation of the weighted average cost of capital.

Assuming an unchanged weighted average cost of capital (WACC), the sensitivity analyses concluded that there would be no necessity to recognize an impairment loss on goodwill either in the OEM or MRO operating segment, even in the event of a sustained reduction in EBIT ranging to 20% below the earnings forecast established by management. This similarly applies in the hypothetical case in which EBIT in both segments remains unchanged while the weighted average cost of capital rises by 20%.

36. FINANCIAL RISKS

In the course of its ordinary business activities, MTU is exposed to credit risks, liquidity risks and market risks. The objective of financial risk management is to minimize the risks arising from operating activities and the resulting financing requirements through the use of selected derivative and non-derivative hedging instruments.

Risks in connection with the procurement, financing and sale of MTU's products and services are described in detail in the group management report. In order to counter financial risks, MTU has put in place a risk management system, which is monitored by the Supervisory Board. The principles of this system aim at rapidly identifying, analyzing and communicating risks and taking countermeasures. Market risks, particularly commodity price risks, currency risks, and interest risks, are analyzed in respect of their potential impact on earnings before interest and tax (EBIT) and on the interest result.

36.1. CREDIT RISK

With regard to financial instruments, MTU is exposed to a default risk, which arises from the possible non-performance of a contract partner; the maximum risk exposure thus amounts to the fair-value gain of the financial instrument concerned. To minimize the default risk, transactions are conducted only within defined limits and with partners with a very good credit rating. To enable efficient risk management, market risks are managed by a central unit within the group. Transactions are concluded and managed in compliance with internal guidelines and are subject to controls, taking account of the separation of functions.

In the case of derivative financial instruments, e.g. forward foreign exchange contracts, 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 at least investment grade (IG). For this reason, the general credit risk resulting from the use of derivative financial instruments is not considered to be significant.

There are no indications of any concentrations of default risk arising from business relations with individual debtors or groups of debtors.

The maximum default risk is represented by the carrying amounts of the financial assets recognized in the balance sheet. No material agreements existed at the reporting date that could reduce the maximum credit risk. Furthermore, MTU is exposed to a liability risk and hence a potential default risk as a result of obligations assumed under partnerships and the associated contingent liabilities. At the reporting date, MTU's proportionate share of these contingent liabilities totaled a nominal amount of € 52.4 million (2013: € 12.8 million).

MTU is a party to engine and aircraft financing agreements. A detailed description of these loan commitments is provided in Note 32.

36.2. MARKET RISKS

Currency risk

More than 80% of MTU's revenues are generated in U.S. dollars. Approximately half of this currency risk is offset in the normal course of business by costs incurred likewise in U.S. dollars. Most other costs are incurred in euros and in Chinese yuan renminbi, and to a lesser extent in Canadian dollars and Polish zloty. Changes in currency exchange rates in the unhedged portion of the portfolio thus have a direct impact on net income and cash flow.

Hedging strategy

MTU uses a hedging model to protect certain portions of its expected net foreign currency portfolio in order to minimize the effects of the volatility of the U.S. dollar exchange rate on the company's net income and cash flow.

Translation differences arising from the translation of financial statements of international entities into the group's functional currency are not included.

Forward foreign exchange contracts and financial instruments designated as cash flow hedges

At December 31, 2014, MTU held forward foreign exchange contracts for a contractual period up to April 2017 to sell a nominal volume of U.S. \$ 1,080.0 million (which translates to € 889.5 million at the exchange rate prevailing at the reporting date). Changes in the fair value of the forward foreign exchange contracts amounted to a loss of € -114.4 million in 2014 (2013: a gain of € 27.3 million). At December 31, 2013, MTU had hedged cash flows for the financial years 2014 - 2016 amounting to U.S. \$ 975.0 million (which translates to € 707.0 million at the exchange rate prevailing at December 31, 2013).

Out of the total nominal volume of forward foreign exchange contracts, the following amounts are expected to be used in the subsequent financial years:

Forward foreign exchange contracts

in U.S. \$ million	2014	2013
2014		565.0
2015	600.0	350.0
2016	370.0	60.0
2017	110.0	
Total U.S. \$ million	1,080.0	975.0
Translated into € million at the exchange rate prevailing on the reporting date	889.5	707.0

The company also holds other financial instruments designated as cash flow hedges covering periods extending to 2027 and representing a nominal amount of U.S. \$ 603.3 million (2013: U.S. \$ 463.7 million), which translates to € 496.6 million (2013: € 336.2 million) at the exchange rate prevailing at the reporting date.

In the financial year 2014, a gain of € 9.2 million (2013: € 4.4 million) was realized from effective forward foreign exchange contracts and recycled from equity to revenues. Transactions involving forward foreign exchange contracts that formed part of ineffective hedging relationships led to an expense of € 0.3 million (2013: income of € 1.0 million) which was recognized in the financial result on other items in 2014. At December 31, 2014, net of deferred taxes, fair-value losses on forward foreign exchange contracts amounting to € 48.1 million (2013: fair-value gains of € 29.0 million) were recognized directly in equity.

There were no transactions for which hedging relationships were established in prior periods that are no longer expected to occur.

As a further element of its risk management strategy, MTU employs derivative financial instruments that do not form part of a hedging relationship as defined by IAS 39:

Currency option transactions

Simple option transactions enable MTU to sell a defined quantity of U.S. dollars at agreed euro exchange rates at a specific time. The risk of financial loss from these transactions is limited to the premiums that have already been paid. At December 31, 2014, MTU held put options amounting to U.S. \$ 20.0 million (2013: U.S. \$ 50.0 million). In addition to these simple options, MTU also holds short-position options, which were concluded in order to reduce the amount paid in premiums. Losses exceeding the amount of premiums received for these options can be incurred if the exchange rate falls since MTU is obliged to sell U.S. dollars at a previously agreed euro / U.S. dollar exchange rate. At December 31, 2014, the volume of options sold amounted to U.S. \$ 40.0 million (2013: U.S. \$ 70.0 million).

