ANNUAL REPORT 2010

MTU Aero Engines

CONTENTS

MAGAZINE 2010

United by excellence

» Magazine insert at page 4

FINANCIAL REPORT 2010

To our shareholders	**6**
Corporate Governance	**18**
Group management report	**46**
Consolidated Financial Statements	**104**
Additional information	**220**

» Detailed table of contents: page 3

MTU Aero Engines

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND KEY FIGURES

Selected consolidated financial information and key figures at a glance

in € million (unless otherwise specified)	Change 2010-2009		2010	2009
Revenues and earnings				
Revenues	96.6	3.7%	2,707.4	2,610.8
attributable to the commercial engine business[1]	123.9	11.8%	1,177.6	1,053.7
attributable to the military engine business[1]	-46.1	-8.7%	485.9	532.0
attributable to the commercial maintenance business[1]	16.4	1.6%	1,074.0	1,057.6
Gross profit	64.3	14.0%	522.9	458.6
Earnings before interest and tax (EBIT)	21.1	8.5%	268.0	246.9
Earnings after tax	1.2	0.9%	142.2	141.0
Earnings (adjusted)				
Earnings before interest and tax (EBIT adjusted)	19.0	6.5%	311.3	292.3
EBIT margin (adjusted)			11.5	11.2
Balance sheet				
Total assets	277.0	8.8%	3,426.1	3,149.1
Equity	88.6	12.1%	819.3	730.7
Equity ratio in %			23.9	23.2
Net financial debt	-86.2	-60.5%	56.2	142.4
Cash flow				
Cash flow from operating activities	-1.4	-0.6%	251.3	252.7
Cash flow from investing activities	-40.7	-30.7%	-173.2	-132.5
Free cash flow	24.6	20.5%	144.8	120.2
Cash flow from financing activities	-21.7	-31.5%	-90.6	-68.9
Number of employees at year-end				
Commercial and military engine business (OEM)	80	1.6%	4,965	4,885
Commercial maintenance business (MRO)	162	5.8%	2,942	2,780
Share data				
Earnings per share in €				
Undiluted earnings per share	0.02	0.7%	2.91	2.89
Diluted earnings per share	0.03	1.1%	2.83	2.80
Dividend per share in €[2]	0.17	18.3%	1.10	0.93
Dividend yield in %			2.2	2.4
Total dividend[2]	8.1	17.8%	53.6	45.5
Outstanding common stock at Dec. 31 (million shares)	-0.1	-0.2%	48.8	48.9

[1] Before consolidation.

[2] Proposal to the Annual General Meeting 2010 / previous year: resolution by the Annual General Meeting for the financial year.

UNITED BY EXCELLENCE

HIGH-FLYING PARTNERS

Aircraft are the only means of transportation truly capable of connecting the entire world. They bridge vast distances to shrink the size of continents, and help to draw people ever closer to one another. Tomorrow's aircraft need engines that not only meet the aviation industry's stringent safety standards, but are even better than those in use today – namely cleaner, quieter and more fuel-efficient.

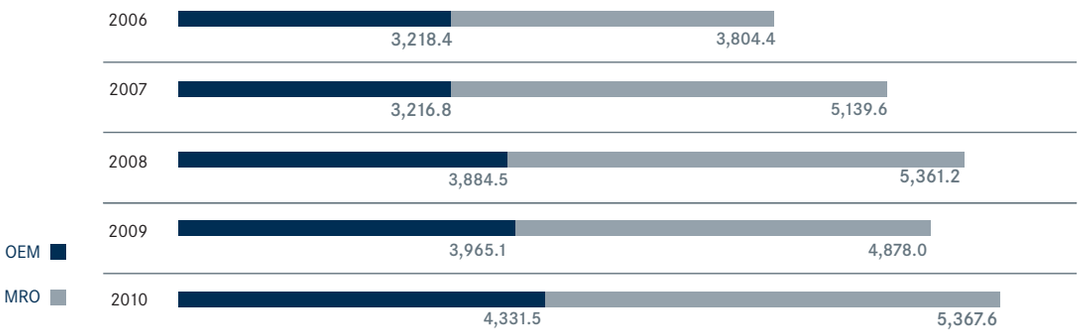
With its innovative technologies, MTU Aero Engines has been working for decades to make flying safer, and aims to continue to do so in future. We are not alone in this quest for excellence, because the engines of the future can only be developed and built if all industry players unite their efforts in global partnerships that transcend national borders.

MTU, Germany's leading aero engine manufacturer, has firmly established its name as an indispensable partner in the aviation industry. Its high-tech products, processes and services have repeatedly set new standards in the commercial and military aviation markets. The company cooperates not only with the major engine manufacturers but also with leading scientists and research institutes, and with its customers and suppliers throughout the world. This finely meshed network of alliances is based on mutual trust and partnership agreements that have been built up over many decades.

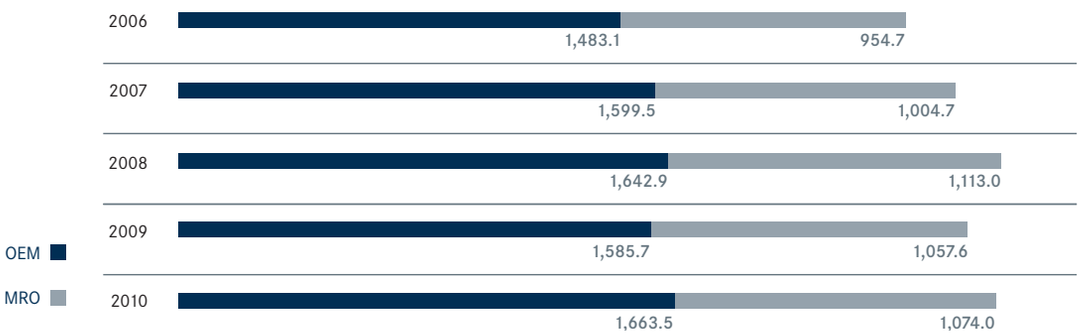
MTU Aero Engines

KEY INDICATORS REVIEWED OVER 5 YEARS

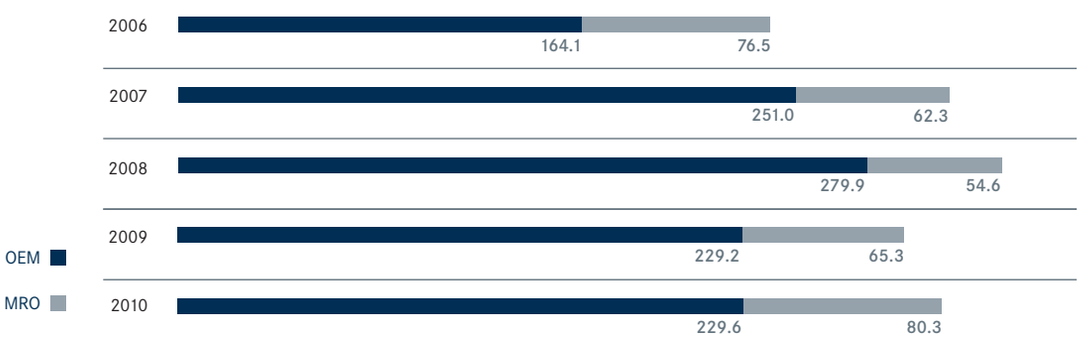
Order backlog and order value by segments in € million (before consolidation)



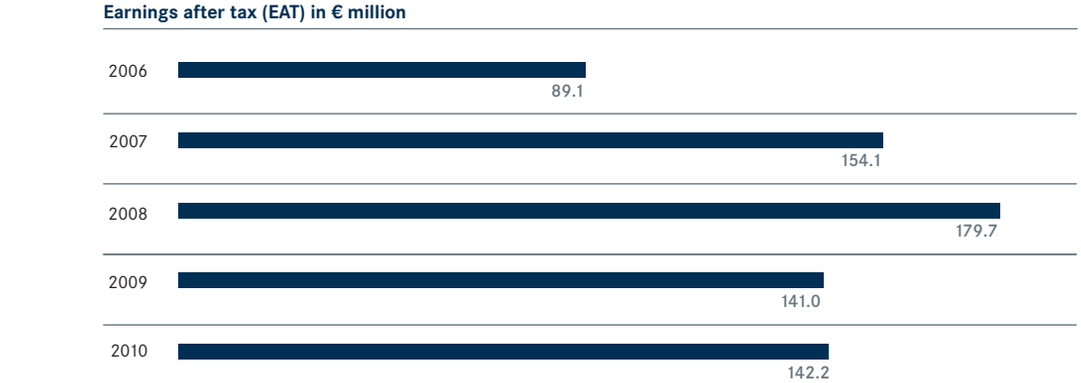
Revenues by segments in € million (before consolidation)



EBIT adjusted by segment in € million (before consolidation)



Earnings after tax (EAT) in € million



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

TABLE OF CONTENTS

MAGAZINE 2010

United by excellence

» Magazine insert at page 4

FINANCIAL REPORT 2010

To our shareholders	**6**
Letter to the shareholders	8
The Board of Management	12
The MTU share	14
Corporate Governance	**18**
Corporate governance statement and corporate governance report	20
Declaration of conformity	20
Management Compensation Report	25
Report of the Supervisory Board	40
The Supervisory Board	44
Group management report	**46**
The enterprise MTU	48
Economic environment	60
Financial situation	64
Subsequent events	81
Forecasts	82
Risk report	87
Other disclosures	98
Consolidated Financial Statements	**104**
Consolidated Income Statement	106
Consolidated Statement of Comprehensive Income	107
Consolidated Balance Sheet	108
Consolidated Statement of Changes in Equity	110
Consolidated Cash Flow Statement	111
Segment Reporting by operating segment	112
Notes to the Consolidated Financial Statements	117
Additional information	**220**
Glossary of engine terms	222
Overview of engines	224
Index	225
Financial calendar	226
Photo credits	226
Contact	227

Egon Behle, Chief Executive Officer of MTU Aero Engines

» Tomorrow’s aircraft need new engines that will make flying safer and cleaner. All industry players must work together to shape the future of aviation: we will only succeed if we are united behind this goal. MTU has been an indispensable cooperation partner for many decades. «

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MAGAZINE 2010

Partnerships with engine manufacturers
» Page M 2

Partnerships with the armed forces
» Page M 8

Partnerships with airlines
» Page M 14

Partnerships with universities and research institutes
» Page M 24

Partnerships with suppliers
» Page M 30

MTU Aero Engines

TABLE OF CONTENTS

Cooperation is a cornerstone of MTU's business philosophy. The company has partnered the major industry players for decades. This approach unites everyone in the same quest for excellence. » Page M 2

Armed forces the world over – foremost among them Germany's Bundeswehr – place their trust in MTU's expertise. The RB199 Tornado engine is one of the star products in the portfolio. » Page M 8

Airlines help to make the world a smaller place. MTU gives international fleet operators additional thrust in the right direction. Joint ventures facilitate collaboration. » Page M 14

M 2 Partnerships with engine manufacturers
M 4 An established global player
M 7 The big three

M 8 Partnerships with the armed forces
M 10 'Firmly focused on mission requirements'
M 13 A winning formation

M 14 Partnerships with airlines
M 16 When customers become partners
M 20 Successful subsidiaries
M 21 A strong partnership for engines

M 24 Partnerships with universities and research institutes
M 26 Pooled expertise
M 28 'Close collaboration'

M 30 Partnerships with suppliers
M 32 A strategic partner
M 34 MTU Supplier Award

UNITED BY EXCELLENCE

EDITORIAL

Dear Readers,

Egon Behle
Chief Executive Officer
MTU Aero Engines

Since the birth of motorized flight over 100 years ago, aviation has grown at an unstoppable pace. Today's passenger aircraft fly to every continent, taking people to the farthest corners of the globe and making the world a much smaller place – flight knows no frontiers. The same is true of the aircraft engine industry, where MTU Aero Engines has forged and maintains partnerships that span the globe.

For decades, Germany's leading engine manufacturer has been making its mark in the skies with the power, efficiency and safety of its products, again and again setting new standards with its innovations. To make sure this continues to be the case, all the players in the industry will have to pull together and cooperate. This will be nothing new for MTU, a company that has collaborated for many years not only with the major engine manufacturers but also with airlines, scientific and research institutes, and suppliers all over the world.

This compilation of reports and interviews offers an insight into the diversity of our global partnerships and cooperative ventures. We work hand in hand with the world's major engine manufacturers – the original equipment manufacturers (OEMs), as they are known – on the development and construction of aircraft engines in all thrust and power categories, thus continually driving forward progress. One of the main prerequisites for this is the basic groundwork we carry out with our partners in the scientific and research community. The end-users who buy our products and services come from both the commercial and military sectors. Our commercial customers comprise airlines from all around the world, including joint venture partners, while our military customers consist of the air forces of various nations, with the German armed forces as our biggest customer. Indeed, our partnership with the latter stretches back over 50 years. Our list of partners would not be complete without mentioning our suppliers, who provide us with the first-class materials, semi-finished products and repair services without which the manufacture and maintenance of high-tech engines would be inconceivable.

Together, all these industry players are helping to ensure that international aviation becomes even more efficient and environmentally compatible in future. They are your partners on every flight you make.

Best regards

Egon Behle

UNITED BY EXCELLENCE

PARTNERSHIPS WITH ENGINE MANUFACTURERS

Pratt & Whitney
A United Technologies Company

General Electric

Rolls-Royce

In the aero engines market, a handful of players exert a major influence. MTU has established a reputation as a reliable partner with exceptional innovative power. The company has repeatedly set new standards with its advanced technologies.

An established global player

The vast majority of the 18,000 commercial aircraft in use across the globe today are produced by just two manufacturers – Boeing and Airbus. The same goes for the aero engine sector, where just a handful of companies are active. MTU Aero Engines has been a player in this market since the very start. Thanks to its innovativeness and technological expertise, Germany's leading engine manufacturer has, in the course of its long history, become an indispensable partner to the industry's heavyweights.

General Electric (GE), Pratt & Whitney, and Rolls-Royce are the three biggest manufacturers of aircraft engines in the world. They are original equipment manufacturers (OEMs), who develop and construct complete engines. Close behind this top trio of engine OEMs are French manufacturer Snecma, U.S.-based Honeywell, and MTU, whose roots can be traced back to the beginnings of motorized flight over 100 years ago. MTU has left its mark on the history of aviation because, at all times, the company and its predecessors have set the pace of technological progress. The same is true today: MTU has secured the technological edge in low-pressure turbines, high-pressure compressors, manufacturing processes, and repair techniques, making it an indispensable partner within the industry.

Virtually no other aviation company can boast such wide-ranging experience in the field of collaborations as MTU. Indeed, the principle of cooperation forms an integral part of its corporate strategy, and has been practiced by the company for decades. And for good reason: with an international workforce of around 7,900 and annual revenues of some 2.7 billion euros, MTU is a powerful partner in both technological and financial terms, and can offer full system capability. This is something the industry giants are utilizing as they increasingly seek to share the burden of developing new engines with partner companies. GE, Pratt & Whitney and Rolls-Royce are increasingly integrating second-tier engine manufacturers into their development projects. That makes sound technological sense, too, as the latter have become more and more specialized, and are in a position to offer the 'big three' the very best in products and services. Over the years, the increasing willingness to cooperate has resulted in a variety of different constellations that have drawn the market players together in a close-knit global network.

Made by MTU:
the low-pressure turbine for the GP7000.

It is a network in which MTU has a permanent place. The company ranks number one among the independent providers of MRO services, offers high-tech repair processes, and scores points in new-engine programs with its cutting-edge turbines and compressors, handling everything from design all the way through to production processes. MTU's joint projects with Pratt & Whitney focus primarily on low-pressure turbines and high-pressure compressors, while GE values MTU's profound knowledge of high-pressure turbine components, and structural components for hot-gas applications. What is more, the knowledge MTU has gained with high-pressure compressors in the military segment – where it has been a force to be

The GP7000 engine project is an exceptional model of cooperation in aero-engine design. It is the first engine to be jointly developed by industry giants GE and Pratt & Whitney, with MTU as the third-ranking partner.

PW 1000G – The geared turbofan unites pure power with strong green credentials.

GEnx – The latest engine from GE, the powerplant for the Boeing Dreamliner, is being built in partnership with MTU.

EJ200 – The skills of German, British, Italian and Spanish engineers come together in the Eurofighter engine.

reckoned with for decades – is now filtering through to its commercial-engine activities. The company is currently collaborating with Pratt & Whitney on a new-generation high-pressure compressor for commercial applications that will leave all existing models in the shade. MTU underpins its innovative strength through a far-sighted research and development policy, which finds expression mainly in joint technology programs with its partners. A prime example of this is the high-speed low-pressure turbine, a technology that MTU has been the only international manufacturer to master. Without it, it would not be possible to build the engine of the future – the geared turbofan.

In addition to its collaboration with OEMs, MTU is involved in numerous projects and programs with European and Asian manufacturers, in various constellations and with different percentage shares. A classic example is the V2500, the best-selling engine for the Airbus A320 family. There are four participants in this project – six if one breaks down the Japanese contingent: Pratt & Whitney, Rolls-Royce, MTU, and Japanese Aero Engines Corporation JAEC, which comprises Kawasaki Heavy Industries (KHI), Ishikawajima-Harima Heavy Industries (IHI), and Mitsubishi Heavy Industries (MHI). Other examples can be found in the military segment and include the EJ200 engine for the Eurofighter, a joint project managed by the Eurojet Consortium comprising Rolls-Royce, ITP (Spain), Avio (Italy), and MTU.

If a complex cooperative network of global dimensions is to function smoothly, it must be cleverly managed, and all hierarchical levels and divisions of MTU are involved in this process. Two corporate departments – Program Management, Commercial Projects on the one hand, and Program Management, Military Projects on the other – are responsible for coordinating MTU's more than 25 main programs. Regular meetings are held with the partners, either in person or via telephone or video conferences. Clearly defined processes, which have been in place and running smoothly for decades, ensure that all partners are kept equally up to date at all times.

In order to optimize links with Pratt & Whitney, GE, and Rolls-Royce, reciprocal postings of staff have been established between the companies. Working locally at the partner's premises, the colleagues in question have decision-making competence for their own company. This tried-and-tested local presence has been a key factor in the success of these partnerships for decades.

The big three

MTU's partnership with Pratt & Whitney is its most longstanding one, stretching back to the 1920s. In 1928, MTU's predecessor, BMW-Flugmotoren GmbH, signed a license agreement with the U.S. engine manufacturer to produce its Hornet radial engine, which was the basis for the later BMW 132 engine for the Junkers Ju 52 aircraft, the legendary 'Tante Ju'.
After the Second World War, MTU initially produced components for the JT8D engine, followed by the PW2000. The latter was the first joint project in which MTU assumed direct responsibility for a portion of the engine. The company took an eleven-percent stake in the program, to which it contributed the low-pressure turbine. From here on, MTU went on to achieve one success after another with its low-pressure turbines. These included the acquisition of a stake in the V2500 program launched by International Aero Engines (IAE) – a joint venture comprising Pratt & Whitney, Rolls-Royce, Japanese Aero Engines Corporation JAEC, MTU, and Avio (which now no longer belongs to the consortium) – and in Pratt & Whitney's PW4000G, PW300, and PW500 programs. MTU's low-pressure turbines were also chosen for the PW6000, GP7000, and PW1000G programs.
In 1990, the two companies decided to intensify their collaboration by forming a strategic partnership, the key aspect of which was that Pratt & Whitney and MTU would include each other in all new commercial engine programs in which either company participated.
Over time, MTU stepped up its efforts to turn its experience with high-pressure compressors in the military sector to advantage in the commercial sector, and scored its first success by providing an exceptionally high-performance six-stage compressor for Pratt & Whitney's PW6000 commercial engine program. It was a breakthrough for MTU, and one that augured well for the future. The PW1000G geared turbofan, which represents the future of aircraft engine technology, will be equipped not only with an innovative high-speed low-pressure turbine but also with a new high-pressure compressor developed jointly by MTU and Pratt & Whitney. The compressor's blade integrated disk (blisk) technology, for instance, is another area where MTU has a clear lead.

Pratt & Whitney
A United Technologies Company

MTU has been working together with General Electric (GE) since 1960, when it began manufacturing GE's J79 engine under license for the German air force's recently acquired Starfighters. The same engine was later also deployed in the Phantom jet. The next step for MTU was to produce the T64 engine under license for Sikorsky's medium-weight CH-53G cargo helicopter. In 1971 the two companies entered into a risk- and revenue-sharing partnership for the CF6 commercial engine for medium- and long-haul aircraft and, in 1990, agreed to collaborate on the construction of the LM6000 industrial gas turbine derived from the CF6. The CF6 marked MTU's debut as a manufacturer of high-pressure turbine components. MTU developed production techniques for this segment that gained it recognition as a specialist – the laser-caving process, for instance, is an outstanding technology developed by MTU that has made it a sought-after partner. This process is also utilized in the production of blades for the high-pressure turbine of the GP7000 engine used to power the Airbus A380, the largest passenger aircraft in the world. This engine project is the first to be conducted jointly by GE and Pratt & Whitney, the two leading international engine manufacturers. MTU has the third biggest stake in the project, being responsible for the entire low-pressure turbine and the turbine center frame. GE's latest addition to MTU's MRO portfolio is the CF34-10 engine for airliners seating up to 120 passengers. MTU is responsible for maintenance of the whole CF34 series.
In recent years, MTU has bolstered its German-American alliance by securing work packages for the F404/F414 and F110 fighter engines as well the GE38 helicopter engine, which could easily lend itself to a European version of the CH-53K heavy-lift cargo helicopter. MTU is developing and constructing the power turbine for this project, and it is the first time that the company will assume full design responsibility within a U.S. military program. MTU will also provide maintenance services for European operators of the GE38. The latest keystone in the GE-MTU partnership is the companies' cooperation in respect of the GEnx, one of MTU's most important future engine programs in the upper thrust class. The GEnx will power the Boeing 787 Dreamliner as well as the long-haul passenger and cargo versions of the Boeing 747-8. MTU is developing and building the turbine center frame for this project.

General Electric

The cooperation between Rolls-Royce and MTU is based largely on military programs. The partnership dates from 1960, when MAN Turbomotoren GmbH took part in the development of the RB145, RB153, and RB193 engines for vertical takeoff jets. However, these never left the prototype stage. In 1964, the Anglo-German partnership was intensified through a licensing agreement for the Tyne turboprop engine that powers the Transall cargo aircraft and the Breguet-Atlantic maritime reconnaissance aircraft. French engine manufacturer Snecma was also involved in this project. MTU's role in the development of the RB199 engine for the Tornado, the first European fighter jet, was rather different. Partnered by Rolls-Royce and FiatAvio, it was the first project in which MTU assumed responsibility for both development and production – of the intermediate- and high-pressure compressor, intermediate-pressure turbine, bypass casing, thrust reverser and control system – placing it on an equal footing with Rolls-Royce.
The RB199 program marked the turning point for MTU in its collaboration with Rolls-Royce. As the British company's lead partner in the EJ200 engine program for the Eurofighter, MTU is responsible for the high- and low-pressure compressors, the control system, and parts of the low-pressure turbine as well as for assembly, testing, and maintenance of the German engines.
The latest joint project is the TP400-D6, the most powerful turboprop engine in the Western world. Four such engines are required to lift the A400M military transporter off the ground and keep it airborne. MTU manufactures the intermediate-pressure compressor and the intermediate-pressure turbine and its shaft, and supplies the hardware and software for the engine protection and monitoring unit (EPMU) along with the software for the engine control unit including the propeller control system. MTU has full responsibility for assembly and delivery of the TP400-D6. In addition to Rolls-Royce, ITP and Snecma are further partners in this project.
In the MTR390 engine program for the Tiger, MTU and Rolls-Royce are joined by Turbomeca. MTU is in charge of the high-pressure turbine, accessory equipment, and the combustor. In the commercial aviation sector, MTU and Rolls-Royce are currently teamed with Pratt & Whitney and Japanese company JAEC in producing the IAE V2500 engine. Avio, the fifth founding partner, is no longer on board.

Rolls-Royce

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PARTNERSHIPS WITH THE ARMED FORCES

All eyes resolutely turned toward the future: MTU has been the preferred partner of the German armed forces for many decades, a relationship that neither party intends to give up. But at the same time MTU is also seeking to position itself in new markets.

‘Firmly focused on mission requirements’

The history of the modern German armed forces and that of MTU Aero Engines are both marked by illustrious names such as Tornado, Eurofighter, Transall and Tiger. Since its creation over 50 years ago, the Bundeswehr has always been able to rely on the support of Germany’s number-one engine manufacturer – for the latest in engine technology and repair techniques, groundbreaking MRO packages, and personalized customer service. In November 2009, Lieutenant General Aarne Kreuzinger-Janik was appointed Chief of Staff of the German air force.

Lieutenant General
Aarne Kreuzinger-Janik

General, what is the main focus of your activities as chief of staff?

After an extensive review process, the German armed forces are on the point of implementing the biggest-ever reform in their history, which will bring about a host of structural and other changes. Following on from the government’s recent decision to suspend compulsory military service, the findings of the Structural Commission are currently undergoing further evaluation and interpretation by the defense ministry. The results of the ensuing political debate will include far-reaching decisions on key armament projects for the air force. The measures taken on the basis of these decisions will impact the air force not only in the short term, but also in the medium to long term. My overriding task during this period of reform is to ensure, firstly, that the air force remains firmly focused on mission requirements, thus helping to improve the overall capabilities of the German armed forces and, secondly, that we can make a substantial contribution toward consolidating the national budget.

MTU is the lead industrial partner of the air force. What are the three most important things you expect of the company?

MTU’s many years of technical support for the engines of the C-160 Transall and Breguet Atlantic aircraft, and the CH-53G/GS helicopter, are a positive example of the air force’s cooperation with industry. Since 2003 this successful partnership has grown to include cooperative MRO ventures for the engines of the Eurofighter, Tornado, F-4F Phantom, Bo105 and UH Tiger aircraft. Our main expectations of MTU are that the company continues to provide our military aircraft with the professional and reliable technical support to which we are accustomed, and that our successful partnership carries over into new areas of mutual benefit, in particular those serving to underpin our core military capabilities. Another key area is the ongoing development of engine and MRO technologies that serve to safeguard MTU’s role as a powerful and innovative partner for military aircraft engines in Germany.

MTU’s cooperation with the German air force has stood the test of time. Could you imagine intensifying this cooperation?

Given the introduction of new weapons systems featuring state-of-the-art technology, lower unit numbers of aircraft, and the availability of maintenance processes based on condition monitoring, coupled with the growing scarcity of resources, it will be necessary to find alternatives to the traditional forms of logistical support. To this extent, we could well imagine adapting or even intensifying the air force’s current weapons system logistics partnerships – on condition that our requirements in respect of effectiveness and efficiency can still be met.

A concentration of high technology – the Eurofighter and its EJ200 engine.

A long-running success – the RB199 engine for the Tornado continues to generate substantial revenues.

The most powerful turboprop in the Western world – the TP400-D6 engine for the Airbus A400M.

'MTU's program of support for the engines that power the C-160 Transall, the Breguet Atlantic and the CH-53G/GS helicopter illustrates the importance of the company's close ties with the defense industry.'

What are the challenges facing the German air force, and what capabilities does it need to fulfill its role within the nation's overall security strategy?

In addition to its flexibly deployable intervention groups, the air force devotes a substantial part of its resources to permanently assuring the security of Germany and its citizens. Its tasks are varied, and include providing airborne support to law enforcement and other government agencies, operating search and rescue services, and the full-time job of protecting German airspace. Events since September 11, 2001 have demonstrated that preserving the integrity of a nation's airspace is an essential basic interest, which we are currently redefining to include certain aspects of space situational awareness.

What is more, Germany plays an active part in NATO's integrated air defense system, with our fighter squadrons' operations control and quick reaction alert (QRA) forces ensuring seamless monitoring of German airspace 24/7. From today's vantage point, the German air force, as part of NATO, may well be called upon in the long term to protect Germany and its citizens against new types of threat, such as ballistic missiles.

Given the government's financial constraints and the difficult conditions under which we are required to perform our current out-of-area missions, fulfilling our numerous commitments within the allocated budget is proving to be quite a challenge. We must bear in mind that, above and beyond its international missions and the imminent restructuring, the air force is also engaged in a modernization program of an unprecedented scale in respect of its main weapons systems.

What type of aircraft does the air force need to best fulfill its future role?

One of the essential things in the medium term is to broaden the mission capabilities offered by the Eurofighter. We require greater flexibility in the assignment of roles, that is to say comprehensive multi-role deployment options with a broad range of weapons and sensors.

Unmanned aerial vehicle (UAV) systems are another essential platform that will be increasingly required to enhance and widen the scope of the armed forces' operational capabilities. UAVs are a future force multiplier, especially in the context of network-centric operations, with potential applications that extend far beyond the basic functions of reconnaissance and intelligence-gathering.

In order to assure effective protection against the full spectrum of potential threats from the air, it is also necessary to have an end-to-end air defense system that is capable of meeting the needs of future scenarios that include missile defense alongside the traditional national security functions.

I am also convinced that mobility will remain a prime concern in future, whether it is of a strategic or operational nature, or simply tactical. That is why we need a means of transportation that is oriented towards tomorrow's requirements. Despite all the hurdles still to be crossed, I consider the A400M to be the only project with future perspectives.

Power for the world: The Eurofighter Typhoon is meeting its promise as an exportable product. The air forces of Germany, the United Kingdom, Italy, Spain, Austria and Saudi Arabia are already convinced by its performance.

A winning formation

Partnership with the German air force

The German air force's Eurofighter is the most modern aircraft in its class. Not only are the jet and its EJ200 engine equipped with leading-edge technologies, but new paths are also being forged with the Eurofighter in the field of engine maintenance. In 2002, MTU and the German air force established what they then called a 'cooperative model'. It was so successful that it has since been renamed 'Partnership with the Air Force', and now covers a further four engine types in addition to the EJ200: the RB199 of the Tornado, the J79-17 of the Phantom, the RR250-C20 of the Bo105 helicopter, and the MTR390 of the Tiger. Maintenance work is carried out at two different locations – either on MTU's own premises in Munich, or at its outstation adjacent to the military airfield in Erding. In fact, MTU is the first company to be permitted to operate a maintenance line on a military site belonging to Germany's armed forces.

Business in the United States

In Europe, defense budgets are getting ever tighter and major procurement programs rarer. Against this backdrop, MTU is positioning itself in new markets – and it has already successfully gained a foothold in the U.S. military market, the world's largest. MTU is participating as a risk- and revenue-sharing partner in the production of General Electric's F404, F414, and F110 engines, which are destined for various U.S. fighter jets, and of the GE38 for the CH-53K heavy-lift cargo helicopter.

The GE38 marks another first for MTU, with the company not just taking on production tasks within a U.S. military engine program, but also bearing full responsibility for developing the power turbine. The GE38 is an engine with potential, and would also be suitable for propelling a European heavy-lift cargo helicopter.

Touchdown in the Middle East

MTU is active not only in the U.S. and Asian markets, but now also in the Middle East, with a stake in the Middle East Propulsion Company (MEPC) in Saudi Arabia marking the start. MEPC specializes in the maintenance of military aircraft engines. Its main customer is the Royal Saudi Air Force (RSAF), for which it maintains the Pratt & Whitney F100 engines that propel its Boeing F-15 fighter jets and the T56 engines of the Hercules C-130.

What is more, MEPC's portfolio is set to expand through the addition of modules of the RB199 engine of the Tornado and the EJ200 engine of the Eurofighter. MTU has already organized training courses for MEPC employees in order to improve their knowledge of these engines.

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PARTNERSHIPS WITH AIRLINES

Airlines rely on MTU to propel their aircraft through the sky, but also require support on the ground. The joint venture with China Southern Airlines provides the engine manufacturer with a maintenance hub in one of the world's fastest-growing markets.

When customers become partners

Asia is the world's biggest growth market. In order to benefit from its dynamism, MTU Aero Engines took the plunge, and opened a subsidiary in China. It is an endeavor that has been crowned with success. Within ten years, MTU Maintenance Zhuhai – a joint venture between MTU and China Southern, the country's largest airline – has grown to become the biggest MRO company for aircraft engines in China, and the market leader for the overhaul of V2500 and CFM56 engines.

For German engine specialist MTU, expansion into Asia was a matter of geostrategic significance. Asia's role in the aviation market has been growing perceptibly since the 1990s, and the economic success of the aircraft engine industry has become increasingly dependent on responding quickly to the needs of the region's airlines, and guaranteeing them a local presence. What is more, Asian airlines set great store by accessible local expertise – particularly when it comes to MRO – and MTU has plenty of that to offer.

Back in the fall of 1998, several top managers of MTU were on a business trip to China when they heard of China Southern Airlines' expansion plans: the airline wanted to set up its own MRO facility, and was on the lookout for a suitable partner. The airline did not have to look long. The MTU managers wasted no time in calling head office in Munich, where the company immediately set about designing just such a plant for construction in the Zhuhai Special Economic Zone. Its draft proposal was so persuasive that MTU triumphed over all the industry heavyweights to win the bid. 'Ultimately, I think it was our excellent reputation that tipped the scales in our favor, as well as the fact that our experience enabled us to offer faster turnaround times than any of our competitors,' recalls Martin Köster, a member of the project and set-up team. A further positive factor was that the Chinese airline was already a longstanding customer of MTU Maintenance in Hannover, and was very satisfied with the service there.

MTU works hand in hand with China Southern Airlines, the country's largest airline.

With a fleet comprising well over 100 aircraft, the airline brought a lot of different engines into the partnership. In fact, that was a key prerequisite for MTU, as it meant that the maintenance shop would be guaranteed a certain basic utilization level from day one. Both sides profit from the cooperation. With roots in the region, the airline is fully acquainted with the local environment and conditions, which in turn helps to safeguard the huge investment on the part of MTU. The joint venture gives China Southern Airlines access to German maintenance know-how, while an independent partner such as MTU raises the airline's chances of winning over small and medium-sized customers that are reluctant to become dependent on specific airlines, or OEMs.

Air Canada: an early joint-venture partner, now a customer.

MTU Maintenance Zhuhai is the biggest maintenance provider in China.

Thanks to the high quality and, above all, reliability of the work done by the joint venture, the acquisition of new customers has forged ahead in recent years, with Japanese airline All Nippon Airways (ANA) being just one example. Whereas the Zhuhai plant initially only maintained engines belonging to China Southern Airlines, other Chinese airlines and customers in Southeast Asia and the rest of the world now account for almost half of all shop visits. Marketing efforts are going so well that the Zhuhai plant is due for major expansion. A new, multifunctional extension has already been opened, and the next step will see 6,000 m² in floor space added to the maintenance shop. 'This will allow us to simplify and speed up many processes even further,' says Holger Sindemann, President & CEO of MTU Maintenance Zhuhai. 'We will then be able to overhaul almost 300 engines a year.'

'Ultimately, I think it was our excellent reputation that tipped the scales in our favor, as well as the fact that our experience enabled us to offer faster turnaround times than any of our competitors.'

The Sino-German partnership has also taken root in areas of a more cultural nature. For example, MTU has introduced Germany's long-established dual vocational training system at the joint venture, thus substantially improving the training of its Chinese workers. What is more, at the joint venture's instigation, Zhuhai and Braunschweig are currently looking into the possibility of becoming twinned cities, which is a classic way of fostering international understanding.

The establishment of MTU Maintenance Zhuhai is a vivid example of MTU's strategy of cooperating closely with airlines, and setting up a local presence in its key markets. Its first step in this direction was taken on the North American continent in 1998, when it acquired a majority stake in the engine shop of what was then Canadian Airlines (now Air Canada) in Vancouver. The airline retained a minority holding until its withdrawal in 2003, leaving MTU Maintenance Canada as a wholly owned subsidiary of MTU.

The partnership proved to be a lasting success. The maintenance shop, situated close to Vancouver International Airport, specializes in the repair of engines and auxiliary power units, and carries out engine tests. In Vancouver, MTU also offers a management service for line replaceable units (LRUs) that involves organizing on-site parts exchange on request within the scope of day-to-day flight operations. The benefits to MTU of its Canadian subsidiary cannot be overestimated, given that it has enabled the company to establish a strong presence in the lucrative North American MRO market. This also extends to the military sector, where MTU Maintenance Canada provides engine maintenance for the U.S. Air Force's KC-10 tanker aircraft.

Thanks to the high quality and reliability of the work done by the joint venture, the acquisition of new customers has forged ahead in recent years, with Japanese airline All Nippon Airways (ANA) being just one example.

MTU's third joint venture with an airline involved Airfoil Services Sdn. Bhd. (ASSB) in Malaysia, which the company founded together with Malaysian Airlines near the country's capital, Kuala Lumpur. After the regional airline later withdrew from the joint venture, MTU was able to persuade Lufthansa Technik, which specializes in repairing the blades of low-pressure turbines and high-pressure compressors, to take its place. The partners' expectations were well and truly exceeded, and the company has since grown to four times its original size.

Partnerships between engine manufacturers and airlines are, without doubt, something special. After all, the airline is both a customer and a partner at the same time. This unusual constellation is of benefit to both parties, because it means that long-term strategic decisions are taken together. German colleagues work in the local joint ventures, and colleagues from abroad are well integrated – and play an active role – within the MTU Group. The best example of this is MTU Maintenance Zhuhai, where a team tasked with developing a sophisticated computerized control system to handle customer orders received at short notice was honored with the MTU Award in 2008.

The ASSB blade repair shop in Malaysia.

Advanced engine technology in eastern Europe – MTU Aero Engines Polska.

MTU Maintenance Zhuhai is the Chinese market leader.

A fleet of over 300 Boeing and Airbus aircraft bears the China Southern Airlines logo.

Successful subsidiaries

MTU Maintenance Zhuhai

2000 Establishment of the 50/50 joint venture MTU Maintenance Zhuhai
2009 Capacity expansion commences; eventual goal: 300 engines a year

MAINTENANCE EXPERTISE:

CFM56-3, -5B and -7 as well as V2500-A5

Ultra-modern test rig for engines developing up to 150,000 pounds of thrust

MTU Maintenance Canada

1998 MTU Aero Engines and Canadian Airlines set up MTU Maintenance Canada
2003 MTU Maintenance Canada becomes a wholly owned subsidiary of MTU

MAINTENANCE EXPERTISE:

CF6-50, CF6-50C2 and CFM56-3

Tailored service packages and customized repair solutions

State-of-the-art repair service for entire engines and a full spectrum of component repair services

F117 and PW100

Airfoil Services Sdn. Bhd. (ASSB)

1991 MTU and Malaysian Airlines found ASSB
2002 Malaysian Airlines withdraws from the joint venture
2003 Lufthansa Technik acquires a share in the company
2006 New, considerably expanded plant inaugurated
since 2008 Expansion of third-party business

MAINTENANCE EXPERTISE:

Repair of blades for the low-pressure turbines and high-pressure compressors of engine types V2500, CFM56, CF6 and CF34

Center of competence for high-tech repairs

A strong partnership for engines

MTU Maintenance is under contract to one of the fastest-growing airlines worldwide: The enterprising U.S. airline JetBlue Airways is the biggest operator of V2500 engines, and MTU is the world leader in the maintenance of this engine type. Both partners place absolute emphasis on top quality and performance, and impeccable service. The exclusive maintenance support for JetBlue's V2500 engines, provided by MTU maintenance specialists, helps to ensure that the company continues on its successful course.

MTU's business relationship with the airline dates from 2003, but it really shifted up a gear four years later, when JetBlue awarded MTU Maintenance its largest-ever maintenance contract. The New York-based carrier added another 5 years onto the original 10-year term of a fly-by-hour contract, concluded in 2005 and covering the exclusive maintenance of its V2500 engines, raising the total value of the contract to EUR 2.4 billion. 'It was a real statement of confidence in us, enabling us to build up a long-term strategic partnership,' says a delighted Christoph Heck. Heck, who is Vice President Sales The Americas at MTU Maintenance Hannover, recalls: 'When the contract began, the JetBlue fleet comprised 168 V2500 engines.' That number has now grown to 246. The agreement was not only a sensational achievement for MTU, but also without parallel at JetBlue: never before had the airline concluded such a far-reaching contract with one of its service providers.

What tipped the scales in the company's favor was JetBlue's positive experience with MTU Maintenance. Contact was initially made when MTU's maintenance experts were able to solve a technical problem with a JetBlue V2500 engine. After that, JetBlue put MTU Maintenance through its paces on more than one occasion. The company made a convincing impression with its high quality, reliability, and top-ranking customer service, finally being given the nod as exclusive maintenance provider for Jet Blue's V2500 fleet. 'The partnership allows us to achieve a quality of engine maintenance for our A320 fleet that matches our own high standards,' comments Dave Ramage, JetBlue Vice President Technical Operations.

Maintenance work for JetBlue is carried out at MTU Maintenance Hannover. MTU's maintenance subsidiary in Langenhagen not only forms the heart of the MTU Maintenance Group, it is also the world

As the respective world leaders in the operation and maintenance of V2500 engines, JetBlue and MTU represent a formidable team.

leader in V2500 maintenance. One-third of all maintenance work for this class of engine is carried out in Langenhagen. The V2500, manufactured by the International Aero Engines (IAE) consortium, has been part of MTU's maintenance portfolio since 1989. But MTU is not only familiar with the V2500 from the maintenance point of view – Germany's leading engine manufacturer also holds an eleven-percent stake in the program by supplying the low-pressure turbine for the engine, which powers the Airbus A320 family.

The JetBlue-MTU partnership got off to a good start, being marked by a high degree of mutual trust from the very outset. 'The first time I visited MTU Maintenance Hannover I thought I was in a department of JetBlue – the corporate culture was so familiar, just like our own really,' recalls Dave Ramage. Olaf Gorecki, who has been working as MTU's representative in New York since the contract commenced, is JetBlue's direct contact – in the company's own backyard, so to speak. He sees things the same way: 'The contract has really brought both sides together.'

Ramage points out that 'MTU's expertise in developing repair techniques is very important to us.' These high-tech processes, most of which were developed by the engine specialists themselves, help to keep maintenance costs down and to prolong the life of the engines. MTU caters to its clients' wishes with customized service solutions. 'We are able to apply the knowhow we possess as a manufacturer that develops its own materials and components and combine it with our experience as a maintenance provider. This two-way synergistic transfer of knowledge, from design and manufacturing to maintenance, and vice versa, is one of the major factors in our success,' sums up Bernd Kriegl, Director Engineering Commercial MRO at MTU Aero Engines in Munich.

> The agreement was not only a sensational achievement for MTU, but also without parallel at JetBlue: never before had the airline concluded such a far-reaching contract with one of its service providers.

Milestones in the partnership

June 25, 2005	JetBlue Airways and MTU Aero Engines sign an exclusive agreement to maintain the airline's V2500 engines at MTU Maintenance Hannover in Langenhagen
July 1, 2005	Commencement of contract – ten-year term with renewal options
July 25, 2005	First V2500 engine from JetBlue Airways arrives in the shop at MTU Maintenance Hannover
February 26, 2007	JetBlue Airways extends the term of the contract signed in 2005 from ten years to fifteen

Top-quality service across the globe

MTU Maintenance is the world's biggest independent provider of maintenance services for commercial aircraft. The company's customers benefit from service packages and one-stop solutions for all common engine types and thrust classes. MTU has maintenance operations in Germany, North America, the People's Republic of China, and Malaysia.