Currency swaps

During the financial year 2014, U.S. dollar holdings were sold at the daily rate and repurchased after a short time using a swap. As the selling and purchase prices differ marginally, these swaps are immaterial in terms of risk. The purpose of this

transaction was to optimize the hedging of currency risk. At December 31, 2014, a currency swap line was in place covering a total amount of U.S. \$ 120.0 million (2013: U.S. \$ 90.0 million), with a maturity date of January 5, 2015.

Collective forward transactions

In the period up to December 2014, MTU concluded collective forward foreign exchange contracts for a nominal amount of U.S. \$ 310.0 million. The contract-specific hedging rates lie between 1.1720 and 1.3160 U.S. dollars to the euro for terms between 2015 and 2017. If the effective daily rate of the U.S. dollar lies within the corridor specified in a given contract, a fixed volume of U.S. dollars is hedged. If the rate is above the corridor, no volume is hedged; if it is below the corridor, the volume is doubled. The corridors in the contracts are generally between 1.172 and 1.55 U.S. dollars to the euro. The fair-value loss on these contracts amounted to € 7.1 million at the reporting date (2013: fair-value gain of € 23.1 million). This loss was recognized in the balance sheet under financial liabilities, while the change in the amount compared with the prior period was recognized in the income statement under financial result on other items.

Exchange rate sensitivity analysis

The sensitivity analysis showing the effects of hypothetical changes in exchange rates on the earnings after tax and equity is related to the holdings of the respective balance sheet items at the reporting date. In the process, it is assumed that the holding at the reporting date is representative of the whole year.

A large proportion of trade receivables and payables, and of finance lease liabilities, are invoiced in U.S. dollars, and are therefore exposed to exchange rate fluctuations. All other non-derivative financial instruments are already denoted 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.

If it is assumed that the exchange rate of the euro to the U.S. dollar at December 31, 2014, or at the prior year's reporting date had been 10% higher or lower than the actual closing rate, this would have produced the following hypothetical effects on earnings after tax (EAT) and equity:

Exchange rate sensitivity (€ / U.S. \$)

in € million	2014		2013	
	-10%	+10%	-10%	+10%
Closing exchange rate Dec. 31, 2014: 1.2141 (Dec. 31, 2013: 1.3791)	1.09	1.34	1.24	1.52
Earnings after tax	-39.8	26.3	-10.7	3.7
Equity¹⁾	-94.7	82.1	-71.8	62.9
Thereof: hedge reserve (fair value) ¹⁾	-100.6	86.9	-76.1	66.5

¹⁾ after tax.

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. MTU's interest rate risks are mainly related to pension obligations and financial liabilities.

Interest rate sensitivity analysis

IFRS 7 requires the presentation of interest rate risk in the form of a sensitivity analysis. This demonstrates the effects of changes in market interest rates on interest payments, interest income and expense, other income statement items, earnings after tax, and equity. The interest rate sensitivity analysis is based on the following assumptions.

Changes in the market interest rate of non-derivative financial instruments bearing interest at a fixed, normal rate have an effect on earnings after tax and equity only if these financial instruments are classified as "at fair value through profit or

loss" or were so designated at initial recognition. Consequently, all fixed-interest financial instruments measured at amortized cost have no effects on earnings after tax and equity that must be accounted for.

Changes in the market interest rate of financial instruments that have been designated as hedging instruments for the purposes of a cash flow hedge to reduce exposure to variations in payment due to interest rates have an impact on the hedge reserve in equity and are therefore included in the sensitivity analysis. Consequently, financial instruments that do not form part of a hedging relationship as defined by IAS 39 have an effect on the "financial result on other items" (adjustment of fair value of derivative instruments). These effects are taken into account in the income-related sensitivity analysis.

In the financial year 2014, no significant risks were discernable with respect to the financial instruments bearing variable interest rates or financial instruments measured at fair-value that were held by MTU at the reporting date.

Price risk

Commodity price risk

As a basic principle, there is a risk of commodity price increases. This risk is minimized mainly through commodity sales contracts with appropriate price agreements and only to a small extent through derivative financial instruments for forward commodity sales contracts for nickel.

At December 31, 2014, MTU had concluded forward commodity sales contracts with financial institutions for a volume of 100 metric tons of nickel (2013: 100 metric tons) for 2016

and contracted fixed prices for nickel between U.S. \$ 15,200 and 15,400 per metric ton (2013: U.S. \$ 19,300 – 21,500 per metric ton).

If the market price for nickel on the respective due date exceeds the agreed fixed price, MTU will receive a payment for the difference from the bank. In the opposite case, MTU is obligated to compensate the bank. No effective hedging relationship as defined in IAS 39 has been established for these transactions. The fair-value gains of € 0.1 million (2013: losses of € -0.7 million) arising from these forward commodity sales contracts are recognized in the financial result on other items (see Note 9.).

If it is assumed that the market price of forward commodity sales contracts for nickel had been 10% higher or lower, earnings after tax would have been € 0.1 million higher or lower, respectively (2013: € 0.1 million).

36.3. LIQUIDITY RISK

MTU's liquidity risk consists in non-compliance with payment obligations on account of insufficient cash or cash equivalents. In order to ensure the solvency and financial flexibility of MTU at all times, long-term credit lines and liquid funds are held available based on multi-year financial planning and rolling monthly liquidity planning.

MTU has concluded long-term syndicated loans and bilateral credit agreements with a number of banks. For further details, please see Note 28. The established lines of credit at the reporting date are considered sufficient to meet potential obligations arising from loans granted in connection with sales financing agreements in the years to come.

37. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

37.1. CONTINGENT LIABILITIES

Contingent liabilities

in € million	Dec. 31, 2014	Dec. 31, 2013
Contingent liabilities arising from risk- and revenue-sharing partnerships with:		
IAE International Aero Engines AG	49.3	3.9
Pratt & Whitney Aircraft Company	2.4	8.2
General Electric Company	0.7	0.7
Total contingencies	52.4	12.8
Guarantees and other contingent liabilities	15.6	39.4
Total contingent liabilities	68.0	52.2

When MTU enters into risk- and revenue-sharing agreements, the company assumes obligations toward the consortium leaders in commercial engine programs with respect to sales financing. For more details please refer to Note 32. The contingent liabilities arising from the risk- and revenue-sharing partnership with IAE result from MTU's share in the V2500 engine program, and hence also include liabilities relating to the indirect shareholding via PWAEI.

Guarantees and other contingent liabilities relate primarily to service agreements for gas turbine maintenance amounting to € 4.4 million (2013: € 15.7 million), and investment grants amounting to € 8.3 million (2013: € 20.7 million).

Proceedings are pending before the tax courts contesting land transfer tax assessments in connection with mergers. In view of these proceedings, processing of the land transfer tax statements in connection with the merger of MTU Aero Engines

GmbH into MTU Aero Engines Holding AG has been deferred by the tax authorities. According to current estimates, the ultimate land transfer tax expense could amount to € 10.5 million. As in 2013, MTU does not consider this eventuality to be a material tax risk.

MTU receives a minor amount in public sector grants and assistance, both in the shape of investment subsidies and grants toward research and development activities. The risk of repayment obligations exists until such time as the relevant project has been completed and all the conditions associated with it complied with. At the reporting date; the probability that risks of this kind could materialize was deemed to be very low.

37.2. OTHER FINANCIAL OBLIGATIONS

Obligations arising from operating lease arrangements

The rental and lease contracts for buildings, machines, tools, office and other equipment have terms of one to ten years and in certain cases contain extension and purchase options and / or price adjustment clauses. With regard to rental and lease agreements, payments of € 22.5 million (2013: € 23.6 million) were expensed in the financial year 2014.

The nominal total of future minimum lease payments arising from non-terminable operating lease agreements is as follows (based on due payment dates):

Nominal total of future minimum lease payments

in € million	Dec. 31, 2014	Dec. 31, 2013
Due in less than one year	14.0	10.6
Due in more than one and less than five years	39.0	29.4
Due in more than five years	8.0	7.3
Total future minimum lease payments	61.0	47.3

The nominal total of future minimum lease payments, which amounted to € 61.0 million at December 31, 2014, was higher than the previous year's amount of € 47.3 million. This year-on-year increase was mainly attributable to the commencement of operations of MTU Maintenance Lease Services B.V., Amsterdam, Netherlands, whose business activities primarily comprise the leasing of engines to and from third parties.

The main individual obligations arising from operating lease arrangements are as follows:

- Leasing of engines from MTU Maintenance Lease Services B.V., Amsterdam, Netherlands, under contracts with a duration of between 3 months and 8 years, some of which include price adjustment clauses to account for the escalation of use fees. Some of these contracts are based on variable leasing rates, indexed to the 6-month U.S. dollar LIBOR rate and adjusted accordingly at 6-month intervals. None of these contracts permit an extension of the originally agreed duration, but certain of them do include a purchase option when the leasing term expires.
- Rent for the buildings occupied by MTU Maintenance Canada Ltd., Richmond, Canada, under contracts with a duration of between 2 and 6 years. Some of these contracts include price adjustment clauses to account for the escalation of leasing rates. None of these contracts contain renewal or purchase options.
- Rental payments for offices occupied by MTU Aero Engines AG, Munich, under 15-year lease agreements. These contracts include price adjustment clauses linked to consumer price indices. If the consumer price index rises by more than 10% since the last rent increase, the rental payments are increased accordingly. One of these contracts includes a renewal option for a further 5 years.
- Lease payments for the building at the air base in Erding made available for an undetermined duration as part of a cooperative arrangement with the German air force. This contract contains neither renewal nor purchase options. The annual rent is fixed to the end of 2019.
- Rental payments for industrial trucks under a 5-year contract. This contract does not contain price adjustment clauses, and includes neither renewal nor purchase options.

Future income and expenses arising from rental agreements for sublet property

At December 31, 2014 the future minimum income from property subletting agreements amounted to € 5.9 million (2013: € 3.9 million). The total future minimum expenses associated with property subletting agreements amounted to € 5.9 million (2013: € 3.9 million). Payments amounting to € 0.8 million (2013: € 0.8 million) were recognized as an expense for these subletting agreements in the financial year 2014.

Order commitments for financial obligations

At December 31, 2014, order commitments for the purchase of intangible assets amounted to € 1.3 million (2013: € 0.3 million) and order commitments for the purchase of property, plant and equipment amounted to € 27.5 million (2013: € 19.3 million). These financial obligations were thus within normal limits.

38. RELATIONSHIPS WITH RELATED COMPANIES AND PERSONS

38.1. RELATED COMPANIES

Transactions between group companies and joint ventures or associated companies were, without exception, conducted in the context of their normal business activities and made on terms equivalent to those that prevail in arm's-length transactions.

Business transactions between companies included in the consolidated financial statements were eliminated in the course of consolidation and are therefore not subject to any further separate disclosure in these Notes.