One of the MTU experts' core competencies is the repair of engine parts and components. In addition to repairs carried out under license for OEMs, the specialists at MTU develop new, highly efficient high-tech repair processes under the brand name MTUPlus, and constantly work on refining existing techniques. Adhering to the principle of 'repair beats replacement', their work ensures that components are reconditioned to the highest levels of quality and reliability, extending the service life of engines.
MTU Maintenance also makes its mark with intelligent service models, which include the Total Engine Care (TEC) all-in package, the Total Part Care (TPC) model for the rapid supply of spare parts, and 24-hour on-site service in emergency situations. There is a mobile repair team that can be called out to provide customers with assistance whenever they need it. The maintenance portfolio is rounded off by so-called e-pool services: on request, the MTU team will deliver and install a suitable replacement engine quickly and on flexible terms, anywhere in the world.

UNITED BY EXCELLENCE

PARTNERSHIPS WITH UNIVERSITIES AND

In high technology, anyone who fails to innovate is quickly left behind. MTU collaborates with the science and research community to develop future aero-engine design concepts. And both sides profit from the arrangement.

RESEARCH INSTITUTES

Pooled expertise

Aircraft engines are high-tech products, and so complex that the long-range, interdisciplinary questions associated with their development can no longer be solved by any single manufacturer on its own. That is why the major players in the industry are working together to develop the best technological solutions, and also forging collaborative ties with the science and research community. It is a necessity that MTU was quick to recognize and act on, building up an ever more closely meshed network with partners in the world of science and research.

High-pressure compressors, low-pressure turbines, manufacturing processes and repair techniques made by MTU rank among the best in the market – they are areas in which the German engine manufacturer has earned a place as one of the world leaders. However, the company would probably never have made the technological leaps to get there without its strong ties with scientists and researchers. For decades, the company has maintained close links with the research community. In fact, cooperative arrangements with universities and research institutions form an integral part of MTU's research and development activities. This networking strategy has two main thrusts: research projects related to actual applications are largely concentrated with leading institutes and universities, whereas trend research and the development of visionary engine designs are primarily the domain of the experts at the Bauhaus Luftfahrt think tank.

Four years ago, MTU reorganized its collaboration with top-class universities and research institutes with the strategic aim of increasing efficiency. Strategic alliances were to be formed with qualified partners, and basic research extended to include more product-related topics. This would improve the company's innovativeness, safeguarding it in the long term, and it would step up cooperation between the academic world and industry. In the wake of this shift in strategy, six centers of competence were successively set up in which the best experts from MTU, the universities and the research institutes work closely together on clearly defined topics or products. A dedicated center of competence was established for each technological field – Compressors, Turbines, Design and Production, MRO, More Electric Engine, and Future Concepts. MTU's partners are the University of Stuttgart, RWTH Aachen University, Leibniz

MTU's cooperation with scientists and researchers is based on open dialog and innovative thinking.

Active compressor flow control is one of the outstanding results of this collaborative research approach.

The basic experimental research is conducted in parallel by industrial and academic laboratories.

Bauhaus Luftfahrt develops ideas for the aircraft of the future – such as the Claire Liner.

A setup used to calibrate flow sensors.

The university campus in Garching, near Munich, provides essential support to MTU.

University Hannover in conjunction with Laser Zentrum Hannover e.V., the Technische Universität München, the Universität der Bundeswehr München, and the German Aerospace Center (DLR) in Cologne.

Both sides benefit from pooled of technological expertise in joint development. It means universities can carry out application-oriented research work, profiting from industry's experience with products and markets. The practical relevance of the research also has a positive impact on the training of new talent and enhances the institutions' chances of receiving state grants. Meanwhile, MTU is in the advantageous position of being able to work with students and postgraduates who are acquainted with the latest scientific methods. Of course, the company has its own in-house research departments, but the staff there are generally so busy with project-related work that they have virtually no time to explore more fundamental research topics. Another plus point is that some of the young scientists join the MTU workforce after completing their academic careers, which is a boon for the company in its drive to recruit new talent.

The centers of competence are exceedingly successful, and MTU and its academic partners unanimously agree that staff motivation there is high, helping to generate a constant stream of promising new projects along with potential solutions. Collaboration is also marked by an exceptional degree of openness on both sides. The mutual trust and support that this engenders facilitate the task of jointly developing practicable solutions.

The basic research carried out by Bauhaus Luftfahrt is of a more theoretical nature. Since its creation five years ago, this Munich-based think tank has been devoting its efforts to the future of mobility in general, and the future of air travel in particular. These are the tasks that this interdisciplinary, international research institution was assigned by its four founders – EADS, Liebherr, MTU, and the Bavarian Ministry of Economic Affairs. Nearly 30 scientists are working there on solutions to tomorrow's aviation, solutions that are not only innovative and creative, but also systematically geared to real-life applications. The leading lights of research and industry work together with Bauhaus Luftfahrt. The think tank's current focus is on the development of visionary aircraft concepts, the ecology of aviation, future technologies and innovation potential, and the socioeconomic and political drivers of the future of aviation.

The latest addition to the research landscape in the vicinity of MTU is the Munich Aerospace joint faculty. Established in July 2010, the faculty is designed to function as a research, development and training platform for Munich's aviation and aerospace industry. Here, too, partners from industry, research, and development are following a model that promises success: bundling academic and industrial potential in a constructive manner for the benefit of all concerned, and to ensure that tomorrow's aviation is safer and cleaner.

‘Close collaboration’

MTU has been working together with the German Aerospace Center (DLR) for more than 35 years. This long and productive partnership has resulted in many innovations, including novel propfan, compressor, and turbine designs. Professor Dr. Heinz Voggenreiter, head of the DLR Institute of Structures and Design, and Dr. Erich Steinhardt, Senior Vice President Technology at MTU, describe their impressions of the partnership.

Steinhardt: Our cooperation initially arose out of numerous personal contacts between members and leaders of the MTU development team and the German Test and Research Institute for Aviation and Space Flight (DFVLR), the forerunner of today’s German Aerospace Center (DLR). We took this long-standing partnership to a new level in 2007 by setting up the ‘Engine 2020 Plus’ center of competence.

Voggenreiter: The main partners in this center of competence from the DLR end are the Institute of Propulsion Technology, the Institute of Materials Research, and the Institute of Structures and Design. The topics we deal with are generally driven, on the one hand, by the technological needs of MTU in respect of its long-term product development strategy and, on the other, by the expertise that our institutes have amassed in meeting the technological challenges thrown up by engine technology.

Steinhardt: We work together with the DLR to develop technologies for use in both the commercial and military sectors, and we receive support from the Federal Ministries of Economics and Technology (BMWi) and Defense (BMVg). Two especially noteworthy projects on which we collaborated closely were our work on shrouded propfans in the 1990s, and the joint development of a method for calculating three-dimensional aerodynamic flows in turbomachinery, the so-called TRACE code. Building on the excellent results of our collaboration with the DLR on the precursors to the EJ200 compressors, we are now working together to enhance our low-pressure compressor technology.

» The topics we deal with are driven by the technological needs of MTU in respect of its long-term product development strategy and by the expertise that our institutes have amassed in meeting the technological challenges thrown up by engine technology. «

Prof. Dr. Heinz Voggenreiter

Prof. Dr. Heinz Voggenreiter

Dr. Erich Steinhardt

Voggenreiter: In my view, the most recent projects on new compressor technologies are most illustrative of the strength of our partnership. Our mission to provide the groundwork for highly innovative compressor design techniques goes hand in glove with MTU's many decades of experience in engine development. Along the entire engineering chain – from numerical design through construction and testing of the hardware – our experience of the partnership has been that our respective skills are complementary, and that the results of our scientific research ultimately find practical application in industry. In addition to scientific projects, the DLR provides services in those areas in which, thanks to its specialized expertise, it can really add value.

Steinhardt: And we are happy to utilize that expertise, for instance by having the DLR carry out special measuring tasks for us. A recent example was the optical measurement of three-dimensional flow fields in the blade rows of our high-pressure compressor, as part of the NEWAC program.

We are currently discussing the possibility of intensifying our collaboration with the DLR in the field of materials and structures. The DLR has many well-equipped institutes and a high level of expertise but, even so, they do not quite coincide with MTU's present needs. By widening its horizons, the DLR would have an opportunity to take the lead in areas of key strategic importance, and to provide the German engine industry with targeted support.

» We are currently discussing the possibility of intensifying our collaboration with the DLR in the field of materials and structures. By widening its horizons, the DLR would have an opportunity to take the lead in areas of key strategic importance. «

Dr. Erich Steinhardt

UNITED BY EXCELLENCE

PARTNERSHIPS WITH SUPPLIERS

Partnerships also play an important role in a company's relationship with its suppliers. Both parties in such alliances can enhance their competitiveness by combining complementary strengths – enabling them to lower costs, improve product quality, and gain access to new markets.


PH10M

A strategic partner

When, just after the turn of the millennium, MTU began working together with Präwest Präzisionswerkstätten Dr. Jung GmbH & Co. in Bremen, the two companies were far from imagining that they would one day form a close partnership. But the relationship between them evolved so well that last year they forged a strategic partnership from which both stand to profit enormously by lowering their costs and enhancing the quality of their products.

Personal contact generates the essential trust between a supplier and its customers.

'Präwest is one of the worldwide leaders in milling,' explains Uwe Böhm, one of whose tasks at MTU, Germany's leading aero engine manufacturer, is the procurement of engine blades and castings. 'MTU, on the other hand, is an expert in handling complex production chains, and the two complement each other perfectly.' Initially, the cooperation involved MTU procuring and checking the raw materials and shipping them to Bremen along with its production requirements. Präwest transformed the raw materials into the required parts and shipped them back to Munich, where they were integrated into the engine components.

Process analyses carried out at MTU revealed potential for cutting both handling and transportation costs. If Präwest took over preliminary materials management, it would be able to assume full responsibility for manufacturing the parts for MTU's engine components. This was an attractive proposition for the precision engineers at Präwest as the company already had its sights set on becoming a system supplier. At the same time, shifting the partnership up a gear would enable MTU to reduce the complexity of its value chains.

Working in unison, the two companies agreed the next steps in the process. While it was setting up a preliminary materials management unit, Präwest simultaneously introduced design-to-cost development principles. This meant that the most economical solutions could be identified early on, during the product development process, and also that costs incurred later, such as sales and service outlays, were included in the cost calculation from the very start. When, just a short time later, MTU took delivery of the first parts Präwest had manufactured under its own responsibility, the success was palpable, with all of the parts fully meeting MTU's stringent quality standards.

The first parts Präwest delivered were for military engine programs, for instance guide vanes and rotor blades for the low- and high-pressure compressors of the EJ200 Eurofighter engine, and blades for the intermediate-pressure compressor of the TP400-D6. Four such TP400-D6 engines are required to get the A400M military transporter airborne. Soon, however, MTU was relying on its Bremen-based supplier for its commercial engine programs too, among them the GP7000 engine for the Airbus A380, the world's biggest passenger aircraft. Cooperation between the two companies was so good that it seemed only logical to take it a step further, and, in 2009, MTU and Präwest established a strategic partnership.

MTU and its suppliers – facts and figures

Three separate departments are responsible for procurement at MTU. As the name implies, OEM Procurement looks after the OEM segment, supplying engine components such as blades, disks and housings. MRO Procurement purchases everything needed for engine maintenance, including spare engine parts. Indirect Material Procurement is responsible for plant infrastructure maintenance, including the supply of the necessary goods and services.

- Around 4,300 suppliers from 38 countries cater to MTU's three locations in Germany.
- Eighty percent of the total volume of goods and services delivered to the company's locations in Germany is provided by just 300 suppliers.
- At MTU in Munich, OEM Procurement takes delivery of around 12,500 items every day.
- The raw materials for which there is the greatest need in production are nickel-based alloys (so-called super alloys). Platinum, the most valuable of the raw materials processed, is used in engine blade coatings.
- Thanks to its OEM orders, MTU keeps around 2,500 people in work in the supplier sector. Across all three MTU locations in Germany, Indirect Material Procurement safeguards a further 500 jobs.

There is huge variation in delivery times. The shortest is two days, which is the time it takes for Indirect Material Procurement to procure office supplies. OEM standard parts can be delivered within 20 days, while orders for titanium forging stock often require up to 320 days. For machine orders, delivery times can be as long as 450 days.

Forging close partnerships like this has been a clear trend for a number of years now, especially for highly specialized small and medium-sized enterprises (SMEs). Both parties in such alliances can enhance their competitiveness by combining complementary strengths. What is more, these partnerships can help the companies to tap into and service new markets faster and more efficiently – a win-win situation. For milling specialist Präwest, whose biggest customer is MTU, two points are decisive above all others. As managing director Reiner Wahlers explains: 'The strategic partnership helps us to plan our capacity better in the long term. In addition, as a system supplier we are able to participate in the development of new engines from a very early stage. It's a learning process that can only serve to make us better.'

By the same token, MTU benefits from the cooperation by being able to bring its know-how to bear in the products right from the outset. The engine specialist is also able to exert a decisive influence on the development of individual components. And there is another effect of the partnership that should not be overlooked, as Uwe Böhm points out: 'Nearly all new engine programs involve working to extremely tight deadlines. That's why it is particularly important to us that we have all the necessary parts at hand as we enter the test phase. If your supplier is a strategic partner, it is much more willing to manufacture this very small number of test parts in parallel with series production.' This is another clear example of the mutual benefit to be gained from such partnerships. MTU is confident of being able to meet its demanding schedules, while Präwest can demonstrate its expertise from the word go, and also has a much better chance of winning the contract for series production of the parts in question.

The milling specialist Präwest manufactures parts for high-tech products including the EJ200 military aircraft engine.

After milling, the products are ready for further treatment.

Precision-milled Präwest products meet the highest quality standards.

For the partnership to function effectively in practice, it is necessary for all those directly involved to coordinate their activities closely. Employees of the two companies keep regular contact via telephone or videoconference, and face-to-face meetings at one or other of the locations are also not uncommon. Petra Deuter, MTU's key account manager for Präwest, sees this as the cornerstone of success: 'Personal contact is absolutely essential. It creates trust, without which such a close partnership could not exist.' Präwest managing director Wahlers agrees: 'Any problems are broached immediately. Our trust extends so far that we even provide MTU with a breakdown of the costs of the parts. If we find ourselves outside the agreed cost framework, we work together to uncover potential for improvement.'

This high level of transparency is worthwhile, because the more open the companies are with each other, the greater the benefits for both sides – regardless of whether the result is a lower price for the final product, shorter production times, or higher quality. And quality is just as important an aspect of the partnership as costs, which is why an open-book policy is pursued with quality issues as well. 'This helps us to ensure that Präwest complies with MTU's high quality standards,' explains Böhm. And Präwest does so mainly through a high degree of automation. In many cases that means higher investment costs, but they do pay off. As Wahlers points out: 'It enables us to compensate for Germany's very high labor costs. Ultimately, it is a pledge of allegiance to German industry, and one that serves to strengthen it.'

The two companies are firmly committed to continuing their partnership. At the end of the day, it has to do with more than just reliable capacity planning – the longer a partnership endures, the more of each partner's expertise finds its way into the joint final product, making it safer, more cost-effective and efficient.

MTU Supplier Award

In the aviation industry, the highest safety standards apply, which is why potential suppliers to MTU are required to demonstrate a high level of commitment. After all, the quality of products coming off the production line of Germany's leading engine manufacturer is of paramount importance to flight safety.

And MTU is not blind to the considerable effort put in by its suppliers in helping to meet these requirements. On the contrary, it has been honoring outstanding achievements since 2005 through its biennial MTU Supplier Award. Judged in the categories 'Cost,' 'Quality,' 'Logistics,' and 'Cooperation,' the award is the highest accolade that MTU can confer on its suppliers.

Präwest Präzisionswerkstätten won the MTU Supplier Award 2007 in the 'Innovation' category for its special process and raw material management as well as its transparent quality database. The accolade places the Bremen-based company among the select group of winners that includes Blades Technology Ltd. in Israel, Diehl BGT Defence GmbH & Co. KG in Germany, Greenleaf Corporation in the U.S., and Samsung Techwin in South Korea.


The incoming goods inspectors at
MTU apply similarly high standards.

All picture credits are listed on page 226

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FINANCIAL REPORT 2010

To our shareholders
» Page 6

Corporate Governance
» Page 18

Group management report
» Page 46

Consolidated Financial Statements
» Page 104

Additional information
» Page 220

MTU Aero Engines

Reiner Winkler, Chief Financial Officer

» We strive to guarantee our shareholders a solid investment. Our trump cards are products and services of the highest quality and our sound financial underpinnings. «

TO OUR SHAREHOLDERS

Letter to the shareholders	8
The Board of Management	12
The MTU share	14

LETTER TO THE SHAREHOLDERS

Egon Behle, Chief Executive Officer of MTU Aero Engines

Dear shareholders,

After the most severe recession since the Second World War, the global economy began recovering in the course of 2010, gathering pace very quickly. In this improving environment, MTU Aero Engines did not simply maintain its position, but performed very well, meeting and even exceeding our profit forecasts – including those that had been adjusted upward in summer 2010. Operating profit rose from € 292 million in 2009 to € 311 million, against a forecast figure of € 310 million. What is more, with an annual net income of € 142 million, MTU outperformed compared with both the previous year and its own forecast of € 140 million. Revenues climbed from € 2.61 billion in 2009 to € 2.71 billion, against a slightly higher forecast of € 2.75 billion. Despite big investments in research and development aimed at safeguarding the company's future, MTU's free cash flow improved by 21% to € 145 million, much higher than the expected figure of € 120 million.

All these results are proof positive that, as an innovative high-tech company with a balanced portfolio and an exceptionally motivated and qualified workforce, we are extremely well placed. Another key factor in our success is the finely meshed network of partnerships that MTU has cultivated for decades. Together with our partners, we are in the business of shaping today's – and tomorrow's – aviation industry. We are thrusting forward in all power categories, meeting the highest safety and quality standards in our industry – it is this striving for excellence that unites us.

I would like to take this opportunity to thank all those without whom the company's success in the past year would not have been possible. My thanks go to all our business partners and customers for their excellent cooperation in the financial year just passed, as well as to our investors – you, our shareholders. MTU's success hinges on your commitment. I am particularly grateful to the MTU workforce – around 7,900 men and women worldwide who once again demonstrated great commitment and delivered excellent performance in 2010. Their work is the key to MTU's innovative strength. We actively support our staff with training programs and place particular emphasis on encouraging female employees; in the years ahead, we intend to double the percentage of women in management positions at MTU.

It goes without saying that we want you, our shareholders, to participate again in the company's success. In the light of our positive expectations for the company's growth over the next few years, we are proposing to increase the dividend for the financial year 2010 to € 1.10 per share. Your confidence in us continues to spur us on in our efforts to strengthen MTU's position in the market and further enhance the value of the company.

Given the current trend, I am optimistic that we will achieve our goals. The economic upswing is a welcome boost for the aviation industry. Passenger traffic has grown by 8.2% compared with 2009, and freight traffic by as much as 20.6%, with both segments having reached their pre-crisis levels again. The most dynamic markets are to be found in Asia, the Middle East and Latin America, and that looks set to remain so, with experts expecting ongoing globalization to fuel a substantial increase in international air traffic in the coming years. With its comprehensive portfolio of innovative products and services, MTU is set to profit from this growth.

Our starting position is a good one, for we are well placed in the key markets. What is more, our success across all lines of business last year served to underscore our strong market presence.

One of the most significant events for the OEM business was the news that Emirates had placed the largest single order in aviation history up to that date, namely for a further 32 Airbus A380s, the world's biggest passenger aircraft. The airline has opted to equip its new A380s with engines from the GP7000 program in which MTU holds a 22.5% stake, so we also stand to profit from the deal. Emirates operates by far the biggest fleet of A380s, and has announced its intention to order even more aircraft. Airbus also received numerous orders for the A320, its bestselling aircraft family. These came mainly from airlines based in the burgeoning markets of the Middle East and Asia, among them Yemen Airways, Vietnam Airlines and China Southern. These aircraft are powered by engines from the V2500 program, in which MTU plays a central role.

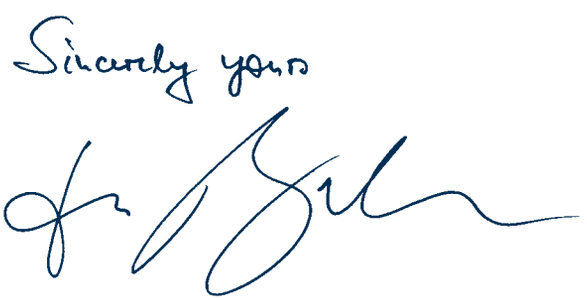
Some of these new aircraft orders included MRO services for the V2500 engines, and MTU Maintenance is the world's biggest provider of maintenance services for this engine type. In China, MTU Maintenance Zhuhai has taken a clear lead. This joint venture with China Southern Airlines is flourishing, prompting us to expand our facilities there and complete a first extension to the maintenance hangar in Zhuhai. In 2010, the commercial MRO business also signed or renewed contracts with customers in other up-and-coming markets, the largest being with the Brazilian airline TAM and with Royal Jordanian Airlines.

As far as our military portfolio is concerned, we are making good progress with a project of key importance to the company's future – the TP400-D6 engine designed to power the A400M military transporter. In 2010, three prototypes of this aircraft equipped with a total of twelve engines successfully completed their scheduled flight tests. A fourth A400M entered the flight testing phase at the end of the year. The program is proceeding well and showing good export potential. In the United States, the world's largest military market, we accomplished our plans to ramp up maintenance of the CF6-50 engines of the U.S. Air Force's KC-10 tanker fleet. This is another area in which we are looking to exploit opportunities for future growth.

In a high-tech field such as engine manufacturing, standing still is tantamount to falling behind. That is the reason why we have been driving forward our R&D activities, boosting expenditure in the financial year 2010 by 4% to € 239 million. This scale of investment was possible thanks to our solid finances and excellent position in the market. The focus of our R&D work last year was on the PW1000G, GE38 and GEnx engine programs, and they look set to remain our growth drivers in the years ahead.

Among these engine programs, the PurePower PW1000G geared turbofan is set to become one of the most important engines in the commercial aviation market. This entirely new engine concept is based on technology developed and implemented jointly by MTU and Pratt & Whitney. The superior performance of this cutting-edge, eco-efficient propulsion technology has also convinced Airbus to deploy the geared turbofan (GTF) when it re-engines its top-selling A320 aircraft. While the earlier decisions by Mitsubishi and Bombardier to equip the MRJ and the CSeries respectively with the GTF were already important milestones for the engine, the decision by Airbus to use this engine in its A320neo must rank as the market breakthrough for this engine type. Many years of joint technological collaboration are now starting to bear fruit. We kept closely to our schedule last year, successfully completing the first test run of the CSeries engine, the PW1524G, at the beginning of October, and are well on track to complete certification of the engine by 2012. Despite Airbus's decision to re-engine the A320, the aircraft's previous V2500 engine is not likely to lose its appeal in the coming years. In fact, it will continue to play a key role, especially in terms of demand for maintenance services. Work on the GE38, an engine for heavy transport helicopters, is also going according to plan. This engine has much potential, not least owing to its suitability as the powerplant for a future European heavy-lift helicopter. In 2010, the Dreamliner engine GEnx went into volume production, and 2011 will witness the launch of production activities at MTU in Munich. In order to not only maintain but also strengthen our role as a technological innovator, we will continue to invest heavily in research and development.

One thing is clear: we are on course to continue MTU's success, achieve substantial growth and ensure that a company with a distinguished past has a bright future ahead of it too. I sincerely hope we can count on your continued support as we strive to meet the challenges ahead.



Egon Behle

THE BOARD OF MANAGEMENT

The members of the Board of Management are wholly committed to the development of MTU Aero Engines as a world-leading engine manufacturer. They recognize the importance of long-lasting partnerships and cooperative ventures as a means of sustaining the company's future. The members of the MTU Board of Management place great value on communication, maintaining an ongoing dialog with partners, customers and institutions, and keeping regular contact with stakeholders in business and government circles.

Egon Behle in conversation with H.E. Jacky Foo, ambassador of the Republic of Singapore to Germany

Dr. Rainer Martens in conversation with Dr. Jens-Peter Heuer, permanent secretary in the Berlin Senate department for economics, technology and women's issues

EGON BEHLE, BORN 1955, CHIEF EXECUTIVE OFFICER
Appointed term: to December 31, 2013

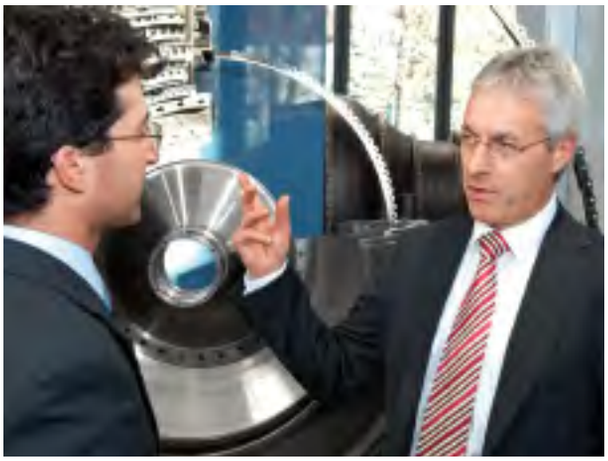
Egon Behle has stood at the helm of MTU Aero Engines as the company's Chief Executive Officer since January 1, 2008. As well as managing the corporate departments, he is also responsible for commercial and military programs.

Prior to his appointment to MTU's Board of Management, he had served for five years as the CEO of ZF Lenksysteme GmbH after previously heading several business units at ZF Friedrichshafen AG. He was also the sole managing director of Fortuna Spezialmaschinen GmbH. In the earlier stages of his career, after obtaining a degree in aerospace engineering, Egon Behle worked for Renk AG, Dornier System GmbH and Robert Bosch GmbH.

DR. RAINER MARTENS, BORN 1961, MEMBER OF THE BOARD OF MANAGEMENT, CHIEF OPERATING OFFICER
Appointed term: to April 14, 2014

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

Before that he was production manager at the Airbus plant in Bremen, after spending five years as the head of MTU's manufacturing center for turbine blades. The holder of a doctorate in mechanical engineering, he has also held various management positions at the Airbus plant in Varel and was managing director of CIM-Fabrik Hannover gGmbH.



Reiner Winkler in conversation with analyst Ben Fidler, Director Aerospace & Defence Research at Deutsche Bank

Dr. Stefan Weingartner in conversation with Ralf Christoffers, Brandenburg's minister for economic and European affairs

REINER WINKLER, BORN 1961, MEMBER OF THE BOARD OF MANAGEMENT, CHIEF FINANCIAL OFFICER (DIRECTOR OF LABOR RELATIONS)
Appointed term: to September 30, 2014

Reiner Winkler has been a member of the Board of Management of MTU Aero Engines since May 2005, with responsibility for finance, human resources and IT. A graduate of business administration, he has been in charge of these three areas since he began working for MTU in 2001.

His last post before joining the company was as managing director finance and controlling at TEMIC Telefunken microelectronic GmbH. He has also held management posts with Daimler-Benz AG and Siemens AG.

DR. STEFAN WEINGARTNER, BORN 1961, MEMBER OF THE BOARD OF MANAGEMENT, PRESIDENT AND CEO COMMERCIAL MAINTENANCE
Appointed term: to October 31, 2015

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

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

THE MTU SHARE

The MTU share price gained 33% in the course of 2010, outperforming the Dow Jones Aerospace & Defense Index, the barometer of Europe's aviation industry. MTU's shareholders will also benefit from the company's sustainable, earnings-oriented dividend policy. In view of the good business performance, the Board of Management and the Supervisory Board intend to propose an increased dividend of € 1.10 per share at the 2011 Annual General Meeting. This represents a dividend yield of 2.2%.

INTERNATIONAL STOCK MARKETS IN 2010

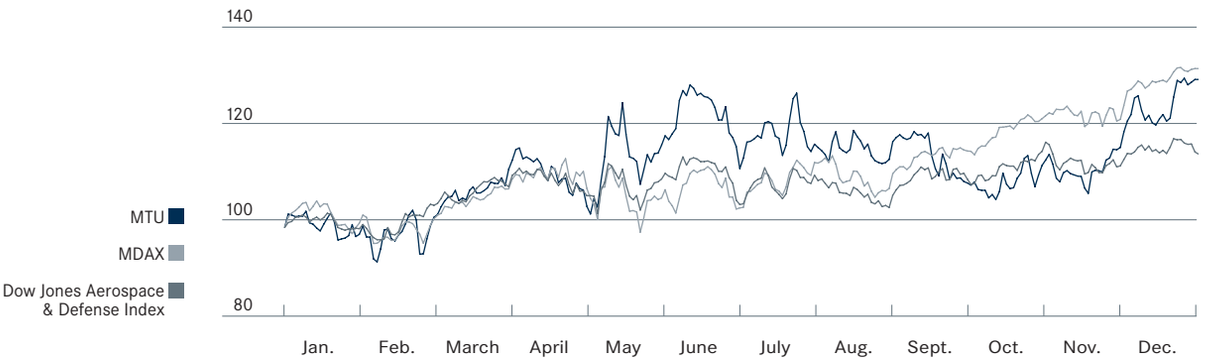
Buoyed by strong economic recovery, international stock markets began well in 2010. By mid-year, however, concerns arose about the sustainability of the positive global economic trend and about the sovereign debt crisis affecting a number of European countries. These developments were not without an impact on European stock markets, triggering strong volatility and a pronounced sideways movement in stocks throughout the summer months. A more optimistic outlook began to prevail again as from September, especially in Germany, and the stock market there picked up again strongly even in the face of lingering worries about the consequences of the euro crisis. As a result, the German stock indices experienced higher-than-average growth in 2010 compared with those of other countries. For instance, Germany's blue-chip index, the DAX, grew by 16% in the course of year, while its U.S. counterpart, the Dow Jones, registered a plus of only 11%. By contrast, Europe's Euro Stoxx 50 index lost 6% over the year. The MDAX German mid-cap index, on which the MTU share is listed, improved by 35% in the course of 2010 to close at 10,128 points on December 30. The Dow Jones Aerospace & Defense Index – which includes major European companies such as Rolls-Royce, EADS and BAE Systems as well as MTU – rose by 16% over the same period, reflecting the positive trend in the industry in 2010.

MTU SHARE PERFORMANCE

In 2010, the MTU share performed significantly better than the Dow Jones Aerospace & Defense Index.

In the first four months of 2010, the MTU share price moved in line with both the MDAX and the Dow Jones Aerospace & Defense Index, the barometer of the aerospace industry. Throughout the period May to August, the improved outlook for international air traffic and, in particular, a strong U.S. dollar both served to further boost the company's share price. As a result, the MTU share price made above-average gains during this period. As from September, however, the U.S. dollar again began to lose ground against the euro, which negatively impacted the MTU share price. Other detrimental factors for the company's stock during this phase were the cuts in military budgets announced across Europe and the uncertainty surrounding the recovery of the high-margin commercial spare parts segment. Towards the end of the year, aircraft manufacturer Airbus decided to equip its A320 series with innovative and efficient engines from programs in which MTU is involved and, around the same time, the U.S. dollar began to gain in value again. These factors were sufficient to trigger a year-end rally in MTU shares. All in all, the MTU share gained 33% in the course of the year, outperforming the Dow Jones Aerospace & Defense Index (at +16%) and finishing not far behind the MDAX (at +35%).

MTU share performance (indices at Dec. 31, 2009=100)



MTU share indicators year on year

		2010	2009
Highest quoted price[1]	€	50.71	38.93
Lowest quoted price[1]	€	35.30	16.57
Beginning-of-year share price[1]	€	39.31	19.88
End-of-year share price[1]	€	50.61	38.19
Annual performance[2]	%	33	95
Market capitalization at year end	€ million	2,632	1,986
Average daily trading volume	€ million in 000 shares	13 294	8 305
Earnings per share	€	2.91	2.89
Dividend per share	€	1.10[3]	0.93
Dividend payout ratio[4]	%	40.8[3]	28.5
Dividend yield[5]	%	2.2[3]	2.4

[1] Xetra closing price.
[2] Based on Xetra year-end closing price (Dec. 30).
[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. 30).

MTU DEFENDS ITS POSITION AMONG THE TOP TEN MDAX STOCKS

MTU's market capitalization on December 30, 2010 stood at € 2,632 million. On the same date, the MTU share was listed eighth in the Deutsche Börse Group's MDAX rankings, cementing its position among the top ten MDAX securities (2009: tenth place). The MTU share moreover improved its position in the liquidity ranking of German stocks published by the Deutsche Börse Group, taking ninth place among the MDAX shares (2009: 13th). Whereas the trading volume of MTU shares remained virtually stable at an average of around 300,000 per day, the value of the shares traded rose from around € 8 million to some € 13 million per day owing to the higher share price.

AT € 1.10, PROPOSED DIVIDEND HIGHER THAN PREVIOUS YEAR

MTU's dividend policy is earnings-oriented, and the company's good business performance in 2010 enables it to offer its shareholders a significantly higher dividend than in 2009. At the Annual General Meeting on May 5, 2011, the Board of Management and the Supervisory Board intend to propose a dividend payment of € 1.10 per share, € 0.17 more than in the previous year. The dividend is expected to be paid out on May 6, 2011. The dividend payout ratio calculated as a percentage of net profit available for distribution is thus 40.8 %. With approximately 48.8 million shares outstanding, the total dividend amounts to € 53.6 million. Calculated on the basis of the MTU share price at the close of trading on December 30, 2010, the proposed dividend represents a yield of 2.2 %.

BROAD INTERNATIONAL SHAREHOLDER BASE

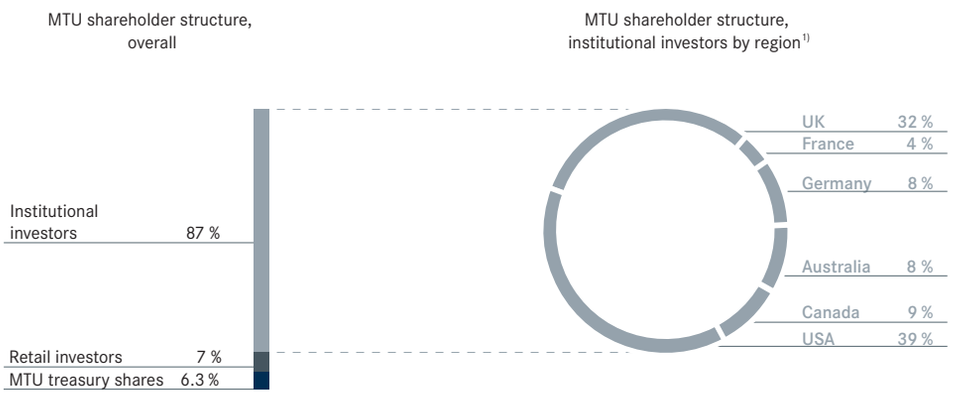
At December 31, 2010, the company held 3,247,593 treasury shares, which is equivalent to 6.25% of its capital stock. Consequently, the free float (as defined by the Deutsche Börse Group) accounted for 93.75% of MTU shareholdings at year end. According to the information available to the company, institutional investors held around 87% of the MTU stock, while about 7% was owned by retail investors. More than 90% of the institutional investors were based outside Germany, primarily in the United States, the United Kingdom, Australia, Canada and western European countries. In view of these figures, MTU can rightly claim to have a broadly diversified shareholder base.

Institutional investors hold around 87 % of the MTU stock.

According to notifications received in compliance with Article 21 of the German Securities Trading Act (WpHG), the following investment companies were among the largest MTU shareholders at year end 2010:

- Capital Research & Management Company (10.22% on November 18, 2010)
- BlackRock Inc. (4.997% on August 6, 2010)
- Gryphon International Investment Corporation (3.02% on June 8, 2010)
- Ameriprise Financial Inc. (3.01% on August 5, 2010)

Shareholder structure



1) Approximation based on top 20 shareholders (= about 50 % of share capital). As of Dec. 31, 2010.

SUSTAINED HIGH PROFILE AMONG ANALYSTS

Owing to restructuring within the banking sector in the wake of the financial crisis, the number of financial analysts regularly reporting on the company decreased from 26 to 22 in 2010. The still relatively high number of analysts covering the company demonstrates that MTU and its stock continue to attract great interest worldwide. At year-end, 59% of the financial institutions maintained a 'buy' recommendation for MTU shares, while 36% rated it as 'neutral'. Only one institution had issued a 'sell' recommendation (out of a total of 22 analyses). The average share price target at year-end was € 53.

The following financial institutions report regularly on MTU

Bankhaus Lampe	DZ Bank	Landesbank Baden-Württemberg
Bank of America Merrill Lynch	Equinet AG	Merck Finck & Co
Barclays Capital	Evolution Securities	Morgan Stanley
Berenberg Bank	Exane BNP Paribas	Société Générale
Cheuvreux	Goldman Sachs	UBS
Commerzbank	HSBC Trinkaus & Burkhardt	UniCredit
Credit Suisse	J.P. Morgan Cazenove	
Deutsche Bank	Kepler Equities	

INVESTOR RELATIONS WORK PAYS OFF AGAIN

In the financial year 2010, MTU continued its policy of maintaining an open, ongoing dialog with institutional investors, retail investors and analysts alike. The company's investor relations team stepped up its communication activities focused on these target groups, organizing 15 road show days and eight conference days to report on MTU's business activities, strategy and key financial data. In addition to these events in the United States and Europe, a large number of personal meetings took place, both at MTU's locations and at the Berlin Air Show (ILA). In 2010, the number of such individual and group meetings rose to over 200.

The company held its annual Investor and Analyst Day meeting at the company's headquarters in Munich on November 9, 2010. It was attended by around 35 investors and analysts, who were given an overview of the company's current business situation, its technologies and growth strategy.

The MTU Annual General Meeting, a key platform for a direct dialog with shareholders, was attended by shareholders representing 51% of the share capital with voting rights (previous year: 58%) and took place in Munich on April 22, 2010.

Analysts and investors have repeatedly confirmed the high quality of MTU's investor relations work. At the annual German Investor Relations awards 2010, which were organized by the Deutscher Investor Relations Verband e.V. in conjunction with Thomson Reuters Extel Surveys, MTU took 9th place, maintaining a position among the top ten MDAX companies (2009: 6th place). In addition, MTU made it to the top ten in NetFederation's well-known IR website ranking, taking ninth place among the MDAX companies (2009: 13th place).

MTU came top in the MDAX category in the competition for the best annual report 2009.

MTU was especially gratified that the MTU Annual Report 2009 earned first place among MDAX companies – and second place overall – in manager magazin's prestigious competition to pick the best annual report in Germany.

Further information is published in the Investor Relations section of MTU's website: www.mtu.de. The Investor Relations office in Munich can be contacted on the following number: +49 (0)89 1489 8313.

Dr. Rainer Martens, Chief Operating Officer

» We have established an international reputation as a leader in key areas of engine technology. Our innovations will continue to make aviation more environmentally compatible. «

CORPORATE GOVERNANCE

Corporate governance statement and corporate governance report	20
Declaration of conformity	20
Management Compensation Report	25
Report of the Supervisory Board	40
The Supervisory Board	44

CORPORATE GOVERNANCE STATEMENT AND CORPORATE GOVERNANCE REPORT

The principles of responsible corporate management are held in high regard at MTU Aero Engines. These include efficient, trust-based collaboration between the Board of Management and the Supervisory Board, respecting the shareholders' interests, and transparent communication. The Board of Management and Supervisory Board have closely studied the recommendations laid down in the German Corporate Governance Code. MTU complies with all but one of these recommendations.

RESPONSIBLE CORPORATE MANAGEMENT

Good corporate governance has played a major role at MTU for many years.

Corporate governance refers to the practice of administering and controlling a company in accordance with principles of responsibility and transparency. At MTU Aero Engines Holding AG, corporate governance has been held in high regard for many years. The basic principles of good corporate governance are that it should be based on mutual trust and efficient collaboration between the Board of Management and the Supervisory Board, should respect the shareholders' interests, and allow for open and transparent communication. As a globally operating company, MTU acts in compliance with the relevant national and international standards. In Germany, where the company has its headquarters, these standards are laid down principally in the Stock Corporation Act (AktG), in the Co-Determination Act (MitbG) and in the German Corporate Governance Code (the 'Code'). MTU's Board of Management and Supervisory Board have closely studied the Code, in particular the amendments made to it by the Government Commission on the Corporate Governance Code on May 26, 2010.

Pursuant to Section 289a of the German Commercial Code (HGB), the Board of Management of MTU Aero Engines Holding AG hereby issues the following corporate governance statement. The company's corporate governance report in accordance with Section 3.10 of the Code is an integral part of this statement.

DECLARATION OF CONFORMITY

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

The Board of Management and the Supervisory Board of MTU Aero Engines Holding AG declare that the recommendations of the Government Commission on the German Corporate Governance Code, as published in the amended version of May 26, 2010, by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been and are being complied with. They also intend to comply with these recommendations in future. The only recommendation of the German Corporate Governance Code that has not been and will not be applied is the following:

Form and details of Supervisory Board compensation (Section 5.4.6(2) of the Code)

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

Munich, December 2010

For the Board of Management

Egon Behle

For the Supervisory Board

Klaus Eberhardt

THE PRACTICE OF CORPORATE MANAGEMENT

MTU has always demonstrated a sense of responsibility in everything it does. The company assumes responsibility for the environment and society in the same way as it does in respect of its products, processes, employees, customers and partners. MTU is committed to sustainable development and has a long tradition of going above and beyond minimum legal requirements. The main areas in which this commitment is applied are environmental protection, human resources policy and community outreach projects in the neighborhood of MTU sites. These commitments are publicly documented on the MTU website at www.mtu.de under The company -> Sustainability. Reference is also made to Section 1.5. of the group management report (Corporate responsibility) on page 55.

MTU has formulated a code of conduct which all employees are duty-bound to observe.

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 The company -> Sustainability -> Code of conduct.

MTU strives for an open and constant dialog with its many different target groups. Communication with these groups takes place via many channels, including the intranet and internet, company brochures, employee and customer magazines, as well as in direct form at events. In so doing, MTU aims to generate broad public acceptance.

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

TRUST-BASED COOPERATION BETWEEN GOVERNING BODIES

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

WORKING PROCEDURES OF THE BOARD OF MANAGEMENT

The company is managed by the Board of Management, whose members work together as a team. Their qualifications and professional experience are complementary. In managing the company, the Board of Management's goal is to create, on its own responsibility and in the company's interest, sustainable added value and to take into account the interests of the shareholders, the employees and other groups connected with the company (stakeholders). It informs the Supervisory Board in a timely manner and on a regular basis of the company's current situation, risk management activities, strategic decisions and their implementation. The Supervisory Board receives monthly written reports on the company's earnings, financial situation and net asset position. Any deviations from the planned operational performance are explained in detail to the Supervisory Board. Furthermore, the chairman of the Supervisory Board is regularly and immediately briefed on the company's current situation, significant business transactions and important pending decisions.

Moreover, the Board of Management receives regular reports on compliance issues, i.e. on measures to comply with both legal and regulatory requirements and internal company guidelines. Status reports on the activities of the Compliance Board are presented at the plenary meetings of the Supervisory Board in July and December and at the meetings of the Audit Committee in March and September when the internal auditors also present their report.

Important Board of Management decisions, in particular concerning the budget, require the approval of the Supervisory Board. The Supervisory Board provides information on these matters in its report on page 40. The Board of Management's rules of procedure along with the list of transactions by MTU Aero Engines Holding AG requiring Supervisory Board approval can be viewed on the company website at www.mtu.de under Investor Relations -> 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 oversees the work of the Board of Management and provides advisory support. All Supervisory Board members are qualified for these tasks and perform their mandated duties correctly. In compliance with the recommendation of the German Corporate Governance Code, no more than two former members of the company's Board of Management hold seats on the Supervisory Board of MTU Aero Engines Holding AG. The members in question are Udo Stark and Prof. Dr.-Ing. Klaus Steffens. The Supervisory Board is entrusted with 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 Board of Management receives impartial advice and oversight.

The Supervisory Board's rules of procedure make provision for its members to form committees. MTU's Supervisory Board has four committees, details of which may be found on page 45.

In 2010, no consulting agreements or contracts for services or similar contractual agreements existed between MTU Aero Engines Holding AG or any of its associates and any member of the Supervisory Board. Thus no conflicts of interest requiring disclosure arose. In the financial year 2010, directors' and officers' liability insurance was in effect for the MTU Board of Management and Supervisory Board members. The cover includes a deductible amounting to 10% of the loss incurred, up to a maximum of 1.5 times the board member's annual fixed compensation.

Compensation for the members of the Board of Management and Supervisory Board is established according to clear, transparent criteria, which are described in the management compensation report on page 25 ff.

DIVERSITY

Within the next two periods of office, it is MTU's goal that at least two women should hold seats on the Supervisory Board.

The Supervisory Board has set itself the following goals as regards its future composition. The number of women holding seats on the Supervisory Board is to be raised to two or more over the next two periods of office, to provide a minimum of one employee representative and one employer representative. The MTU Supervisory Board currently has one woman member. MTU estimates that two members would adequately meet the requirement for fair representation, this number being based on the relative proportion of women working for the company.

The Supervisory Board's rules of procedure already contain binding provisions concerning the treatment of conflicts of interest. Such conflicts are to be disclosed – especially those that arise if a Supervisory Board member acts as advisor to or sits on a governing body of a customer, supplier, creditor or other business partner of MTU – and, where appropriate, may result in termination of the member's mandate. The Supervisory Board will take these principles into account when submitting nomination proposals to the Annual General Meeting.

The MTU Supervisory Board already has members who trained in other countries or have spent substantial portions of their careers abroad. The Supervisory Board's goal is to ensure that at least one of its members continues to have such an international background.

Since MTU's articles of association already contain an age-limit provision for Supervisory Board members, no further commitments on this issue are required of the Supervisory Board. Members of the Supervisory Board must relinquish their seats after the Annual General Meeting that follows their 70th birthday.

The Supervisory Board will take the aforementioned goals into account when making 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 and remains the company's interest, the Supervisory Board shall propose the candidates that best meet the requirements.

The Supervisory Board will take diversity into account when electing new members to the Board of Management.

The Supervisory Board is also interested in enhancing diversity within the Board of Management and, when searching for suitable qualified candidates to fill vacant positions there, will pay particular attention to the goal of adequate representation of women.

MTU has moreover resolved to double the percentage of women managers in the company below board level to 15 % over the next 5 years, and will develop a holistic plan to achieve this.

FINANCIAL REPORTING

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

RISK MANAGEMENT AND CONTROL SYSTEM

The Board of Management is responsible for ensuring that an appropriate risk management and control system is in place. This system is described on page 87 ff. The Board of Management reports in a regular and timely manner to the Supervisory Board on existing risks and how they are developing.

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

COMPLIANCE

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

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

Compliance is an important aspect of all management functions 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.

The company has set up a Compliance Board that reports directly to the Board of Management.

MTU has set up a Compliance Board, which reports directly to the Board of Management. This board meets once a quarter. Its duties include identifying and evaluating legal and reputational risks. If the Compliance Board recognizes a need to introduce additional compliance rules within the scope of its responsibilities, it makes corresponding recommendations to the Board of Management. It also steers the measures taken in cases where there are firm grounds for suspicion.

In agreement with the Works Council, the company has created an internal compliance office that staff, customers and suppliers may contact if they suspect unethical conduct.

The Supervisory Board monitors the Board of Management's compliance activities, proposes new rules for incorporation in the compliance guidelines, monitors the measures implemented by the Compliance Board, and oversees the training program.

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. 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.

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

MANAGEMENT COMPENSATION REPORT

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

PRINCIPLES OF THE MANAGEMENT COMPENSATION REPORT

The management compensation report explains the principles applied when establishing the compensation to be awarded to members of the Board of Management and Supervisory Board of MTU Aero Engines Holding AG, and states the amount and composition of that compensation. The management compensation report follows the provisions of Article 314(1), no. 6 of the German Commercial Code (HGB), German Accounting Standard DRS 17 of December 13, 2010, the draft German Accounting Standard E-DRS 22 'Reporting on the compensation paid to board members', and the recommendations of the German Corporate Governance Code. In so doing, the report also takes account of the requirements of the International Financial Reporting Standards (IFRSs) regarding key management personnel compensation (as formulated in IAS 24 'Related Party Transactions').

An independent external specialist was consulted when designing the new compensation system.

At the proposal of its chair, the Supervisory Board decides on a system of compensation for the members of the Board of Management, including the main components of their contracts, and reviews this system at regular intervals. The Act on the Appropriateness of Management Board Compensation (VorstAG) of August 5, 2009, introduced various new legal and regulatory requirements. These were cause in 2009 and 2010 for the Supervisory Board to review and adapt the company's compensation structure again, with a view to aligning it more closely with what the legislators of the VorstAG intended. In the process, the Supervisory Board took the aspects below into account. An independent external compensation specialist was consulted when designing the new compensation system.

The revised system focuses on linking Board of Management compensation to a style of corporate management and development that has a sustainable and long-term orientation. This entails an appropriate mix of fixed and variable compensation components. In addition, and to a greater extent than before, the payment of variable compensation is now based on multi-year assessment periods and is, in large part, deferred for one or more years. It is even possible to subsequently cancel deferred variable compensation components altogether. The intention of these changes is to align the interests of the members of the Board of Management more closely with those of the company by increasing their participation in the company in the long-term.

In 2010, the members of the Board of Management were awarded total compensation of € 8,671,911 (2009: € 7,781,882) for their service during the financial year.

This total amount comprises the following components:

Total compensation

	2010		2009	
	in €[1]	in %	in €[1]	in %
Short-term employee benefits				
Non-performance-related components	2,395,390		2,921,410	
Performance-related components excluding long-term incentive[2]	1,645,673		2,565,000	
Total short-term employee benefits	**4,041,063**	**46.6**	**5,486,410**	**70.5**
Post-employment benefits				
Service cost[3]	3,080,874		2,029,355	
Total post-employment benefits	**3,080,874**	**35.5**	**2,029,355**	**26.1**
Other long-term benefits				
Performance-related components (long-term incentive)	1,080,327			
Total other long-term benefits	**1,080,327**	**12.5**		
Share-based payment benefits				
Performance-related components (long-term incentive)	469,647		266,117	
Total share-based payment benefits	**469,647**	**5.4**	**266,117**	**3.4**
Total compensation	**8,671,911**	**100.0**	**7,781,882**	**100.0**

The total amount of Board of Management compensation includes performance-related components with a long-term incentive effect.

[1] Benefits paid to members of the Board of Management for active board service in the stated years.

[2] Non-deferred payments.

[3] Excluding interest cost, in accordance with DRS 17 of Dec. 13, 2010; 2009 figure adjusted accordingly.

The members of the Board of Management received no compensation for their activities on the boards of group companies, nor were they granted any loans by the company.

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

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

The target direct compensation comprises the following components:

NON-PERFORMANCE-RELATED COMPONENTS

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

PERFORMANCE-RELATED COMPONENTS

Performance-related components comprise an Annual Performance Bonus (APB), a Long-Term Incentive Performance Share Plan (PSP) and a Matching Stock Program (MSP), any or all of which may be deferred in full or in part. After the PSP assessment period, the members of the Board of Management may, under the Share Matching Plan (SMP), opt to have their payment from the Performance Share Plan (PSP) converted into shares in the company.

PERFORMANCE-RELATED COMPONENTS WITHOUT LONG-TERM INCENTIVE EFFECT

Rules valid until December 31, 2009

Until December 31, 2009, the Board of Management's performance-related compensation consisted of a variable bonus that depended on the achievement of certain business goals and was contractually limited to an amount corresponding to between 83% and 100% of the fixed compensation.

Rules valid from January 1, 2010

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

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

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

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

PERFORMANCE-RELATED COMPONENTS WITH LONG-TERM INCENTIVE EFFECT

Performance-related compensation with **long-term** incentive effect comprises the following components, introduced for the first time in the financial year 2010:

Annual Performance Bonus (APB)

Half of the APB is disbursed in the calendar year following the financial year in which it was earned. The remaining 50% of the APB is deferred and paid out in equal portions in the second and third consecutive financial years.

The deferred components of the annual performance bonus 2010 (APB, Deferral 1 and Deferral 2) were agreed for the first time with effect from January 1, 2010 (for Egon Behle with effect from July 1, 2010). The ultimate amount to be paid depends on the goal achievement level attained in respect of the two key performance indicators at group level and on the discretionary factor applied in the financial years 2011 and 2012.

Performance Share Plan (PSP)

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

The first tranche of the Long Term Incentive Performance Share Plan was granted in 2010.

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

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

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

Share Matching Plan (SMP)

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

Matching Stock Program (MSP)

The Matching Stock Program (MSP) is a share-based form of compensation covering the financial years 2005–2009 that has been in place since the financial year 2005. Depending on the attainment of an exercise price, this program grants phantom stock over a period of five years until the financial year 2009. After expiry of a further vesting period of two years for each tranche, and on condition that the minimum exercise thresholds have been exceeded, the net profit from the MSP is used to purchase MTU shares. A further two years after allocation of the MTU shares, the members of the Board of Management are free to dispose of the shares as they wish.

INDIVIDUAL COMPENSATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT

The members of the Board of Management were awarded the following compensation for their activities on the board in 2010 and – where applicable and comparable – in 2009:

Individual compensation of the members of the Board of Management

Members of the Board of Management	Egon Behle		Dr. Rainer Martens		Dr. Stefan Weingartner		Reiner Winkler	
in €	2010	2009	2010	2009	2010	2009	2010	2009
Non-performance-related components								
Basic salary	925,002	1,100,004	450,000	600,000	450,000	500,004	500,004	650,004
Other benefits[1]	21,329	21,144	11,203	13,391	22,078	20,060	15,774	16,803
Performance-related components								
Without long-term incentive effect (non-deferred)[2]	781,480	1,045,000	277,776	475,000	277,776	475,000	308,640	570,000
With long-term incentive effect (deferred)[3]								
Other than share-based	228,238		273,886		273,886		304,317	
Share-based	147,942	151,615	88,368	11,712	115,819	51,505	117,517	51,285
Total compensation	**2,103,991**	**2,317,763**	**1,101,233**	**1,100,103**	**1,139,559**	**1,046,569**	**1,246,252**	**1,288,092**

[1] Other benefits include charges to taxable income covering personal use of company vehicles amounting to € 64,109.28 (2009: € 62,759.35) and premiums for accident insurance policies taken out on behalf of members of the Board of Management amounting to € 6,274.44 (2009: € 8,638.58).

[2] Paid immediately after the end of the financial year.

[3] The performance-related components without long-term incentive effect (other than share-based) relate to the deferred portion (50 %) of the annual performance bonus (Deferral 1 and 2). The performance-related components with long-term incentive effect comprise the deferred portions of the PSP, SMP and MSP compensation components. The number of performance shares provisionally granted to the members of the Board of Management in the financial year 2010 under the PSP and SMP was calculated by dividing the target amounts granted in each case by the average MTU share price (XETRA) over the last 30 trading days prior to commencement of the plan. The resulting provisional number of performance shares will be used as the starting point for determining the actual performance-related benefit payable at the end of the assessment period.

PERFORMANCE-RELATED COMPONENTS

In the financial year 2010, the performance-related components were calculated as follows:

APB

In the financial year 2010, the actual EBIT adjusted of € 311.3 million (2009: € 292.3 million) and the actual free cash flow of € 144.8 million (2009: € 120.2 million) were much higher than the respective targets set at the beginning of the year (€ 285.0 million for EBIT adjusted and € 125.0 million for free cash flow).

The performance targets were exceeded by a wide margin in 2010.

The goal achievement level for EBIT adjusted was 149.2 %, and 180.0 % for free cash flow. The aggregate level of goal achievement was thus 164.6 %. As the new compensation arrangements did not take effect for Egon Behle until July 1, 2010, his annual performance bonus was calculated pro rata from a baseline representing the company's first half-year results up to that date, resulting in an aggregate level of goal achievement of 100 %.

Performance Share Plan

The number of performance shares provisionally allocated under the PSP to members of the Board of Management in the financial year 2010 was calculated by dividing the target amounts granted in each case by the average MTU share price (XETRA) over the last 30 trading days prior to commencement of the plan. On March 10, 2010, the Supervisory Board resolved to change the compensation system with effect from January 1, 2010 (or with effect from July 1, 2010 in the case of Egon Behle).

The following table shows the number of performance shares granted to the members of the Board of Management in the first year of the PSP. These form the basis for calculating the performance-related benefit payable at the end of the assessment period for the first tranche of the PSP:

Performance Share Plan

number of shares or value in €	Average Xetra share price over the 30 days preceding the grant date €	Granted performance shares		
		Number at Jan. 1, 2010 shares	Acquired in 2010 shares	Number at Dec. 31, 2010 shares
Egon Behle				
Performance shares tranche 1 issued July 1, 2010	46.64		12,061	12,061
Personal total	**46.64**		**12,061**	**12,061**
Dr. Rainer Martens				
Performance shares tranche 1 issued Jan. 1, 2010	36.63		9,214	9,214
Personal total	**36.63**		**9,214**	**9,214**
Dr. Stefan Weingartner				
Performance shares tranche 1 issued Jan. 1, 2010	36.63		9,214	9,214
Personal total	**36.63**		**9,214**	**9,214**
Reiner Winkler				
Performance shares tranche 1 issued Jan. 1, 2010	36.63		10,238	10,238
Personal total	**36.63**		**10,238**	**10,238**
Cumulative total / average	**39.13**		**40,727**	**40,727**

The fair value per performance share of the first PSP tranche for the financial year 2010, which was calculated by an independent expert in accordance with the recommendations of IFRS 2, amounted to € 22.96 at January 1, 2010, and € 27.13 at July 1, 2010, taking into account a fluctuation rate of 4%. At December 31, 2010, the fair value per performance share in this tranche was € 30.67 and € 32.35 respectively. The accounting methods used to calculate these figures are documented in the fairness opinion established at the grant date. The fair values at December 31, 2010, as shown in the table are based on the assumption of an unchanged fluctuation rate of 4%.

Share Matching Plan

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

The number of future matching shares depends on the amount paid out under the PSP. In order to determine the fair value, a combined Monte Carlo simulation and Black-Scholes pricing model was used. The expected payout was determined on the basis of exactly the same assumptions used to value the LTI. The payout calculated serves as a basis for valuing the Share Matching Plan (SMP) in accordance with the Black-Scholes pricing model. The fair value of this forward option estimated at the grant date is recognized in the balance sheet taking into account the vesting conditions. The vesting period of the forward option is 52 months.

The fair value per performance share of the SMP, which was calculated by an independent expert in accordance with the recommendations of IFRS 2, amounted to € 3.72 at January 1, 2010, and € 4.23 at July 1, 2010, taking into account a fluctuation rate of 4%. The accounting methods used to calculate these figures are documented in the fairness opinion established at the grant date. Rounded to the nearest thousand, the total expense of the 40,727 performance shares granted under the share matching program in the financial year 2010 was € 158,000, of which € 31,000 was recognized in the financial year 2010.

Exercised performance shares	Forfeited performance shares	Lapsed performance shares	Performance shares not yet exercisable at year-end		Time to end of vesting period for performance shares
Performance shares 2010 shares	Performance shares 2010 shares	Performance shares 2010 shares	Number at Dec. 31, 2010 shares	Fair value at Dec. 31, 2010 €	Time at Dec. 31, 2010 months
			12,061	30.67	42
			12,061	**30.67**	**42**
			9,214	32.35	36
			9,214	**32.35**	**36**
			9,214	32.35	36
			9,214	**32.35**	**36**
			10,238	32.35	36
			10,238	**32.35**	**36**
			40,727	**31.85**	**38**

Matching Stock Program

The fair value of the Matching Stock Program is obtained using the Black-Scholes pricing model.

The following table shows the number of shares and fair value of phantom stock granted to members of the Board of Management under the Matching Stock Program (MSP). The fair value of this program was obtained using the Black-Scholes pricing model. Changes in the contractual conditions under which the equity instruments were issued were taken into account. For a more detailed explanation of the exercise conditions, please refer to Note 29.4.

The fourth tranche, which was allocated in the financial year 2008, was exercised in the financial year 2010 as the exercise thresholds had been exceeded. Thus, after a further holding period of two years from the time the phantom stock is exercised, the allocated shares from this tranche will be free for disposal as from June 30, 2012.

The fifth tranche of the MSP was allocated in the financial year 2009. Exercise of this, the final tranche of the Matching Stock Program (MSP), will depend on how the MTU share price develops between now and the end of the vesting period in 2011.

Under the Matching Stock Program, a total of 411,456 units of phantom stock (2009: 411,456) had been granted and allocated to members of the Board of Management as of December 31, 2010. Of these, 144,936 units (2009: 289,872) were not yet exercisable at the end of the financial year 2010 for the remaining duration of the Matching Stock Program. At December 31, 2010, the average weighted exercise price for not-yet-exercisable phantom stock amounted to € 22.69 per share (2009: € 25.52).

The total expense of the phantom stock granted under the Matching Stock Program in the financial year 2010 was approximately € 0.2 million. This expense was recognized in the income statement.

Details of the Matching Stock Program are presented in the following table:

Active board members	Granted phantom stock[1]			Allocated phantom stock		
(number of shares or value in €)	At Jan. 1, 2010 shares	Acquired in 2010 shares	At Dec. 31, 2010 shares	At Jan. 1, 2010 shares	Acquired in 2010 shares	At Dec. 31, 2010 shares
Egon Behle						
Phantom Stock tranche 1 on 6.6.2005						
Phantom Stock tranche 2 on 6.6.2006						
Phantom Stock tranche 3 on 6.6.2007						
Phantom Stock tranche 4 on 6.6.2008	72,000		72,000	72,000		72,000
Phantom Stock tranche 5 on 6.6.2009	72,000		72,000	72,000		72,000
Total	**144,000**		**144,000**	**144,000**		**144,000**
Dr. Rainer Martens						
Phantom Stock tranche 1 on 6.6.2005						
Phantom Stock tranche 2 on 6.6.2006	7,224		7,224	7,224		7,224
Phantom Stock tranche 3 on 6.6.2007	7,224		7,224	7,224		7,224
Phantom Stock tranche 4 on 6.6.2008	7,224		7,224	7,224		7,224
Phantom Stock tranche 5 on 6.6.2009	7,224		7,224	7,224		7,224
Total	**28,896**		**28,896**	**28,896**		**28,896**
Dr. Stefan Weingartner						
Phantom Stock tranche 1 on 6.6.2005						
Phantom Stock tranche 2 on 6.6.2006						
Phantom Stock tranche 3 on 6.6.2007						
Phantom Stock tranche 4 on 6.6.2008	30,000		30,000	30,000		30,000
Phantom Stock tranche 5 on 6.6.2009	30,000		30,000	30,000		30,000
Total	**60,000**		**60,000**	**60,000**		**60,000**
Reiner Winkler						
Phantom Stock tranche 1 on 6.6.2005	35,712		35,712	35,712		35,712
Phantom Stock tranche 2 on 6.6.2006	35,712		35,712	35,712		35,712
Phantom Stock tranche 3 on 6.6.2007	35,712		35,712	35,712		35,712
Phantom Stock tranche 4 on 6.6.2008	35,712		35,712	35,712		35,712
Phantom Stock tranche 5 on 6.6.2009	35,712		35,712	35,712		35,712
Total	**178,560**		**178,560**	**178,560**		**178,560**
Cumulative total	**411,456**		**411,456**	**411,456**		**411,456**

[1] The stock from the Matching Stock Program is allocated in equal annual tranches over the five-year period 2005-2009, each of which becomes exercisable after a vesting period of 2 years up to 6 June, 2011 under the conditions defined in the Matching Stock Program. This case arose for the first time in 2007, being applicable to the first tranche allocated in 2005. The second and third tranches, allocated in 2006 and 2007, both lapsed after failing to reach their respective exercise prices.

(number of shares or value in €)	Exercised phantom stock Phantom stock 2010 shares	Forfeited phantom stock Phantom stock 2010 shares	Lapsed phantom stock Phantom stock 2010 shares	Phantom stock not yet exercisable at year-end At Dec. 31, 2010 shares	At Dec. 31, 2010 months	Cash-equivalent value[2] Fair value[3] €	Average exercise price €
Egon Behle							
Phantom Stock tranche 1 on 6.6.2005							
Phantom Stock tranche 2 on 6.6.2006							
Phantom Stock tranche 3 on 6.6.2007							
Phantom Stock tranche 4 on 6.6.2008	-72,000						
Phantom Stock tranche 5 on 6.6.2009				72,000	6		22.69
Total	**-72,000**			**72,000**		**95,807**	**22.69**
Dr. Rainer Martens							
Phantom Stock tranche 1 on 6.6.2005							
Phantom Stock tranche 2 on 6.6.2006			-7,224				
Phantom Stock tranche 3 on 6.6.2007			-7,224				
Phantom Stock tranche 4 on 6.6.2008	-7,224						
Phantom Stock tranche 5 on 6.6.2009				7,224	6		22.69
Total	**-7,224**		**-14,448**	**7,224**		**5,936**	**22.69**
Dr. Stefan Weingartner							
Phantom Stock tranche 1 on 6.6.2005							
Phantom Stock tranche 2 on 6.6.2006							
Phantom Stock tranche 3 on 6.6.2007							
Phantom Stock tranche 4 on 6.6.2008	-30,000						
Phantom Stock tranche 5 on 6.6.2009				30,000	6		22.69
Total	**-30,000**			**30,000**		**33,387**	**22.69**
Reiner Winkler							
Phantom Stock tranche 1 on 6.6.2005	-35,712						
Phantom Stock tranche 2 on 6.6.2006			-35,712				
Phantom Stock tranche 3 on 6.6.2007			-35,712				
Phantom Stock tranche 4 on 6.6.2008	-35,712						
Phantom Stock tranche 5 on 6.6.2009				35,712	6		22.69
Total	**-71,424**		**-71,424**	**35,712**		**25,925**	**22.69**
Cumulative total	**-180,648**		**-85,872**	**144,936**		**161,055**	**22.69**

[2] After modification to the terms of issue that became effective in financial year 2007. The basis price is reduced by the amount of the dividend paid in the financial year in which the tranche was allocated. The dividend payment for the second year of the vesting period of each tranche of phantom stock is estimated on the basis of the dividend paid in the first year.

[3] The fair value corresponds to the personnel expenses recognized in the reporting period.

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

The rules for determining pension benefit awards to members of the Board of Management were revised in 2010.

Above and beyond the general amendments made to Board of Management members' contracts to meet the requirements of the Act on the Appropriateness of Management Board Compensation (VorstAG), the rules for terminating such contracts were also revised in the financial year 2010. This included not only the benefits promised to members of the Board of Management in the event that their contracts **expire in a normal manner**, but also those payable if their contracts are **terminated prematurely.**

RULES VALID UNTIL DECEMBER 31, 2009

RULES FOR NORMAL TERMINATION OF CONTRACT

Until December 31, 2009, the pension obligations to members of the Board of Management principally comprised an entitlement to retirement, survivors' and disability pensions.

RETIREMENT AND SURVIVORS' PENSIONS

Under the previous arrangement, members of the Board of Management were entitled to claim retirement benefits on reaching the age of 60. The annual retirement benefit amounted to 25 % of the last basic salary drawn by the beneficiary prior to the insured event. Retirement and survivors' benefits were automatically increased by 1 % each year subsequent to the year in which they became payable.

Family members entitled to survivors' benefits received 75 % of the retirement pension in the case of a surviving spouse and 15 % for each dependent child (30 % if both parents were deceased), subject to the condition that the sum of the benefits did not exceed 100 % of the retirement pension.

DISABILITY PENSIONS

Members of the Board of Management whose contracts were terminated prematurely owing to disability were entitled to a pension for reduced earning capacity equivalent to 25 % of their last basic salary.

RULES FOR PREMATURE TERMINATION OF CONTRACT

The contractual agreements with members of the Board of Management made no provision for further payments once their contracts had been terminated. Only in the event of premature termination of contract without serious cause were members of the Board of Management entitled to receive a payment equivalent to the fixed basic compensation that would otherwise have been awarded for the remaining term of their contract. In line with the recommendations of the German Corporate Governance Code, such severance payments were limited to no more than the value of two years' compensation (severance payment cap).

RULES VALID FROM JANUARY 1, 2010

RULES FOR NORMAL TERMINATION OF CONTRACT

COMPANY PENSION PLAN

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

RETIREMENT AND SURVIVORS' PENSIONS

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

Once this amount has been determined, a pension account is opened for each member of the Board of Management to which further capital units are credited annually, for the first time on December 31, 2010. The amount of the annual capital units is calculated on the basis of an individually defined contribution and an age-dependent factor, with the latter taking into account an interest rate of around 6% p.a. until age 60. The contribution period is capped at 15 years of service on the Board of Management, ending at the latest when the insured person reaches age 60. As of the age of 61, the pension account earns interest at an annual rate of 4% until such time as the pension is drawn (= bonus amount). The sum of the accrued annual capital units plus the units initially transferred to the account plus any bonus amounts credited to the account make up the pension capital available to finance retirement benefits. If a member of the Board of Management dies before reaching age 60, 50% of the benefits that he/she could still have earned until that age are added to the accrued balance on the pension account – taking into account the remaining duration up to the end of the contribution period. The pension capital may be drawn either in a single lump sum, in installments, or as a lifelong pension increased at an annual rate of 1%.

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

In any insured event, the pension account is topped up where necessary to the level of benefits the insured party would have reached under the previous plan (guaranteed capital).

Pension benefits do not become not payable until such time as an insured event occurs (i.e. on reaching pensionable age, or in the event of disability or death), even if the insured party leaves the Board of Management. The pension entitlement is unforfeitable after the initial contribution has been paid.

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

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

Changes to retirement benefits

Members of the Board of Management	Rules valid until Dec. 31, 2009		Rules valid since Jan. 1, 2010					
in €	Basic salary	Retirement benefit (25%)	Initial transfer amount[2]	Guaranteed capital[3]	Basic salary[4]	Annual annuity[5]	End of contribution period	Retirement benefit (60%)
Egon Behle	1,100,000	275,000	1,097,500	4,196,500	750,000	400,000	Sept. 1, 2015	450,000
Dr. Rainer Martens	600,000	150,000	1,366,176	2,317,650	450,000	220,000	April 1, 2021	270,000
Dr. Stefan Weingartner	500,000	125,000	1,188,427	1,931,375	450,000	200,000	July 1, 2021	270,000
Reiner Winkler[1]	650,000	162,500	1,625,140	2,510,788	500,000	280,000	Sept. 1, 2016	300,000

[1] Reiner Winkler was awarded a supplementary benefit payment of € 575,065.

[2] Credit for past service up to December 31, 2009.

[3] Capital payment equal to the adjusted value of the benefit entitlement at Dec. 31, 2009, when the new pension arrangements came into force.

[4] 40% of the target direct compensation for the year (performance-related).

[5] Annuity credited to the pension account of the board member in question at the end of the financial year, representing a 6% annual interest payment.

The differences in the annual contributions to the pension accounts result from the varying remaining periods of service on the Board of Management until the end of the contribution period, from the respective age-dependent factors and from the different salary amounts eligible for pension contributions. The guaranteed capital under the new pension plan is identical in value to the retirement pension at age 60 under the old pension plan.

DISABILITY PENSIONS

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

The following table shows the service cost for the financial years 2010 and 2009, the corresponding pension provisions, and the amount of the defined benefit obligation (DBO) for the members of the Board of Management as of December 31, 2010, and December 31, 2009, respectively:

Changes to service costs, provisions and DBO

Members of the Board of Management	Financial Year	Service cost		Balance of pension account	
in €		Current service cost	Past service cost	Amount of recognized pension provisions[1] at Dec. 31	Amount of DBO[2] at Dec. 31
Egon Behle	**2010**	**450,432**	**-168,764**	**1,441,665**	**1,441,862**
	2009	448,706	293,910	1,237,781	1,092,660
Dr. Rainer Martens	**2010**	**120,771**	**737,704**	**2,459,937**	**2,460,274**
	2009	67,520	764,840	1,467,718	1,345,916
Dr. Stefan Weingartner	**2010**	**100,254**	**852,105**	**2,073,806**	**2,074,089**
	2009	40,833	305,308	1,025,423	905,199
Reiner Winkler	**2010**	**101,221**	**887,151**	**2,448,110**	**2,448,444**
	2009	54,217	54,021	1,348,740	1,190,609

[1] The difference between this amount and the DBO is due to unrecognized actuarial losses.

[2] Defined benefit obligation (DBO).

Higher past service costs led to higher pension obligations when the new pension plan came into effect on January 1, 2010.

The new company pension plan for members of the Board of Management came into effect on January 1, 2010. The resulting changes in plan arrangements led to an increase in the vested benefits and to an increase in provisions and the defined benefit obligation.

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

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

Provisions established to cover current and future pension obligations

Former board members	At Dec. 31, 2010	At Dec. 31, 2009
Total in €	**4,492,575**	3,388,501

RULES FOR PREMATURE TERMINATION OF CONTRACT

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

Depending on the terms of their individual contracts, the members of the Board of Management are entitled to receive severance payments if MTU prematurely terminates their appointment. In the case of ordinary termination, a severance package is payable that corresponds to the board member's basic salary, 50 % of the Annual Performance Bonus (APB) and 50 % of the Long-Term Incentive (LTI) 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 the aforementioned compensation components. If the employment contract is terminated for good cause, no severance package is payable.

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

RULES VALID UNTIL DECEMBER 31, 2009

Board of Management contracts made no provision for any compensatory payments in the event that a board member's term of office should be prematurely terminated as the result of a change of control.

RULES VALID FROM JANUARY 1, 2010

The new rules entitle members of the Board of Management to severance payments if their contract is terminated prematurely in the event of a change of control.

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

In addition, the Supervisory Board is entitled to commute the agreed Annual Performance Bonus (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 Long-Term Incentive Plan (LTI) is automatically terminated in the event of a change of control. By way of compensation for termination of the LTI, the member of the Board of Management in question receives a pro rata payment that is calculated as if the LTI had been continued according to plan. The only difference is that the goal achievement level as expressed in the TSR is determined on the date of change of control, and that the final number of virtual shares is multiplied by the average MTU share price (XETRA) over the last 30 trading days prior to the change of control.

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

SUPERVISORY BOARD COMPENSATION

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

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

The following compensation was awarded to the individual members of the Supervisory Board of MTU Aero Engines Holding AG for the financial year 2010 and 2009:

The total compensation awarded to members of the Supervisory Board in 2010 was at roughly the same level as in 2009.

Supervisory Board compensation

Members of the Supervisory Board (figures in €)	**Compensation 2010[1]**	Compensation 2009[1]
Klaus Eberhardt (Supervisory Board and Personnel Committee chairman)[3]	129,000.00	126,000.00
Josef Hillreiner (deputy chairman)[2] [3]	85,000.00	76,000.00
Dr. Joachim Rauhut (Audit Committee chairman since May 26, 2009)	67,000.00	35,666.67
Babette Fröhlich[3]	53,000.00	53,000.00
Dr.-Ing. Jürgen M. Geißinger[2]	50,000.00	47,000.00
Michael Leppek[2]	53,000.00	53,000.00
Prof. Dr.-Ing. Klaus Steffens	45,000.00	45,000.00
Udo Stark	42,000.00	45,000.00
Thomas Dautl	45,000.00	45,000.00
Rudolf Domberger	45,000.00	45,000.00
Michael Behé	45,000.00	45,000.00
Dr. Wilhelm Bender	45,000.00	45,000.00
Prof. Dr. Walter Kröll (Audit Committee chairman until May 26, 2009)		28,666.67
Total	**704,000.00**	**689,333.34**

[1] Figures do not include foreign tax or value added tax.
[2] Member of the Personnel Committee.
[3] Member of the Audit Committee.

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

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 2010 and on the results of its review of the annual financial statements and consolidated financial statements. The Supervisory Board carried out with due care the control and consultation duties with which it is entrusted under law, the company's articles of association and its own rules of procedure.

The Supervisory Board regularly advised the Board of Management on the running of the company, oversaw its work, and continually followed business developments and the situation of MTU. The Supervisory Board was informed and consulted in a direct and timely manner on all decisions of consequence for the company. The members of the Supervisory Board were briefed by the Board of Management in a regular, timely and comprehensive manner on the situation of the company, and received monthly written reports on the company's earnings, financial situation, and net asset position as well as on important business transactions. The Supervisory Board was also informed in detail of any new plans.

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

In 2010, the Supervisory Board devoted special attention to MTU's system of internal controls, with particular emphasis on the company's risk management system, its auditing practices and the conformity of its corporate governance system with the relevant legal provisions and all aspects of compliance. The Supervisory Board examined these aspects with reference to the documents submitted to it and in dialog with the Board of Management.

The Compliance Board presented status reports at the Supervisory Board's meetings in July and December. The internal auditors presented their findings to the Audit Committee at its regular meetings in March and October, with the latest developments in the field of compliance being one of the subjects discussed.

MEETINGS OF THE SUPERVISORY BOARD

During the financial year 2010, the Supervisory Board convened five ordinary meetings and one conference call, in the course of which resolutions were adopted. The average attendance rate at Supervisory Board meetings was 95%, and no member had an individual attendance rate below 50%. Between official meetings, the chairman of the Supervisory Board was regularly briefed on the company's current situation, significant business transactions and important pending decisions.

At its meetings with the Board of Management, the Supervisory Board discussed the business performance of MTU and all its affiliates and associated companies. The situation on the commercial and military engine markets was analyzed in detail, as was MTU's market position compared with its competitors. One recurring item on the agenda was the company's earnings, including its risk situation and risk management activities. Other topics of note included the progress being made in the development of the TP400-D6 engine program for the new Airbus A400M military transporter and the GEnx program for the Boeing 787 Dreamliner and Boeing 747-8. In addition to utilization levels at the Vancouver location, the conclusion of a profit and loss transfer agreement with MTU Maintenance Berlin-Brandenburg, and the planned acquisition of the company premises of MTU Maintenance Hannover, the Supervisory Board concerned itself with the U.S. dollar exchange rate movements, and the results of the employee satisfaction survey 2010. Other issues to which the Supervisory Board devoted its attention included the approval of the operational business plans and budget for 2011, the renewal of the contracts of Board of Management members Egon Behle and Reiner Winkler, the Act on Appropriateness of Management Board Compensation (VorstAG) and its provisions relating to pension agreements, and amendments to the German Corporate Governance Code.

CORPORATE GOVERNANCE

The Supervisory Board firmly believes that good corporate governance is of fundamental importance to a company's business success. For this reason, in 2010 the Supervisory Board again closely studied the application and development of the relevant corporate governance standards and the way in which they are implemented at MTU. In doing so, it also reviewed the efficiency of its own activities. In particular, it examined the amendments to the German Corporate Governance Code made by the Government Commission. In this context, it discussed the composition of both the Board of Management and the Supervisory Board with respect to diversity and especially the fair representation of women in these bodies. The envisaged goal is to raise the number of women holding seats on the Supervisory Board to two or more within the next two periods of office and, as in the past, to ensure an 'international' background of its members. In addition, the Supervisory Board has explicitly stated that, in the nomination proposals it makes to the Annual General Meeting, it will also take into account the principles already in place concerning the avoidance of conflicts of interest. The Supervisory Board also aims to enhance diversity within the Board of Management and, when searching for suitably qualified candidates to fill vacant positions on the Board of Management, will pay particular attention to the fair representation of women.

The Supervisory Board still has a sufficient number of independent members. During 2010, the members of the Supervisory Board took part in training measures on their own responsibility and received appropriate support from the company in their endeavors.

Cooperation between the Supervisory Board and the Board of Management, and among the members of the Supervisory Board, was again judged to be of a very high quality. No conflicts of interest arose between MTU and any member of its Board of Management or Supervisory Board. The Supervisory Board assured itself that the company has complied with the recommendations laid down in the German Corporate Governance Code, as stated in its declaration of conformity.

In its joint declaration with the Board of Management dated December 16, 2010, pursuant to the requirements of Section 161 of the German Stock Corporation Act (AktG), the Supervisory Board states that MTU Aero Engines Holding AG fully complies with the recommendations of the German Corporate Governance Code, with one exception only. The company's declaration is reproduced on page 20 of this annual report together with a more detailed description of the company's corporate governance system; the declaration has also been posted on the company's website.

COMMITTEE MEETINGS

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

Pursuant to the recommendations of the German Corporate Governance Code, a Nomination Committee, too, was set up in 2007. It is the task of this committee, which meets on an ad hoc basis, to identify suitable candidates for election to the Supervisory Board, who are then recommended to the Annual General Meeting by the Supervisory Board. Its members are Klaus Eberhardt and Dr. Jürgen M. Geißinger. No circumstances requiring the convocation of the Nomination Committee arose during the financial year 2010.

The Personnel Committee consists of Klaus Eberhardt, Dr. Jürgen M. Geißinger and the two employee representatives Josef Hillreiner and Michael Leppek. The Personnel Committee met three times in 2010 to discuss matters including the results of the Supervisory Board's efficiency audit, the renewal of the contracts of Board of Management members Egon Behle and Reiner Winkler, and the compensation system for members of the Board of Management, including performance targets and pension agreements.

The Mediation Committee, whose members are identical with those of the Personnel Committee, was not called upon to convene in 2010.

The members of the Audit Committee are Prof. Dr. Joachim Rauhut (Chair), Klaus Eberhardt, Babette Fröhlich and Josef Hillreiner. The Audit Committee met five times in the course of 2010 and also passed one resolution through the submission of written votes. The committee was primarily concerned with reviewing the annual financial statements, consolidated financial statements and group management report of MTU Aero Engines Holding AG as well as the company's financial situation and quarterly reports.

The committee also specified the key areas for audit in the 2010 financial statements, reviewed the proposed fees to be paid for the services of the accounting firm Deloitte & Touche, and recommended that the Supervisory Board should award the contract. In addition, the committee obtained the auditor's statement of independence pursuant to Section 7.2.1 of the German Corporate Governance Code and also monitored the auditor's independence.

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

In accordance with the legal requirements, the Audit Committee monitored the financial reporting process as well as the efficacy of the company's risk management system, its system of internal controls, and its internal auditing.

In addition to examining the company's compliance with the relevant rules and legal provisions, the Audit Committee was also briefed by the Board of Management on individual audit reports, on the planned profit and loss transfer agreement with MTU Maintenance Berlin-Brandenburg, and on the progress and results of the audit carried out by the Financial Reporting Enforcement Panel (FREP).

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

MTU Aero Engines Holding AG's annual financial statements, consolidated financial statements, management report and group management report for the financial year 2010 were audited and fully certified by the accounting firm Deloitte & Touche, Munich, whose appointment had been confirmed by the Annual General Meeting. The audit reports and documents to be reviewed were submitted in a timely manner to all members of the Supervisory Board. The Supervisory Board thoroughly reviewed the annual financial statements, consolidated financial statements, management report and group management report of MTU Aero Engines Holding AG for 2010 and the Board of Management's profit distribution proposal on the basis of the preliminary audit by the accounting firm Deloitte & Touche, on which the chair of the Audit Committee had presented a full report to the Supervisory Board.

The auditor attended the meetings of the Audit Committee of MTU Aero Engines Holding AG on January 24, and March 2, 2011, and the balance sheet meeting of the Supervisory Board on March 15, 2011, and presented the main findings of the audit. The Supervisory Board reviewed the annual financial statements, consolidated financial statements, management report, group management report and the Board of Management's profit distribution proposal, and raised no objections. The company's annual financial statements and consolidated financial statements for the financial year 2010 as submitted by the Board of Management were approved at the Supervisory Board meeting on March 15, 2011. The annual financial statements are thereby adopted. The Supervisory Board agreed to the Board of Management's profit distribution proposal after giving due consideration to the interests of the company and its shareholders. At its meeting, the Supervisory Board took note that MTU Aero Engines Holding AG had not entered into any change-of-control agreements. The only instance in which a change of control might have indirect consequences for MTU Aero Engines Holding AG is in the case of contracts containing change-of-control clauses entered into by group companies. More information on this can be found in the group management report on page 98.

NO BOARDROOM CHANGES

There were no changes in the membership of the Supervisory Board in the financial year 2010.

The Supervisory Board wishes to thank the Board of Management and all MTU employees for their successful work and the great commitment shown in 2010. It also thanks the works council for its constructive cooperation and, last but not least, all the shareholders who have placed their trust in MTU over the past financial year.

Munich, March 15, 2011

Klaus Eberhardt
Chairman of the Supervisory Board

THE SUPERVISORY BOARD

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

Klaus Eberhardt
Chairman of the Supervisory Board
CEO of Rheinmetall AG, Düsseldorf

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

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

MTU Aero Engines GmbH

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

MTU Maintenance Hannover GmbH

Prof. Dr. Wilhelm Bender
CEO of Fraport AG 1993 - 2009, Frankfurt/Main

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

Thomas Dautl
Director Manufacturing Engineering,
MTU Aero Engines GmbH, Munich

MTU Aero Engines GmbH

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

Babette Fröhlich
Coordination of NECs tasks and planning,
IG Metall, Frankfurt

Volkswagen AG

Dr.-Ing. Jürgen M. Geißinger
President & CEO of Schaeffler GmbH,
Herzogenaurach

Continental AG
MTU Aero Engines GmbH

Michael Leppek
Second Authorized Representative, IG Metall,
Munich

MTU Aero Engines GmbH
Nokia Siemens Management GmbH

Dr. Joachim Rauhut
CFO of Wacker Chemie AG, Munich

J. Heinrich Kramer Holding GmbH
MTU Aero Engines GmbH
Pensionskasse Wacker Chemie VVaG
Siltronic AG

Udo Stark
Former CEO of MTU Aero Engines Holding AG,
Munich

Bilfinger Berger AG
MTU Aero Engines GmbH

Prof. Dr.-Ing. Klaus Steffens
Former President and CEO of
MTU Aero Engines GmbH, Munich

CompuGroup Medical AG
MTU Aero Engines GmbH
Poppe & Potthoff GmbH
Tyczka Energie GmbH & Co. KGaA

SUPERVISORY BOARD COMMITTEES

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

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

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

Nomination Committee
Klaus Eberhardt
Dr.-Ing. Jürgen M. Geißinger

Dr. Stefan Weingartner, President and CEO Commercial Maintenance

» We work hand in hand with our customers to create end-to-end system solutions and service packages that correspond optimally to their individual needs. We always focus on the direct benefit to the customer, in everything from repair techniques to engine trend monitoring. «

GROUP MANAGEMENT REPORT

The enterprise MTU 48
- Business activities and markets 48
- Group structure, locations and organization 48
- Group-internal control system 50
- Research and development 51
- Corporate responsibility 55

Economic environment 60
- General economic climate 60
- Industry-specific developments in the aviation sector 62
- Overall assessment of the business situation 63

Financial situation 64
- Operating results 64
- Financial situation 72
- Net assets 77
- Major events affecting business performance 81
- Comparison of actual and forecast business performance 81
- Overall assessment of business performance in 2010 81

Subsequent events 81

Forecasts 82
- General economic climate 82
- Industry-specific developments in the aviation sector 83
- Opportunities for MTU 84
- Future development of MTU 84
- Overall prognosis of future business developments in 2011 and 2012 86

Risk report 87
- Strategy and management 87
- Main features of the internal control system and the risk management system relating to the accounting process 89
- Specific risks 92
- SWOT analysis 97
- Overall prognosis of MTU's risk exposure 97

Other disclosures 98
- Corporate governance statement 98
- Reference to the management compensation report 98
- Directors' dealings 98
- Disclosures in connection with the takeover directive 98

1. THE ENTERPRISE MTU

MTU Aero Engines is Germany's leading engine manufacturer and the world's largest independent provider of commercial MRO services. Headquartered in Munich, the company has more than 7,900 employees worldwide. MTU relies on a sustainable growth strategy and intensive research and development activities to strengthen its market position. The company measures its performance on the basis of revenues, operating profit, return on investment, and free cash flow – indicators which all grew in 2010.