Business with related companies

During the course of the financial year, intra-group transactions involving the supply of goods and services were conducted by group companies as part of their normal operating activities (e.g. development, repairs, assembly and IT support). The current receivables and liabilities that represent the outstanding balance of business transactions carried out with non-consolidated related companies in the financial years 2014 and 2013 are presented in the following tables:

Accounts receivable from related companies:

Accounts receivable from related companies

in € million	Outstanding balance		Value of business transactions			
	Receivables		Revenues / income / sales		Expenses / purchases	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
Eurojet Turbo GmbH, Hallbergmoos	18.1	11.7	185.0	282.1	-0.6	-0.9
EPI Europrop International GmbH, Munich	35.3	12.0	97.8	83.8	-28.3	-8.0
MTU Turbomeca Rolls-Royce ITP GmbH, Hallbergmoos	3.2	2.6	10.9	16.5	-1.0	-0.3
Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde		1.9	43.8	39.5		-0.3
Ceramic Coating Center S. A. S., Paris, France	0.1	0.1			-2.8	-2.7
Turbo Union Ltd., Bristol, England	3.3	2.5	87.4	72.2		
MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China		2.8	4.5	3.9	-64.8	-28.5
Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia	0.7	1.2	0.2	0.4	-5.6	-6.3
Middle East Propulsion Company Ltd., Riyadh, Saudi Arabia		0.8	0.1	0.4	-1.4	-0.6
Gesellschaft zur Entsorgung von Sondermüll in Bayern GmbH, Munich					-0.2	-0.2
Sumisho Aero Engines Lease B.V., Amsterdam, Netherlands	0.5		0.5		-2.1	
MTU Maintenance Service Centre Australia Pty. Ltd., Perth, Australia			0.4	0.1	-0.3	
AES Aerospace Embedded Solutions GmbH, Munich	0.3	0.8	4.3	8.2	-7.4	-27.5
MTU Maintenance Dallas Inc., Grapevine, USA		0.4		0.1	-0.8	-0.7
MTU Maintenance IGT Service do Brasil Ltda., São Paulo, Brazil	0.1		0.1		-0.6	-0.4
MTU Aero Engines Shanghai Ltd., Shanghai, China	0.1					
MTU Maintenance Service Center, Ayutthaya Ltd., Ayutthaya, Thailand	0.4	0.2	0.3	0.3	-0.4	-0.4
Total	62.1	37.0	435.3	507.5	-116.3	-76.8

Liabilities to related companies:

Liabilities to related companies

in € million	Outstanding balance		Value of business transactions			
	Receivables		Revenues / income / sales		Expenses / purchases	
	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2013
IAE International Aero Engines AG, Zurich, Switzerland	54.0	12.6	775.8	639.3	-698.9	-499.2
MTU Turbomeca Rolls-Royce GmbH, Hallbergmoos	0.2	0.3	3.6	4.2	-0.7	-0.5
MTU Versicherungsvermittlungs- und Wirtschaftsdienst GmbH, Munich					-8.1	-9.4
Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde	1.6					
MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China	3.8					
MTU München Unterstützungskasse GmbH, Munich	1.6	3.2				
Total	61.2	16.1	779.4	643.5	-707.7	-509.1

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, 2014, and the profit or loss generated by each company in the financial year 2014:

Major shareholdings

Name and registered office of entity	Consolidation method ⁷⁾	Shareholding in % Dec. 31, 2014	Equity in € 000 Dec. 31, 2014	Profit / loss in € 000 2014
I. Investments in subsidiaries				
MTU Maintenance Hannover GmbH, Langenhagen	full	100.00	65,470	²⁾
MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde	full	100.00	88,620	²⁾
MTU Aero Engines North America Inc., Rocky Hill, USA	full	100.00	10,344 ³⁾	2,321 ⁴⁾
MTU Maintenance Canada Ltd., Richmond, Canada	full	100.00	42,714 ³⁾	14,443 ⁴⁾
Vericor Power Systems LLC., Alpharetta, USA	full	100.00	38,653 ³⁾	6,549 ⁴⁾
MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland	full	100.00	206,063 ³⁾	-68,223 ⁴⁾
MTU Versicherungsvermittlungs- und Wirtschaftsdienst GmbH, Munich	at cost	100.00	26	²⁾
MTU München Unterstützungskasse GmbH, Munich	¹⁰⁾	100.00	1,579	-1,692
MTU Maintenance Service Centre Ayutthaya Ltd., Ayutthaya, Thailand	at cost	100.00	96 ^{1/5)}	11 ^{1/6)}
MTU Maintenance Dallas Inc., Grapevine, USA	at cost	75.00	53 ³⁾	-160 ⁴⁾
MTU Maintenance IGT Service do Brasil Ltda., Sao Paulo, Brazil	at cost	100.00	153 ^{1/6)}	-2 ^{1/6)}
MTU Maintenance Lease Services B.V., Amsterdam, Netherlands	full	80.00	-837	-837
MTU Maintenance Service Centre Australia Pty.Ltd., Perth, Australia	at cost	100.00	-2 ^{1/5)}	-3 ^{1/6)}
MTU Aero Engines Shanghai Ltd., Shanghai, China	at cost	100.00	13 ³⁾	-3 ⁴⁾
II. Investments in associated companies				
IAE International Aero Engines AG, Zurich, Switzerland	at equity	25.25	55,067 ^{1/5)}	1,949 ^{1/6)}
III. Equity investments in joint ventures				
MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China	at equity	50.00	165,365 ³⁾	38,243 ⁴⁾
MTU Maintenance Hong Kong Ltd., Hong Kong, China ⁹⁾	at cost	50.00	28 ³⁾	4 ⁴⁾
Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde ⁹⁾	at equity	50.00	6,571	2,449
Ceramic Coating Center S. A. S., Paris, France	at equity	50.00	5,890	980
Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia	at equity	50.00	16,309 ³⁾	1,189 ⁴⁾
AES Aerospace Embedded Solutions GmbH, Munich	at equity	50.00	-1,846	-4,638
Turbo Union Ltd., Bristol, England ⁹⁾	at cost	39.98	287 ¹⁾	-14 ¹⁾
EUROJET Turbo GmbH, Hallbergmoos ⁹⁾	at cost	33.00	2,305 ¹⁾	1,235 ¹⁾
EPI Europrop International GmbH, Munich ⁹⁾	at cost	28.00	559 ¹⁾	497 ¹⁾
MTU Turbomeca Rolls-Royce GmbH, Hallbergmoos ⁹⁾	at cost	33.33	64 ¹⁾	25 ¹⁾
MTU Turbomeca Rolls-Royce ITP GmbH, Hallbergmoos ⁹⁾	at cost	25.00	65 ¹⁾	38 ¹⁾
IV. Other equity investments				
Middle East Propulsion Company Ltd., Riyadh, Saudi Arabia	at cost	19.30	18,361 ^{1/5)}	-4,275 ^{1/6)}
Sumisho Aero Engines Lease B.V., Amsterdam, Netherlands	at cost	10.00	3,059 ¹⁾	-100 ¹⁾

¹⁾ Data for previous year, actuals not available.

²⁾ Profit / loss for German GAAP purposes transferred 2014.

³⁾ Translated at closing exchange rate, Dec. 31, 2014.

⁴⁾ Translated at annual average exchange rate for 2014.

⁵⁾ Translated at closing exchange rate, Dec. 31, 2013.

⁶⁾ Translated at annual average exchange rate for 2013.

⁷⁾ - full = fully consolidated.

- at cost = measured at cost of acquisition, because fair value cannot be reliably determined.

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

⁸⁾ Indirect shareholding.

⁹⁾ Change of classification.

¹⁰⁾ Plan asset.

38.2. RELATED PERSONS

No group company has conducted any business subject to disclosure requirements with members of the group's Executive Board or Supervisory Board or with any other individuals holding key management positions, or with companies in which these persons hold a seat on the managing or supervisory board, with the exception of the transactions presented in Note 38. (Other related party transactions). This also applies to close family members of this group of persons.

Members of the Executive Board

At December 31, 2014, the Executive Board of MTU Aero Engines AG, Munich, comprised the following members:

Members of the Executive Board

Reiner Winkler Chief Executive Officer	Munich
Dr. Rainer Martens Chief Operating Officer	Munich
Dr. Stefan Weingartner President MTU Maintenance	Munich
Michael Schreyögg Chief Program Officer	Munich

Dr. Stefan Weingartner intends to relinquish his post as President MTU Maintenance at MTU Aero Engines AG as of March 31, 2015. In view of his pending departure, the Supervisory Board of MTU Aero Engines AG, Munich, passed a resolution on December 12, 2014, whereby the Executive Board will be reduced from four to three members.

Executive Board compensation

More detailed information on the compensation system for MTU's Executive Board, including the effects of the company pension contracts, is provided in the management compensation report in the Corporate Governance section of this Annual Report.

The members of the Executive Board received total compensation amounting to € 6.2 million (2013: € 9.5 million) in the financial year 2014 for their services as board members. This total amount can be broken down into the following components:

Executive Board compensation

	2014		2013	
	in € million ¹⁾	in %	in € million ¹⁾	in %
Short-term employee benefits				
Non-performance-related components	2.2		2.5	
Performance-related components without long-term incentive effect ²⁾	1.2		0.9	
Performance-related components with long-term incentive effect ^{3/4)}	1.0		1.2	
Total	4.4	71.0	4.6	48.4
Post-employment benefits				
Service cost / past service cost	0.5		3.4	
Total	0.5	8.0	3.4	35.8
Share-based payment benefits				
Performance-related components with long-term incentive effect ⁵⁾	1.3		1.5	
Total	1.3	21.0	1.5	15.8
Total compensation	6.2	100.0	9.5	100.0

¹⁾ Amounts relate to compensation awarded to active members of the Executive Board in the respective financial years for their services as board members.

²⁾ Non-deferred portion of annual performance bonus (APB) for the financial year 2014; will be paid in 2015.

³⁾ 2nd deferred portion of APB for the financial year 2012 will be paid in 2015.

⁴⁾ 1st deferred portion of APB for the financial year 2013 will be paid in 2015.

⁵⁾ Fair value at the grant date.

The amount stated for share-based payment benefits corresponds to their fair value at the grant date. The total expense for share-based payments recognized in the financial year 2014 amounted to € 1.6 million (2013: € 2.6 million).

Members of the Executive Board did not receive any compensation for mandates on boards of the group's own companies.

At December 31, 2014, as in the previous year, no loan facilities or advances were granted to members of the Executive Board. Similarly, as in the previous year, no contingent liabilities were assumed by the company in favor of members of the Executive Board.

At December 31, 2014, the provisions for current and future pension obligations toward former members of the Executive Board amounted to € 7.5 million (2013: € 5.9 million).

Members of the Supervisory Board

As in the previous year, the members of the Supervisory Board did not receive any additional compensation for supervisory board mandates over and above that received for their supervisory board mandate with MTU Aero Engines AG, Munich. Compensation for active members of the Supervisory Board amounted to € 1.1 million (2013: € 1.0 million).

In the financial year 2014, the MTU employees who held seats as employee representatives on the Supervisory Board of MTU Aero Engines AG received salaries (excluding Supervisory Board compensation) totaling € 0.7 million (2013: € 0.6 million). This amount represents the sum of the respective gross salaries awarded to these employee representatives by MTU Aero Engines AG in the reporting year.

At December 31, 2014, as in the previous year, no loan facilities or advances were granted to members of the Supervisory Board. Similarly, as in the previous year, no contingent liabilities were assumed by the company in favor of members of the Supervisory Board.