1.1. BUSINESS ACTIVITIES AND MARKETS

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

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

MTU cooperates with the top names in the industry.

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

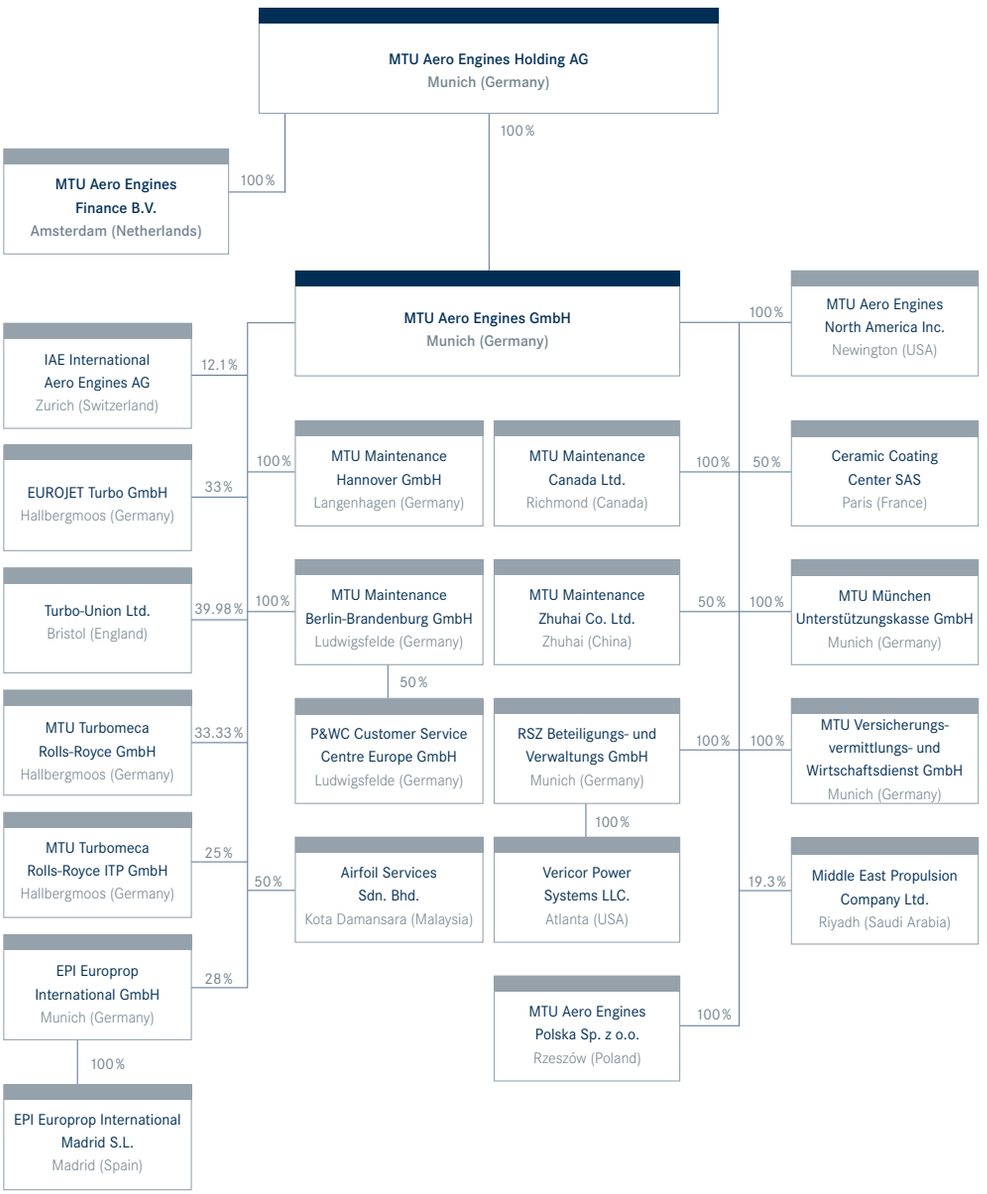
MTU is the world's largest independent provider of MRO services for commercial aero engines. In the military sector, it has been the leading company in the national market and lead industrial partner to the German armed forces for many decades.

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

1.2. GROUP STRUCTURE, LOCATIONS AND ORGANIZATION

MTU Aero Engines Holding AG, Munich, is the parent company of the MTU group. Its functions are largely those of a holding company, with the main focus being on corporate strategy, risk management and corporate finance. The holding company is also responsible for corporate communications and investor relations, keeping contact with the business environment, capital markets and shareholders. MTU, together with the group of affiliates, associated companies and joint ventures, has a strong presence in all the most important markets and regions worldwide. More information on equity investments is provided in Note 2. to the consolidated financial statements (Group reporting entity).

Group structure



ORGANIZATION

No changes were made to MTU's legal organizational structure in the financial year 2010. From an organizational point of view, MTU Aero Engines Holding AG, Munich, is divided into four decision-making units, corresponding to the portfolios of the Board of Management members (see biographies on page 12).

1.3. GROUP-INTERNAL CONTROL SYSTEM

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

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

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

Group-internal control system

Profitability, liquidity and growth are MTU's key performance indicators.

GROWTH EXPRESSED AS REVENUES AND EBIT

Increasing revenues is the key to achieving substantial growth.

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

Performance indicators: revenues and EBIT (adjusted)

in € million	2010	2009
Revenues	2,707.4	2,610.8
EBIT (adjusted)	311.3	292.3
EBIT margin adjusted (in %)	11.5	11.2

PROFITABILITY EXPRESSED AS RETURN ON INVESTMENT

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

LIQUIDITY EXPRESSED AS FREE CASH FLOW

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

In 2010, MTU significantly increased its free cash flow to € 144.8 million.

Free cash flow

in € million	2010	2009
Cash flow from operating activities	251.3	252.7
Cash flow from investing activities	-173.2	-132.5
Cash flow from investing activities in financial assets	66.7	
Free cash flow	**144.8**	**120.2**

Working capital is a decisive factor. It is the balance that remains after trade payables and construction contract payables have been deducted from the value of inventories, trade receivables and construction contract receivables. In order to ensure that these principles are firmly anchored in the group's organizational structure, senior management has delegated the immediate responsibility for operating profit, working capital optimization and capital expenditure to the managers of the operating segments. Free cash flow does not include investments in financial assets that are not measured at fair value through profit or loss, because these are held as a liquidity reserve and can be sold at any time.

1.4. RESEARCH AND DEVELOPMENT

ECONOMIC ENVIRONMENT AND GOALS

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

MTU's medium-term goals with respect to the development of new commercial engines fully reflect the European aviation industry's voluntary commitment that forms the basis of the ACARE 2020 targets (Advisory Council for Aeronautical Research in Europe). These targets challenge the aviation industry to halve noise emissions, reduce NO_x by 80% and reduce CO_2 emissions by 50%. Engines will be required to play a key role in achieving these reductions. MTU's Clean Air Engine (Claire) technology program not only meets the goals of ACARE 2020, but also addresses long-term future requirements such as cutting CO_2 emissions by up to 30% by the year 2035 (see also page 59).

The need for future engines for military applications centers mainly on propulsion systems for unmanned aerial vehicles (UAV). Aircraft required to operate at long range with fuel-efficent engines capable of generating high thrust while flying close to the ground demand innovative approaches. MTU has positioned itself as a key player in national and European studies, including the European Technology Acquisition Programme (ETAP).

TECHNOLOGIES FOR ENGINES OF THE FUTURE

GEARED TURBOFAN

In cooperation with Pratt & Whitney, MTU is working on a new generation of engines known as the geared turbofan (GTF). In contrast to conventional turbofans, in which the fan and low-pressure turbine run at the same speed on a single shaft, the geared turbofan places a reduction gear between the two components to decouple them. This enables the large fan to operate at a slower speed and the low-pressure turbine at a higher speed, thus improving the efficiency of the fan and the low-pressure turbine while cutting noise levels and reducing the number of stages in the turbine by up to 50 %. MTU's contribution to the geared turbofan comprises the high-speed low-pressure turbine and parts of the high-pressure compressor.

Launch customer Mitsubishi Heavy Industries has selected the PW1217G geared turbofan as the exclusive engine for its 70- to 90-seater MRJ regional jet. Bombardier will be using a more powerful version of this engine, the PW1524G, as the sole powerplant option for its new CSeries 100- to 145-seater regional jet. The third customer for this engine is Russian aircraft maker Irkut, which intends to equip its 150-seater MS-21 with the PW1000G.

The geared turbofan made its ultimate market breakthrough in 2010.

The ultimate market breakthrough for the GTF came in 2010 with the decision by Airbus to offer the PW1100G as one of the two new engine options for the A320neo, the re-engined version of the successful A320 family. Market launch of the A320neo is scheduled for 2016. MTU's share in the PW1100G program has not yet been finalized, but is expected to be around 15 %. That will make for a substantially higher share than with the current engine for the A320 family, the IAE V2500, a program in which MTU has an 11 % stake.

MILITARY ENGINE PROGRAMS

The main focus of military development activities was 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 the intermediate-pressure compressor, intermediate-pressure turbine and spool. It is also developing the engine and propeller control system in cooperation with its French partner Snecma.

MTU's involvement in General Electric's GE38 helicopter engine program takes the company into new territory, marking the first time that it has taken on full development responsibility within a U.S. military engine program. The GE38's first application will be in the Sikorsky Aircraft Corporation's CH-53K heavy-lift transport helicopter. MTU is responsible for the power turbine and has obtained licenses for the maintenance, final assembly and testing of the GE38 engines destined to power the European Future Transport Helicopter (FTH). The GE38 successfully completed its first test run in June 2009, and thus far the development program has been proceeding according to plan.

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

TECHNOLOGIES FOR MANUFACTURING AND MAINTENANCE

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

STRATEGIC AND COOPERATIVE VENTURES

COOPERATION IN SCIENCE AND RESEARCH

MTU cooperates with leading universities and research institutions.

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

Cooperation with universities and research institutions

RWTH Aachen	Uni Hannover
BAM Berlin	KFA Jülich
DLR Berlin	TH Karlsruhe
TU Berlin	Uni GH Kassel
TU Braunschweig	DLR Cologne
BTU Cottbus	Bauhaus Luftfahrt Munich
TU Darmstadt	TU Munich
TU Dresden	UniBW Munich
Uni Erlangen	DLR Stuttgart
FHG Fürth	MPA Stuttgart
DLR Göttingen	Uni Stuttgart

BAUHAUS LUFTFAHRT

In conjunction with the Bavarian government, EADS and Liebherr-Aerospace, MTU created ‘Bauhaus Luftfahrt’ – a one-of-a-kind institution in Europe. Based in Munich, this non-profit organization is a visionary think tank that pursues novel, unconventional, cross-company and interdisciplinary research. It brings industry and the research community together under one roof, focusing primarily on the technological and economic aspects of aviation in the future. The institute’s work centers around two key projects: developing hybrid aircraft for future commercial air transport, and predicting and forecasting future trends.

CAPITAL EXPENDITURE ON RESEARCH AND DEVELOPMENT

Research and development expenditure

	Change 2010 - 2009			
in € million	in € million	in %	**2010**	2009
Commercial engine business	26.0	26.0	126.1	100.1
Commercial maintenance business	-2.5	-18.4	11.1	13.6
Military engine business	-15.0	-12.9	101.5	116.5
Research and development expenditure	**8.5**	**3.7**	**238.7**	**230.2**
R&D as a percentage of revenues			8.8	8.8

Research and development expenditure increased to € 238.7 million in 2010.

Research and development expenditure in 2010 totaled € 238.7 million, an increase of € 8.5 million compared with 2009. At 8.8%, R&D as a percentage of revenues was unchanged with respect to the previous year's level.

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

Company-funded research and development expenditure

	Change 2010 - 2009			
in € million	in € million	in %	**2010**	2009
Commercial engine business	26.0	26.0	126.1	100.1
Commercial maintenance business	-2.5	-18.4	11.1	13.6
Military engine business	1.6	17.2	10.9	9.3
Company-funded R&D	**25.1**	**20.4**	**148.1**	**123.0**
Expenditure meeting recognition criteria for intangible assets				
Commercial and military engine business	-1.4	-11.1	-14.0	-12.6
Commercial maintenance business	-0.3	-6.3	-5.1	-4.8
Total expenditure recognized as intangible assets	**-1.7**	**-9.8**	**-19.1**	**-17.4**
Research and development costs recognized as expense	**23.4**	**22.2**	**129.0**	**105.6**
Capitalized development costs (in %)			12.9	14.1

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

The R&D expenditure meeting recognition criteria for intangible assets in the commercial and military engine business (OEM) amounting to € 14.0 million (2009: € 12.6 million) relates to company-funded development costs for the GE38 and GEnx engine programs. MTU's involvement in General Electric's GEnx engine program is one of the key aspects of the company's strategy to secure a profitable future. MTU has assumed responsibility for designing and manufacturing the turbine center frame. The engine – which has been developed to power the Boeing 787 Dreamliner and the Boeing 747-8 – provides MTU with access to the latest models in the long-haul sector of the aircraft market. The commercial maintenance business (MRO) has developed special repair techniques for more cost-efficient engine maintenance, for which development costs totaling € 5.1 million (2009: € 4.8 million) were capitalized.

1.5. CORPORATE RESPONSIBILITY

SOCIAL RESPONSIBILITY

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

One of the most important areas of MTU's social commitment is that of promoting young people's interest in science and technology, paving the way for a possible later career with the company. For example, MTU is a sponsor of the „Weg vom Fleck" exhibition organized by the Kinder- und Jugendmuseum (Children's and Youth Museum) in Munich. The exhibition provides an opportunity for young scientists to get to know, in a hands-on manner, the physical laws related to the topic of mobility.

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

Promoting research and teaching is a key component of MTU's social commitment.

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

In 2010, many of the company's managers again took advantage of the opportunity to participate in the Social Step program, which is designed to develop both their personal and professional skills. As part of the program, managers spend one week working in a social field, for example at a railway mission or in a hospice.

For MTU, corporate responsibility involves not only complying with all applicable laws and regulations, but also supporting initiatives that go a step further. This is why the company became a signatory to the Standards of the Aerospace and Defence Industries Association of Europe (ASD), which are designed to combat corruption and bribery and to promote fair competition among equal parties. At national level, this initiative is supported by the German Aerospace Industries Association (BDLI). The measures taken by MTU to put these standards into practice in its day-to-day operations are discussed under the topic of Compliance on page 95.

EMPLOYEES

Total MTU workforce

	Change 2010-2009			
	Headcount	in %	**Dec. 31, 2010**	Dec. 31, 2009
Locations in Germany	27	0.4	6,907	6,880
International locations	215	27.4	1,000	785
Total workforce	**242**	**3.2**	**7,907**	**7,665**

ORGANIZATIONAL DEVELOPMENT

In 2010, MTU carried out an employee satisfaction survey at its three German locations, as it does every two years. The excellent results of this survey demonstrated that the 'Workshops for the Future' organized the previous year had been highly successful in getting across the new MTU Principles.

At the end of October 2010, MTU organized a week-long 'Focus on the Future' event, which centered around topics derived from the MTU Principles, such as change management, continual improvement and innovative technology projects.

The MTU Dialog, a form of personal exchange between the Board of Management and employees at all levels, was also continued in 2010.

VOCATIONAL TRAINING 2010

Vocational training at MTU is not restricted to the topics of purely professional interest set down in the overall training plan. Rather, and to quite a substantial extent, it also comprises the process of personal change. In particular, international exchange programs provide a means of broadening the candidates' understanding and appreciation of foreign cultures and working methods. In the same way, methodology seminars assist staff in developing and strengthening their personalities.

Another key component of vocational training at MTU is learning how to adopt a responsible attitude toward the environment and scarce natural resources. The annual Environment Day for Trainees heightens the participants' awareness of ecology and encourages them to take a proactive approach to environmental protection in their daily work.

Apprentices represent 4.7 % of the company's workforce.

With an apprenticeship quota of about 4.7 %, the company continues to invest strongly in future talent. At year-end 2010, MTU employed a total of 325 apprentices at its German sites, 15 % of whom were young women.

STAFF TRAINING AND DEVELOPMENT

In a field of business as highly specialized as ours, it is essential for the company to systematically plan the ongoing training and development of its employees using a broad array of measures. At the moment, new focal points for training are being set to meet the company's changing requirements. Qualifications in other areas (cross-disciplinary skills), for instance, can be very useful when the capacity utilization of certain product lines fluctuates.

What is more, the company organizes annual potential assessment and succession planning rounds for all its managers as well as for selected employees. In the interest of creating a holistic system, the management skills on which the potential assessment is based were revised in 2010 to more closely reflect the new MTU Principles.

COMPENSATION AND EMPLOYEE PROFIT-SHARING

Since the introduction of the single-status pay agreement (ERA) at all the company's sites in Germany, enhanced coordination between the locations has ensured that the compensation system is now seamless and more transparent.

The MAP employee stock option program again generated much interest among staff in 2010. The yardstick for participation in the stock option plan is the employee's individual profit-sharing proceeds: employees covered by collective bargaining agreements may invest up to 150 % of their profit share, while the investable amount for staff with freely negotiated contracts is capped at € 10,000. After a two-year vesting period, MTU matches the amount invested at a rate of 50 %. The volume of funds invested by staff in 2010 was around € 2.5 million.

WORK-LIFE BALANCE

MTU aims to enhance the work-life balance of its employees with a range of offers and services. A cornerstone of this policy is the company's flexible working time models, which allow staff to work within a time corridor between 5:15 a.m. and 8:00 p.m. 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. External family services offer employees a comprehensive package of services, including debt counseling, help in finding child minders, vacation programs for children, and advice when next of kin require long-term nursing care. MTU also provides funding for the daycare center of 'TurBienchen', a non-profit association run by a parents' initiative.

Regular checks and audits by the Hertie-Stiftung, a non-profit foundation, help MTU to ascertain the viability of a healthy work-life balance for its staff and allow the company to fine-tune the services it offers employees in this context. These audits are a source of constant feedback and new impulses for the company. In 2009 the company began implementing the goals established during the last audit. The next planned audit in June 2011 will focus on creating more part-time positions, promoting job-sharing and in-house career path planning, and enhancing the acceptance and take-up of the family-support services on offer.

HEALTH MANAGEMENT

The MTU health service offers employees health management services that cover aspects such as health and safety at work, general health, emergencies and first aid, and environmental medicine. The health service also supports staff in issues such as social counseling, the promotion of occupational health, and prevention. Since 2010, a holistic program has been in place at MTU to assist the reintegration of staff returning to work after prolonged or recurring illnesses. Fall 2010 saw the opening of a health studio that offers staff a training program targeting diseases of the spine and musculoskeletal system. What is more, employees wanting to improve their health are free to make use of the traditional cardio and weight training equipment available. A working group on health is developing workplace standards designed to promote health as well as requirements for a healthy leadership culture.

MTU'S ATTRACTIVENESS AS AN EMPLOYER

For the fourth year in succession, MTU was recognized as one of Germany's top employers.

That MTU is a highly attractive employer is confirmed by the fact that it has been ranked one of Germany's top employers for a number of years now. In this ranking, the CRF Institute, in conjunction with the careers portal of the Süddeutsche Zeitung daily newspaper, assesses German employers and their services in the categories of work-life balance, corporate culture, market position and image, job security, and compensation. In 2010, MTU was again among the top 20 companies assessed and was awarded the coveted title of one of Germany's top employers for the fourth time in a row.

The MTU Careers Club, a program for supporting students and doing follow-up work, also serves to enhance the company's attractiveness as an employer. Just how successful a player MTU already is in the market for qualified workers can be gauged by an independent survey carried out by Universum Communications. The management consultancy interviewed more than 7,000 employees with one to eight years' work experience, asking them to select from a list of 150 employers a maximum of five that they would most like to work for. The interviewees could also suggest additional companies if they wished. The engineers taking part ranked MTU an excellent 24th, the second-highest position among the companies included in the list for the first time.

DIVERSITY – A GOLDEN OPPORTUNITY FOR THE COMPANY

Recognizing and harnessing diversity is another key factor that will decide whether companies are equipped to meet the future. Different cultures and age groups enhance the innovative power of every individual and, in turn, of the company as a whole. This is an accepted insight at MTU, where values

such as respect, fairness and regard are firmly anchored in the company's principles. In 2010, MTU became a signatory to the 'Charter of Diversity of German Companies', an industry initiative under the patronage of Chancellor Angela Merkel, thus making a public commitment to diversity in the workplace.

This is another reason that MTU actively promotes women, especially by facilitating young women's access to technical occupations in the long term. In fact, the foundation the company set up to promote motivated and talented female students celebrated its 10th anniversary in 2010. MTU also participates in the 'cross-mentoring' program in Munich together with other companies based in the city. The goal of the initiative is to pair up young women showing management potential with experienced mentors from middle and senior management from other companies. What is more, in signing the 'Munich Memorandum for Women in Management', MTU has underscored its intention to raise the percentage of women in its workforce through the systematic promotion of female staff and managers.

MTU Maintenance Berlin-Brandenburg has been offering unemployed people with training in the metal trades concrete opportunities to work. Following a test of their knowledge of math and physics, the participants completed a training program with an external education provider as well as practical training at MTU. The first batch of participants began work in specific areas of the company in the course of 2010.

For further information on human resources activities at MTU we refer you to the separate Human Resources Report 2009/2010. The Human Resources Report 2011/2012 will be published in spring 2012.

ENVIRONMENT

Today, the aviation industry operates within an environment characterized by conflicting factors: the increasing mobility of society, ever scarcer resources, and worsening climate change. In order to handle the future volume of air traffic without causing long-term damage to the environment, a change to an ecologically and economically sustainable system is imperative. Environmental protection and resource conservation are becoming key issues not just in Germany but also around the world. For MTU, protecting the environment is not simply an obligation, but part and parcel of the responsibility it shoulders on behalf of its employees, customers, partners and neighbors. Improving engine technology in the interests of the environment is a key task at MTU, which we describe in more detail in Section 1.4. (Research and development).

MTU's commitment to the environment extends to its work in organizations and associations and the leading role it plays in environmental projects. One example is the Bavarian Environmental Pact, in which MTU is an active partner and which supports environmentally friendly measures adopted by the Bavarian government and the City of Munich.

ELIMINATING ENVIRONMENTALLY HARMFUL PRODUCTION PROCESSES AND MATERIALS

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

MTU applies stringent environmental criteria in all of its processes and systems.

Whether in the development and production phases or during engine maintenance, MTU applies stringent environmental criteria in all its processes and systems. These criteria meet statutory requirements as an absolute minimum and form the basis for internal standards that are binding for all group locations. Compliance with these standards is regularly checked and certified by internal

and external audits in accordance with DIN EN ISO 14001 – and also in accordance with the European Parliament and Council's EMAS (Eco- Management and Audit Scheme) Regulation at the German locations in Munich and Hannover. The company's environmental management system was successfully audited in accordance with ISO 14001 and Regulation (EC) No. 761/2001, and its industrial safety management system in accordance with OHSAS 18001. In addition, MTU's site in Zhuhai, China, has received ISO 14001 and OHSAS 18001 certification. Progress with respect to targets is regularly assessed by the Board of Management and the results of these assessments are published in the sites' environmental impact statements.

CONSERVATION OF RESOURCES

It is a central goal of the company to conserve resources, for example by reusing engine components after repair. Thanks to new methods and processes, around 70 % of all engine blades are reused two, three or even four times. Standard practice includes using fewer resources by reducing the consumption of raw materials and energy through the recycling of materials in the original loop. This is an area in which MTU is making great efforts to combat climate change.

MTU's commitment is not limited to optimizing its products; it also places the highest demands on its production and maintenance processes in terms of efficiency. One of the key levers in this is energy management at the company's sites, which is set down in the Clean Air - Industrial Site (CLAIR-IS) program. The program is firmly focused on operational safety, the environment and cost efficiency.

The goal of CLAIR-IS is to achieve a 10 % reduction in CO_2 emissions at the Munich site by 2020 – despite a substantial increase in production. This is to be achieved, for example, by using well water as a coolant in production processes. The amount of well water extracted is currently seven million cubic meters per year – the aim is to boost that figure to twelve million by 2012. MTU's other contributions to environmental protection include its building control system, its on-site cogeneration plant which runs exclusively on vegetable oil, and its targeted reduction in energy consumption thanks to optimization measures in power-intensive areas. The intention is to cut electricity consumption by 25 % between 2010 and 2020, thus enabling MTU to exceed the German environment ministry's eleven-percent target by a wide margin.

USE OF RENEWABLE AND EMISSIONS-NEUTRAL ENERGY

MTU is a member of the 'eco-efficient flying' beacon program.

Achieving sustainability in air traffic entails replacing oil-based kerosene with fuels that are emissions-neutral and from renewable sources. In close cooperation with the Bauhaus Luftfahrt think tank, MTU is examining various alternative fuels in order to assess their suitability for use in aviation, their environmental impact, how they could be produced, and their potential effects on aero engines (see Section 1.4. for more details). The company is also a member of the 'eco-efficient flying' beacon program set up by the German Aerospace Industries Association (BDLI), the aim of which is to make emissions-neutral flying a reality by the year 2050. The technologies, including alternative fuel sources, are being defined in a coordinated action plan, and responsibilities are being allocated for different parts of the program. In addition, MTU is taking part in key initiatives and joint research projects with aircraft manufacturers, energy providers and suppliers.

MTU's commitment to alternative energy sources also includes its membership in the Algal Biomass Organization (ABO), a non-profit organization whose purpose is to drive forward research into and production of fuels based on algae. These fuels produce little or no carbon dioxide and are thus classed as emissions-neutral. As they grow, algae absorb exactly the same amount of CO_2 as is later released when they are combusted. Tests have shown that their use makes technical sense, too. First, they have a higher energy content than conventional kerosene and, second, they do not produce impurities, such as sulfur, during combustion. That could help extend the lifecycle of aero engines.

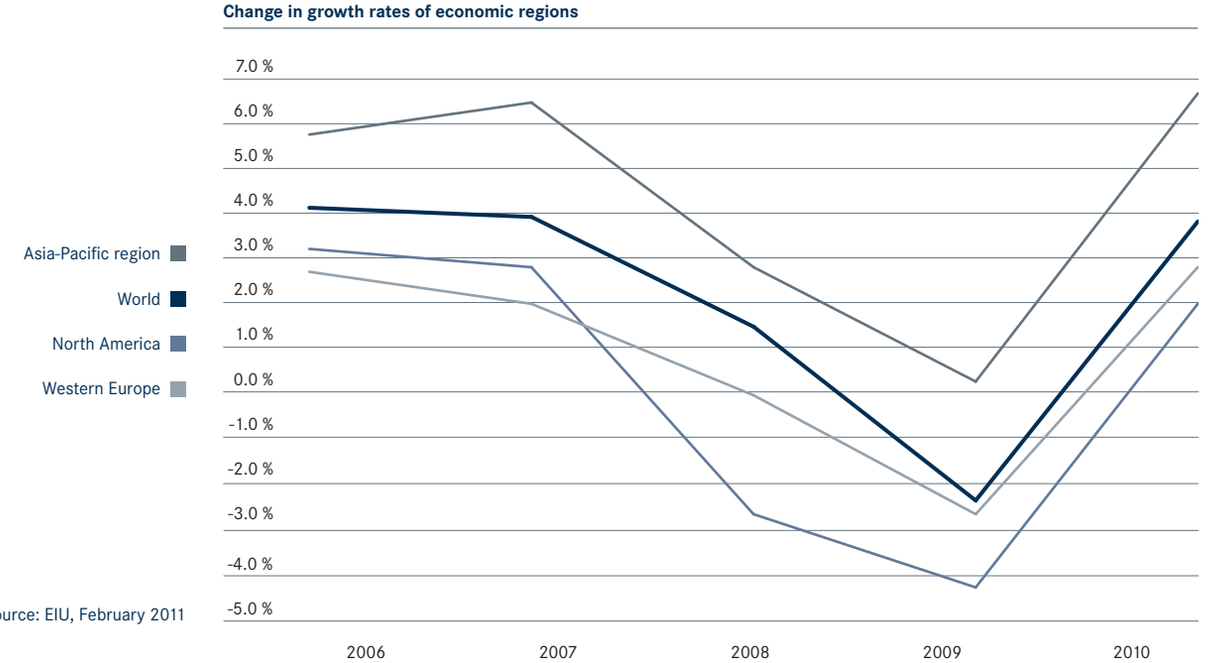
2. ECONOMIC ENVIRONMENT

The global economy expanded rapidly in 2010, as individual nations recovered from the financial crisis. Growth was strongest in the Asia-Pacific region. North America also profited from the upswing, whereas the recovery in Western Europe was comparatively slow. The aviation industry also benefited from the improved economic climate, with passenger traffic up by 8.2 % and freight traffic by 20.6 %.

2.1. GENERAL ECONOMIC CLIMATE

The global economy has been recovering from the effects of the financial crisis since mid-2009, but the pace of recovery in 2010 differed markedly from region to region. At 6.6 % the Asia-Pacific region was the front-runner in the growth stakes. North America's growth rate of 2.8 % made up for the previous year's losses, while the economy in Western Europe grew by 2.0 %. These three regions represent the aviation industry's key markets, together making up 70 % of total passenger traffic, 90 % of freight traffic and 90 % of the international aircraft fleet.

Change in growth rates of economic regions

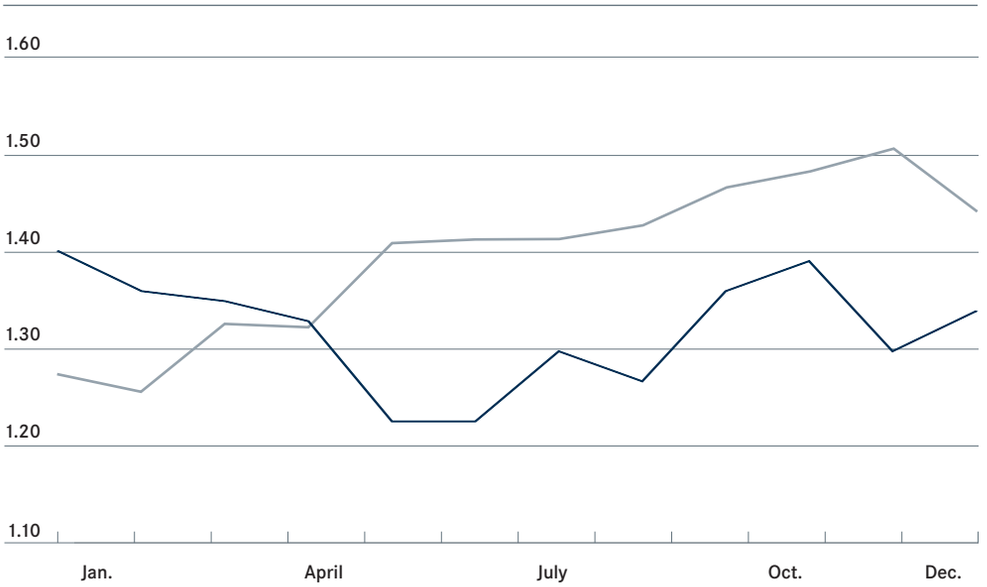


Source: EIU, February 2011

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

As an export-oriented aviation company, MTU has a strong interest in the euro / U.S. dollar exchange rate. As in previous years, the euro / U.S. dollar exchange rate was marked by high volatility in 2010. The euro peaked at 1.4563 U.S. dollars to the euro on January 13, 2010, and reached its lowest level of the year of 1.1942 U.S. dollars to the euro on June 18, 2010. The average exchange rate for the period January 1 to December 31, 2010 was 1.3260 U.S. dollars to the euro and thus below the previous year's average of 1.3946 U.S. dollars to the euro. Further information on the effects of altered exchange rate parities is provided in Section 3. (Financial situation).

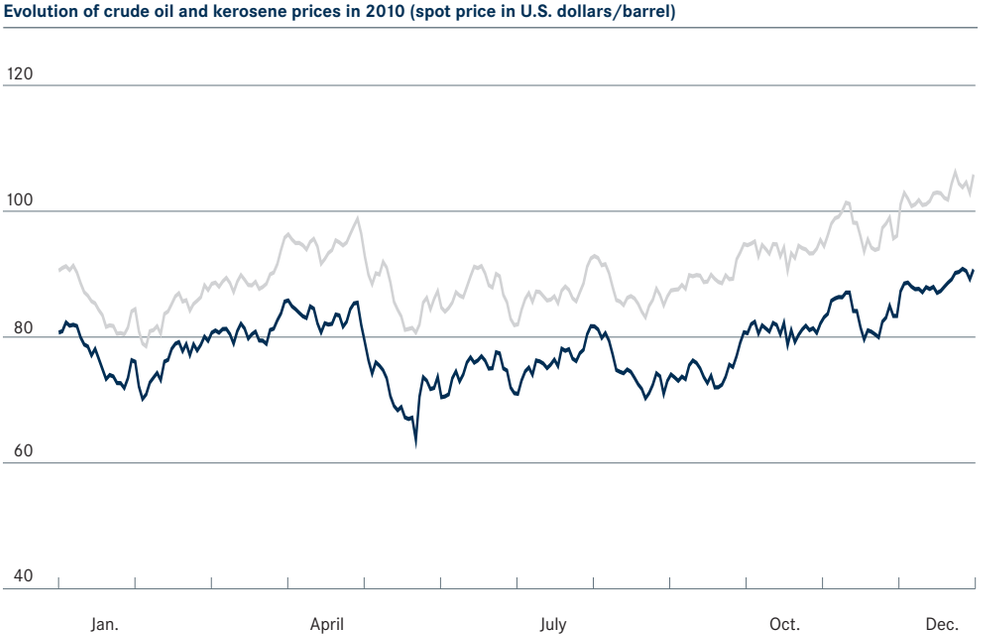
U.S. dollar exchange rate movements 2009 and 2010



The average price of crude oil in 2010 was U.S. $ 79 per barrel, or around 30% higher than in 2009.

The mean crude oil price in 2010 was U.S. $ 79 per barrel and thus around 30% above the annual average price in 2009 (U.S. $ 62 per barrel). As their kerosene bill is the biggest cost factor for airlines, the trend toward grounding and phasing out old, inefficient aircraft types remains unbroken. This has served to revitalize the production of new models and re-emphasize the importance of programs to develop innovative aircraft powered by fuel-efficient engines, such as the Bombardier CSeries, the Boeing 787 and the Airbus A320neo.

Evolution of crude oil and kerosene prices in 2010 (spot price in U.S. dollars/barrel)

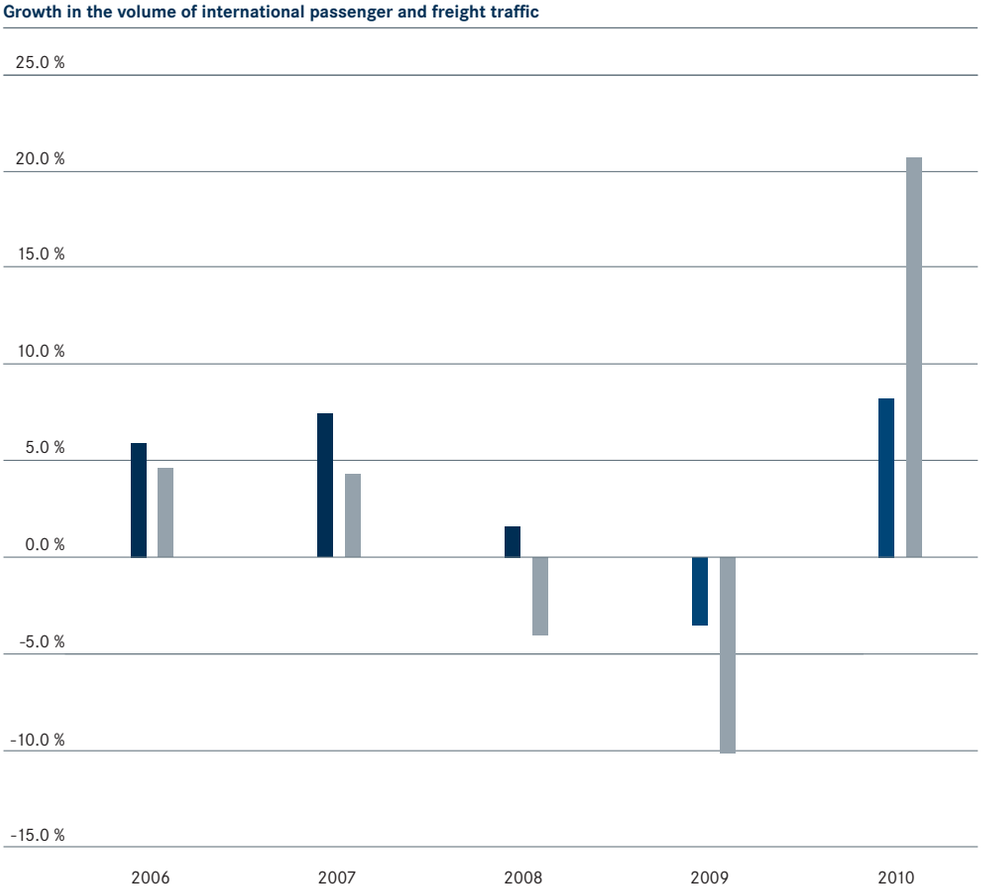


Source: US Energy Information Administration

2.2. INDUSTRY-SPECIFIC DEVELOPMENTS IN THE AVIATION SECTOR

Gross domestic product (GDP) has a strong effect on growth in air traffic, and the recovery of the global economy is mirrored by a similar recovery in the volume of international passenger and freight traffic. With growth of 8.2 % in passenger traffic and 20.6 % in freight traffic, the industry has returned to pre-crisis levels in absolute terms.

Growth in the volume of international passenger and freight traffic



Source: IATA

The key indicators of importance to the engine parts / engine maintenance sector – SKO (seat kilometers offered) and TKO (ton kilometers offered) – recorded growth of 4.4 % and 8.9 % respectively in 2010, largely compensating for the drop of 3.0 % in passenger capacity and 8.4 % in freight capacity in 2009.

Airline revenues increased in 2010 by 17 % to U.S. $ 565 billion.

In 2010, airlines began raising their capacities again, but only tentatively and within the limits of their capacity management strategies. As a result, the reduction in the number of grounded aircraft remained modest – from about 2,260 in December 2009 to about 2,170 one year later. The airlines' capacity management measures helped to increase the utilization rate from around 76 % to around 78 %. Ticket prices, too, recovered well in 2010, enhancing airlines' profitability. According to IATA statistics, the industry as a whole posted an approximately 17 % increase in revenues to U.S. $ 565 billion (2009: U.S. $ 482 billion). Profits for 2010 are estimated at a record level of U.S. $ 15 billion.

Orders for new aircraft have been picking up again since summer 2010, reaching a total for the year of 1,400 (including 135 CSeries, MS-21 and C919s according to Ascend Online) compared with around 600 in 2009 (including 50 CSeries). The order backlog for single-aisle and widebody jets continued to rise, increasing by approximately 4 % in 2010 from 6,910 to 7,180 aircraft. This includes orders for the commercial passenger aircraft manufactured by Airbus and Boeing and the new CSeries, MS-21 and C919 aircraft.

At 972, deliveries of commercial aircraft by Airbus and Boeing in 2010 remained at the same high level as in 2009, when 978 aircraft were delivered.

Unlike the passenger aircraft market, the business jet sector was bypassed by the economic upturn. In the first three quarters of 2010, deliveries of business jets fell by around 20% from 615 to 490 aircraft (source: GAMA).

2.3. OVERALL ASSESSMENT OF THE BUSINESS SITUATION

Two years on after the financial crisis, the global economy is showing distinct signs of recovery, with the emerging economies of Asia, and China in particular, leading the way. North and Latin America have also profited from the upswing, whereas growth in Europe has only been modest so far.

The overall positive economic trend is also reflected in the growth in air passenger traffic, which grew by 8.2% compared with 2009. In absolute terms, air traffic reached record levels.

Airline profits, at an estimated U.S. $ 15 billion, were roughly six times higher than IATA's estimated forecast based on mid-year results.

With a backlog of 7,180 firm orders at the end of 2010, the outlook for future revenues is promising.

Airbus and Boeing together delivered a total of 972 aircraft, which is approximately the same number as in 2009. Given the backlog of 7,180 firm orders for single-aisle and widebody aircraft, the outlook for future revenues is promising.

3. FINANCIAL SITUATION

In 2010, MTU Aero Engines' group revenues increased by 3.7% to € 2.7 billion. Revenues in the commercial and military engine business grew by 4.9% and in the commercial maintenance business by 1.6%. MTU's operating profit increased by 6.5% to € 311.3 million, which is higher than the earnings forecast for the year. Free cash flow continued its upward course and improved even more than expected, rising to € 144.8 million.

The following explanatory comments and analyses are derived from the audited MTU consolidated financial statements for the financial years ending December 31, 2010 and 2009. 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, certain new or revised/amended standards and interpretations were applied for the first time in the financial statements for 2010. Their application did not give rise to any changes with a significant impact on the group's financial situation, net assets or operating results. Consequently, no changes in the financial reporting principles or in management judgments with respect to the application of the accounting standards had an effect on the group's business performance in the reporting period.

INFORMATION ON EXCHANGE RATES

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

The euro lost in value against other currencies in 2010.

Foreign currency exchange rates

Currency	ISO code	Rate on balance sheet date		Average rate	
		Dec. 31, 2010 1 euro =	Dec. 31, 2009 1 euro =	2010 1 euro =	2009 1 euro =
United States dollar	USD	1.3362	1.4406	1.3260	1.3946
Canadian dollar	CAD	1.3322	1.5128	1.3656	1.5853
Chinese yuan renminbi	CNY	8.8220	9.8350	8.9738	9.5268
Polish zloty	PLN	3.9750	4.1045	3.9949	4.3282

3.1. OPERATING RESULTS

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

GROUP

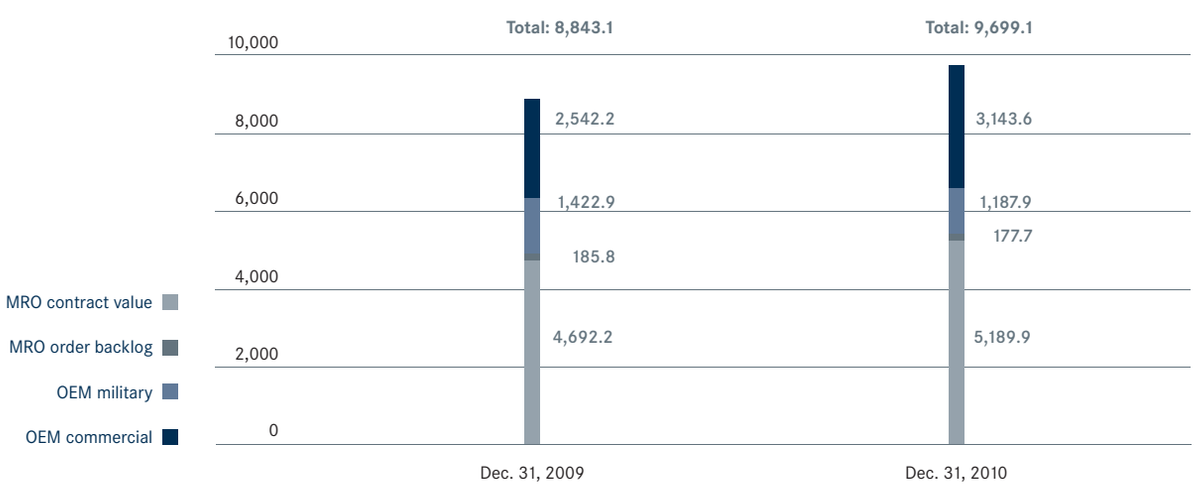
Consolidated income statement

	Change 2010 - 2009		**2010**		2009	
	in € million	in %	in € million	in %	in € million	in %
Revenues	**96.6**	**3.7**	**2,707.4**	**100.0**	**2,610.8**	**100.0**
Cost of sales	-32.3	-1.5	-2,184.5	-80.7	-2,152.2	-82.4
Gross profit	**64.3**	**14.0**	**522.9**	**19.3**	**458.6**	**17.6**
Costs by function	-43.2	-20.4	-254.9	-9.4	-211.7	-8.1
Write-down on assets resulting from PPA	-2.1	-4.6	43.3	1.6	45.4	1.7
Adjusted earnings before interest and tax (EBIT adjusted)	**19.0**	**6.5**	**311.3**	**11.5**	**292.3**	**11.2**
Write-down on assets resulting from PPA	2.1	4.6	-43.3	-1.6	-45.4	-1.7
Earnings before interest and tax (EBIT)	**21.1**	**8.5**	**268.0**	**9.9**	**246.9**	**9.5**
Financial result	-1.4	-3.6	-40.8	-1.5	-39.4	-1.5
Earnings before tax (EBT)	**19.7**	**9.5**	**227.2**	**8.4**	**207.5**	**8.0**
Income taxes	-18.5	-27.8	-85.0	-3.1	-66.5	-2.6
Earnings after tax (EAT)	**1.2**	**0.9**	**142.2**	**5.3**	**141.0**	**5.4**
Undiluted earnings per share in €	0.02	0.7	2.91		2.89	
Diluted earnings per share in €	0.03	1.1	2.83		2.80	

ORDER BACKLOG

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

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



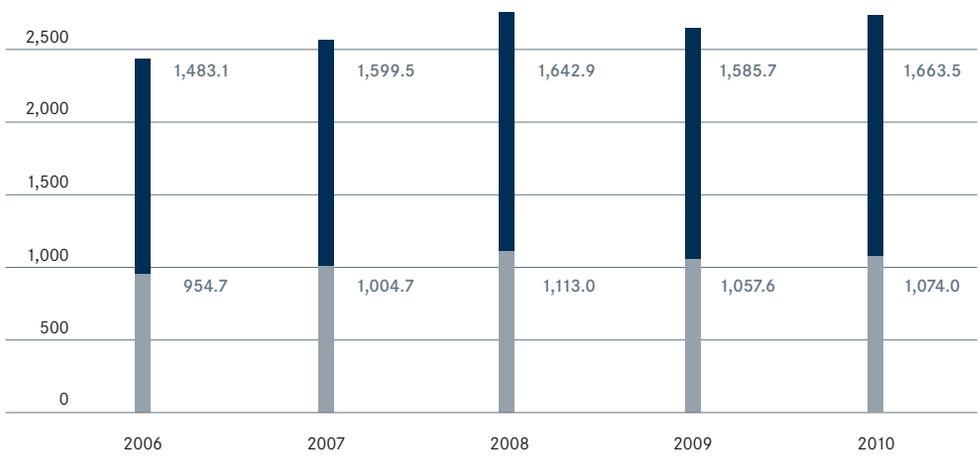
The total volume of book orders amounts to just under € 10 billion and represents a workload of approximately three years.

REVENUES

In 2010, OEM revenues increased by 4.9 % and MRO revenues by 1.6 %.

Group revenues increased in the financial year 2010 by € 96.6 million (3.7 %) to € 2,707.4 million. Compared with the previous year, revenues in the commercial and military engine business (OEM), prior to consolidation, rose by € 77.8 million (4.9 %) to € 1,663.5 million, while the corresponding revenues in the commercial maintenance business (MRO) grew by € 16.4 million (1.6 %) to € 1,074.0 million.

Revenues by segment (before consolidation) in € million



COST OF SALES AND GROSS PROFIT

The cost of sales increased by € 32.3 million (1.5 %) to € 2,184.5 million. Since the cost of sales did not grow as fast as sales revenue, gross profit improved to € 522.9 million (2009: € 458.6 million), a year-on-year increase of € 64.3 million (14.0 %). The increase in gross profit is also attributable to efficiency measures implemented under the Challenge 2010 program, which enabled direct and indirect production expenses to be reduced. As a result of these improvements, the gross profit margin rose to 19.3 % (2009: 17.6 %).

RECONCILIATION OF ADJUSTED PERFORMANCE INDICATORS

The main reason for which adjustments are applied 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 sectors 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 EBIT (adjusted) and the adjusted EBIT margin. The International Financial Reporting Standards (IFRS) do not stipulate any requirements concerning adjusted performance indicators.

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

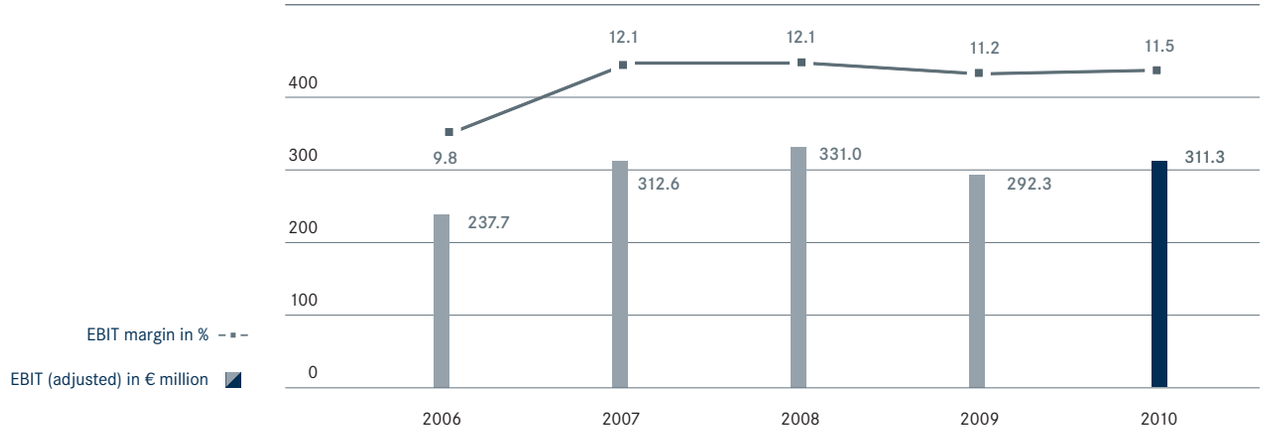
Reconciliation of the consolidated income statement

in € million	2010 Financial year	2010 Non-recurring items	2010 Financial year w/o non-recurring items	2009 Financial year	2009 Non-recurring items	2009 Financial year w/o non-recurring items
Revenues	**2,707.4**		**2,707.4**	**2,610.8**		**2,610.8**
Cost of sales	-2,184.5	38.5	-2,146.0	-2,152.2	40.7	-2,111.5
Gross profit	**522.9**	**38.5**	**561.4**	**458.6**	**40.7**	**499.3**
Research and development expenses	-129.0	2.9	-126.1	-105.6	2.5	-103.1
Selling expenses	-79.7	1.1	-78.6	-72.2	1.3	-70.9
General administrative expenses	-52.3	0.8	-51.5	-44.8	0.9	-43.9
Other operating income and expenses	6.1		6.1	10.9		10.9
Earnings before interest and tax (EBIT)	**268.0**	**43.3**	**311.3**	**246.9**	**45.4**	**292.3**
Financial result	-40.8		-40.8	-39.4		-39.4
Earnings before tax (EBT)	**227.2**	**43.3**	**270.5**	**207.5**	**45.4**	**252.9**
Income taxes	-85.0	-3.2	-88.2	-66.5	-15.9	-82.4
Earnings after tax (EAT)	**142.2**	**40.1**	**182.3**	**141.0**	**29.5**	**170.5**
EBIT	**268.0**	**43.3**	**311.3**	**246.9**	**45.4**	**292.3**
Depreciation/amortization of:						
Intangible assets						
- Acquisition-related amortization expense (PPA)	40.1	-40.1		40.1	-40.1	
Property, plant and equipment						
- Acquisition-related depreciation expense (PPA)	3.2	-3.2		5.3	-5.3	
EBIT (adjusted)	**311.3**		**311.3**	**292.3**		**292.3**

Adjusted earnings before interest and tax (EBIT adjusted) are determined by adding the effects of purchase price allocation arising from the company's acquisition to earnings before interest and tax (EBIT). Operating profit (EBIT adjusted) increased by 6.5 % to € 311.3 million (2009: € 292.3 million), while the adjusted EBIT margin increased by 0.3 percentage points to 11.5 % (2009: 11.2 %).

Earnings after tax (EAT), after adjustments to eliminate non-recurring items, grew by € 11.8 million to € 182.3 million.

Group EBIT (adjusted) and EBIT margin



FINANCIAL RESULT

MTU's financial result decreased by € 1.4 million in the financial year 2010 to a net expense of € -40.8 million (2009: € -39.4 million). Compared with the previous year, there was a marginal deterioration of € 0.5 million in the interest result. The financial result on other items, too, decreased slightly in 2010 by € 0.3 million to a net expense of € -25.1 million (2009: € -24.8 million). The main factors responsible for this change were fair value losses on derivatives amounting to € -8.2 million (2009: fair value gains of € 7.5 million) and negative changes of € -1.3 million (2009: positive changes of € 8.2 million) in the interest component included in the measurement of contingent liabilities. Currency translation gains amounting to € 11.1 million (2009: currency translation losses of € -11.3 million) largely offset these additional charges.

EARNINGS BEFORE TAX (EBT)

The company's good operating performance had a positive impact on earnings before tax (EBT), which increased by € 19.7 million to € 227.2 million (2009: € 207.5 million).

INCOME TAXES

Income taxes in the financial year 2010 amounted to a total of € 85.0 million (2009: € 66.5 million). The effective group tax rate, relative to earnings before tax, amounted to 37.4 % (2009: 32.0 %). A table showing the reconciliation of the expected tax expense to the actual tax expense can be found in Note 15. to the consolidated financial statements (Income taxes).

EARNINGS AFTER TAX (EAT)

Earnings after tax (EAT) grew by € 1.2 million or 0.9 % to € 142.2 million (2009: € 141.0 million).

NET PROFIT AVAILABLE FOR DISTRIBUTION

The net profit available for distribution to MTU shareholders for the financial year 2010 amounted to € 53.6 million. At December 31, 2010, 48,752,407 shares were entitled to receive a dividend (2009: 48,921,808 shares).

EARNINGS PER SHARE

Undiluted earnings per share amounted to € 2.91 (2009: € 2.89). Potential common shares from the convertible bond and the Matching Stock Program diluted these earnings per share. Inclusive of these effects, diluted earnings per share amounted to € 2.83 (2009: € 2.80).

DIVIDEND

In view of the group's continuing good business performance, the Board of Management and Supervisory Board of MTU Aero Engines Holding AG will propose to the Annual General Meeting on May 5, 2011 that a dividend of € 1.10 per share (2009: € 0.93) should be paid out to shareholders. The total dividend payment amounts to € 53.6 million (2009, by resolution of the Annual General Meeting: € 45.5 million), after deduction of the proposed allocation to revenue reserves. The net dividend yield for 2010, based on the share price of € 50.61 at December 31, 2010, thus amounts to 2.2 %. The dividend is expected to be paid on May 6, 2011 – on condition that the proposal is approved by the Annual General Meeting. A table showing the reconciliation of group earnings after tax (EAT) as defined in IFRS to the net profit available for distribution by MTU Aero Engines Holding AG is provided in the notes to the consolidated financial statements.

MTU's proposed dividend of € 1.10 per share is significantly higher than in previous years.

OEM SEGMENT

ORDER BACKLOG

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

COMMERCIAL ENGINE BUSINESS

The invoiced value of MTU's order book for commercial engines, expressed in U.S. dollars, stood at U.S. $ 4,200.5 million on December 31, 2010, and therefore U.S. $ 538.2 million (14.7 %) higher than the previous year's figure of U.S. $ 3,662.3 million.

The order backlog translated into euros at the 2010 year-end closing rate increased by € 601.4 million (23.7 %) to € 3,143.6 million (2009: € 2,542.2 million).

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

MILITARY ENGINE BUSINESS

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

The backlog of orders for military engines, which are priced in euros, totaled € 1,187.9 million at year-end 2010. This is € 235.0 million (16.5 %) below the previous year's amount of € 1,422.9 million.

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

Order backlog commercial and military engine business (OEM)

	Change 2010 - 2009			
in million	in million	in %	**Dec. 31, 2010**	Dec. 31, 2009
Commercial engines in U.S. $	538.2	14.7	4,200.5	3,662.3
Commercial engines in €	601.4	23.7	3,143.6	2,542.2
Military engines in €	-235.0	-16.5	1,187.9	1,422.9
Total order backlog in €	**366.4**	**9.2**	**4,331.5**	**3,965.1**

The OEM segment's order backlog increased by 9.2 % in 2010.

REVENUES

The company generated revenues of € 1,663.5 million in the OEM segment. This is € 77.8 million (4.9 %) more than the result achieved in 2009.

In 2010, revenues in the commercial engine business increased by € 123.9 million (11.0 %) to € 1,177.6 million, mainly due to initial revenues from the GEnx program and rising deliveries of V2500 and PW2000 engines. Adjusted for the effect of the U.S. dollar exchange rate, revenues grew by around 6.2 %.

Revenues in the military engine business decreased by € 46.1 million (8.7 %) from € 532.0 million in 2009 to € 485.9 million in 2010. The ongoing entry into service of the Eurofighter assures a steady flow of revenue from the EJ200 engine; however, revenues from other military programs have decreased.

Revenues and EBIT adjusted (OEM)

	Change 2010 - 2009			
in € million	in € million	in %	**2010**	2009
Revenues	77.8	4.9	1,663.5	1,585.7
Cost of sales	-43.3	-3.5	-1,285.4	-1,242.1
Gross profit	**34.5**	**10.0**	**378.1**	**343.6**
Gross margin in %			22.7	21.7
EBIT (adjusted)	**0.4**	**0.2**	**229.6**	**229.2**
EBIT margin adjusted in %			13.8	14.5

Adjusted earnings before interest and tax in the OEM segment increased narrowly to € 229.6 million.

EBIT (ADJUSTED) AND EBIT MARGIN

Against a difficult economic backdrop, adjusted earnings before interest and tax (EBIT adjusted) in the OEM segment increased negligibly, from € 229.2 million to € 229.6 million. The adjusted EBIT margin fell from 14.5 % to 13.8 %.

CAPITAL EXPENDITURE

Capital expenditure on intangible assets and property, plant and equipment decreased by 17.3 % to € 84.1 million (2009: € 101.7 million).

EMPLOYEES

The number of employees, calculated as a quarterly average, remained virtually unchanged at 4,912 (2009: 4,908).

MRO SEGMENT

ORDER BACKLOG AND VALUE OF CONTRACTS

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

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

The sum total of order backlog and value of contracts represents a workload of slightly less than five years. The majority of contracts in the MRO segment are priced in U.S. dollars. The order backlog for the commercial maintenance business in 2010 amounted to U.S. $ 237.4 million, which is U.S. $ 30.3 million or 11.3 % lower than 2009's figure of U.S. $ 267.7 million. The value of orders for work on engines for which maintenance agreements are in place increased by 2.6 % to U.S. $ 6,934.7 million in the year under review.

Translated into euros, the order backlog and value of contracts increased by € 489.6 million (10.0 %) to € 5,367.6 million (2009: € 4,878.0 million) at the end of 2010.

Order backlog and value of contracts for commercial MRO business

	Change 2010 - 2009			
in million	in million	in %	**Dec. 31, 2010**	Dec. 31, 2009
Commercial engine maintenance				
Order backlog in U.S. $	-30.3	-11.3	237.4	267.7
Order backlog in €	**-8.1**	**-4.4**	**177.7**	**185.8**
Value of MRO contracts				
Value of contracts in U.S. $	175.1	2.6	6,934.7	6,759.6
Value of contracts in €	**497.7**	**10.6**	**5,189.9**	**4,692.2**
Total order backlog and value of contracts in €	**489.6**	**10.0**	**5,367.6**	**4,878.0**

REVENUES

MTU's revenues from the commercial maintenance business in the financial year 2010 amounted to € 1,074.0 million (2009: € 1,057.6 million). Lower revenues at the Hannover location were offset by rising capacity utilization at MTU Maintenance Berlin-Brandenburg and more especially in Vancouver, the latter as a result of the KC-10 maintenance contract.

Revenues and EBIT adjusted (MRO)

	Change 2010 - 2009			
in € million	in € million	in %	**2010**	2009
Revenues	16.4	1.6	1,074.0	1,057.6
Cost of sales	9.7	1.0	-933.3	-943.0
Gross profit	**26.1**	**22.8**	**140.7**	**114.6**
Gross margin in %			13.1	10.8
EBIT (adjusted)	**15.0**	**23.0**	**80.3**	**65.3**
EBIT margin adjusted in %			7.5	6.2

Adjusted earnings before interest and tax in the MRO segment increased significantly to € 80.3 million.

EBIT (ADJUSTED) AND EBIT MARGIN

Adjusted earnings before interest and tax (EBIT adjusted) in the MRO segment increased by € 15.0 million (23.0 %) to € 80.3 million. The EBIT margin rose to 7.5 % (2009: 6.2 %).

CAPITAL EXPENDITURE

Capital expenditure on intangible assets and property, plant and equipment decreased by 34.5% to € 25.3 million (2009: € 38.6 million).

EMPLOYEES

The number of employees, calculated as a quarterly average, increased by 6.6% to 2,890 (2009: 2,710).

3.2. FINANCIAL SITUATION

PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

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

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

The factors considered when choosing financial instruments include flexibility, credit terms, the profile of maturity dates, and borrowing costs. In keeping with standard banking practice, the main sources of financing include covenants requiring the company to ensure that its performance indicators remain within defined limits. MTU has complied with the contractual obligations arising from such covenants both at December 31, 2010 and at the end of every quarter. Further information on agreed covenants is provided in Note 33. to the consolidated financial statements (Financial liabilities). Significant agreements relating to change of control subsequent to a takeover bid are dealt with in Section 7. (Other disclosures).

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

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

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

FINANCIAL ANALYSIS

The banking and financial crisis had no impact on the group's overall financial situation.

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

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, 2010 amounted to € 56.2 million. This represents a year-on-year decrease of € 86.2 million or 60.5 % (Dec. 31, 2009: € 142.4 million), as a result of the company's high cash flow. Significant items were the partial repayment of the company's promissory notes, the full repayment of the loan made by the province of British Columbia to MTU Maintenance Ltd., Richmond, Canada, and the acquisition of financial assets not measured at fair value through profit or loss.

Net financial debt

in € million	Change 2010 - 2009 in € million	Change 2010 - 2009 in %	**Dec. 31, 2010**	Dec. 31, 2009
Bonds				
Convertible bond	3.5	2.4	152.4	148.9
Financial liabilities to banks				
Promissory notes	-40.1	-61.3	25.3	65.4
Other liabilities to banks	19.8		34.4	14.6
Finance lease liabilities	-0.9	-3.5	24.9	25.8
Loan from the province of British Columbia to MTU Maintenance Canada	-12.9	-100.0		12.9
Derivative financial liabilities	12.7		24.9	12.2
Gross financial debt	**-17.9**	**-6.4**	**261.9**	**279.8**
less:				
Cash and cash equivalents	-8.9	-7.4	111.9	120.8
Derivative financial assets	5.2	31.3	21.8	16.6
Financial assets not measured at fair value through profit or loss	72.0		72.0	
Net financial debt	**-86.2**	**-60.5**	**56.2**	**142.4**
Gearing in %			6.9	19.5

Net financial debt dropped significantly to € 56.2 million at December 31, 2010.

BONDS

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

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

In the period from September 17 to October 31, 2008, MTU repurchased units of its own convertible bond on the market for a total nominal volume of € 27.2 million, prior to their final maturity. The total price paid for these securities amounted to € 21.9 million (including transaction costs but excluding interest at the coupon rate), which corresponds to an average of 80.7 % of the bond units' nominal value. This amount was divided into an equity portion and a liabilities portion. On June 23, 2010, one holder of the convertible bond exercised their conversion option, converting a nominal amount of € 100,000 into 2,020 shares. The remaining outstanding units of the convertible bond with a total nominal value of € 152.7 million (2009: € 152.8 million) are recognized at amortized cost. More detailed information, including the calculation of the equity and liability components of the repurchased units of the bond, is provided in Note 33. to the consolidated financial statements (Financial liabilities).

FINANCIAL LIABILITIES TO BANKS

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

Promissory notes

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

[1)] 6-month Euribor rate plus margin.

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

At December 31, 2010 the group had not drawn down any funds under its revolving credit facility (2009: € 0.0)

Financial liabilities to banks decreased to € 59.7 million.

The other liabilities to banks amounting to € 34.4 million (2009: € 14.6 million) relate to third-party loans provided to subsidiaries. In total, financial liabilities to banks decreased by € 20.3 million to € 59.7 million (2009: € 80.0 million)

FINANCE LEASE LIABILITIES

Finance lease liabilities represent obligations under finance lease arrangements that are capitalized and amortized using the effective interest method. For information on the accounting treatment of lease assets and a summary of capitalized lease assets, please refer to Note 5.7. (Leasing) and Note 20. (Property, plant and equipment) to the consolidated financial statements.

LOAN FROM THE PROVINCE OF BRITISH COLUMBIA

The loan from the province of British Columbia to MTU Maintenance Canada Ltd., Richmond, Canada, was repaid in full on December 17, 2010.

In 2010, 80% of net surplus income in U.S. dollars was covered by hedging transactions.

DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

In the financial year 2010, 80% of the net surplus income denominated in U.S. dollars, after deduction of expenses denominated in U.S. dollars, was covered by hedging transactions. At December 31, 2010, hedging transactions were in place for the financial years 2011 and 2012 covering 71% and 43% respectively of the surplus U.S. dollar income. At the same date, further arrangements were in place to cover an average of 12% of the expected surplus U.S. dollar income in the financial years 2013 to 2015.

The increase of € 12.7 million in derivative financial liabilities to € 24.9 million (2009: € 12.2 million) relates principally to changes in the fair value of forward foreign exchange contracts and currency options used to hedge cash flows.

The derivative financial assets mainly comprise fair value gains on forward foreign exchange transactions and forward commodity sales contracts for nickel concluded for hedging purposes. Derivative financial assets increased by € 5.2 million to € 21.8 million (2009: € 16.6 million) as a result of market-related changes in the euro / U.S. dollar exchange rate.

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

Cash and cash equivalents

	Change 2010 - 2009			
in € million	in € million	in %	**Dec. 31, 2010**	Dec. 31, 2009
Balance on current accounts, cash in hand	-37.7	-44.1	47.7	85.4
Fixed-term and overnight deposits	28.8	81.4	64.2	35.4
Total cash and cash equivalents	**-8.9**	**-7.4**	**111.9**	**120.8**

ANALYSIS OF CAPITAL EXPENDITURE

CAPITAL EXPENDITURE BY CLASS OF ASSET

Capital expenditure comprised € 24.6 million (2009: € 24.6 million) on intangible assets, € 84.8 million (2009: € 115.7 million) on property, plant and equipment, and € 2.6 million (2009: € 3.0 million) on financial assets.

Capital expenditure

	Change 2010 - 2009			
in € million	in € million	in %	**2010**	2009
OEM	0.6	3.3	18.6	18.0
MRO	-0.6	-9.1	6.0	6.6
Intangible assets			**24.6**	**24.6**
OEM	-18.2	-21.7	65.5	83.7
MRO	-12.7	-39.7	19.3	32.0
Property, plant and equipment	**-30.9**	**-26.7**	**84.8**	**115.7**
OEM	-0.4	-13.3	2.6	3.0
Financial assets[1)]	**-0.4**	**-13.3**	**2.6**	**3.0**
Total capital expenditure	**-31.3**	**-21.8**	**112.0**	**143.3**

[1)] Only includes assets accounted for using the equity method or at cost.

CAPITAL EXPENDITURE ON INTANGIBLE ASSETS

MTU's participation in the development costs of General Electric's GE38 helicopter engine project secured it an 18 % share in the program. Development costs amounting to € 6.9 million arising under this program in 2010 (2009: € 8.3 million) are included in the capital expenditure on intangible assets for the OEM business.

In 2008, on the basis of a cooperation agreement between the General Electric Company and MTU Aero Engines GmbH, Munich, MTU acquired a 6.65 % stake in the GEnx engine program for the Boeing 787 and 747-8. In the financial year 2010, additional internally generated development costs of € 7.1 million (2009: € 4.3 million) were capitalized.

The commercial MRO business develops special repair techniques designed to reduce the cost and increase the efficiency of engine maintenance. Development costs for these technologies totaling € 5.1 million (2009: € 4.8 million) were capitalized as intangible assets in 2010.

A full presentation of capital expenditure on intangible assets, which totaled € 24.6 million in 2010 (2009: € 24.6 million) is provided in Note 18. to the consolidated financial statements (Analysis of changes in intangible assets, property, plant and equipment, and financial assets).

CAPITAL EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT

The capital expenditure on technical equipment, plant and machinery totaling € 24.1 million (2009: € 21.9 million) relates mainly to the purchase of CNC lathes and grinding/milling machines.

Additions to this item in the financial year 2010 totaling € 28.8 million (2009: € 46.4 million) relate to work in progress on technical equipment, plant and machinery for new engine programs at the German sites and to the modernization of a test rig in Munich.

Capital expenditure on property, plant and equipment amounted to € 84.8 million in 2010.

A full presentation of capital expenditure on property, plant and equipment, which totaled € 84.8 million in 2010 (2009: € 115.7 million) is provided in Note 18. to the consolidated financial statements (Analysis of changes in intangible assets, property, plant and equipment, and financial assets).

LIQUIDITY ANALYSIS

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

Consolidated cash flow statement (abridged)

	Change 2010 - 2009			
in € million	in € million	in %	**2010**	2009
Cash flow from operating activities	-1.4	-0.6	251.3	252.7
Cash flow from investing activities	-40.7	-30.7	-173.2	-132.5
Cash flow from financing activities	-21.7	-31.5	-90.6	-68.9
Translation differences	4.0		3.6	-0.4
Change in cash and cash equivalents	**-59.8**		**-8.9**	**50.9**
Cash and cash equivalents at beginning of financial year			120.8	69.9
Cash and cash equivalents at end of financial year			111.9	120.8

CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities in 2010 was marginally lower than the previous year's level of € 252.7 million, reducing by € 1.4 million or 0.6 % to € 251.3 million.

CASH FLOW FROM INVESTING ACTIVITIES

Cash flow from investing activities increased by € 40.7 million (30.7 %) to € 173.2 million (2009: € 132.5 million) as a result of the expenditure described in the foregoing analysis of capital expenditure, and includes capital expenditure on financial assets amounting to € 69.3 million. Cash flow from investing activities also includes proceeds from the disposal of property, plant and equipment amounting to € 5.0 million (2009: € 10.8 million).

FREE CASH FLOW

Free cash flow in 2010 totaled € 144.8 million (2009: € 120.2 million). In the financial year 2010, the majority of the free cash flow was used to cover the dividend payment of € 45.5 million for the financial year 2009 (€ 45.4 million for the financial year 2008), the partial repayment of promissory notes amounting to € 40.0 million (2009: proceeds from the raising of promissory notes amounting to € 64.6 million), and the purchase of additional treasury shares in the amount of € 13.6 million. Further explanatory comments on the repayment of financial liabilities is provided in Note 33. to the consolidated financial statements (Financial liabilities).

3.3. NET ASSETS

Total assets grew year-on-year by € 277.0 million (8.8 %) to € 3,426.1 million (2009: € 3,149.1 million), while the equity ratio increased as a result of the operating results to 23.9 % (2009: 23.2 %).

CHANGES IN BALANCE SHEET ITEMS

MTU consolidated balance sheet

	Change 2010 - 2009		**Dec. 31, 2010**		Dec. 31, 2009		Jan. 1, 2009	
	in € million	in %	in € million	in %	in € million	in %	in € million	in %
Assets								
Intangible assets and property, plant and equipment	-20.0	-1.1	1,784.9	52.1	1,804.9	57.3	1,800.0	56.3
Other assets	8.5	21.3	48.5	1.4	40.0	1.3	21.6	0.7
Total non-current assets	**-11.5**	**-0.6**	**1,833.4**	**53.5**	**1,844.9**	**58.6**	**1,821.6**	**57.0**
Inventories	52.3	8.1	701.0	20.5	648.7	20.6	661.4	20.7
Receivables[1], advance payments and other assets	245.1	45.8	779.8	22.7	534.7	17.0	643.2	20.1
Cash and cash equivalents	-8.9	-7.4	111.9	3.3	120.8	3.8	69.9	2.2
Current assets	**288.5**	**22.1**	**1,592.7**	**46.5**	**1,304.2**	**41.4**	**1,374.5**	**43.0**
Total assets	**277.0**	**8.8**	**3,426.1**	**100.0**	**3,149.1**	**100.0**	**3,196.1**	**100.0**
Equity and liabilities								
Equity	**88.6**	**12.1**	**819.3**	**23.9**	**730.7**	**23.2**	**617.4**	**19.3**
Medium- to long-term debt capital								
Provisions			549.0	16.0	549.0	17.5	595.7	18.6
Liabilities	7.9	1.5	547.6	16.0	539.7	17.1	456.6	14.3
Total medium- to long-term debt capital	**7.9**	**0.7**	**1,096.6**	**32.0**	**1,088.7**	**34.6**	**1,052.3**	**32.9**
Provisions / income tax liabilities	-0.7	-0.2	295.5	8.6	296.2	9.4	296.9	9.3
Liabilities	181.2	17.5	1,214.7	35.5	1,033.5	32.8	1,229.5	38.5
Total short-term debt capital	**180.5**	**13.6**	**1,510.2**	**44.1**	**1,329.7**	**42.2**	**1,526.4**	**47.8**
Total equity and debt capital	**277.0**	**8.8**	**3,426.1**	**100.0**	**3,149.1**	**100.0**	**3,196.1**	**100.0**

[1] Trade receivables and construction contract receivables.

ASSETS

On the assets side of the balance sheet, intangible assets and property, plant and equipment decreased by a total of € 20.0 million or 1.1% to € 1,784.9 million (2009: € 1,804.9 million). Intangible assets decreased by € 22.8 million, due to the fact that scheduled amortization charges exceeded additions. Property, plant and equipment increased moderately by € 2.8 million as a result of capital expenditure.

In 2010, inventories grew by € 52.3 million or 8.1% to € 701.0 million (2009: € 648.7 million). Inventories of raw materials and supplies increased by € 14.3 million to € 323.1 million (2009: € 308.8 million) and work in progress, at € 347.4 million, was € 41.4 million higher than the previous year's amount of € 306.0 million. Advance payments fell by € 3.4 million to € 30.5 million (2009: € 33.9 million). Inventories accounted for 20.5% of net assets, virtually unchanged from the 2009 figure of 20.6%. Inventory turnover remained at the previous year's level of 4.0%. Trade receivables, construction contract receivables (after deduction of advance payments) and other current assets including advance payments rose year-on-year by € 245.1 million (45.8%) to € 779.8 million. Of these, trade receivables grew by € 140.7 million (36.0%) to € 531.9 million. In total, construction contract receivables, net of the corresponding advance payments, increased year on year by € 39.8 million (40.4%) to € 138.2 million.

In 2010, inventories accounted for 20.5% of net assets, virtually the same ratio as in 2009.

Financial assets increased by € 79.3 million (325 %) to € 103.7 million.

Cash and cash equivalents amounted to € 111.9 million at the balance sheet date (2009: € 120.8 million). Expressed as a percentage of total assets, this item decreased to 3.3% (2009: 3.8%).

In terms of the structure of assets, the proportion of non-current assets decreased by 5.1 percentage points to 53.5% (2009: 58.6%).

GROUP EQUITY

Group equity

in € million	2010	2009
Equity at January 1	730.7	617.4
Other comprehensive income		
Derivative financial instruments	-3.9	14.2
Available-for-sale financial assets (AfS)	-0.1	
Translation differences	9.1	-2.3
Earnings after tax (EAT)	142.2	141.0
Dividend payment to shareholders of MTU Aero Engines Holding AG	-45.5	-45.4
Purchase of treasury shares	-13.6	
Bond conversion to equity	0.1	
Fair-value measurement and issue of treasury shares under the Matching Stock Program (MSP) and Share Matching Plan (SMP)	-2.2	1.4
Sale of treasury shares under the MAP employee stock option program	2.5	4.4
Total change in equity	**88.6**	**113.3**
Equity at December 31	**819.3**	**730.7**

Group equity increased by € 88.6 million to € 819.3 million at December 31, 2010.

POSITIVE CHANGES IN GROUP EQUITY

The overall increase of € 88.6 million in group equity in 2010 (2009: increase of € 113.3 million) is mainly attributable to the earnings after tax (EAT) generated in the financial year, which amounted to € 142.2 million (2009: € 141.0 million). Individual positive changes in equity include an amount of € 2.5 million relating to shares sold to employees under the MAP stock option program. Translation differences resulted in an increase of € 9.1 million in group equity (2009: reduction of € 2.3 million).

NEGATIVE CHANGES IN GROUP EQUITY

Negative changes in group equity include an amount of € 45.5 million for the dividend payment to shareholders of MTU Aero Engines Holding AG for the financial year 2009 (€ 45.4 million for the financial year 2008). Further negative changes in group equity include the amount of € 3.9 million from fair value losses on cash flow hedges (2009: positive change of € 14.2 million) and losses of € 2.2 million relating to the fair-value measurement and issue of treasury shares under the Matching Stock Program (MSP) and the Share Matching Plan (SMP). A breakdown of the share-based compensation components is provided in Note 29.4. to the consolidated financial statements (Capital reserves). The purchase of treasury shares resulted in a € 13.6 million reduction in group equity.

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

At December 31, 2010, the nominal amount of the outstanding portfolio of hedging instruments classified as cash flow hedges in accordance with IAS 39 amounted to U.S. $ 1,310.0 million, serving as a hedge against changes in the exchange rate parity between this currency and the euro. Measurement of the fair value of the MTU cash flow hedge portfolio at the end of 2010, based on the euro / U.S. dollar exchange rate of 1.34 prevailing at the balance sheet date, resulted in a negative change of € 3.9 million in the fair value recognized under other comprehensive income (OCI) compared with December 31, 2009. In the previous year, the measurement based on the euro / U.S. dollar exchange rate of 1.44 prevailing at the balance sheet date had resulted in a positive change in the fair value recognized under OCI of € 14.2 million. Positive changes in the fair value (net of taxes) of cash flow hedges are recognized under financial assets, whereas negative changes in the fair value (net of taxes) of cash flow hedges are included in financial liabilities. Changes in the fair value of cash flow hedges at the end of the financial year are recognized directly in equity as an adjustment to OCI. These adjustments are applied net of the corresponding changes in deferred tax assets (for cash flow hedges with a negative change in fair value) or in deferred tax liabilities (for cash flow hedges with a positive change in fair value).

FINANCIAL DEBT

Medium- to long-term debt capital increased by € 7.9 million (0.7 %) to € 1,096.6 million, its share in total equity and liabilities falling by 2.6 percentage points to 32.0 % (2009: 34.6 %). In total, non-current provisions remained at the previous year's level of € 549.0 million. This figure includes pension provisions amounting to € 409.0 million (2009: € 389.9 million), which had increased as expected by € 19.1 million (4.9 %). Non-current other provisions decreased by € 19.1 million (12.0 %) to € 140.0 million (2009: € 159.1 million) at December 31, 2010, mainly as a result of the measurement of contingent liabilities arising from business combinations. Changes in contingent liabilities are presented in more detail in Note 32. to the consolidated financial statements (Other provisions).

The amount of medium- to long-term debt capital included in total equity and liabilities reduced to 32.0 %.

Medium- to long-term liabilities in the amount of € 547.6 million (2009: € 539.7 million) principally comprised financial liabilities amounting to € 204.7 million (2009: € 238.8 million) and deferred tax liabilities of € 231.5 million (2009: € 266.9 million).

The combined total of equity and medium- to long-term debt capital increased in the financial year 2010 by € 96.5 million (5.3 %) to € 1,915.9 million (2009: €1,819.4 million). This means that 104.5 % (2009: 98.6 %) of the company's non-current assets are matched by financing funds available on a medium- to long-term basis.

Short-term debt capital rose by € 180.5 million (13.6 %) to € 1,510.2 million, whereas provisions and income tax liabilities fell by € 0.7 million (0.2 %) to € 295.5 million. This item includes pension provisions amounting to € 24.2 million (2009: € 21.7 million), current other provisions amounting to € 200.1 million, which decreased by € 61.9 million (23.6 %) compared with the previous year, and income tax payable, which increased from € 12.5 million to € 71.2 million as a result of the improved operating profit. Current liabilities increased by € 181.2 million (17.5 %) to € 1,214.7 million. These include obligations toward employees totaling € 39.2 million (2009: € 39.2 million), financial liabilities amounting to € 57.2 million (2009: € 41.0 million), trade payables amounting to € 424.5 million (2009: € 320.9 million), the balance of construction contract payables after deduction of the corresponding receivables amounting to € 666.3 million (2009: € 607.0 million), and sundry other identifiable obligations.

Within the structure of equity and financial debt, the equity ratio increased by 0.7 percentage points to 23.9 % (2009: 23.2 %), while short-term debt capital increased by 1.9 percentage points. Overall, there has been a shift in the structure away from medium- and long-term toward more short-term debt capital.

3.4. MAJOR EVENTS AFFECTING BUSINESS PERFORMANCE

Earnings for the financial year 2010 were not affected by any significant non-recurring factors.

3.5. COMPARISON OF ACTUAL AND FORECAST BUSINESS PERFORMANCE

The original forecast for business performance issued on February 24, 2010 was based on the expectation that revenues and performance indicators would remain stable. All of the criteria of this forecast were exceeded. Compared with the revised forecast of October 26, 2010, actual revenues of € 2,707.4 million were 1.5 % lower than expected. Despite the unfavorable development of exchange rate parities in the course of the financial year, operating profit (EBIT adjusted), at € 311.3 million, exceeded the forecast, as did the EBIT margin of 11.5 %. Thanks to the good operating result, earnings after tax (EAT), at € 142.2 million, were slightly higher than expected. Free cash flow in the financial year 2010 amounted to € 144.8 million, 20.7 % more than predicted.

3.6. OVERALL ASSESSMENT OF BUSINESS PERFORMANCE IN 2010

MTU's interim forecasts for the main performance indicators were exceeded at the end of 2010.

The global economy has been recovering from the effects of the financial crisis since mid-2009, with the pace of recovery differing from region to region. In this economic climate, MTU's revenues increased by 3.7 % in the financial year 2010. Operating profit rose to € 311.3 million (2009: € 292.3 million). This reflects not only the effect of the stronger market but also additional expenditure on new engine programs, and hence active measures to safeguard the company's future. Despite these negative factors, MTU nevertheless achieved an operating margin of 11.5 %. Free cash flow once again developed very positively, reaching around € 145 million, which helped to further reduce net financial debt. All in all, the group's key performance indicators surpassed the forecasts made in the course of the year.

4. SUBSEQUENT EVENTS

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.

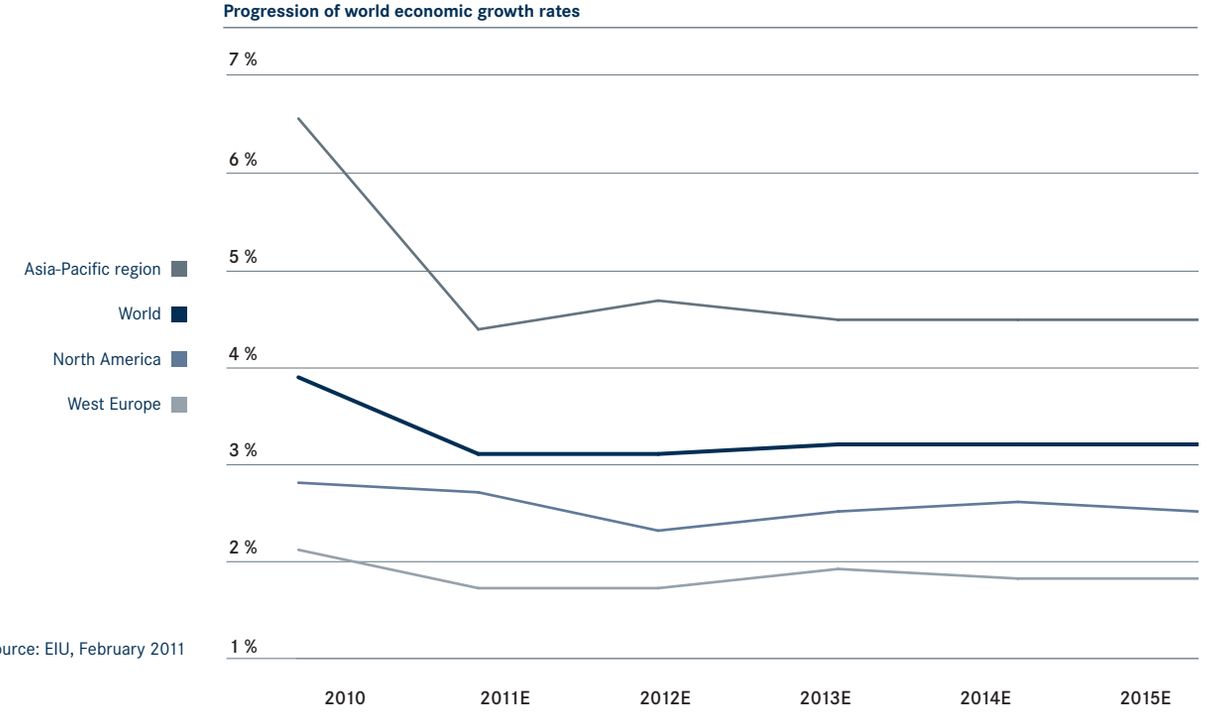
5. FORECASTS

Despite the possibility that the average U.S. dollar exchange rate might weaken in the course of the year, MTU anticipates higher revenues in 2011 than in 2010. The company expects operating profit (EBIT adjusted) to remain close to the previous year's level. The projected growth in global air traffic, if realized, will have a beneficial impact not only in the immediate future but also in the years to come.

5.1. GENERAL ECONOMIC CLIMATE

The global economy continues to grow. The Economist Intelligence Unit (EIU) estimates that the global economy will expand by 3.0% in 2011. The EIU also predicts a growth rate of 3.0% for 2012. The International Monetary Fund (IMF) is slightly more optimistic, and is forecasting global growth rates of 3.5% and 3.6% for 2011 and 2012 respectively.