For details of the compensation awarded to individual members of the Supervisory Board, and other related information, please refer to the management compensation report in the Corporate Governance section of this Annual Report.

Other related party transactions

As in the previous year, MTU shares and options bought or sold by members of the Executive Board and the Supervisory Board in the financial year 2014 were bought or sold under normal market conditions. The transactions were published in the commercial registry and posted on the MTU website at www.mtu.de/en > Investor Relations > Corporate Governance > Directors' Dealings.

Shareholders

Pursuant to Section 160 (1) item 8 of the German Stock Corporation Act (AktG), information must be provided on the existence of shareholdings which have been notified to the company pursuant to Section 21 (1) or (1a) of the German Securities Trading Act (WpHG). For detailed information, please refer to the chapter "The MTU share."

V. SEGMENT INFORMATION

39. SEGMENT REPORTING

MTU reports on two operating segments: the OEM segment (commercial and military engine business) and the MRO segment (commercial maintenance business). 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. A detailed description of the operating segments is provided in Part I of these Notes.

Commercial and military engine business (OEM)

In the commercial and military engine business, the group develops, manufactures, assembles and delivers commercial and military engines and components. The maintenance, repair and overhaul of military engines is also included in this segment.

Commercial maintenance business (MRO)

In the commercial maintenance business, the group maintains, repairs and overhauls aircraft engines and industrial gas turbines. In addition to full engine maintenance and repair, this includes the complete overhaul of engine modules and parts repairs.

Profit/loss of companies accounted for using the equity method

The carrying amount and the share in profit/loss of consolidated group companies accounted for using the equity method are included in reporting by operating segment if such companies can be directly allocated to an operating segment.

Segment assets and segment liabilities

Segment assets comprise all assets that can be allocated to specific operating activities and whose positive or negative operating results have an impact on earnings before interest and tax (EBIT/adjusted EBIT). Assets and liabilities are allocated to the operating segment in which they are used to generate business. The consolidation/reconciliation amount in the segment assets line relates to the consolidation of the carrying amount of subsidiaries and of accounts receivable from inter-segment sales of € 563.2 million (2013: € 521.2 million and to segment liabilities of € 222.2 million (2013: € 182.5 million).

Segment capital expenditure

Segment capital expenditure relates to additions to intangible assets and to property, plant and equipment.

Consolidation / reconciliation column

The amounts in the “consolidation / reconciliation” column for earnings before interest and tax (EBIT/adjusted EBIT) are used to eliminate revenues from intersegment sales from group revenues.

Segment information by geographical area

External revenues, capital expenditure on intangible assets and property, plant and equipment, and non-current assets are divided into the following regions: Germany, Europe (excluding Germany), North America, Asia and other regions.

Revenues from business with third parties are allocated to the geographical areas of the customer. Capital expenditure on intangible assets and property, plant and equipment, and non-current assets are allocated to the geographical areas according to the location of the asset in question.

VI. EVENTS AFTER THE REPORTING DATE

With the exception of increasingly concrete agreements concerning the risk- and revenue-sharing partnership between GE and MTU relating to the development, manufacturing and marketing of the GE9X engine program, no other events of

material importance with any significant impact on the financial situation, net assets or operating results of the MTU group occurred after the end of the reporting period.

VII. DETERMINATION OF THE NET PROFIT AVAILABLE FOR DISTRIBUTION ON THE BASIS OF THE GERMAN GAAP ANNUAL FINANCIAL STATEMENTS

Unlike the consolidated financial statements, which are based on IFRS issued by the IASB, the annual financial statements of MTU Aero Engines AG, Munich, are prepared in accordance with the German Commercial Code (HGB) and German Stock Cooperation Act (AktG). The IFRS rules are also applied in the separate annual financial statements where it is

permissible and fitting to do so. In certain cases, however, the German GAAP standards require different accounting policies to be applied when compiling the annual financial statements of MTU Aero Engines AG, Munich and those of the German subsidiaries compared with the accounting policies applied in the consolidated financial statements.

Income statement

in € million	Change 2014-2013		2014	2013
	in € million	in %	in € million	in € million
Revenues	62.1	2.8	2,286.8	2,224.7
Cost of sales	-156.8	-8.4	-2,028.6	-1,871.8
Gross profit	-94.7	-26.8	258.2	352.9
Selling expenses	-7.4	-13.5	-62.4	-55.0
General administrative expenses	2.0	7.0	-26.6	-28.6
Balance of other operating income and expenses	-0.3	-0.6	47.9	48.2
Financial result	43.8	> 100	79.6	35.8
Earnings from normal operating activities	-56.6	-16.0	296.7	353.3
Non-recurring earnings	-31.1	-90.9	3.1	34.2
Tax expense	35.2	28.4	-88.6	-123.8
Net profit for the year	-52.5	-19.9	211.2	263.7
Allocation to revenue reserves				
- allocation to other reserves	26.3	19.9	-105.6	-131.9
Net profit available for distribution	-26.2	-19.9	105.6	131.8

Allocation to revenue reserves

In accordance with Section 58 (2) of the German Stock Corporation Act (AktG), a total of € 105.6 million of the 2014 net profit was allocated to other reserves by the Board of Management and the Supervisory Board of MTU Aero Engines AG (2013: € 131.9 million).

Proposed profit distribution

At the Annual General Meeting on April 15, 2015, the Executive Board and the Supervisory Board of MTU Aero Engines AG,

Munich, intend to recommend that a dividend of € 1.45 (2013: € 1.35) per share be distributed for the financial year 2014 after transfers to other reserves. On the condition that this proposal is accepted by the Annual General Meeting, the total dividend payment for the 51,008,023 shares entitled to a dividend will amount to € 74.0 million. Based on the quoted share price at the close of 2014 of € 72.16 (2013: € 71.39), this is equivalent to a dividend yield of 2.0% (2013: 1.9%).

Pending approval by the Annual General Meeting, the dividend for the financial year 2014 is to be paid on April 16, 2015.

Federal Gazette (Bundesanzeiger)

The annual financial statements, consolidated financial statements and combined management report of MTU Aero Engines AG, Munich, are published in the Electronic Federal Gazette (elektronischer Bundesanzeiger). Print copies can be obtained on request from MTU Aero Engines AG, 80995 Munich, Germany.

Declaration of conformity with the German Corporate Governance Code

The declaration of conformity by the Executive Board and Supervisory Board of MTU Aero Engines AG pursuant to Section 161 of the German Stock Corporation Act (AktG) is published in the MTU Annual Report 2014 and also permanently available to shareholders on the MTU website at www.mtu.de.

STATEMENT BY THE LEGAL REPRESENTATIVES

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 9, 2015



Reiner Winkler

Chief Executive
Officer



Dr. Rainer Martens

Chief Operating
Officer



Dr. Stefan Weingartner

President MTU
Maintenance



Michael Schreyögg

Chief Program
Officer

AUDIT OPINION

We have audited the consolidated financial statements prepared by MTU Aero Engines AG, Munich, comprising the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the Notes to the Consolidated Financial Statements, together with the combined management report of the Company and the Group (“combined management report”) for the fiscal year from 1 January 2014 to 31 December 2014. The preparation of the consolidated financial statements and the combined management report of the Company and the Group in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB [“Handelsgesetzbuch”: “German Commercial Code”] are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the combined management report of the Company and the Group based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). 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 combined management report of the Company and the Group 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 combined management report of the Company and the Group 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 the consolidation, the determination of entities to be included in the consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report of the Company and the Group. 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 comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 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 combined management report of the Company and the Group 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, March 2, 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

(Keller)
German Public Auditor

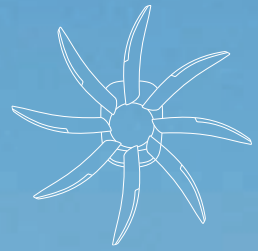
(Westermeier)
German Public Auditor

TP400-D6

More than 100 **TP400-D6 engines** *produced*

The TP400-D6 is the most powerful turboprop engine in the Western world, and is deployed in the A400M military transporter. MTU supplies the entire intermediate-pressure section of this engine, comprising the compressor, turbine and spool, along with parts of the engine control system. The final assembly of all production engines takes place at MTU's facility in Munich, and MTU Maintenance Berlin-Brandenburg is responsible for all post-production acceptance tests on its test rig. To date, MTU has built more than 100 TP400-D6 engines. The first A400M equipped with this engine entered service with the French air force in mid-2013, and the German armed forces took delivery of their first A400M at the end of 2014. This engine has good export prospects, which industry experts estimate at about 200 aircraft.





TP400-D6



MTU has successfully ramped up production of the TP400-D6, and more than 100 engines of this type have already left the assembly line. France was the first country to place an A400M and its TP400-D6 engines in service, in mid-2013.



ADDITIONAL INFORMATION

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GLOSSARY OF ENGINE TERMS

COMBUSTOR

A combustor or combustion chamber consists of an outer casing and a flame tube or “can” in which the actual combustion takes place. Inside, the compressed air flowing into the chamber is mixed with fuel, which is then ignited and burns at a temperature of over 2,000 degrees Celsius. Due to the high temperatures involved, combustors require special thermal barrier coatings.

COMPRESSOR

The task of the compressor is to ingest air and compress it before it is fed into the combustor. Compressors consist of bladed disks (rotors) that rotate at very high speed between stationary guide vanes (stators). In order to achieve a compression ratio of over 40:1, which is standard in all modern two-shaft engines, it is necessary to use multi-stage low-pressure and high-pressure compressors rotating at different speeds on dual concentric shafts. These are driven by the corresponding turbines.

FAN

The first rotor of the low-pressure compressor is called the fan. It accelerates the bypass stream flowing aftward and provides the engine’s main thrust. It is driven by the low-pressure turbine via the low-pressure shaft.

GEARED TURBOFAN™

Geared turbofan™ engines consume far less fuel and generate significantly less noise than today’s engine types. They therefore have every chance of becoming the standard type for use in future aircraft. Normally, an engine’s fan, low-pressure compressor and low-pressure turbine are all rigidly connected to one shaft. In contrast, the geared fan is “decoupled” from the low-pressure section by means of a reduction gear unit. This enables the low-pressure turbine and the low-pressure compressor to run at their optimum high speeds, while the fan rotates at a much lower speed (in a ratio of approx. 3:1). This results in significantly improved overall engine efficiency and greatly reduced noise levels.

INDUSTRIAL GAS TURBINES

The operating principle of an industrial gas turbine is essentially the same as that of an aero engine. However, instead of the customary low-pressure turbine used in aircraft, industrial gas turbines have a power turbine. This turbine delivers the power, either directly or via a gear unit, to an additional attached power unit such as a pump or generator. Nearly all industrial gas turbines of the lower and intermediate power classes are aero-engine derivatives.

MRO BUSINESS

MRO stands for maintenance, repair and overhaul. At MTU, the term “MRO business” is also used more specifically to designate one of the company’s two business segments, where it refers to maintenance services for commercial engines, or commercial MRO.

OEM BUSINESS

OEM stands for original equipment manufacturer. At MTU, the term “OEM business” is used to designate one of the company’s two operating 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 operating segment.