Progression of world economic growth rates



Source: EIU, February 2011

Annual economic growth rates in excess of 4 % are forecast for the Asia-Pacific region over the next two years.

With forecast growth rates in excess of 4% over the next two years, the Asia-Pacific region will continue to lead the way. A similar trend is expected for Latin America and the Middle East. Growth rates in North America and Europe in 2011 are expected to be lower than the global average, at 2.6% and 1.6% respectively, and economic growth in these regions is expected to remain at around this same level in the medium term. The forecasts suggest that the balance of world economic power is shifting from the developed economies to the strongest among the newly industrializing countries, especially those in Asia.

5.2. INDUSTRY-SPECIFIC DEVELOPMENTS IN THE AVIATION SECTOR

Forecasts by IATA in December 2010 and Airline Monitor in July 2010 both foresee an increase of 5.2 % in passenger traffic in 2011, while freight traffic will do better in IATA's estimate, with a plus of 5.5 %. Industry growth rates will thus begin to stabilize at their normal long-term level again. The Asia-Pacific region looks set to head the way in air traffic growth, too, with the North American continent also recovering sufficiently to generate new growth. Growth will be more muted for European airlines, given that the rate of economic recovery is estimated to be slower in Europe than elsewhere.

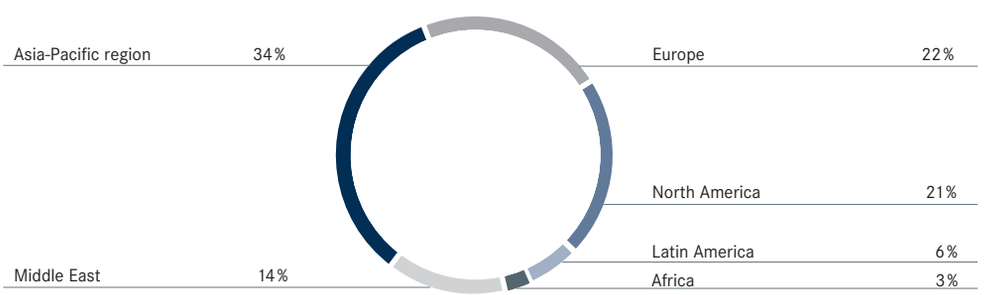
Airline Monitor is predicting a 5.2 % rise in airline capacity for 2011, with air traffic growing in the same measure. The engine maintenance and repair sector (spare parts and overhaul) is likely to profit from this development.

IATA predicts that airline revenues will rise by 5.9 % in 2011 compared with 2008 levels, as a result of the increased volume of air traffic, and expects industry profits to reach U.S. $ 9.1 billion. This should have a renewed positive impact on orders for new aircraft. Confidence in the expanding aviation market and the availability of new, efficient aircraft types is likely to speed up purchase decisions.

Half of all orders placed with Airbus and Boeing originate from airlines in the Asia-Pacific region and the Middle East.

With a combined order backlog of 7,180 single-aisle and widebody aircraft, Airbus and Boeing have work for another six to seven years at current production rates. Half of these orders were placed by airlines from the Asia-Pacific region or the Middle East. By 2012, the two aircraft manufacturers intend to boost their production by 25 % – both for single-aisle aircraft (the A320 and 737 series) and widebody jets such as the Boeing 777 and 787 and the Airbus A380.

Order backlog for single-aisle and widebody aircraft by region



Source: Ascend Online, December 31, 2010

Since the dramatic slump in March 2009, activities in the business jet sector have been picking up slowly but surely, with growth rates of 10-15 % being recorded in 2010 compared with 2009. The number of used jets on the market dropped to around 15 % of the total fleet, but this is only slightly lower than the 2009 level of 17 %. Deliveries are not expected to increase substantially in 2011 as overcapacity still needs to be worked off. The anticipated upswing will not take effect before 2012.

5.3. OPPORTUNITIES FOR MTU

OPPORTUNITIES PRESENTED BY CHANGES IN THE OPERATING ENVIRONMENT

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

In the military sector, the company has a long-established reputation as a skilled partner capable of offering its customers wide-ranging system know-how in the areas of product development, manufacturing and maintenance, thus opening up further opportunities to develop new engine technologies and refine existing ones.

OPPORTUNITIES PRESENTED BY THE COMPANY'S BUSINESS PERFORMANCE

An improved euro / U.S. dollar exchange rate would lead to a modest improvement in MTU's earnings situation.

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

OTHER OPPORTUNITIES

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

5.4. FUTURE DEVELOPMENT OF MTU

The statements below are based on the knowledge available at the beginning of 2011 and possess a high degree of uncertainty owing to the number of new programs.

NO CHANGE IN PERFORMANCE INDICATORS

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

PLANNED CHANGES IN BUSINESS POLICY

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

NEW PRODUCTS AND SERVICES

As early as the financial year 2008, MTU joined several new engine programs that will account for a predominant share of its revenues in the decades to come. The company estimates the market volume of these programs to be worth a total of approximately € 30 billion over their entire projected lifetime.

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

OUTLOOK FOR 2011

TARGETS

MTU's targets for the financial year 2011 are as follows:

Outlook 2011

in € million	Forecast 2011	Actual 2010
Revenues	increase of 7-8 %	2,707.4
Adjusted earnings before interest and tax (EBIT adjusted)	stable	311.3
Adjusted earnings after tax (EAT adjusted)	stable	182.3

Although the U.S. dollar exchange rate could possibly be weaker in 2011, the company expects revenues to increase by 7-8 % compared with 2010. MTU's risk- and revenue-sharing agreements with leading engine makers and its strong presence in its home market will serve to keep the regional distribution of the company's revenues stable, and it plans to achieve over 80 % of its total revenues in its traditional markets of North America and Europe. Consequently, MTU does not expect to see any major changes in its sales markets in the coming financial years.

REVENUES BY OPERATING SEGMENT

The revenue forecasts for the commercial and military engine business and the commercial maintenance business in the financial year 2011 are based on the following assumptions:

MTU expects to see a substantial increase of 15-20 % in revenues from the volume production of commercial engines.

- Compared with the financial year 2010, MTU expects to see a substantial increase of 15-20 % in revenues from the volume production of commercial engines and an increase of 5-10 % in revenues from spare parts sales. This assumption is based on the ramp-up in deliveries of the GEnx engine for the Boeing 787 and 747-8, increasing revenues from the GP7000 program for the Airbus A380, higher deliveries of the V2500 engine for the Airbus A320 family, reviving sales of business jets, and slightly lower revenues from legacy programs. Identified risks relate particularly to the possibility of further delays in the Boeing 787 and 747-8 aircraft programs and of extensions to the delivery schedule for the Airbus A380.
- MTU expects to see a drop in revenues of about 10 % in the military engine business in 2011, mainly as a result of the planned structural reforms to the German armed forces and postponed deliveries of Tranche 3A of the EJ200 engine program.
- Revenues in the commercial maintenance business are expected to increase by 5-10 % in 2011. Demand for maintenance services is likely to be better than in 2010, picking up as the economy recovers.

OPERATING PROFIT

MTU expects its 2011 operating profit (EBIT adjusted) to be roughly the same as in 2010. Earnings in 2011, compared with 2010, are likely to be negatively impacted by higher development expenditure – especially in connection with the geared turbofan programs – and by lower revenues in the military engine business. This will be compensated by cost savings resulting from the Challenge 2010 improvement program.

ADJUSTED EARNINGS AFTER TAX (EAT ADJUSTED)

Adjusted earnings after tax (EAT adjusted) for the financial year 2011 are similarly expected to remain close to 2010 levels. Other factors likely to affect the financial result, in addition to the company's expected operating profit, include the high estimation uncertainty attached to the U.S. dollar exchange rate and the price of nickel at the balance sheet date, and the fair value of related hedging instruments.

FREE CASH FLOW

The company expects free cash flow in the financial year 2011 to remain on the same level as in 2010.

DIVIDEND PAYMENT

After maintaining a stable dividend of € 0.93 per share for three financial years, the Board of Management and Supervisory Board intend to propose a dividend of € 1.10 for the financial year 2010 to the Annual General Meeting. Investors can expect the MTU share to yield a substantial return, not only in 2011 but also in future years.

CAPITAL EXPENDITURE AND FUNDING RESOURCES

Capital expenditure in the financial year 2011 will focus mainly on building up production capacity for the GEnx program and on the special operating equipment required for the geared turbofan programs. In 2011, capitalized development costs for the GEnx, GE38 and A320neo engine programs are likely to be in the vicinity of € 30-40 million.

The structure of the company's funding resources is expected to remain unchanged in 2011. All the projects planned can be financed from free cash flow. Above and beyond this, authorized capital provides the company with further funding options that have not yet been utilized.

EMPLOYEES

MTU expects the size of its workforce in the financial year 2011 to rise slightly, by about 2 %.

OUTLOOK FOR 2012

REVENUES

MTU expects revenues to continue growing in 2012.

In the financial year 2012, MTU expects to see continuing growth in both the global economy and the aviation industry. Based on IATA's medium-term forecasts and the aircraft manufacturers' projected production volumes, MTU's revenues are expected to grow by around 5-10 % from the level of 2011.

OPERATING PROFIT

Among the factors affecting operating profit (EBIT adjusted), MTU expects development expenditure to remain at a consistently high level and volume production for the GEnx, GP7000 and V2500 engine programs to increase. Overall, the group therefore expects business performance to remain stable in the financial year 2012, with an adjusted EBIT margin of over 10%. This estimated figure may change if the company acquires additional shares in engine programs.

5.5. OVERALL PROGNOSIS OF FUTURE BUSINESS DEVELOPMENTS IN 2011 AND 2012

The Board of Management of MTU remains optimistic that it will be able to profitably expand the company's business. In addition to existing programs, recently acquired stakes in new programs will contribute decisively to this development. A sustained market recovery should serve to boost demand in the aftermarket business (spare parts and maintenance). Consequently, MTU expects its free cash flow and operating profit (EBIT adjusted) to remain at the same level as in 2010, enabling the company to offer its shareholders an attractive dividend yield.

6. RISK REPORT

In order to secure its competitiveness in the long term, MTU regularly analyzes and evaluates the risks inherent in its day-to-day business through the instrument of an integrated risk management system. No major change was identified in the company's risk exposure compared with 2009.

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

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

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

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

Significant risk factors for MTU

General economy	Aerospace industry	Market	Strategy	Miscellaneous
▪ Business cycle ▪ U.S. dollar ▪ Commodity prices	▪ FFA-approved parts manufacturers ▪ Profitability of end customers (airlines) ▪ Liability	▪ Budget situation ▪ Price concessions on commercial engines ▪ Access to maintenance licenses	▪ Choice of programs ▪ Development costs ▪ M&A activities	▪ Human resources ▪ IT ▪ Environment ▪ Compliance

6.1. STRATEGY AND MANAGEMENT

CONTROL ENVIRONMENT

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

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

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

RISK MANAGEMENT OBJECTIVES AND RISK STRATEGY

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

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

IDENTIFICATION, ANALYSIS AND MANAGEMENT OF RISKS

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

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

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

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

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

RISK REPORTING AND COMMUNICATION

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

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

MONITORING THE RISK MANAGEMENT PROCESS

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

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

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

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

LEGAL BACKGROUND AND SUBJECT OF THE REPORT

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

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

OBJECTIVES AND COMPONENTS OF THE INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM RELATING TO THE ACCOUNTING PROCESS

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

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

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

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

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

- The internal auditing system, which is process-independent, plays an important role in checking the effectiveness of and improving the accounting-related ICS and RMS. The corporate audit department of MTU assesses controlling and monitoring systems and contributes to their enhancement. It is also considered to have an advisory function that aims at improving business processes and ultimately the effectiveness of the internal control system. The charter of the corporate audit department complies with national and international requirements of the Deutsches Institut für Interne Revision e.V. 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 deliberates on risk management and the findings of internal auditing.

- 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 also responsible for monitoring the effectiveness of the risk management system, the internal systems of control, the internal auditing systems, the financial reporting process and the audit of the financial statements, and, in particular, assessing their independence.

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

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

- All the annual financial statements of group companies included in consolidation are audited by an auditor at least once a year, who also reviews the condensed consolidated financial statements and interim group management report in the half-yearly financial report.
- An adequate system of guidelines has been drawn up and is updated in line with requirements.
- The departments and business units involved in the accounting process are suitably equipped and regularly trained both in quantitative and qualitative terms.
- Bookkeeping data received or forwarded are continually checked to see that they are complete and correct, e.g. by random checks. Programmed plausibility checks are carried out with the software used, e.g. in the course of payment cycles as well as during the consolidation process.
- Suitable controls are in place in all accounting-relevant processes (such as dual control, analytical checks).
- Accounting-relevant processes are also checked by the process-independent corporate audit department.
- The group accounting department, which is the immediate point of contact for the managing directors of subsidiaries regarding reporting and the annual and monthly financial statements, prepares and draws up the consolidated financial statements in compliance with IFRS.

Any deviations from plan during the year are identified rapidly.

- As every subsidiary and joint venture is obligated to report its business figures to the group holding company in compliance both with the local GAAP and with IFRS in a standardized reporting format, any planned/actual deviations during the year can be identified rapidly, enabling a swift and appropriate response.
- In the course of its monthly reports, Group Accounting monitors all the processes relating to the consolidated financial statements, such as capital consolidation, debt consolidation, consolidation of expenditures and revenues and the elimination of unrealized results of intra-group transactions, in consultation with the group companies.
- For particular issues in the group and at individual subsidiaries and joint ventures, such as special accounting issues etc., Group Accounting also acts at holding company level as a central point of contact and controlling body for reporting. Special evaluations are also carried out during the year at the request of various management levels. If a need for support arises at short notice in connection with special, complex IFRS issues or company acquisitions requiring examination, this demand is met by qualified staff or by employing the services of external auditors.

6.3. SPECIFIC RISKS

GENERAL RISKS AND INDUSTRY-RELATED RISKS

RISKS ARISING FROM GENERAL ECONOMIC TRENDS

Significant risks to the MTU group's business development are presented by the U.S. dollar exchange rate, the level of commodity prices, and general economic factors. If the current, positive rate of economic growth should slow or go into reverse, and if the difficult situation still being encountered by certain companies fails to improve, this could impact the volume of passengers using business jets and the associated route planning, and prompt a more cautious approach to orders for new air transportation capacity. Other risks affecting industry in general include rising energy costs, the unavailability of suppliers, and delays in deliveries from suppliers. From the present point of view, there are no identifiable risks to the substance of MTU arising from general economic trends.

RISKS INHERENT IN THE AEROSPACE INDUSTRY

MTU counters the risks inherent in the aerospace industry with its level of cutting-edge technology, which it constantly safeguards and advances.

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

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

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

RISKS ARISING FROM CORPORATE STRATEGY

The main forms of strategy risk are misjudgments when taking decisions concerning investments in engine programs, the establishment of new sites, and possible M&A activities. MTU's business model is based on long-term processes, particularly in the OEM segment. In the commercial sector, many years can pass between the decision to invest in a new engine and the breakeven point, after a long period of development and the preparatory phases leading to volume production. The risk is that the original economic and technological parameters on which the decision was based might change over the course of time, and that the customers, i.e. the airlines, might change their minds and choose a different engine at a later stage of the project. MTU counters such strategy risks by engaging highly qualified specialists at the decision-making stage and by using documented processes to perform cost-benefit analyses, which make it compulsory to carry out the appropriate risk analysis on the basis of a variety of different scenarios. The company's broad product portfolio – comprising engines in all thrust classes – helps to spread the risk and minimize its dependence on individual engine programs.

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

OPERATIONAL RISKS

MARKET RISK

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

MTU is firmly anchored in the commercial engine market through risk- and revenue-sharing partnerships.

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

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

DEVELOPMENT RISK

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

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

PROCUREMENT AND PURCHASING RISKS

For some raw materials, individual parts and components and for the provision of specific services, MTU is dependent on suppliers and third-party vendors. Risks can arise in the form of the unavailability of suppliers, problems with quality, and price increases. MTU strives to reduce its reliance on individual suppliers by securing the services of several, equally qualified vendors for materials, parts and services. In the case of single-source suppliers, MTU enters into long-term agreements as a hedge against unforeseen shortages and to reduce the risk of sudden price hikes. The risks involved are manageable thanks to the broad diversity of the links in the supply chain.

PROGRAM RISKS

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

PERSONNEL RISKS

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

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

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

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

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

Insurance policies are in place to limit potential liability risks that might be caused by individuals employed by the company. The level of personnel risk is considered to be low.

IT RISKS

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

FINANCIAL RISKS

CURRENCY RISK, CREDIT RISK AND HEDGING TRANSACTIONS

More than 80 % of MTU's revenues are generated in U.S. dollars (equivalent to approximately € 2,250 million in 2010). On the other hand, a large proportion of expenses is likewise invoiced in U.S. dollars, providing a 'natural hedge'. Most other expenses are incurred in euros and, to a lesser extent, in Polish zloty, Chinese yuan renminbi and Canadian dollars. Earnings are dependent on changes in the exchange rate parity between the U.S. dollar and the cited currencies from the order date to the delivery date, in the measure to which MTU does not make use of financial instruments to hedge against its current and future net exposure. In line with the corporate policy of generating profit solely on the basis of its operating activities and not through currency speculation, MTU makes use of hedging strategies for the exclusive purpose of controlling and minimizing the effect of U.S. dollar exchange rate volatility on EBIT.

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

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

HEDGE PORTFOLIO

MTU holds a long-term hedge portfolio comprising financial instruments with terms to maturity stretching over several years.

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

Further explanatory comments concerning financial instruments (including the derivative financial instruments held at December 31, 2010) are provided in Note 41. to the consolidated financial statements (Risk management and derivative financial instruments).

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

NON-PAYMENT RISK

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

OTHER RISKS

COMPLIANCE RISKS

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

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

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

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

LIABILITY RISK

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

RISKS ARISING FROM GENERAL AND TAX LEGISLATION

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

ENVIRONMENTAL RISKS

A certified environmental management system minimizes environmental risks.

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

ORGANIZATIONAL RISKS

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

MUTUAL RISKS OF JOINT VENTURES

In jointly controlled entities where decisions have to be made by consensus, there is always a risk of differences of opinion.

6.4. SWOT ANALYSIS

SWOT analysis of the MTU group

Corporate	Market
Strengths	**Opportunities**
Technological leadership – OEM: Excellence in engine modules: low-pressure turbines, high-pressure and IP compressors – MRO: Excellence in advanced repair techniques	Market environment of business units on a long-term growth trend
Balanced mix of production and after-market business, covering all stages from development and manufacturing to maintenance	Increasing technological complexity of future engines
Focus on high-profit-margin engine business	Good market opportunities for fuel-efficient engine designs (geared turbofan) in the event of steadily rising oil prices
Presence in fast-growing Asian market (MTU Maintenance Zhuhai)	Solid financing structure and technological leadership open the way to program investments
Long-term contracts in the OEM business, involvement in consortia and cooperative ventures	Growth of MRO in newly industrializing countries
Quality and on-time delivery form basis for reliable partnerships	Airline outsourcing in order to concentrate on core activities offers additional opportunities for MRO business
Proximity of MRO sales network to customers	Greater exploitation of synergies between areas of commercial business
Solid financing structure opens up opportunities for M&A activities and program investments	Positive changes in U.S. dollar exchange rate
Weaknesses	**Threats**
High dependency on U.S. dollar	Low, volatile profitability on the part of end customers (airlines); possible spending cuts in the event of an economic downturn
Cyclic business	Inherent risk of advanced technology development with regard to estimated schedules and costs
Small company by comparison with OEMs	Competition from low-cost PMA parts
	Entry of newly industrializing nations into the aerospace industry
	Restrained public spending may lead to defense budget cuts and structural reform of the German armed forces
	Difficulty of obtaining licenses in the MRO business
	Negative changes in U.S. dollar exchange rate

6.5. OVERALL PROGNOSIS OF MTU'S RISK EXPOSURE

At 31 December 2010, there had been no substantial changes in MTU's risk exposure compared with the end of the previous year. The group is of the opinion that it would serve no purpose to aggregate the most important individual risks, on the grounds that it is improbable that hypothetical risks would arise simultaneously.

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

7. OTHER DISCLOSURES

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

7.1. CORPORATE GOVERNANCE STATEMENT

DECLARATION OF CONFORMITY

The management and supervisory boards of listed companies issue an annually renewed declaration stating that the recommendations of the Government Commission on the German Corporate Governance Code have been and are being complied with, where necessary citing those recommendations that have not been or are not being applied. The declaration of conformity of MTU Aero Engines is included in the corporate governance report on page 20. There is 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.

WORKING PROCEDURES OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

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

7.2. REFERENCE TO THE MANAGEMENT COMPENSATION REPORT

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

7.3. DIRECTORS' DEALINGS

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

The total number of shares in MTU Aero Engines Holding AG, Munich held by members of the company's Board of Management and Supervisory Board at December 31, 2010 equated to less than 1% (at December 31, 2009 less than 1%) of the company's capital stock.

7.4. DISCLOSURES IN CONNECTION WITH THE TAKEOVER DIRECTIVE

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

COMPOSITION OF SUBSCRIBED CAPITAL

The subscribed capital (capital stock) of MTU Aero Engines Holding AG is unchanged, and amounts to € 52.0 million, divided into 52.0 million registered non-par-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, 2010, MTU held 3,247,593 treasury shares. No voting rights are exercised in respect of treasury shares. The articles of association of MTU Aero Engines Holding AG do not contain any restrictions concerning voting rights or the transfer of share ownership. The Board of Management has no knowledge of any agreement between shareholders that could give rise to any such restrictions.

CAPITAL INVESTMENTS EXCEEDING 10 % OF THE VOTING RIGHTS

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

SHARES WITH SPECIAL RIGHTS CONFERRING POWERS OF CONTROL ON THE HOLDER

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

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

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

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

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

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

RULES GOVERNING AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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

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

AUTHORIZED CAPITAL

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

CONVERTIBLE BONDS AND BONDS WITH WARRANTS

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

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

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

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

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

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

- The company is authorized to purchase treasury shares 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 acquired shares, together with other treasury shares in the company's possession or which are assigned to it pursuant to Section 71a et seq. of the German Stock Corporation Act (AktG), exceed 10 % of the company's capital stock. At the discretion of the Board of Management, the shares may be purchased through the stock exchange or by means of a public offering addressed to all shareholders (or – if legally

acceptable – through an open invitation to submit offers for sale). The shares must be sold in return for proceeds that do not lie more than 10 % above or below the quoted share price, net of any supplementary transaction charges. The reference for the quoted share price as defined in the above ruling, in the case of a sale through the stock exchange, is the average value of share prices in the closing session of Xetra trading (or a comparable successor system) on the last three trading days prior to acquisition of the shares. In the case of shares purchased by means of a public offering addressed to all shareholders (or an open invitation to submit offers for sale), the reference for the quoted share price is the average value of share prices in the closing session of Xetra trading (or a comparable successor system) on the last three trading days prior to the publication of the offering or invitation. In the event of substantial fluctuations in the share price, the Board of Management is authorized to publish a new public offering or invitation to submit offers for sale, based on a recalculated average value of share prices according to the previously mentioned formula. The volume of the offer can be limited in the case of shares purchased by means of a public offering addressed to all shareholders (or an open invitation to submit offers for sale). If the take-up of the offering (or the total number of offers) exceeds this volume, the purchase must be transacted in proportion to the number of shares offered. Preferential treatment may be given to small packages (up to 100 shares) offered for sale. Further conditions may be imposed in the offering or invitation to submit offers.

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

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

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

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

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

GROUP COMPANIES

The following agreements were concluded with group companies:

CONVERTIBLE BOND

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

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

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

- direct or indirect legal or commercial ownership as defined in Section 22 of the German Securities Trading Act (WpHG) as of a total of 50 % or more of the voting rights in the guarantor or, as defined in Section 17 of the German Stock Corporation Act (AktG), the ability to determine the affairs of the guarantor in any other manner,

or

- in the case of a takeover bid for shares of the guarantor, the existence of circumstances under which the shares already under the bidder's control added to the shares for which the bid has already been accepted together entitle the bidder to 50 % or more of the voting rights in the guarantor, if at the same time the bid has become unconditional,

or

- the sale or transfer of ownership of all or substantially all assets by the guarantor to another individual or group of individuals.

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

- Early repayment at the request of the bondholder
  In the event of a change of control, every bondholder has the right to demand that the bond debtor should proceed with repayment of part or all of the bond units held by the bondholder at par value plus accrued interest, on condition that the attached conversion rights have not yet been exercised

and that the bond units have not yet been redeemed for the purposes of repayment. This repayment request must be received by the paying agency at least 20 days prior to the control record date.

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

- **Adjustment of the conversion price due to change of control**
  If, after the bond debtor or the guarantor has notified the bondholders of a change of control, bondholders exercise their conversion rights during the period up to the control record date, the conversion price (in certain cases after adjustment in accordance with Section 10 of the bond issuance conditions) shall not be reduced.

PROMISSORY NOTES

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

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

- Requests for repayment must be submitted in writing, citing the reason for the cancellation of the loan and the underlying circumstances, and sent by registered mail to the borrower and the paying agency.

REVOLVING CREDIT FACILITY

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

OTHER AGREEMENTS

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

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

CLAIMS FOR COMPENSATION IN THE EVENT OF A TAKEOVER BID

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

Dr. Anton Binder, Senior Vice President Commercial Engine Programs

» MTU's commercial programs are diverse, well placed in the market, and firmly anchored in long-standing partnerships of trust. «

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement	106
Consolidated Statement of Comprehensive Income	107
Consolidated Balance Sheet	108
Consolidated Statement of Changes in Equity	110
Consolidated Cash Flow Statement	111
Segment reporting by operating segment	112

Notes to the Consolidated Financial Statements

Accounting Policies and Principles	117
Notes to the Consolidated Income Statement	139
Notes to the Consolidated Balance Sheet	148
Other Disclosures	198
Segment Information	213
Events After the Balance Sheet Date	214
Reconciliation	215
Statement by the legal representative	218
Independent Auditor’s Report	219

CONSOLIDATED INCOME STATEMENT

Consolidated Income Statement

in € million	Note	2010	2009
Revenues	(6.)	**2,707.4**	**2,610.8**
Cost of sales	(7.)	-2,184.5	-2,152.2
Gross profit		**522.9**	**458.6**
Research and development expenses	(8.)	-129.0	-105.6
Selling expenses	(9.)	-79.7	-72.2
General administrative expenses	(10.)	-52.3	-44.8
Other operating income and expenses	(11.)	6.1	10.9
Earnings before interest and tax (EBIT)		**268.0**	**246.9**
Interest income		6.3	2.6
Interest expenses		-19.9	-15.7
Interest result	(12.)	-13.6	-13.1
Profit/loss of companies accounted for using the equity method	(13.)	-2.1	-1.5
Financial result on other items	(14.)	-25.1	-24.8
Financial result		**-40.8**	**-39.4**
Earnings before tax (EBT)		**227.2**	**207.5**
Income taxes	(15.)	-85.0	-66.5
Earnings after tax (EAT)		**142.2**	**141.0**
Earnings per share in €			
Undiluted earnings per share (EPS)	(16.)	2.91	2.89
Diluted earnings per share (DEPS)	(16.)	2.83	2.80

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income

in € million	Note	2010	2009
Earnings after tax (EAT)		**142.2**	**141.0**
Change in unrealized gains / losses from translation differences		9.1	-2.3
Unrealized gains / losses arising from financial instruments			
Derivative financial instruments			
Change in unrealized gains / (losses)		-33.7	17.9
Realized (gains) / losses		27.9	3.2
Related tax effects		1.9	-6.9
Total unrealized gains / losses		**-3.9**	**14.2**
Available-for-sale (AfS) financial assets			
Change in unrealized gains / (losses)		-0.2	
Related tax effects		0.1	
Total unrealized gains / losses		**-0.1**	
Other comprehensive income	**(29.7.)**	**5.1**	**11.9**
Total comprehensive income		**147.3**	**152.9**

CONSOLIDATED BALANCE SHEET

Assets

in € million	Note	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Non-current assets				
Intangible assets	(19.)	1,225.4	1,248.2	1,274.9
Property, plant and equipment	(20.)	559.5	556.7	525.1
Financial assets	(21.)	25.8	14.9	12.6
Financial assets accounted for using the equity method	(21.)		2.1	3.6
Other assets	(25.)	6.0	6.1	4.0
Deferred tax assets		16.7	16.9	1.4
Total non-current assets		**1,833.4**	**1,844.9**	**1,821.6**
Current assets				
Inventories	(22.)	701.0	648.7	661.4
Trade receivables	(23.)	531.9	391.2	460.4
Construction contract receivables	(24.)	138.2	98.4	138.9
Income tax claims	(27.)		1.2	1.0
Financial assets	(21.)	77.9	9.5	4.0
Other assets	(25.)	25.8	27.2	35.6
Cash and cash equivalents	(26.)	111.9	120.8	69.9
Prepayments	(28.)	6.0	7.2	3.3
Total current assets		**1,592.7**	**1,304.2**	**1,374.5**
Total assets		**3,426.1**	**3,149.1**	**3,196.1**

CONSOLIDATED BALANCE SHEET

Equity and liabilities

in € million	Note	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Equity	**(29.)**			
Subscribed capital		52.0	52.0	52.0
Capital reserves		348.2	353.6	354.5
Revenue reserves		517.6	420.9	325.3
Treasury shares		-101.2	-93.4	-100.1
Other comprehensive income		2.7	-2.4	-14.3
Total equity		**819.3**	**730.7**	**617.4**
Non-current liabilities				
Pension provisions	(30.)	409.0	389.9	371.7
Other provisions	(32.)	140.0	159.1	224.0
Financial liabilities	(33.)	204.7	238.8	200.4
Other liabilities	(36.)	111.4	34.0	28.6
Deferred tax liabilities	(38.)	231.5	266.9	227.6
Total non-current liabilities		**1,096.6**	**1,088.7**	**1,052.3**
Current liabilities				
Pension provisions	(30.)	24.2	21.7	18.5
Income tax liabilities	(31.)	71.2	12.5	23.0
Other provisions	(32.)	200.1	262.0	255.4
Financial liabilities	(33.)	57.2	41.0	136.0
Trade payables	(34.)	424.5	320.9	495.7
Construction contract payables	(35.)	666.3	607.0	520.6
Other liabilities	(36.)	66.7	64.6	77.2
Total current liabilities		**1,510.2**	**1,329.7**	**1,526.4**
Total equity and liabilities		**3,426.1**	**3,149.1**	**3,196.1**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated Statement of Changes in Equity

in € million	Subscribed capital	Capital reserves	Revenue reserves	Treasury shares	Other comprehensive income			**Group equity**
					Translation differences	Financial assets (AfS)	Derivative financial instruments	
Carrying amount at Jan. 1, 2009	**52.0**	**354.5**	**325.3**	**-100.1**	**-2.8**		**-11.5**	**617.4**
Earnings after tax (EAT)			141.0					141.0
Other comprehensive income					-2.3		14.2	11.9
Total comprehensive income			**141.0**		**-2.3**		**14.2**	**152.9**
Total dividend payment			-45.4					-45.4
MAP employee stock option program		-2.3		6.7				4.4
Matching Stock Program (MSP)		1.4						1.4
Carrying amount at Dec. 31, 2009	**52.0**	**353.6**	**420.9**	**-93.4**	**-5.1**		**2.7**	**730.7**
Earnings after tax (EAT)			142.2					142.2
Other comprehensive income					9.1	-0.1	-3.9	5.1
Total comprehensive income			**142.2**		**9.1**	**-0.1**	**-3.9**	**147.3**
Total dividend payment			-45.5					-45.5
MAP employee stock option program		-0.2		2.7				2.5
Matching Stock Program (MSP) / Share Matching Plan (SMP)		-5.2		3.0				-2.2
Conversion of convertible bond				0.1				0.1
Purchase of treasury shares				-13.6				-13.6
Carrying amount at Dec. 31, 2010	**52.0**	**348.2**	**517.6**	**-101.2**	**4.0**	**-0.1**	**-1.2**	**819.3**

CONSOLIDATED CASH FLOW STATEMENT

Consolidated Cash Flow Statement

in € million	2010	2009
Earnings after tax (EAT)	**142.2**	**141.0**
Amortization/depreciation of intangible assets and property, plant and equipment	130.9	126.4
Impairment loss reversal on property, plant and equipment		-1.1
Profit/loss of companies accounted for at cost	-1.5	-1.7
Profit/loss of companies accounted for using the equity method	2.1	1.5
Gains/losses on the disposal of assets	0.2	-2.6
Increase/decrease in pension provisions	21.6	21.4
Increase/decrease in other provisions	-81.0	-58.2
Other non-cash items	-2.9	-21.4
Increase/decrease in working capital		
Change in inventories	-52.3	12.7
Change in trade receivables	-140.7	69.2
Change in construction contract receivables and payables	19.5	126.9
Change in other assets	-2.3	7.4
Change in trade payables	103.6	-174.8
Change in other liabilities	79.8	-7.5
Interest result	13.6	13.1
Interest paid	-16.4	-11.4
Interest received	5.8	2.6
Dividend received	1.5	1.7
Income taxes	85.0	66.5
Income tax received/paid	-57.4	-59.0
Cash flow from operating activities	**251.3**	**252.7**
Capital expenditure on:		
Intangible assets	-24.6	-24.6
Property, plant and equipment	-84.8	-115.7
Financial assets	-191.6	-3.0
Proceeds from disposal of:		
Property, plant and equipment	5.0	10.8
Financial assets	122.8	
Cash flow from investing activities	**-173.2**	**-132.5**
Placement/repayment of promissory notes[1]	-40.0	64.6
Increase in current financial liabilities		4.8
Increase in non-current financial liabilities	26.3	
Repayment of current financial liabilities		-85.4
Repayment of non-current financial liabilities	-20.3	-10.8
Total dividend payment	-45.5	-45.4
Purchase of treasury shares	-13.6	
Sale of shares under the MAP employee stock option program	2.5	3.3
Cash flow from financing activities	**-90.6**	**-68.9**
Effect of translation differences on cash and cash equivalents	3.6	-0.4
Other changes in cash and cash equivalents	**3.6**	**-0.4**
Change in cash and cash equivalents	**-8.9**	**50.9**
Cash and cash equivalents at beginning of financial year	120.8	69.9
Cash and cash equivalents at end of financial year	111.9	120.8

[1] Proceeds of placement net of transaction costs.

SEGMENT REPORTING BY OPERATING SEGMENT

Reporting by operating segment

in € million	Commercial and military engine business		Commercial maintenance business	
	2010	2009	**2010**	2009
External revenues	1,639.4	1,564.5	1,068.0	1,046.3
Intersegment revenues	24.1	21.2	6.0	11.3
Total revenues	**1,663.5**	**1,585.7**	**1,074.0**	**1,057.6**
Gross profit	**378.1**	**343.6**	**140.7**	**114.6**
Earnings before interest and tax (EBIT)	**190.3**	**188.5**	**76.3**	**60.6**
Write-down on assets resulting from PPA	39.3	40.7	4.0	4.7
Adjusted earnings before interest and tax (EBIT adjusted)	**229.6**	**229.2**	**80.3**	**65.3**
Profit/loss of companies accounted for using the equity method			-2.1	-1.5
Assets	**3,022.8**	**2,788.2**	**894.0**	**808.6**
Liabilities	**2,165.4**	**1,977.7**	**490.8**	**399.6**
Capital expenditure on:				
Intangible assets	18.6	18.0	6.0	6.6
Property, plant and equipment	65.5	83.7	19.3	32.0
Total capital expenditure on intangible assets and property, plant and equipment	**84.1**	**101.7**	**25.3**	**38.6**
Key segment data:				
EBIT in % of revenues	11.4	11.9	7.1	5.7
EBIT (adjusted) in % of revenues	13.8	14.5	7.5	6.2

Detailed explanatory comments on the information disclosed for the operating segments is provided in the following tables and in Part V. of these notes (Segment Information), together with information on major customers, and an analysis by geographical area.

Other entities/holding company		Consolidation/reconciliation		MTU group	
2010	2009	**2010**	2009	**2010**	2009
				2,707.4	2,610.8
10.2	11.6	-40.3	-44.1		
10.2	**11.6**	**-40.3**	**-44.1**	**2,707.4**	**2,610.8**
10.2	**11.6**	**-6.1**	**-11.2**	**522.9**	**458.6**
-1.2	**0.1**	**2.6**	**-2.3**	**268.0**	**246.9**
				43.3	45.4
-1.2	**0.1**	**2.6**	**-2.3**	**311.3**	**292.3**
				-2.1	-1.5
887.4	**816.2**	**-1,378.1**	**-1,263.9**	**3,426.1**	**3,149.1**
267.2	**241.9**	**-316.6**	**-200.8**	**2,606.8**	**2,418.4**
				24.6	24.6
				84.8	115.7
				109.4	**140.3**
-11.8	0.9			9.9	9.5
-11.8	0.9			11.5	11.2

Intersegment sales are transacted on an arm's-length basis at normal market transfer prices – no different from those employed in transactions with external third parties.

IMPAIRMENT LOSSES AND IMPAIRMENT LOSS REVERSALS

In 2009, MTU Maintenance Canada Ltd., Richmond, Canada, operating under contract to Chromalloy Gas Turbine LLC, made a successful bid for a major U.S. Air Force contract for maintenance of its KC-10 tanker fleet. This contract ensures a profitable future for MTU Maintenance Canada. The carrying amounts of the intangible assets and property, plant and equipment for which impairment losses were recognized in the financial years 2005 - 2007 were reassessed in the light of the company's improved situation, and compared with the respective recoverable amounts. For certain items of property, plant and equipment, the recoverable amount exceeded the carrying amount, necessitating an impairment loss reversal in the financial year 2009 amounting to € 1.1 million to increase the carrying amount accordingly. In the financial year 2010, no impairment losses were recognized on intangible assets, financial assets, or property, plant and equipment.

Reconciliation of segment information with MTU group consolidated financial statements

in € million	2010	2009
Total revenues		
Revenues of the reportable segments	2,747.7	2,654.9
Consolidation	-40.3	-44.1
Group revenues	**2,707.4**	**2,610.8**
Adjusted earnings before interest and tax (EBIT adjusted)		
EBIT (adjusted) of the reportable segments	308.7	294.6
Write-down on assets resulting from PPA	-43.3	-45.4
Consolidation	2.6	-2.3
Earnings before interest and tax (EBIT)	**268.0**	**246.9**
Interest income	6.3	2.6
Interest expenses	-19.9	-15.7
Profit/loss of companies accounted for using the equity method	-2.1	-1.5
Financial result on other items	-25.1	-24.8
Earnings before tax (EBT)	**227.2**	**207.5**

Reconciliation of segment information with MTU group consolidated financial statements

in € million	Dec. 31, 2010	Dec. 31, 2009
Assets		
Assets of the reportable segments	4,804.2	4,413.0
Consolidation	-1,378.1	-1,263.9
Group assets	**3,426.1**	**3,149.1**
Liabilities		
Liabilities of the reportable segments	2,923.4	2,619.2
Consolidation	-316.6	-200.8
Group liabilities	**2,606.8**	**2,418.4**

Information on the components of these assets is provided in Part V. (Segment Information).

Information on revenues derived from products and services

in € million	2010	2009
Commercial engine business		
Manufacturing	1,116.4	997.3
Other products	61.2	56.4
Total commercial engine business	**1,177.6**	**1,053.7**
Military engine business		
Manufacturing	278.7	271.9
Other products	207.2	260.1
Total military engine business	**485.9**	**532.0**
Total commercial and military engine business (OEM)	**1,663.5**	**1,585.7**
Commercial maintenance business (MRO)		
Engine maintenance, repair and overhaul	978.5	948.2
Other products	95.5	109.4
Total commercial maintenance business (MRO)	**1,074.0**	**1,057.6**
Total other products of other entities	**10.2**	**11.6**
Consolidation	**-40.3**	**-44.1**
Group revenues	**2,707.4**	**2,610.8**

Information on revenues from major customers

in € million	2010	2009
Revenues from major customers	**1,638.3**	**1,585.6**
of which attributable to:		
Commercial engine business (OEM)	1,128.9	991.7
Military engine business (OEM)	419.9	460.3
Commercial maintenance business (MRO)	89.5	133.6

Approximately 60 % of MTU's revenues (2009: approximately 60 %) are attributable to nine major customers (2009: nine customers). Four of these customers each separately account for more than 10 % of total group revenues.

ANALYSIS BY GEOGRAPHICAL AREA

Revenues according to customer's country of domicile

in € million	2010	2009
Germany	486.0	535.8
Europe	317.7	289.2
North America	1,551.7	1,388.0
South America	103.8	109.2
Africa	9.3	1.3
Asia	220.9	265.6
Australia/Oceania	18.0	21.7
Total	**2,707.4**	**2,610.8**

Approximately 57 % of MTU's revenues are generated from business with customers in North America (2009: 53 % from business with customers in North America).

Capital expenditure on intangible assets and property, plant and equipment

in € million	2010	2009
Germany	96.6	113.7
Europe	8.6	23.5
North America	2.3	1.9
South America		
Africa		
Asia	1.9	1.2
Australia/Oceania		
Total	**109.4**	**140.3**

Approximately 88 % (2009: approximately 81 %) 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, 2010	Dec. 31, 2009
Germany	1,708.7	1,732.5
Europe	60.4	53.0
North America	26.1	25.1
South America		
Africa		
Asia	38.2	34.3
Australia/Oceania		
Total	**1,833.4**	**1,844.9**

The non-current assets comprise intangible assets, property, plant and equipment, financial assets, other non-current assets, and deferred tax assets.

I. ACCOUNTING POLICIES AND PRINCIPLES

1. GENERAL INFORMATION

MTU Aero Engines Holding AG, Munich, and its subsidiary companies (hereinafter referred to as MTU Aero Engines Holding AG, MTU, or the MTU group) is among the world's leading manufacturers of engine modules and components, and is the world's largest independent provider of MRO services for commercial aero engines.

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

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

MTU Aero Engines Holding AG (parent company), registered office Dachauer Str. 665, 80995 Munich, Germany, is registered under HRB 157 206 in the commercial registry at the district court of Munich.

The consolidated financial statements were approved for publication by the Board of Management of MTU Aero Engines Holding AG, Munich, on February 7, 2011.

1.1. ACCOUNTING PRINCIPLES

MTU's consolidated financial statements have been drawn up in accordance with International Financial Reporting Standards (IFRS), such as these apply in the European Union (EU), and the supplementary requirements of Section 315a (1) of the German Commercial Code (HGB). All IFRS issued by the International Accounting Standards Board (IASB) which were effective at the time these consolidated financial statements were drawn up and were applied by MTU have been endorsed by the European Commission for use in the EU. MTU's consolidated financial statements thus also comply with the IFRS issued by the IASB. The term IFRS used in this document refers to both sets of standards.

The consolidated financial statements and group management report as at December 31, 2010 have been compiled in accordance with Section 315a (1) of the German Commercial Code (HGB) and published in the electronic version of the Federal Gazette (Bundesanzeiger).

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

In the presentation of the balance sheet, a distinction is made between non-current and current assets and liabilities. A more detailed presentation of certain of these items in terms of their timing is provided in the notes to the consolidated financial statements. The income statement is laid out according to the cost-of-sales accounting format, in which revenues are balanced against the expenses incurred in order to generate these revenues, and the expenses are recorded in the appropriate line items by function: manufacturing, development, selling and general administration. The consolidated financial statements have been drawn up in euros. All amounts are stated in millions of euros (€ million), unless otherwise specified.

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

ACCOUNTING STANDARDS AND INTERPRETATIONS, AND AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS, APPLIED FOR THE FIRST TIME

The following standards and interpretations issued by the IASB were effective and applied for the first time in the financial year 2010:

New and revised/amended standards and interpretations

Standard	Title	Date of issuance by the IASB	Effective date[1)]	EU endorse-ment
New standards and interpretations				
IFRIC 17	Distribution of Non-cash Assets to Owners	Nov. 27, 2008	July 1, 2009	Nov. 27, 2009
Revisions and amendments to standards and interpretations				
Various	Improvements to IFRS (annual improvements projects 2007 – 2009)	Apr. 16, 2009	predominantly Jan. 1, 2010	Mar. 24, 2010
IFRS 3	Business Combinations	Jan. 10, 2008	July 1, 2009	June 12, 2009
IAS 27	Consolidated and Separate Financial Statements	Jan. 10, 2008	July 1, 2009	June 12, 2009
IAS 39	Financial Instruments: Recognition and Measurement (eligible hedged items)	July 31, 2008	July 1, 2009	Sep. 16, 2009
IFRS 1	Restructured version of the standard	Nov. 27, 2008	July 1, 2009	Nov. 26, 2009
IFRS 2	Share-based Payment (group-cash-settled share-based payment transactions)	June 18, 2009	Jan. 1, 2010	Mar. 24, 2010
IFRS 1	Additional exemptions for first-time adopters	July 23, 2009	Jan. 1, 2010	Mar. 24, 2010

[1)] effective for annual periods beginning on or after this date.

In the interests of efficient reporting practice, the following descriptions of standards and interpretations are limited to those that had an impact on the methods of reporting used by MTU as at December 31, 2010, or which will possibly or very probably have an impact in future reporting periods, based on the information on hand at the present time.

These standards and interpretations have been applied in the financial year 2010 in compliance with the respective effective dates and recommendations for early adoption. Unless another form of presentation is explicitly required by individual standards or interpretations, their application is retrospective, i.e. the statements are presented as if the new financial reporting methods had always been applied in this way. Amounts stated in respect of previous periods are adjusted accordingly.

IMPROVEMENTS TO IFRS – A COLLECTION OF AMENDMENTS TO VARIOUS DIFFERENT INTERNATIONAL FINANCIAL REPORTING STANDARDS RESULTING FROM THE ANNUAL IMPROVEMENTS PROJECTS 2007 – 2009

The collection of amendments 'Improvements to IFRS' contains 15 separate amendments to twelve existing IFRS.

The amendments to individual standards had repercussions on the classification of the convertible bond. Under the new requirements of IAS 1.69 (d), the convertible bond was recognized under non-current liabilities as of the first quarter of 2010 and also at December 31, 2010.

None of the amendments to other standards had an impact on MTU's financial reporting methods.

REVISIONS TO IFRS 3 'BUSINESS COMBINATIONS' AND IAS 27 'CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS'

The revised standards contain substantial amendments concerning the accounting treatment of business combinations, transactions with non-controlling interests, and loss of control of a subsidiary. Since there were no relevant transactions in the financial year 2010, this had no impact on reporting methods. The possible impacts of the revised IFRS 3 and IAS 27 on future reporting periods can only be assessed on a case-by-case basis and depend on the form and details of any relevant transactions that might take place with other companies.

STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

The following IASB accounting standards, which have been issued but were not yet effective for the financial year 2010, have not been applied in advance of their effective date:

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

Standard	Title	Veröffentlicht durch das IASB	Effective date[1)]	EU endorsement
New standards and interpretations				
IFRS for SMEs	IFRS for Small and Medium-sized Entities	July 9, 2009	-	unknown
IFRS 9	Financial Instruments: ultimately to entirely replace existing standards for classifying and measuring financial assets and liabilities	Nov. 12, 2009	Jan. 1, 2013	unknown
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Nov. 26, 2009	July 1, 2010	July 24, 2010
Revisions and amendments to standards and interpretations				
IAS 32	Financial Instruments: Presentation (classification of rights issues)	Oct. 8, 2009	Feb. 1, 2010	Dec. 23, 2009
IAS 24	Related Party Disclosures	Nov. 4, 2009	Jan. 1, 2011	July 20, 2010
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (prepayments of a minimum funding requirement)	Nov. 26, 2009	Jan. 1, 2011	July 20, 2010
IFRS 1	Minor amendments to IFRS 1 (limited exemption from comparative IFRS 7 disclosures for first-time adopters)	Jan. 28, 2010	July 1, 2010	June 24, 2010
Various	Improvements to IFRS (annual improvements projects 2008 – 2010)	May 6, 2010	Jan. 1, 2011	Expected Q1 2011
IFRS 7	Financial Instruments: Disclosures (transfers of financial assets)	Oct. 7, 2010	July 1, 2011	Expected Q2 2011
IAS 12	Income Taxes (deferred tax: recovery of underlying assets)	Oct. 20, 2010	Jan. 1, 2011	Expected Q3 2011
IFRS 1	Minor amendments to IFRS 1 (severe hyperinflation and removal of fixed dates for first-time adopters)	Oct. 20, 2010	Jan. 1, 2011	Expected Q3 2011

[1)] effective for annual periods beginning on or after this date.

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

In the interests of efficient reporting practice, the following descriptions of standards and interpretations are limited to those that, in view of MTU's business model and on the basis of the currently available knowledge of business transactions within the MTU group, will very probably have an impact on the methods of reporting used in future reporting periods.

IFRS 9 'FINANCIAL INSTRUMENTS'

In November 2009, the IASB issued the new standard IFRS 9 which addresses the classification and measurement of financial assets. This standard represents the first part of a three-phase project to replace IAS 39. IFRS 9 requires that financial assets are measured either at amortized cost or at fair value. Financial assets are assigned to one of the two measurement categories by looking at how an entity manages its financial instruments (its business model) and identifying the contractual cash flow characteristics of the individual financial assets.

In October 2010 the IASB issued additions to IFRS 9 in relation to accounting for financial liabilities. As a result, in cases where an entity elects to measure financial liabilities at fair value, the amount of the change in fair value due to changes in the entity's own credit risk must be recognized directly in the statement of comprehensive income or in other comprehensive income rather than in the income statement.

Given the complexity of the subject matter, it is not yet possible to make any reliable detailed statements regarding the impact of IFRS 9. From today's standpoint, it is unlikely that the standard will be applied any earlier than the financial year 2013.

IFRS 7 'FINANCIAL INSTRUMENTS: DISCLOSURES'

The amendments made to IFRS 7 in October 2010 will allow users of financial statements to improve their understanding of transfer transactions of financial assets. It is not anticipated that the additional reporting requirements arising from these amendments will have any significant impact on MTU.

1.2. INVOCATION OF SECTION 264 (3) OF THE GERMAN COMMERCIAL CODE (HGB)

MTU Aero Engines GmbH, Munich, which is a consolidated affiliated company of MTU Aero Engines Holding AG, Munich, and for which the consolidated financial statements of MTU Aero Engines Holding AG, Munich, constitute the exempting consolidated financial statements, has invoked the provision of Section 264 (3) of the German Commercial Code (HGB). The official notice of the company's invocation of the exemption was published in the electronic version of the Federal Gazette (Bundesanzeiger) in the name of MTU Aero Engines GmbH, Munich, on December 13, 2010.

1.3. NOTES RELATING TO CHANGES IN THE REPORTING OF THE CONSOLIDATED FINANCIAL STATEMENTS

In the interests of greater clarity, MTU has discontinued its earlier voluntary practice of presenting comparative data for two prior periods in its Annual Report.

Following the endorsement of amendments from the annual improvements projects 2007 – 2009 on March 24, 2010, a second sentence was added to IAS 1.69 (d). As a result, the conversion rights attached to the MTU convertible bond no longer automatically result in the presentation of the debt capital component as a current liability. Since the bond does not fall due for repayment until February 1, 2012, the debt capital component is now reported as a non-current liability. According to IAS 1.139D, the amendment is applicable for periods beginning on or after January 1, 2010. Due to the lack of any specific transitional rules in IAS 1, this change in accounting policy has been amended in accordance with IAS 8.19 (b) with retrospective effect, including adjustments to the previous year's comparative figures. According to IAS 1.10 (f) in combination with IAS 1.39, this retrospective application of a change in accounting policy requires the presentation of a statement of financial position as at the beginning of the earliest comparative period (January 1, 2009).

In 2010, the group acquired financial assets amounting to € 189.0 million (2009: € 0.0 million), of which € 122.3 million were resold in the financial year 2010. These financial assets are not included in the calculation of free cash flow since they can be sold at any time and are held as a liquidity reserve.

2. GROUP REPORTING ENTITY

At December 31, 2010, the MTU group including MTU Aero Engines Holding AG, Munich, comprised 23 companies (2009: 23). These are presented in detail in the list of major shareholdings in Note 43.1.2. (Major shareholdings). MTU Versicherungsvermittlungs- und Wirtschaftsdienst GmbH, Munich, is not fully consolidated, on grounds of immateriality. Its equity capital at December 31, 2010 amounted to € 26,000 and its profit/loss was € 0. The assets of MTU München Unterstützungskasse GmbH, Munich, are classified as plan assets as defined in IAS 19. The fair value of these plan assets was included in the calculation of the group's defined benefit obligation for pensions. For this reason, MTU München Unterstützungskasse GmbH, Munich, is not consolidated.

CHANGE IN COMPOSITION OF GROUP REPORTING ENTITY

PRESENTATION OF CHANGES IN THE GROUP COMPANIES AND EQUITY INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

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

Group reporting entity

	Germany	International	**Total**
Shareholdings at Jan. 1, 2009	**12**	**11**	**23**
Acquisitions 2009		1	1
Disposals 2009		-1	-1
Shareholdings at Dec. 31, 2009	**12**	**11**	**23**
Acquisitions 2010			
Disposals 2010			
Shareholdings at Dec. 31, 2010	**12**	**11**	**23**

With effect of September 29, 2009, MTU acquired a 19.3 % interest in the Middle East Propulsion Company, Riyadh (MEPC), based in the Kingdom of Saudi Arabia, at a cost of € 3.0 million. This equity investment is presented in the consolidated balance sheet under non-current assets.

The acquisition of a stake in MEPC, Riyadh, Saudi Arabia, did not materially affect the composition of the group reporting entity.

Under an asset purchase agreement dated May 18, 2009, MTU disposed of a group of assets and associated liabilities deriving from its interest in MTU Aero Engines North America Inc., Newington, USA. The disposal group mainly comprised property, plant and equipment, trade receivables, inventories, trade payables, and other liabilities and formed an operation of a cash-generating unit (the OEM segment).

In December 2009, MTU disposed of its indirect investment in Pratt & Whitney Canada's Customer Service Centre in South Africa at a selling price of U.S. $ 1.0 million. This sale had a negligible effect on MTU's consolidated financial statements.

The following additional assets, liabilities, expenses and income are recognized in the consolidated accounts as a result of the 50 % proportionate consolidation of the joint venture MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China:

Equity investment in the joint venture MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China

in € million, 50 % share	2010	2009
Disclosures relating to the income statement		
Income	124.2	136.8
Expenses	-113.1	-122.2
Balance of income and expenses	**11.1**	**14.6**
Disclosures relating to the balance sheet		
Non-current assets	38.2	34.3
Current assets	83.1	61.5
Total assets	**121.3**	**95.8**
Equity	57.9	66.5
Non-current liabilities	26.4	0.2
Current liabilities	37.0	29.1
Total equity and liabilities	**121.3**	**95.8**

At December 31, 2010, MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China, had a total of 584 employees (2009: 551 employees).

3. CONSOLIDATION PRINCIPLES

All business combinations are accounted for using the acquisition method as defined in IFRS 3. Under the acquisition method, the acquirer accounts for the business combination by measuring and recognizing the identifiable assets acquired and the liabilities and contingent liabilities assumed. The identifiable assets, liabilities, and contingent liabilities are measured at their fair values. In accordance with IAS 36, goodwill is tested for impairment at least annually, or at shorter intervals if there is an indication that the asset might be impaired. If the group's interest in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, that excess (negative good-will) is immediately recognized in the income statement – after remeasurement as required by IFRS 3.36.

The effects of intragroup transactions are eliminated. Accounts receivable and accounts payable as well as expenses and income between the consolidated companies are netted. Internal sales are transacted on the basis of market prices and intragroup profits and losses are eliminated.

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

Equity investments in joint ventures – with the exception of MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China – are accounted for in the consolidated financial statements using the equity method from the date of acquisition and are recognized initially at cost. The share of an investee's profit or loss to which MTU Aero Engines Holding AG, Munich, is entitled is recognized in the income statement.

4. CURRENCY TRANSLATION

Transactions in foreign currencies are translated to the functional currency using the exchange rate prevailing on the date of the transaction. At the balance sheet date, monetary items are translated using the exchange rate prevailing at that date, whereas non-monetary items are translated using the exchange rate prevailing on the transaction date. Translation differences are recognized in the income statement. The assets and liabilities of group companies whose functional currency is not the euro are translated from the corresponding local currency to the euro using the closing exchange rate at the balance sheet date. In the income statements of foreign group companies whose functional currency is not the euro, income and expense items are translated each month using the exchange rate applicable at the end of the month; from these can be derived the average exchange rate for the year. The translation differences arising in this way are recognized in other comprehensive income and do not have any impact on the net profit/loss for the year.

5. ACCOUNTING POLICY AND MEASUREMENT METHODS

The financial statements of MTU Aero Engines Holding AG, Munich, and of its subsidiaries are drawn up using uniform accounting policies in accordance with IAS 27.

5.1. REVENUES

Revenues from the sale of goods are recognized when goods are delivered to the customer and accepted by the latter, in other words when the significant risks and rewards of ownership of the goods have been transferred by the seller. Further recognition criteria are the probability that economic benefits associated with the transaction will flow to the seller and that the revenues and costs can be measured reliably. The company's customers are trading partners from risk- and revenue-sharing programs, original equipment manufacturers (OEMs), cooperation entities, public-sector contractors, airlines and other third parties.

Revenues from maintenance contracts in the commercial MRO business are recognized when the maintenance service has been performed and the criteria for recognizing revenues have been met. In the case of long-term commercial maintenance agreements and military development and construction contracts, revenues are recognized by reference to the percentage of completion in accordance with IAS 18 and IAS 11. If the outcome of a contract cannot be estimated reliably, the zero-profit method is applied, whereby revenues are only recognized to the extent that contract costs have been incurred and it is probable that those costs will be recovered. Contracts are recognized in the balance sheet under 'construction contract receivables' (Note 24. Construction contract receivables) or under 'construction contract payables' (Note 35. Construction contract payables). Further explanation of the measurement of percentage of completion is given in connection with work in progress (Note 5.10. Inventories).

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

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

5.2. COST OF SALES

Cost of sales comprises the production-related manufacturing cost of products sold, development services paid, and the cost of products purchased for resale. In addition to the direct material cost and production costs, it also comprises systematically allocated overheads, including depreciation of

the production installations and production-related other intangible assets, write-downs on inventories and an appropriate portion of production-related administrative overheads. Cost of sales also includes expenses charged by OEMs for marketing new engines in conjunction with risk- and revenue-sharing programs.

5.3. RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure in connection with research activities (research costs) is charged to expense in the period in which it is incurred.

In the case of development costs, a distinction is drawn between purchased ('externally acquired') development assets and self-created ('internally generated') development assets. Project costs attributable to externally acquired development assets are generally allocated to construction contract receivables on the basis of percentage of completion. Any surplus expense or income remaining after the end of a development project is amortized proportionately over the subsequent production phase.

Development costs generated in the context of company-funded R&D projects are capitalized at the construction cost to the extent that they can be attributed directly to the product and on condition that the product's technical and commercial feasibility have been proved. There must also be reasonable probability that the development activity will generate future economic benefits. The capitalized development costs comprise all costs directly attributable to the development process. Capitalized development costs are amortized on a scheduled basis over the expected product life cycle from the start of production onwards.

Capitalized development costs, as well as previously capitalized development projects that have not been completed by the end of the financial year, are subjected to an impairment test at least once a year. An impairment charge is only recognized if the carrying amount of the capitalized asset exceeds the recoverable amount.

5.4. INTANGIBLE ASSETS

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

Intangible assets with a finite useful life are carried at cost and amortized on a straight-line basis over their useful lives. In the financial years 2010 and 2009, no borrowing costs were recognized in respect of intangible assets in accordance with IAS 23 because these assets did not include any qualifying assets for which the commencement date for capitalization was on or after January 1, 2009.

With the exception of goodwill, technology assets, customer relations and capitalized program assets, intangible assets are generally amortized over a period of 3-5 years. Program assets including development costs are amortized over their useful lives of up to 30 years, technology assets over 10 years, and customer relations over periods of between 4 and 26 years.

Goodwill is apportioned between the cash-generating units (CGUs) for the purpose of impairment testing. Consistent with the distinction made for segment reporting purposes, the commercial and military engine business (OEM) and the commercial maintenance business (MRO) are viewed as cash-generating units. Goodwill was attributed to each of the two segments as of January 1, 2004.

5.5. PUBLIC SECTOR GRANTS AND ASSISTANCE

Public sector grants and assistance are recognized in accordance with IAS 20 only if there is reasonable assurance that the conditions attached to them will be complied with and that the grants will be received. Grants are recognized as income over the periods necessary to match them with the related costs that they are intended to compensate. In the case of capital expenditure on property, plant and equipment and on intangible assets, the amount of the public sector grant awarded for this purpose is deducted from the carrying amount of the asset. The grants are then recognized in the income statement using reduced depreciation/amortization amounts over the lifetime of the depreciable asset.

5.6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are subject to wear and tear and are carried at their acquisition or construction cost less accumulated depreciation charges and cumulative impairment losses. The revaluation model is not applied. Depreciation on property, plant and equipment is calculated using the straight-line method according to the useful life of the asset.

Scheduled depreciation is based on the following useful lives:

Useful lives of assets (in years)

Assets	in years
Buildings	25 – 50
Lightweight structures	10
Property facilities	10 – 20
Technical equipment, plant and machinery	5 – 10
Operational and office equipment	3 – 15

The depreciation of machines used in multi-shift operation is accelerated by using a higher shift coefficient to take account of additional usage.

The residual values, useful lives and depreciation methods pertaining to property, plant and equipment are regularly assessed for relevance, at least at every balance sheet date, and adjustments are made where necessary to the estimates used when compiling the financial statements.

The **cost of items of self-constructed plant and equipment** comprises all directly attributable costs and an appropriate proportion of production-related overheads, including depreciation and pro rata administrative and social security costs. Through the end of the financial year 2008, borrowing costs were not capitalized as part of acquisition or construction costs. Nor were any borrowing costs capitalized in the financial years 2009 and 2010 in accordance with IAS 23, given that the group's property, plant and equipment did not include any qualifying assets for which the commencement date for capitalization was on or after January 1, 2009.

INVESTMENT PROPERTY

The MTU group does not hold any investment property. An insignificant part of the buildings recognized under property, plant and equipment is rented out to external third parties. The rental income from this property amounted to € 1.2 million in the financial year 2010 (2009: € 0.9 million).

5.7. LEASING

The beneficial ownership of leased assets is attributed to the contracting party in the lease arrangement that bears the substantial risks and rewards associated with ownership of the leased asset. If the lessor retains the substantial risks and rewards **(operating lease)**, the leased asset is recognized in the lessor's balance sheet. The lessee in an operating lease arrangement recognizes lease payments as an expense throughout the duration of the lease arrangement.

If the substantial risks and rewards associated with ownership of the leased asset are transferred to the lessee **(finance lease)**, the leased asset is recognized in the lessee's balance sheet. The leased object is recognized at its fair value as measured at the date of acquisition, or at the present value of future minimum lease payments if lower, and depreciated over its estimated useful life, or the contract duration if shorter. The lessee immediately recognizes a finance lease liability corresponding to the carrying amount of the leased asset. The effective interest rate method is employed to amortize and update the lease liability in subsequent periods.

5.8. IMPAIRMENT LOSSES ON INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

At each balance sheet date, an assessment is carried out to reveal any indication that the value of intangible assets or assets of property, plant and equipment might be impaired. If impairment is indicated, the recoverable amount of the asset in question is estimated. Assets with an indefinite useful life, intangible assets that are not yet ready for use, and goodwill acquired in connection with a business combination are not subject to scheduled amortization, but are instead reviewed for impairment at least once each year.

The impairment loss on intangible assets and property, plant and equipment is determined by comparing the carrying amount with the recoverable amount. If it is not possible to attribute separate future cash flows to discrete assets that have been generated independently of other assets, then an impairment test must be carried out on the basis of the cash-generating unit to which the asset ultimately belongs. If the reasons for impairment losses recognized in a prior period no longer exist, the impairment loss on these assets is reversed, except in the case of goodwill.

The recoverable amount is the higher amount of the fair value of the asset (or of the cash-generating unit) less costs to sell and value in use.

The recoverable amount of the assets or cash-generating units is usually determined using a discounted cash flow (DCF) method. This involves making forecasts of the cash flow that can be generated over the estimated useful life of the asset or cash-generating unit, applying a discount rate that takes into account the risks associated with the asset or cash-generating unit. The forecast cash flows reflect certain assumptions on the part of management which are validated by reference to external sources of information.

5.9. NON-CURRENT FINANCIAL ASSETS

Investments in subsidiaries and equity investments in joint ventures that are neither fully nor proportionately consolidated, investments in associated companies, and other equity investments do not have a major qualitative and quantitative impact on the MTU group's net assets, financial situation and operating results. Since in most cases it is not possible to reliably measure their fair value because an active market does not exist, these investments are carried at cost – with appropriate adjustments for impairment loss where necessary. Dividend income and shares in the profit/loss of these investments are included in the financial result on other items.

The group's share in the profit or loss of companies accounted for using the equity method is allocated on a pro rata basis to profit/loss and the corresponding carrying amount of the investment. This profit/loss is reported in the financial result as a separate line item for 'profit/loss of companies accounted for using the equity method'.

5.10. INVENTORIES

Raw materials and supplies are measured at the lower of average acquisition cost and net realizable value. Trade discounts and concessions and customer loyalty awards are taken into account when determining acquisition costs. Advance payments for inventories are capitalized. Acquisition cost comprises all direct costs of purchasing and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price generated in the ordinary course of business for the finished product in question, less estimated costs necessary to make the sale (costs to complete and selling costs).

Work in progress is recognized at the lower of manufacturing cost and net realizable value. Manufacturing cost comprises all production-related expenses based on normal capacity utilization. In addition to direct costs, these include an appropriate and necessary portion of the cost of material and production overheads, including production-related depreciation. Administrative expenses are also included to the extent that they can be attributed to production operations. Borrowing costs are not capitalized because work in progress does not meet the definition of a qualifying asset according to IAS 23.

The group uses the percentage-of-completion (PoC) method to recognize all **construction contracts.** If the outcome of a specific construction contract can be estimated reliably, revenues and income are recognized in proportion to the percentage of completion. The percentage of completion is determined as the ratio of contract costs incurred to total contract costs (cost-to-cost method). If the outcome of a contract cannot be estimated reliably, the zero-profit method is applied, whereby revenues are only recognized to the extent that contract costs have been incurred, resulting in a balance of zero. If settlement has not yet been received for a construction contract, the construction costs – taking profit sharing into account where relevant – are recognized as future contract receivables in the balance sheet and as revenues arising from construction contracts in the income statement. These items are defined as the difference between the sum of contract costs incurred and measured up to the balance sheet date and recorded profits less losses incurred and partial settlements.

Receivables from construction contracts are recognized separately from trade receivables in the balance sheet under the item 'construction contract receivables'. If advance payments received from customers are lower than the amount of receivables, the difference is deducted from the amount of construction contract receivables and accounted for as an asset. If the advance payments received are higher than the construction contract receivables, the negative balance of the construction contracts is recognized under construction contract payables. Construction contract receivables and construction contract payables are not offset against one another.

5.11. FINANCIAL INSTRUMENTS

A financial instrument is a contract that simultaneously gives rise to a financial asset in one company and to a financial liability or equity instrument in another company.

5.12. FINANCIAL ASSETS

Financial assets include, in particular, cash and cash equivalents, trade receivables, loans and other receivables, financial investments held to maturity, and non-derivative and derivative financial assets held for trading.

Financial assets are measured in accordance with their classification according to IAS 39. The measurement of a financial asset subsequent to initial recognition depends on whether the financial instrument is held for trading, held to maturity, available for sale, or whether it falls in the loans and receivables category. The assignment of an asset to a measurement category is performed at the time of acquisition and is primarily determined by the purpose for which the financial asset is held. No financial assets were re-classified in the financial year 2010 or in prior reporting periods.

At **initial recognition, financial assets** are measured at their fair value. In the case of financial assets that are not subsequently measured at fair value through profit or loss, the transaction costs directly attributable to the acquisition of the financial asset are included in the initial measurement.

Financial instruments held for trading are measured at fair value through profit or loss. The sub-category 'held for trading' primarily includes derivative financial instruments that do not form part of an effective hedging relationship as defined in IAS 39 and which hence are required to be classified as 'held for trading'. Any profit or loss resulting from remeasurement is recognized in the income statement.

Financial investments that are intended and expected, with reasonable certainty, to be **held to maturity** are measured at amortized cost using the effective interest method.

Financial assets classified as '**loans and receivables**' are measured at amortized cost less impairment, using the effective interest rate where appropriate.

Impairment loss on trade receivables is sometimes accounted for by means of valuation allowances. The decision whether to account for credit risk by means of an allowance account or by directly recording an impairment loss on receivables depends on the degree of certainty with which the risk situation can be assessed.

Other non-derivative financial assets are classified as '**available for sale**'. These are always measured at fair value. Gains or losses resulting from the measurement of fair value are recognized directly in equity. If it is not possible to reliably measure the fair value of an equity instrument that is not quoted in an active market, the investment is measured at acquisition cost (less impairment where appropriate).

IMPAIRMENT LOSS ON FINANCIAL ASSETS

At each balance sheet date, the carrying amounts of financial assets that are not measured at fair value through profit or loss are assessed to determine whether there is any substantial objective indication of impairment.

Examples of such indications include significant financial difficulties of the debtor or a high probability that the debtor will enter bankruptcy or financial reorganization, the closure of an active market for the financial asset, significant changes in technological, economic, legal or market conditions affecting the issuer, or a significant or persistent decline in the fair value of the financial asset below its (amortized) cost. The amount of the impairment loss is recognized in the income statement. If impairment is indicated for available-for-sale financial assets, the amounts previously recognized in equity are eliminated from other comprehensive income up to the amount of the assessed impairment loss and recycled to the income statement.

If, in a subsequent period, there is objective evidence that the fair value has increased due to an event occurring after the impairment was originally recognized, the impairment loss is reversed through profit or loss. Impairment losses affecting available-for-sale equity instruments and equity instruments not quoted in an active market are not allowed to be reversed through profit or loss, or any other means. When testing for impairment, the estimated fair value of held-to-maturity investments, and the fair value of loans and receivables measured at amortized cost, is approximated to the present value of future estimated cash flows discounted at the financial asset's original effective interest rate. The fair value of equity instruments measured at cost and not quoted in an active market is calculated on the basis of the future estimated cash flows discounted at the current rate consistent with the specific risks to which the investment is exposed.

5.13. FINANCIAL LIABILITIES

Financial liabilities often entitle the holder to return the instrument to the issuer in return for cash or another financial asset. These include, in particular, bonds and other debts evidenced by certificates, trade payables, liabilities to banks, finance lease liabilities, borrowers' note loans and derivative financial liabilities.

Financial liabilities are measured at their fair value at the time of acquisition, which is normally equivalent to the net loan proceeds. Transaction costs directly attributable to the acquisition are deducted from the amount of all financial liabilities that are not measured at fair value through profit or loss subsequent to initial recognition. If a financial liability is interest-free or bears interest at below the market rate, it is recognized at an amount below the settlement price or nominal value. The financial liability initially recognized at fair value is amortized subsequent to initial recognition using the effective interest method.

5.14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include current accounts and short-term bank deposits, have a maturity of three months or less from the date of acquisition, and are measured at cost.

5.15. DERIVATIVE FINANCIAL INSTRUMENTS

MTU uses derivative financial instruments as a hedge against currency, interest rate and price risks arising out of its operating activities and financing transactions.

At initial recognition, derivative financial instruments are measured at their fair value. The fair value is also of importance to subsequent measurement. The fair value of traded derivative financial instruments is derived, wherever possible, from quoted market prices in an active market. If no quoted market prices in an active market are available, the fair value is calculated using recognized actuarial models. The fair value of derivative financial instruments is represented by the amount that MTU would receive or would have to pay at the balance sheet date when the financial instrument is terminated. This value is calculated on the basis of the relevant exchange rates, interest rates and credit standing of the contractual partners at the balance sheet date.

The accounting treatment for derivative financial instruments depends on whether or not a hedging relationship exists between the underlying transaction and the hedged item. Derivative financial instruments that do not form part of an effective hedging relationship as defined in IAS 39 must be classified as 'held for trading' and are therefore recognized in the balance sheet at their fair value.

HEDGE ACCOUNTING (HEDGING RELATIONSHIPS)

MTU satisfies the requirements relating to hedging instruments in accordance with IAS 39 **(cash flow hedge accounting)** to hedge future payment cash flows. This reduces volatility in cash flows that could affect profit or loss. When a hedge is undertaken, the relationship between the financial instrument designated as the hedging instrument and the underlying transaction is documented, as are the risk management objective and strategy for undertaking the hedge. This includes assigning specific hedging instruments to the corresponding future transactions and assessing the effectiveness of the designated hedging instrument. Existing cash flow hedges are monitored for effectiveness on a regular basis.

Cash flow hedges are used to hedge the exposure of future cash flows arising from underlying transactions to fluctuations in foreign currency exchange rates. When a cash flow hedge is in place, the effective portion of the change in value of the hedging instrument is recognized in other comprehensive income, together with related deferred taxes, until such time as the outcome of the hedged transaction is recognized.

The effective hedge is recycled to the income statement as soon as the hedged transaction is recognized in profit or loss. The ineffective portion of the change in value of the hedging instrument is recognized on each balance sheet date in the financial result.

5.16. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

Current and deferred tax assets and liabilities are recognized in the consolidated financial statements on the basis of the tax laws in force in the relevant tax jurisdictions. Current and deferred tax assets and liabilities are recognized in equity if they relate to business transactions that directly lead to a decrease or increase in equity.

Deferred tax assets and liabilities are established for temporary differences between the tax bases of assets and liabilities used when calculating taxable income and the carrying amount of these assets and liabilities in the consolidated balance sheet ('balance sheet liability method'). Similarly, where appropriate, deferred tax assets are established on tax losses, interest expense and tax credits available for carry-forward. Deferred tax assets are recognized for deductible temporary differences,

unused tax losses and unused tax credits to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured on the basis of the tax rates expected to be applicable on the date when the temporary differences are reversed. Deferred tax assets and liabilities are offset, insofar as this meets the requirements of IAS 12.74.

5.17. PENSION OBLIGATIONS

Pension provisions are accounted for using the projected unit credit method in accordance with IAS 19. This method takes account not only of pension and other vested benefits known at the balance sheet date, but also of estimated future increases in pensions and salaries, applying a conservative assessment of the relevant parameters. IAS 19 permits the use of different methods for recognizing actuarial gains and losses. To avoid volatility in the amount of equity as of the balance sheet date, MTU employs the so-called 'corridor' method.

When using the corridor method, cumulative actuarial gains and losses are only recognized if they exceed 10 % of the present value of the defined benefit obligation or 10 % of the fair value of the relevant plan assets, whichever is higher. When actuarial gains or losses exceed the 10 % corridor, the excess is divided by the expected average remaining working lives of the employees covered by the relevant pension plan, and recognized from the beginning of the following financial year as income or expense, as an additional component of the pension costs. The expense attributable to unwinding the interest on pension obligations and the expected return on plan assets are reported separately in the financial result. All other expenses attributable to pension obligations are allocated to the appropriate income statement line items by function.

Provisions for pre-retirement part-time working arrangements and long-service awards are measured on the basis of actuarial reports prepared in accordance with IAS 19.

5.18. OTHER PROVISIONS

Provisions are accrued to cover the cost of legal disputes and claims for damages if the group incurs a current obligation arising from a lawsuit, government investigation or other claims which derive from past events and are pending, or if it is possible that such proceedings could be initiated against the group or be enforced at a future date, and if it is probable that an outflow of economic resources will be necessary to fulfil the obligation, and it is possible to reliably estimate the amount of the obligation. Non-current provisions due in more than one year are measured on the basis of their settlement amount, discounted to the balance sheet date. The company measures provisions for pending losses on onerous contracts at the lower of the expected costs on settlement of the contract and the expected costs on termination of the contract.

5.19. 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.

Contingent liabilities are also present obligations for which there is unlikely to be an outflow of economic resources, or where the amount of the obligation cannot be reliably estimated.

Obligations arising from contingent liabilities assumed and identified in connection with an acquisition are recognized if it is possible to reliably determine their fair value. Subsequent to initial recognition, contingent liabilities are recognized at the higher of the two values: (a) the amount that would have been recognized as a provision according to IAS 37, (b) the originally recognized amount amortized by the actual cash flows. Negative values of engine programs resulting from purchase price allocation are accounted for as contingent liabilities.

5.20. SHARE-BASED PAYMENT TRANSACTIONS

Share options, i.e. share-based payment transactions settled by the issuance of equity instruments, are measured at fair value at the grant date. The fair value of the obligation is recognized during the vesting period as a personnel expense and in equity. Exercise conditions that are not tied to market conditions are included in the assumptions concerning the number of options that are expected to be exercised. The fair value is obtained using the internationally recognized Black-Scholes pricing model.

5.21. DIVIDEND PAYMENT AND PROFIT DISTRIBUTION

The claims of shareholders to dividend payments and profit distribution relating to a specific reporting period (financial year) are recognized as a liability in the period in which the corresponding resolution is passed. Disclosures relating to the Board of Management's proposal to the Annual General Meeting concerning the dividend payment are provided in Part VII of these notes under the subheading 'Recommendation for the distribution of net profit'.

5.22. DISCRETIONARY SCOPE, MEASUREMENT UNCERTAINTIES AND SENSITIVITY

The presentation of the group's net assets, financial situation and operating results in the consolidated financial statements depends on the use of recognition and measurement methods and of assumptions and estimations. The estimations and corresponding assumptions detailed below are crucial to an understanding of the underlying risks of financial reporting and the effects that these estimations, assumptions and uncertainties might have on the consolidated financial statements. Actual values may occasionally deviate from the assumed and estimated values. Adjustments may be made to carrying amounts at the time that better knowledge comes to light. This is especially the case in the following circumstances:

- Both at initial measurement and subsequent measurement after initial recognition, the determination of the carrying amount of intangible assets and **contingent liabilities** identified in connection with business combinations as defined in IFRS 3 involve substantial use of forward-looking estimates, due to the long product life cycles. These estimates rely on assumptions concerning factors such as risk adaptation of cash flows or discount rates and future price changes with an impact on other costs including price escalation and possible contract penalties. In the financial year 2010, the contingent liabilities for individual engine programs identified and measured in connection with the purchase price allocation were affected by the consequences of the prior year's delays in the delivery of engines and by changes in the discount rate. The carrying amount of the contingent liabilities totaled € 124.9 million at December 31, 2010. If the discount rate had been 100 basis points higher at December 31, 2010, the carrying amount of the liability would have totaled approximately € 147 million. In contrast, if the discount rate had been 100 basis points lower at December 31, 2010, the carrying amount of the liability would have totaled approximately € 79 million. Further explanations are given in Note 32. (Other provisions).

- The basic premises underlying the measurement of construction contract receivables for the TP400-D6 military engine program had to be entirely reviewed in the financial year 2009 due to the uncertainties arising from delayed deliveries at the end of the 2009 financial year and the uncertain technical status on the one hand, and the general uncertainty surrounding the future of the program on the other. As a result of the reassessment of the time schedule undertaken by MTU at the end of 2009, taking into account all recalculated premises, the carrying amount of construction contract receivables for the TP400-D6 engine program was written down in 2009 and a valuation allowance for receivables recognized in the income statement. In addition, a provision of € 45.3 million was recognized in the income statement. The measurement of the valuation allowance and allocated provision at December 31, 2009 also included a proportional share of contract penalties that – according to MTU's estimates at the time – the company would be required to pay.

  Following the signing of an agreement in principle – the 'A400M Understanding' – in March 2010, the customer nations (represented by the procurement agency OCCAR) and Airbus Military subsequently agreed the details of the changes to the A400M contract. Although the agreements envisage that the overall economics will remain unchanged, there is nevertheless one major change that must be taken into consideration, namely Germany's decision to reduce its order from 60 to 53 aircraft and the United Kingdom's decision to trim its order from 25 to 22 aircraft. The 'A400M Understanding' was followed by appropriate agreements between Airbus Military and the military engine consortium Europrop International GmbH, Munich (EPI). This saw the total number of firm orders for the A400M project decrease to 170 and the number of Europrop TP400-D6 engines fall to approximately 680. The first aircraft are now expected to be delivered in early 2013.

  Based on this generally satisfactory solution for the overall project, the review of the TP400-D6 engine program at December 31, 2010 took into consideration the absence of the contractual penalties for possible program discontinuation or non-performance penalties taken into account in 2009 and also took into consideration postponements of deliveries, cancellations of previous orders by customer nations, reworking of the software for engine control and price escalations. Due to the prolonged product life cycle, changes in the applied interest rates have a significant impact on the measurement of the engine program.

  It is not possible to perform a sensitivity analysis of the extent of possible consequences of price changes or possible contract penalties due to the multitude of sensitivity scenarios combined with highly uncertain estimates. Further explanatory comments can be found in Note 24. (Construction contract receivables).

- The measurement of **property, plant and equipment, intangible assets and financial assets** (insofar as they are accounted for using the equity method or at cost) comprising a carrying amount at the end of the financial year of € 1,794.8 million (2009: € 1,814.8 million) involves the use of estimates to determine the fair value. Estimations are also employed to determine the expected useful life of assets. Judgments by management form the basis for determining the fair value of assets and liabilities and the useful life of assets. In the process of determining the impairment loss on property, plant and equipment, intangible assets and financial assets, estimations are made concerning such parameters as the source, timing and amount of the impairment loss. Many different factors can give rise to an impairment loss. Factors always considered are changes in the competitive situation, expectations concerning the growth of

aviation and the aircraft industry, changes in the cost of capital, changes in the future availability of financing funds, aging and obsolescence of technologies, the suspension of services, replacement costs, purchase prices paid in comparable transactions, and other general changes providing evidence of impairment.

Management is required to make estimations concerning the identification and verification of indicated impairments, expected cash flows, relevant discount rates, corresponding useful lives and residual values in order to determine the **recoverable amounts** for the operating segments 'commercial and military engine business' and 'commercial maintenance business', and the fair value of assets (or groups of assets). In particular, the estimation of cash flows on which the recoverable amounts are based in the case of new engine programs in both the commercial and military engine business depends on the assumption that it will be possible to raise funds on a continuous basis, but also that it will be necessary to make continuous investments in order to generate sustainable growth. If the demand for engines is slower than expected, this could reduce earnings and cash flows and possibly lead to the recognition of impairment losses on these investments. This could in turn have negative repercussions on operating results.

These estimations and the method used to obtain them may have a significant impact on the determined recoverable amount and on the amount of the impairment loss recognized on goodwill. Reference is made to Note 40. (Sensitivity analysis of goodwill) for a sensitivity analysis of the goodwill of the commercial and military engine business and of the commercial maintenance business.

- Management creates **allowances for doubtful accounts**. Judgment of the appropriateness of allowances for doubtful accounts is based on the repayment structure of the balance of settlements and past experience with the writing-off of debts, the customer's credit standing, and changes in the conditions of payment. At December 31, 2010, valuation allowances on trade receivables amounted to € 9.4 million (2009: € 7.9 million). If the customer's financial situation should deteriorate, the volume of the allowances that have to be created may exceed the expected volume.

- **Revenues** in the military engine business and in the commercial maintenance business are recognized in progressive stages as the work advances, using the percentage-of-completion method, if it is sufficiently probable that future economic benefits associated with the business will flow to MTU. The percentage of completion is determined by comparing the actual costs up to the balance sheet date with estimated total contract costs. If the outcome of a construction contract cannot be estimated reliably, revenues are only recognized to the extent that contract costs have been incurred and it is probable that those costs can be recovered (so-called zero-profit method). Management regularly reviews all estimates made in connection with these construction contracts, making adjustments where necessary. Revenues from the sale of engine components in the month of December are partially estimated for bookkeeping purposes. These estimates are derived principally from preliminary data supplied by the consortium leader and from material flow data that provides a sufficiently reliable basis for estimating revenues.

- **Income taxes** must be determined for each tax jurisdiction in which the group operates. The current income taxes have to be calculated for each taxable subject, and temporary differences arising from the different treatment of certain balance sheet items in the IFRS consolidated financial statements and the tax statements need to be determined. All identified temporary differences lead to the recognition of deferred tax assets and liabilities in the consolidated financial statements. Additionally, deferred tax effects may arise, particularly from tax losses, interest expense and tax credits available for carry-forward. Management judgments come into play in the calculation of current taxes and deferred taxes.

Deferred tax assets totaling € 16.7 million (2009: € 16.9 million) were recognized at December 31, 2010. The utilization of deferred tax assets depends on the possibility of generating sufficient taxable income in a particular tax category and tax jurisdiction, taking into account where appropriate any statutory restrictions relating to the maximum periods over which losses may be carried forward. A variety of factors are used to assess the probability that it will be possible to utilize deferred tax assets, including past operating results, operating business plans, the periods over which losses can be carried forward, and tax planning strategies. If the actual results deviate from these estimations, or if these estimations have to be adjusted in a future period, this may have detrimental effects on the group's net asset position, financial situation and operating results. If there is a change in the value assessment of deferred tax assets, the recognized deferred tax assets are to be written down.

- The discount rate is an important factor when determining the **provisions to be allocated for pensions and similar obligations.** An increase or decrease of 25 basis points in the discount rate can lower or raise the amount of pension obligations by approximately € 12 - 14 million. Given that actuarial gains and losses are only recognized if they exceed 10 % of the amount of total obligations or 10 % of the fair value of plan assets, whichever is higher, changes in the discount rate usually have no impact, or only an insignificant impact, on the recognized expense or carrying amount of the provisions for the following year in respect of the retirement benefit plans in place within the group.

  Pension obligations for employee benefits that are classified and accounted for as defined benefit plans are not covered by any other plan assets except for the plan assets of MTU Maintenance Canada Ltd., Richmond, Canada and MTU München Unterstützungskasse GmbH, Munich. The existing plan assets are offset against the pension obligations. If the plan assets exceed the corresponding pension obligations, the surplus amount of the plan assets is capitalized according to IAS 19.58A.

  The total value of pension obligations and therefore the expenses in connection with employees' retirement benefits are determined using actuarial methods based on assumptions concerning interest rates and life expectancy. If it should become necessary to modify these assumptions, this could have a significant effect on the future amount of pension provisions or the expenses for pensions.