RISK- AND REVENUE-SHARING PARTNERSHIP

In a risk- and revenue-sharing partnership, each partner contributes a certain share of the resources needed for a specific engine program (work capacity and funding), thus bearing 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 (roughly 10 to 90 kN), mainly used to power business and regional jets, engines with a thrust of between 20,000 and approximately 50,000 pounds (roughly 90 to 225 kN), used to power medium-haul aircraft, and engines with a thrust ranging from 50,000 to over 100,000 pounds (roughly 225 to 450 kN), used to power long-haul aircraft.

TURBINE

In a turbine, the energy contained in the gases emerging at high pressure and velocity from the combustor is converted into mechanical energy. Like the compressor, the turbine is subdivided into a high-pressure and a low-pressure section, each of which is directly connected to the corresponding compressor via the respective shaft. The turbine has to withstand much higher stresses than the compressor, as it has to deal not only with the high gas temperatures but also with extreme centrifugal forces of several tons acting on the outer rim of its disks.

TURBINE CENTER FRAME

The turbine center frame connects the high-pressure to the low-pressure turbine. It has to be able to withstand high mechanical and thermal loads. The center frame includes struts to support the shaft bearings, clad with an aerodynamic fairing, and the air and oil supply lines.

TURBOFAN ENGINE

The turbofan is an advancement of the turbojet principle, the main difference being its enlarged first compressor stage, the fan. While in turbojet engines, all of the ingested air flows consecutively through the compressor, the combustor and the turbine, turbofans separate the air stream behind the fan. A fraction of the air reaches the combustor via a number of further compressor stages and is burned. The rest, however – which constitutes a much larger fraction – is channeled around the inner components. The ratio between these two airflows is known as the bypass ratio. In modern commercial engines, this ratio can be higher than 10:1. The greater the bypass ratio, the more economical, environmentally compatible and silent the engine. Turbofans are far more fuel-efficient than turbojets.

TURBOPROP ENGINE

The most noticeable external feature of a turboprop is its propeller. Inside, however, the engine differs only slightly from the turbojet and the turbofan. The turbine is larger, and drives not only the compressor but also the propeller, the latter via a gear unit. Consequently, more energy has to be drawn from the exhaust gas stream in the turbine of a turboprop than in that of other engine types. Over 90 percent of the energy is required for the compressor and the propeller. Turboprop airplanes can achieve flight speeds of up to 800 km/h. They are thus slower than turbojets or turbofans, but they do have the advantage of consuming far less fuel. This predestines them for use in roles where speed is less important, such as on short-haul routes or for air freight.

TURBOSHAFT ENGINE

Turboshaft engines are used in helicopters and are similar to turboprops.

OVERVIEW OF ENGINES

COMMERCIAL ENGINES

Long-haul airliners

CF6	Airbus A300, A310, A330, Boeing 747, 767, DC-10, MD-11, KC-10
GE90-110B/-115B*	Boeing 777-200LR, 777-200F, 777-300ER
GE9X	Boeing 777X
GE9x	Boeing 787, 747-8
GP7000	Airbus A380
PW4000Growth	Boeing 777

Short- and medium-haul aircraft

CF34*	business and regional jets
CFM56*	Boeing 737, Airbus A318-A321
JT8D-200	Boeing MD-80-series
PW1000G	Airbus A320neo, Bombardier CSeries, Mitsubishi Regional Jet, Embraer E-170/E-190, Irkut MS-21
PW2000	Boeing 757, C-17
PW6000	Airbus A318
V2500	Airbus A319, A320, A321, Boeing MD-90, Embraer KC-390

Business jets

PT6A*	business and cargo props
PW300	medium-weight business and regional jets
PW500	light and medium-weight business jets
PW800	Gulfstream G500, G600, long-range business jets, regional airliners, single-aisle aircraft

Helicopters

PW200*	light-to-medium weight twin-engined helicopters
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*MRO only

MILITARY ENGINES

Fighter jets

EJ200	Eurofighter
F110	Lockheed F-16, Boeing F-15K
F404	Boeing F/A-18 Hornet, Lockheed Martin F-117A Nighthawk amongst others
F414	Boeing F/A-18 Super Hornet, Boeing EA-18G Growler
Larzac 04	Alpha Jet
RB199	Panavia Tornado

Helicopters

GE38	Sikorsky CH-53K
MTR390/MTR390 Enhanced	Eurocopter Tiger
T64	Sikorsky CH-53G

Transporters

TP400-D6	Airbus A400M
Tyne	Breguet Atlantic und Transall C-160

INDUSTRIAL GAS TURBINES

ASE8/40/50, TF40/50, ETF40	Electrical power systems, power systems for ships, mechanical power systems, generator sets
LM2500/LM2500+	Electrical power stations, mechanical power systems, oil and gas industry, power systems for ships
LM5000	Electrical power stations, mechanical power systems, oil and gas industry
LM6000	Electrical power stations

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FINANCIAL CALENDAR

April 15, 2015	Annual General Meeting
April 28, 2015	Interim Report as at March 31, 2015
	Conference call with analysts and investors
July 23, 2015	Interim Report as at June 30, 2015
	Conference calls with journalists, analysts and investors
October 26, 2015	Interim Report as at September 30, 2015
	Conference calls with journalists, analysts and investors
November 25, 2015	MTU Investor and Analyst Day

MTU SHARE DATA

Number of shares	52 million shares of no par stock
Type of share	Registered shares
Equity capital	€52 million
Voting rights	One vote per share
German Securities Identification Number WKN	A0D9PT
ISIN	DE000A0D9PT0
Stock exchange symbol	MTX
Trading segment	Prime Standard
Stock market segment	MDAX
Financial year	Identical with calendar year
Accounting rules	IFRS
Designated sponsor	Goldman Sachs
Official notices	Electronic version of the Federal Gazette (Bundesanzeiger)

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Geared Turbofan is a trademark application of Pratt & Whitney.

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The German version takes precedence.



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