- The recognition and measurement of **other provisions** amounting to € 340.1 million (2009: € 421.1 million) and contingent liabilities amounting to € 126.6 million (2009: € 144.5 million) in connection with pending legal disputes or other pending claims arising from conciliation or arbitration proceedings, joint committee procedures, government lawsuits or other types of contingent liability (particularly those arising from risk- and revenue-sharing partnerships) involve substantial estimations on the part of MTU. For instance, the assessment of the probability that a pending case will be won or that an obligation will arise, or the quantification of the probable payment, all depend on an accurate evaluation of the prevailing situation. Provisions are accrued when a present legal or de facto obligation arises from a past event, it is probable that an outflow of economic resources will be required to fulfill this obligation and it is possible to reliably estimate the amount of the obligation. Due to the uncertainties attached to this assessment, the actual losses may deviate from those originally estimated, and hence from the amount of the provision. Furthermore, the calculation of certain specific provisions (for example to cover tax obligations, environmental obligations and legal risks) also involves considerable use of estimations. These estimations may change in the light of new information.

- **Financial liabilities:** There was no requirement to measure or recognize non-current assets or disposal groups classified as ‘held for sale’ or discontinued operations, since there was no intention to sell. For explanatory comments concerning the disposal group comprising assets and associated liabilities of MTU Aero Engines North America Inc., Newington, USA, which was sold in the financial year 2009, reference is made to Note 2. (Group reporting entity).

  Further to the above, there were no other changes to estimates or forecasts with a significant effect on the results of the reporting period.

  All assumptions and estimates are based on the prevailing conditions and judgments made at the balance sheet date. Estimations of future business developments also take into account the economic environment of the industry and the regions in which MTU is active, such as are deemed realistic at that time. In order to obtain new information, MTU relies on the services of internal experts and external consultants such as actuaries and legal counsels. Changes to the estimations of these obligations can have a significant impact on future operating results.

II. NOTES TO THE CONSOLIDATED INCOME STATEMENT

6. REVENUES

Revenues have developed as follows:

Revenues

in € million	2010	2009
Commercial engine business (OEM)		
Manufacturing revenues	1,116.4	997.3
Other revenues	61.2	56.4
Total commercial engine business	**1,177.6**	**1,053.7**
Military engine business (OEM)		
Manufacturing revenues	278.7	271.9
Other revenues	207.2	260.1
Total military engine business	**485.9**	**532.0**
Total commercial and military engine business (OEM)	**1,663.5**	**1,585.7**
Commercial maintenance business (MRO)	**1,074.0**	**1,057.6**
Other entities / consolidation	-30.1	-32.5
Total revenues	**2,707.4**	**2,610.8**

A more detailed presentation of revenues, showing external and intersegment revenues, their derivation from products and services and their attribution to major customers, is provided under 'Segment reporting'. Additional information can be found in Section 3.1. (Operating results) of the group management report.

7. COST OF SALES

Cost of sales

in € million	2010	2009
Cost of materials	-1,715.5	-1,684.5
Personnel expenses	-393.5	-369.4
Depreciation and amortization	-116.6	-113.3
Other cost of sales[1)]	41.1	15.0
Total cost of sales	**-2,184.5**	**-2,152.2**

[1)] mainly comprises changes in inventories for work in progress, the effect of translation differences, and changes in provisions.

Cost of sales includes an increase of € 9.0 million (2009: € 11.5 million) in write-downs on inventories, in order to account for them at their net realizable value. Further explanatory comments on write-downs on inventories are provided in Note 22. (Inventories).

8. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses, defined as company-funded research and development expenditure less capitalized development costs, have developed as follows:

Research and development expenses

in € million	2010	2009
Cost of materials	-68.6	-56.2
Personnel expenses	-71.2	-60.1
Depreciation and amortization	-8.3	-6.7
Company-funded research and development expenditure	**-148.1**	**-123.0**
of which the following amounts were capitalized:		
Development costs (OEM)	14.0	12.6
Development costs (MRO)	5.1	4.8
Capitalized development costs	**19.1**	**17.4**
Research and development costs recognized as expense	**-129.0**	**-105.6**

9. SELLING EXPENSES

Selling expenses

in € million	2010	2009
Cost of materials	-12.8	-10.1
Personnel expenses	-50.2	-44.4
Depreciation and amortization	-2.3	-3.8
Other selling expenses	-14.4	-13.9
Total selling expenses	**-79.7**	**-72.2**

Selling expenses comprise expenses for advertising and marketing, expenses in connection with air shows, trade fairs and exhibitions, media relations expenses, and valuation allowances and write-downs on trade receivables.

10. GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses

in € million	2010	2009
Cost of materials	-5.7	-6.3
Personnel expenses	-38.9	-32.3
Depreciation and amortization	-3.7	-2.6
Other administrative expenses	-4.0	-3.6
Total general administrative expenses	**-52.3**	**-44.8**

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

11. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses

in € million	**2010**	2009
Income		
Gains from the disposal of property, plant and equipment	0.7	4.6
Reimbursement of insurance claims	2.1	6.4
Rental income		
sublet property owned by MTU	1.2	0.9
sublet property owned by third parties	0.6	0.8
Sundry other operating income	3.7	9.3
Total other operating income	**8.3**	**22.0**
Expenses		
Losses from the disposal of property, plant and equipment	-0.9	-0.7
Rental payments for sublet property	-0.6	-0.7
Expenses associated with insurance claims	-0.2	-4.8
Sundry other operating expenses	-0.5	-4.9
Total other operating expenses	**-2.2**	**-11.1**
Result	**6.1**	**10.9**

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 2010, as in the previous year, other operating income did not include any government grants.

Under an asset purchase agreement dated May 18, 2009, MTU disposed of a group of assets and associated liabilities deriving from its interest in MTU Aero Engines North America Inc., Newington, USA. The disposal group mainly comprised property, plant and equipment, trade receivables, inventories, trade payables, and other liabilities and formed an operation of a cash-generating unit (the OEM segment). Consequently, the share of goodwill amounting to € 1.3 million attributed to the discontinued operation was recycled from assets to the income statement, where it was recognized as an expense. In total, the disposal of these assets and liabilities resulted in a net loss of € 4.4 million. This loss is recognized under sundry other operating expenses. The amount received in payment from the acquirer of the group of assets is included in cash flow from investing activities.

12. INTEREST RESULT

Interest result

in € million	2010	2009
Interest income	**6.3**	**2.6**
Interest expense on convertible bond	-7.9	-7.7
Interest expense on liabilities to banks	-5.2	-4.6
Interest expense on finance lease agreements	-1.3	-1.7
Interest expense attributable to non-consolidated companies	-0.1	-0.1
Other interest expenses	-5.4	-1.6
Interest expenses	**-19.9**	**-15.7**
Interest result (balance of income and expenses)	**-13.6**	**-13.1**
Thereof: on financial instruments classified according to IAS 39 as:		
Loans and receivables	9.9	2.4
Available-for-sale financial assets	0.9	
Financial liabilities measured at amortized cost	-19.9	-15.7
Financial instruments not within the scope of IFRS 7 or IAS 39	1.4	0.8

Interest income on financial instruments which are not within the scope of either IFRS 7 or IAS 39 amounted to € 1.4 million (2009: € 0.8 million) and related to cash and cash equivalents.

13. PROFIT/LOSS OF COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

Profit/loss of companies accounted for using the equity method comprises the operating loss of the joint venture Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde. In the financial year 2010, the company generated an operating loss of € 3.8 million (2009: € 1.5 million). At December 31, 2010, the carrying amount of the joint venture was compared with its recoverable amount. The recoverable amount was found to be below the carrying amount of the joint venture. As a result, the carrying amount was written down to its residual value and a valuation allowance on receivables of € 2.1 million (2009: € 0.0) was recognized in the income statement.

14. FINANCIAL RESULT ON OTHER ITEMS

The financial result on other items deteriorated slightly in the financial year 2010, with the net expense increasing by € 0.3 million to € -25.1 million (2009: € -24.8 million). This was above all attributable to fair value losses on derivative financial instruments amounting to € -8.2 million (2009: fair value gains of € 7.5 million) and losses on the revaluation of contingent liabilities totaling € -1.3 million (2009: gains totaling € 8.2 million). These expenses were largely offset by gains on currency translation amounting to € 11.1 million (2009: losses of € -11.3 million).

Financial result on other items

in € million	**2010**	2009
Profit/loss of related companies accounted for at cost		
Military program coordination and management companies	0.1	0.2
Other related companies	1.4	1.5
Total	**1.5**	**1.7**
Effects of currency translation		
Exchange rate gains/losses on currency holdings	10.8	-11.7
Exchange rate gains on financing transactions	0.6	0.1
Exchange rate gains/losses on finance leases	-0.3	0.3
Fair value gains/losses on derivatives		
Currency and interest rate derivatives	-11.5	2.9
Forward commodity sales contracts	3.3	4.6
Interest portion included in measurement of assets and liabilities		
Pension provisions	-24.4	-24.5
Contingent liabilities	-1.3	8.2
Receivables, other provisions, plan assets, liabilities and advance payments from customers	-3.7	-6.5
Result on other financial instruments	-0.1	0.1
Total	**-26.6**	**-26.5**
Financial result on other items	**-25.1**	**-24.8**
Thereof: on financial instruments classified in accordance with IAS 39 as:		
Financial assets at fair value through profit or loss - held for trading	13.9	29.9
Financial liabilities at fair value through profit or loss - held for trading	-22.2	-22.3

Financial result on other items groups together the profit/loss of related companies accounted for at cost, totaling € 1.5 million (2009: € 1.7 million) with all other income and expense items, including interest income and expenses on financial instruments classified as ‘held for trading’ in accordance with IAS 39.

FAIR VALUE GAINS/LOSSES ON DERIVATIVES

Fair value losses on derivative financial instruments amounting to € -11.5 million (2009: fair value gains of € 2.9 million) combined with fair value gains on forward commodity sales contracts for nickel amounting to € 3.3 million (2009: € 4.6 million) reduced the net gain/loss on derivatives by € 15.7 million (2009: increased by € 20.5 million).

At December 31, 2010, MTU held contractual obligations arising from one interest-rate cap with a nominal value of € 10 million and a maturity date of June 5, 2014, which fixes a ceiling of 4% on floating-rate loans on which interest is payable at the 6-month Euribor rate.

INTEREST PORTION INCLUDED IN MEASUREMENT OF ASSETS AND LIABILITIES

The reversal of the discount on pension obligations amounting to € 24.4 million in 2010 remained at the previous year's level due to a higher basis, despite the reduced forecast discount rate changes. Due to this reversal, and the effect of changes in the discount rate for contingent liabilities arising from business combinations, an expense was recognized to the amount of € 1.3 million (2009: income recognized to the amount of € 8.2 million). A total expense of € 3.7 million (2009: € 6.5 million) was recognized for the discounting of receivables accounted for at amortized cost, other provisions, advance payments from customers and the expected return on plan assets for pension obligations.

15. INCOME TAXES

Recognized income taxes comprise current income taxes paid or payable in the countries in which the group operates, and deferred tax income or expense.

Analysis of current and deferred tax expense

in € million	**2010**	2009
Tax expense incurred in current period	-107.4	-48.6
Tax expense (-) / income incurred in prior periods	-9.6	-1.0
Current tax expense	**-117.0**	**-49.6**
Deferred tax expense (-) / income resulting from temporary differences	33.1	-29.7
Deferred tax income resulting from tax credits	1.3	8.9
Deferred tax expense (-) / income resulting from losses available for carry-forward	-2.4	3.9
Deferred tax expense (-) / income	**32.0**	**-16.9**
Tax expense recognized in the income statement	**-85.0**	**-66.5**

The tax expense incurred in prior periods related to corporation and municipal trade tax arising from an external tax audit at MTU Maintenance Hannover. The tax expense incurred in prior periods for the previous year amounting to € 1.0 million related to corporation and municipal trade tax arising from past tax pooling arrangements, which was paid in the course of completion of the tax field audit at MTU Aero Engines GmbH.

A more detailed presentation of the deferred tax expense and income is provided in Note 38. (Deferred taxes).

TAX RECONCILIATION

For the financial year 2010, all deferred tax assets and liabilities of German entities relating to temporary differences were measured on the basis of the expected tax rate of 32.6 %. This rate comprises corporation tax at a rate of 15.0 % plus a solidarity surcharge of 5.5 % on the calculated corporation tax expense, and municipal trade tax on earnings with an average factor of 480 %, producing a municipal trade tax rate of 16.8 %. For 2009, the combined income tax rate was also 32.6 %. Deferred taxes arise on temporary differences between the tax bases of assets and liabilities of the individual group companies and their carrying amounts in the consolidated balance sheet. Reference is made to Note 38. (Deferred taxes) for changes in deferred tax assets and liabilities.

Tax reconciliation

in € million	**2010**	2009
Earnings before tax (EBT)	227.2	207.5
Income tax rate (including municipal trade tax)	32.6%	32.6%
Expected tax expense	**-74.1**	**-67.6**
Impact of recognition and measurement adjustments and write-downs on deferred tax assets	2.7	3.1
Impact of non-tax-deductible expenses and tax-exempt income	-6.0	-1.0
Impact of lower tax rate for companies outside Germany	2.4	2.1
Impact of investments accounted for using the equity method	-0.7	-0.5
Impact of tax field audit	-9.6	
Tax credits available for carry-forward	1.3	8.9
Tax deducted at source on profit distribution of MTU Maintenance Zhuhai	-2.6	
Impact of tax-effective write-downs / reversal of write-downs on treasury shares		-12.0
Other impacts	1.6	0.5
Tax expense recognized in the consolidated income statement	**-85.0**	**-66.5**
Effective tax rate (in %)	37.4	32.0

IMPACT OF TAX FIELD AUDIT

The tax field audit for MTU Maintenance Hannover GmbH covering the period 2004 to 2007 was completed during the financial year 2010. The tax audit resulted in additional tax expenses totaling € 9.6 million. This also includes tax reversal effects for the period from the financial year 2008. Some of the tax audit findings relate to items that will result in lower taxable profits in subsequent years. Adjusted to eliminate the impact of the additional tax expense arising from the tax audit and the withholding tax on distributed profits of MTU Maintenance Zhuhai Co. Ltd., China, the effective group tax rate would have been 32.0%.

16. EARNINGS PER SHARE

In the financial year 2010, the potential issues of common stock in connection with the Share Matching Plan (SMP) for the Board of Management approved in 2010, the convertible bond issued in 2007 and the Matching Stock Program (MSP) launched on June 6, 2005 all had a dilutive effect on earnings per share.

The table below shows earnings per share together with the dilutive effect of the potential issue of common stock in connection with the convertible bond, the Matching Stock Program, and the Share Matching Plan.

Undiluted and diluted earnings per share in 2010

	Jan. 1 to Dec. 31, 2010	Reconciliation of financial instruments				Jan. 1 to Dec. 31, 2010
	Undiluted earnings per share	Interest expense convertible bond and no. of shares	Current and deferred taxes	Matching Stock Program shares	Share Matching Plan[1] shares	Diluted earnings per share
Earnings after tax (EAT) in € million	142.2	7.9	-2.6			147.5
Weighted average number of outstanding shares	48,868,149	3,084,849		152,621	5,349	52,110,968
Earnings per share in €	**2.91**					**2.83**

[1] New plan first offered in the financial year 2010.

Undiluted and diluted earnings per share in 2009

	Jan. 1 to Dec. 31, 2009	Reconciliation of financial instruments				Jan. 1 to Dec. 31, 2009
	Undiluted earnings per share	Interest expense convertible bond and no. of shares	Current and deferred taxes	Matching Stock Program shares	Share Matching Plan[1] shares	Diluted earnings per share
Earnings after tax (EAT) in € million	141.0	7.7	-2.5			146.2
Weighted average number of outstanding shares	48,858,948	3,086,869		180,540	n.a.	52,126,357
Earnings per share in €	**2.89**					**2.80**

[1] New plan first offered in the financial year 2010.

17. ADDITIONAL DISCLOSURES RELATING TO THE INCOME STATEMENT

After adjustments to eliminate the effects of purchase price allocation in connection with the acquisition of the group companies, and non-recurring items, and the addition of scheduled depreciation/amortization and impairment losses, the following intermediate results are obtained:

Reconciliation of EBIT to EBIT (adjusted), depreciation/amortization expense, and non-recurring items

in € million	2010	2009
Earnings before interest and tax (EBIT)	**268.0**	**246.9**
Depreciation/amortization effects of purchase price allocation (PPA)		
Intangible assets	40.1	40.1
Property, plant and equipment	3.2	5.3
Total acquisition-related depreciation/amortization expense	**43.3**	**45.4**
EBIT (adjusted)	**311.3**	**292.3**

Costs by function include the following personnel expenses items:

Personnel expenses

in € million	**2010**	2009
Wages and salaries	451.6	405.8
Social security, pension and other benefit expenses[1)]	87.4	87.4
Total personnel expenses	**539.0**	**493.2**

[1)] Excluding interest cost; previous year's amount adjusted accordingly.

Pension benefits account for € 14.1 million (2009: € 17.6 million) of these expenses. The employer's share of social security contributions, which is recognized as an expense, amounted to € 73.3 million (2009: € 69.8 million).

The average number of persons employed during the financial year 2010 breaks down as follows:

Disclosures relating to the average number of employees

Average number of	**2010**	2009
Industrial staff	3,343	3,288
Administrative staff	3,534	3,467
Employees on temporary contracts	377	354
Trainees	323	308
Students on work experience projects	225	201
Total average number of employees	**7,802**	**7,618**

Costs by function include the following cost of materials items:

Cost of materials

in € million	**2010**	2009
Cost of raw materials and supplies	815.5	825.2
Cost of purchased services	964.3	906.3
Total cost of materials	**1,779.8**	**1,731.5**

The total fees calculated in the financial year 2010 pursuant to Section 314 (1) no. 9 of the German Commercial Code (HGB) for the accounting firm Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, the auditor of the consolidated financial statements, amounted to € 1.1 million (2009: € 1.0 million).

Fees paid to the auditor

in € million	**2010**	2009
Financial statement auditing services	0.6	0.6
Tax consulting services	0.3	0.3
Other independent auditing services	0.2	0.1
Total fees paid to the auditor	**1.1**	**1.0**

The expense item 'Financial statement auditing services' comprises all fees paid to the external group auditor for the auditing of the financial statements of all MTU companies.

III. NOTES TO THE CONSOLIDATED BALANCE SHEET

18. ANALYSIS OF CHANGES IN INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, AND FINANCIAL ASSETS 2010

Cost of acquisition and construction 2010

in € million	Balance at Jan. 1, 2010	Translation differences	Additions	Transfer	Disposals	Balance at Dec. 31, 2010
Program assets	841.9					841.9
Program-independent technologies	124.7					124.7
Customer relations	66.5	1.2				67.7
Rights and licenses	82.5	1.2	5.5	1.7	-3.9	87.0
Goodwill	403.4	1.8				405.2
Prepayments on intangible assets	1.4					1.4
Development costs	73.1		19.1		-1.4	90.8
Intangible assets	**1,593.5**	**4.2**	**24.6**	**1.7**	**-5.3**	**1,618.7**
Land, leasehold rights and buildings, including buildings on non-owned land	360.1	2.3	1.4	19.7		383.5
Technical equipment, plant and machinery	358.7	3.1	24.1	33.8	-11.0	408.7
Other equipment, operational and office equipment	260.3	1.3	30.5	11.9	-3.8	300.2
Advance payments and construction in progress	78.8	0.1	28.8	-67.1	-0.2	40.4
Property, plant and equipment	**1,057.9**	**6.8**	**84.8**	**-1.7**	**-15.0**	**1,132.8**
Investments in subsidiaries						
Investments in associated companies	0.4					0.4
Equity investments in joint ventures	6.4				-2.1	4.3
Other equity investments	3.1					3.1
Other loans			2.6		-0.5	2.1
Financial assets[1]	**9.9**		**2.6**		**-2.6**	**9.9**
Total assets	**2,661.3**	**11.0**	**112.0**		**-22.9**	**2,761.4**

[1] Insofar as they are accounted for using the equity method or at cost.

Depreciation/amortization and carrying amount 2010

in € million	Balance at Jan. 1, 2010	Translation differences	Depreciation/ amortization	Disposals	Balance at Dec. 31, 2010	**Carrying amount Dec. 31, 2010**
Program assets	194.3		27.0		221.3	620.6
Program-independent technologies	74.8		12.4		87.2	37.5
Customer relations	25.9	0.2	2.9		29.0	38.7
Rights and licenses	50.0	0.8	8.0	-3.9	54.9	32.1
Goodwill						405.2
Prepayments on intangible assets						1.4
Development costs	0.3		0.6		0.9	89.9
Intangible assets	**345.3**	**1.0**	**50.9**	**-3.9**	**393.3**	**1,225.4**
Land, leasehold rights and buildings, including buildings on non-owned land	58.8	0.5	11.1		70.4	313.1
Technical equipment, plant and machinery	256.2	1.8	36.7	-7.7	287.0	121.7
Other equipment, operational and office equipment	186.2	1.0	32.2	-3.5	215.9	84.3
Advance payments and construction in progress						40.4
Property, plant and equipment	**501.2**	**3.3**	**80.0**	**-11.2**	**573.3**	**559.5**
Investments in subsidiaries						
Investments in associated companies						0.4
Equity investments in joint ventures						4.3
Other equity investments						3.1
Other loans						2.1
Financial assets[1]						**9.9**
Total assets	**846.5**	**4.3**	**130.9**	**-15.1**	**966.6**	**1,794.8**

[1] Insofar as they are accounted for using the equity method or at cost.

ANALYSIS OF CHANGES IN INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, AND FINANCIAL ASSETS 2009

Cost of acquisition and construction 2009

in € million	Balance at Jan. 1, 2009	Translation differences	Additions	Transfer	Disposals	Balance at Dec. 31, 2009
Program assets	840.1		1.8			841.9
Program-independent technologies	124.7					124.7
Customer relations	66.9	-0.4				66.5
Rights and licenses	79.3		4.0	3.7	-4.5	82.5
Goodwill	408.2	-0.6			-4.2	403.4
Prepayments on intangible assets			1.4			1.4
Development costs	55.7		17.4			73.1
Intangible assets	**1,574.9**	**-1.0**	**24.6**	**3.7**	**-8.7**	**1,593.5**
Land, leasehold rights and buildings, including buildings on non-owned land	334.1	-0.1	12.3	15.1	-1.3	360.1
Technical equipment, plant and machinery	340.6	0.4	21.9	18.7	-22.9	358.7
Other equipment, operational and office equipment	224.8	-0.1	35.1	5.4	-4.9	260.3
Advance payments and construction in progress	75.3	1.5	46.4	-42.9	-1.5	78.8
Property, plant and equipment	**974.8**	**1.7**	**115.7**	**-3.7**	**-30.6**	**1,057.9**
Investments in subsidiaries						
Investments in associated companies	0.4					0.4
Equity investments in joint ventures	7.9				-1.5	6.4
Other equity investments	0.1		3.0			3.1
Other loans						
Financial assets[1)]	**8.4**		**3.0**		**-1.5**	**9.9**
Total assets	**2,558.1**	**0.7**	**143.3**		**-40.8**	**2,661.3**

[1)] Insofar as they are accounted for using the equity method or at cost.

Depreciation/amortization and carrying amount 2009

in € million	Balance at Jan. 1. 2009	Translation differences	Depreciation/ amortization	Reversals	Transfers	Disposals	Balance at Dec. 31. 2009	**Carrying amount Dec. 31. 2009**
Program assets	167.4		26.9				194.3	647.6
Program-independent technologies	62.3		12.5				74.8	49.9
Customer relations	23.2	-0.1	2.8				25.9	40.6
Rights and licenses	47.0		7.2		0.3	-4.5	50.0	32.5
Goodwill								403.4
Prepayments on intangible assets								1.4
Development costs	0.1		0.2				0.3	72.8
Intangible assets	**300.0**	**-0.1**	**49.6**		**0.3**	**-4.5**	**345.3**	**1,248.2**
Land, leasehold rights and buildings, including buildings on non-owned land	49.1		10.2			-0.5	58.8	301.3
Technical equipment, plant and machinery	240.6		35.3	-0.9		-18.8	256.2	102.5
Other equipment, operational and office equipment	160.0	-0.2	31.3	-0.2	-0.3	-4.4	186.2	74.1
Advance payments and construction in progress								78.8
Property, plant and equipment	**449.7**	**-0.2**	**76.8**	**-1.1**	**-0.3**	**-23.7**	**501.2**	**556.7**
Investments in subsidiaries								
Investments in associated companies								0.4
Equity investments in joint ventures								6.4
Other equity investments								3.1
Other loans								
Financial assets[1]								**9.9**
Total assets	**749.7**	**-0.3**	**126.4**	**-1.1**		**-28.2**	**846.5**	**1,814.8**

[1] Insofar as they are accounted for using the equity method or at cost.

19. INTANGIBLE ASSETS

Intangible assets mainly comprise program assets capitalized by purchase price allocation (PPA), program-independent technologies and software (the latter mostly for engineering applications), and acquired goodwill.

The depreciation/amortization expense on intangible assets is included in the presentation of the following line items: cost of sales € 45.3 million (2009: € 44.0 million), research and development expenses € 3.0 million (2009: € 2.5 million), selling expenses € 1.4 million (2009: € 1.7 million), and general administrative expenses € 1.2 million (2009: € 1.4 million).

The additions to development costs of € 19.1 million (2009: € 17.4 million) mainly comprised company-funded development expenditure for General Electric's GEnx commercial engine program and General Electric's GE38 military engine program. The additions to rights and licenses amounting to € 5.5 million (2009: € 4.0 million) were acquired in exchange for payment.

DEVELOPMENT COSTS

MTU acquired a 6.65% stake in the GEnx engine program for the Boeing 787 and 747-8 through a cooperation agreement between the General Electric Company and MTU Aero Engines GmbH, Munich. In the financial year 2010, internally generated development costs amounting to € 7.1 million (2009: € 4.3 million) were capitalized for this engine program.

In 2008, MTU was conferred full development responsibility for a module of a U.S. military engine program, the General Electric GE38 helicopter engine. Further internally generated development costs amounting to € 6.9 million (2009: € 8.3 million) were capitalized in 2010.

The commercial MRO business has developed special repair processes capable of increasing the efficiency of engine maintenance, allowing intangible assets totaling € 5.1 million (2009: € 4.8 million) to be recognized.

20. PROPERTY, PLANT AND EQUIPMENT

Through its capital expenditure on property, plant and equipment for the OEM business, MTU aims to consolidate and extend its position as a leading engine manufacturer, improve efficiency, and modernize equipment and machinery to state-of-the-art standards.

The depreciation/amortization expense on property, plant and equipment is included in the presentation of the following line items: cost of sales € 71.3 million (2009: € 69.2 million), research and development expenses € 5.3 million (2009: € 4.2 million), selling expenses € 0.9 million (2009: € 2.0 million) and general administrative expenses € 2.5 million (2009: € 1.4 million).

LAND, LEASEHOLD RIGHTS AND BUILDINGS, INCLUDING BUILDINGS ON NON-OWNED LAND

Land and buildings leased by MTU Maintenance Hannover from Silkan Gewerbepark Nord Hannover-Langenhagen GmbH & Co. KG, Munich, have been capitalized because an attractive purchase option has been granted to the company at the end of the leasing period.

TECHNICAL EQUIPMENT, PLANT AND MACHINERY

The capital expenditure on technical equipment, plant and machinery totaling € 24.1 million (2009: € 21.9 million) relates mainly to the purchase of CNC lathes and grinding/milling machines.

OTHER EQUIPMENT, OPERATIONAL AND OFFICE EQUIPMENT

The capital expenditure on other equipment, operational and office equipment, which mainly comprises special operating equipment, fixtures and tools for new and ongoing programs, was within normal limits in the year under review.

ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS

Additions to this item in the financial year 2010 totaling € 28.8 million (2009: € 46.4 million) relate to work in progress on technical equipment, plant and machinery for new engine programs and the modernization of a test rig in Munich.

Capitalized assets under finance lease agreements are based on the following components:

Minimum lease payments under finance lease agreements

in € million	**Dec. 31, 2010**	Dec. 31, 2009
Future minimum lease payments		
due in less than one year	26.1	1.4
due in more than one and less than five years	0.2	10.3
due in more than five years		18.3
Total future minimum lease payments	**26.3**	**30.0**
Interest portion of future minimum lease payments		
due in less than one year	-1.4	-0.2
due in more than one and less than five years		-1.8
due in more than five years		-2.2
Total interest portion	**-1.4**	**-4.2**
Present value of future minimum lease payments		
due in less than one year	24.7	1.2
due in more than one and less than five years	0.2	8.5
due in more than five years		16.1
Total present value of future minimum lease payments	**24.9**	**25.8**

The following carrying amounts resulted from the capitalized assets under finance lease agreements at the balance sheet date. The change in the future minimum lease payments is due to fact that, on December 22, 2010, a purchase option was agreed with Silkan Gewerbepark Nord Hannover-Langenhagen GmbH & Co. KG for land and buildings previously leased and capitalized. This option can be exercised on December 31, 2011.

Carrying amounts

in € million	**Carrying amount Dec. 31, 2010**	Carrying amount Dec. 31, 2009
Land and buildings	24.1	25.0
Technical equipment, plant and machinery, operational and office equipment	1.7	2.4
Total carrying amounts	**25.8**	**27.4**

21. FINANCIAL ASSETS

The following table shows the carrying amounts of financial assets included in the consolidated financial statements:

Composition of financial assets

in € million	Dec. 31, 2010	Dec. 31, 2009
Financial assets accounted for using the equity method		2.1
Joint ventures accounted for at cost	4.3	4.3
Financial assets accounted for at cost	5.6	3.5
Subtotal	**9.9**	**9.9**
Available-for-sale financial assets	72.0	
Financial assets classified as cash flow hedges	17.6	9.9
Derivative financial instruments without hedging relationship	4.2	6.7
Total	**103.7**	**26.5**

At the balance sheet date, unrealized losses on available-for-sale financial assets totaling € -0.2 million were recognized in other comprehensive income, net of related tax effects. The carrying amounts also include accrued interest of € 0.5 million.

The derivative financial assets can be broken down as follows:

Derivative financial instruments

	Total		Non-current		Current	
in € million	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Forward foreign exchange contracts	17.6	9.9	14.8	5.1	2.8	4.8
Forward commodity sales contracts	3.1	1.5	0.5	1.0	2.6	0.5
Currency options	1.1	5.2	0.6	1.0	0.5	4.2
Total derivative financial instruments	**21.8**	**16.6**	**15.9**	**7.1**	**5.9**	**9.5**

The following amounts have been recognized in respect of the assets, liabilities, income and expenses of joint ventures and associated companies, with the exception of MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China:

Income statement and balance sheet disclosures for joint ventures and associated companies

in € million	**Joint ventures 2010[1]**	**Associated companies 2010[2]**	Joint ventures 2009[1]	Associated companies 2009[2]
Disclosures relating to the income statement				
Income	132.6	1,028.5	130.4	1,111.6
Expenses	-129.7	-1,027.6	-133.6	-1,110.2
Result	**2.9**	**0.9**	**-3.2**	**1.4**
Disclosures relating to the balance sheet				
Non-current assets	16.1	3.9	17.8	3.0
Current assets	58.7	236.6	52.5	166.4
Total assets	**74.8**	**240.5**	**70.3**	**169.4**
Equity	6.8	3.3	3.4	3.0
Non-current liabilities	7.9	1.0	9.0	1.0
Current liabilities	60.1	236.2	57.9	165.4
Total equity and liabilities	**74.8**	**240.5**	**70.3**	**169.4**

[1] The disclosures for the joint ventures Ceramic Coating Center S.A.S., Paris, France, and Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia, relate to the prior year, as the actuals for the year stated were not available at the time of reporting.
[2] Data for the prior financial year, as the actuals for the year stated were not available at the time of reporting.

22. INVENTORIES

Inventories comprise the following components:

Inventories

in € million	**Dec. 31, 2010**	Dec. 31, 2009
Raw materials and supplies	323.1	308.8
Work in progress	347.4	306.0
Advance payments	30.5	33.9
Total inventories	**701.0**	**648.7**

The change in inventories attributable to write-downs on raw materials and supplies and work in progress is as follows:

Write-downs on inventories

in € million	2010	2009
Balance at January 1	49.3	37.8
Allocated/utilized (-)	9.0	11.5
Balance at December 31	**58.3**	**49.3**

In line with the group's business model, the write-down method represents the best possible means of estimating the net realizable value of inventories held by MTU.

23. TRADE RECEIVABLES

Trade receivables

in € million	Dec. 31, 2010	Dec. 31, 2009
Third parties	498.4	344.6
Associated companies, joint ventures and other equity investments	33.5	46.6
Total trade receivables	**531.9**	**391.2**

Transactions with related companies are presented in more detail in Note 43.1.1. (Business with related companies).

The valuation allowances on trade receivables changed as follows:

Valuation allowances

in € million	2010	2009
Allowances at January 1	**7.9**	**10.4**
Translation differences	0.3	0.1
Additions (expense for allowances)		
Specific allowances	4.5	2.8
Utilized	-2.0	-3.5
Reversed	-1.3	-1.9
Allowances at December 31	**9.4**	**7.9**

The expenses for bad debts on trade receivables written off as uncollectable offset against income from bad debts recovered amounted to € -0.8 million (2009: € -2.3 million).

All expense and income amounts arising from valuation allowances and the write-off of uncollectable bad debts on trade receivables are recognized as selling expenses.

24. CONSTRUCTION CONTRACT RECEIVABLES

Interest-free advance payments received for construction contracts directly attributable to an engine project are offset against the corresponding receivables. If the amount of the directly attributable advance payments received exceeds the amount of the receivables, the balance is recognized under construction contract payables.

Revenues from construction contracts in the financial year 2010 amounted to € 75.7 million (2009: € 59.9 million). Contract-related costs to be offset against these revenues amounted to € 97.7 million (2009: € 64.8 million). The amount of € 424.3 million for construction contract receivables at December 31, 2010 (2009: € 339.0 million) includes advance payments received amounting to € 286.1 million (2009: € 240.6 million). No amounts were retained for partial settlement of construction contract receivables.

For disclosures relating to construction contract receivables that have been offset against directly attributable advance payments received, please refer to Note 35. (Construction contract payables).

The following table shows the carrying amounts and a breakdown of the past due dates of unimpaired trade and construction contract receivables at the balance sheet date:

Impairment status and due dates of trade and construction contract receivables

in € million	**Dec. 31, 2010**	Dec. 31, 2009
Carrying amount	**956.2**	**730.2**
Thereof: neither impaired nor past due at the balance sheet date	756.5	546.3
in %	79.1	74.8
Thereof: not impaired at the balance sheet date and past due in the following time windows		
Less than 90 days	124.4	96.7
Between 90 and 180 days	32.9	26.4
Between 181 and 360 days	4.3	18.3
More than 360 days	9.6	4.5
Total: not impaired but past due	**171.2**	**145.9**
in %	17.9	20.0

25. OTHER ASSETS

Other assets comprise the following items:

Other assets

	Total		Non-current		Current	
in € million	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
Other taxes	16.0	14.8			16.0	14.8
Receivable from employees	1.4	1.0			1.4	1.0
Receivable from suppliers	5.3	3.3			5.3	3.3
Sundry other assets	9.1	14.2	6.0	6.1	3.1	8.1
Total	**31.8**	**33.3**	**6.0**	**6.1**	**25.8**	**27.2**

The other taxes totaling € 16.0 million (2009: € 14.8 million) comprise an amount of € 15.6 million (2009: € 14.4 million) relating to input taxes and an amount of € 0.4 million (2009: € 0.4 million) relating to receivables of foreign group companies due to transaction taxes.

The sundry other assets totaling € 9.1 million (2009: € 14.2 million) groups together a variety of different assets. These include the surplus amount of the plan assets of MTU Maintenance Canada Ltd., Richmond, Canada amounting to € 3.5 million (2009: € 2.4 million). Please refer to Note 30. (Pension provisions) for further information on the calculation of the surplus plan assets.

The table below shows the carrying amounts and a breakdown of the past due dates of the unimpaired loans and receivables stated in other assets at the balance sheet date:

Impairment status and due dates of other assets

Loans and receivables	Due within 1 year		Due in more than 1 year	
in € million	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
Carrying amount	9.8	12.4	6.0	6.1
Thereof: neither impaired nor past due at the balance sheet date	9.5	12.4	6.0	6.1
in %	96.9	100.0	100.0	100.0
Thereof: not impaired at the balance sheet date and past due in the following time windows				
Less than 90 days	0.1			
Between 90 and 180 days				
Between 181 and 360 days	0.2			
More than 60 days				
Total: not impaired but past due	**0.3**			
in %	3.1			

26. CASH AND CASH EQUIVALENTS

The cash and cash equivalents of € 111.9 million (2009: € 120.8 million) comprise cash in hand and bank deposits with an original maturity of three months or less. This item also includes foreign currency holdings amounting to € 73.2 million (2009: € 52.4 million).

MTU is not free to dispose of cash and cash equivalents in the amount of € 15.9 million (2009: € 9.7 million) held by MTU Maintenance Zhuhai Co. Ltd.

27. INCOME TAX CLAIMS

The company had no current tax assets in 2010. In 2009, current tax assets amounted to € 1.2 million.

28. PREPAYMENTS

The prepayments of € 6.0 million (2009: € 7.2 million) consist primarily of prepayments for insurance premiums and rents.

29. EQUITY

Changes in group equity are set out in the consolidated statement of changes in equity.

29.1. SUBSCRIBED CAPITAL

The company's subscribed capital (capital stock) is unchanged and amounts to € 52.0 million, divided into 52,000,000 registered non-par-value shares.

29.2. AUTHORIZED CAPITAL

AUTHORIZED CAPITAL I

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

29.3. CONDITIONAL CAPITAL

CONVERTIBLE BONDS AND BONDS WITH WARRANTS

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

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

conditional capital increase is to issue shares to owners or creditors of convertible bonds and/or bonds with warrants in accordance with the authorization granted to the company's Board of Management under a resolution passed by the Annual General Meeting on April 22, 2010. Shares may be issued at a conversion price or warrant exercise price determined on the basis of the conditions laid down in the relevant authorization.

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

29.4. CAPITAL RESERVES

Capital reserves include premiums from the issue of shares, the equity component (net of taxes) and proportional transaction costs of the issued convertible bond, the fair value of shares granted under the Matching Stock Program (MSP) and the Share Matching Plan, and an amount of € 0.2 million (2009: € 3.4 million) representing the excess over the sale proceeds from the shares sold under the MAP employee stock option program. For information on the equity component of the convertible bond and the associated deferred tax assets/liabilities, transaction costs, and income tax reductions, please read the explanatory comments under Note 33. (Financial liabilities).

MATCHING STOCK PROGRAM (MSP)

To strengthen the motivation to meet business targets, the group has set up the MSP, an incentive and risk-sharing instrument allowing management-level employees to participate in its share capital. The MSP authorizes the subscription of phantom stocks. On the date of subscription to the MSP, participants must have an existing employment contract with MTU Aero Engines Holding AG, Munich, or a German company in the MTU group.

When the program was launched on June 6, 2005, the group granted a defined quantity of phantom stocks to the participants for the duration of five years, for allocation in equal tranches over this period. In order to be granted phantom stock, it was a condition at the start of the program that MSP participants should hold their own investment in the company's share capital. Each MSP share acquired from the program authorizes the holder to subscribe for six phantom stocks per allocated tranche. MSP shares are not subject to any restraints on disposal and entitle the holder to participate in dividend and subscription rights.

Each tranche of allocated phantom stock is subject to a vesting period of two years and can be converted to taxable compensation upon achievement of the average exercise price. It is a mandatory condition that this compensation must be used to purchase shares in MTU. The shares are purchased at the market price on the strike date (exercise date). They must be held for two years after the strike date.

EXERCISE CONDITIONS

A tranche of phantom stock allocated under the Matching Stock Program can be exercised when the average, non-weighted closing price of the shares in Xetra trading on the Frankfurt Stock Exchange exceeds the basis price by 10% for a period of 60 trading days prior to the exercise date of the phantom stocks.

ACCOUNTING POLICY

The fair value of the phantom stock is carried as a personnel expense on a pro rata basis and simultaneously recognized in equity (capital reserves) up to the stock's exercise date.

MSP program duration assumptions

	2010	2009
Stock price change p.a.	10.0%	10.0%
Expected dividend increase p.a.	5.0%	5.0%
Expected volatility	23.0%	23.0%
Time to vesting of each tranche	2 years	2 years
Risk-free interest rate per tranche	4.0 - 4.4%	4.0 - 4.4%
Fluctuation rate	4.0%	4.0%

When the program was launched in June 2005, the expected volatility was determined from the average volatility of shares in comparable listed companies with similar business models, given that MTU did not yet have any capital market history of its own at that time.

Changes in valuations for **non-market-related exercise thresholds** (such as significant fluctuations in personnel) are considered in the assumptions relating to the expected number of exercisable shares of phantom stock. The fair value is thus based on the estimated number of ultimately exercisable equity instruments. The impact of any changes to original estimates is taken into account in the income statement and via a corresponding adjustment to equity for the remaining period until they become non-forfeitable.

Changes in market conditions such as variations in share price performance and price volatility, on the other hand, do not lead to any subsequent adjustment of the fair value.

The table shows the changes in granted equity instruments and the number of phantom stocks that were not exercisable at December 31, 2010 because the vesting period had not yet expired.

MSP phantom stocks

	Dec. 31, 2010		Dec. 31, 2009	
	Number of phantom shares	Fair value in €[1]	Number of phantom shares	Fair value in €[1]
At the beginning of the year				
Phantom stocks granted	772,032		1,154,208	
Change during the year				
Phantom stocks granted				
Phantom stocks forfeited	-17,520		-27,900	
Phantom stocks exercised	-386,730			
Phantom stocks lapsed			-354,276	
At the end of the year:				
Phantom stocks not yet exercisable	**367,782**	**3.57**	**772,032**	**3.43**

[1] Weighted average fair value of the tranches granted for the period 2005-2009 (taking into account the new rules for determining the exercise price, applicable for the first time in 2007).

EXPLANATORY COMMENTS CONCERNING CHANGES DURING THE YEAR:

- The number of phantom stocks granted relates to phantom stocks granted by MTU under the agreed terms of the program at the time the five tranches were allocated for the period from 2005 to 2009.
- The number of phantom stocks forfeited relates to stocks held by employees whose employment contract was terminated prior to the exercise date for the tranche in question.
- The number of phantom stocks exercised relates to phantom stocks converted into MTU shares after reaching the exercise threshold (tranche 4); the weighted average share price on the exercise date amounted to € 34.92.
- The number of phantom stocks lapsed relates to phantom stocks that failed to reach the exercise threshold (tranches 2 and 3).

The 367,782 phantom stocks not yet exercisable at the end of the financial year 2010 (2009: 772,032 phantom stocks) relate to the fifth tranche allocated in the financial year 2009.

In the financial year 2010, the average fair value of a phantom stock was € 3.57 (2009: € 3.43) and was calculated using the Black-Scholes pricing method.

At December 31, 2010, the weighted average remaining duration of contracts under the Matching Stock Program was 0.5 years (2009: 0.9 years).

EXPECTED EXERCISE PRICE FOR THE FIFTH MSP TRANCHE

Assuming a dividend payment for the financial year 2010 of € 1.10 per share, which the Board of Management and the Supervisory Board intends to propose to the Annual General Meeting, the exercise price for the fifth tranche allocated in June 2009 will be € 22.59.

The total expense for share-based payments under the MSP in the financial year 2010 was € 0.3 million (2009: € 1.4 million).

SHARE MATCHING PLAN (SMP)

For a description of the SMP we refer you to the management compensation report, which forms part of the Corporate Governance Report. The members of the Board of Management are entitled to use the amount disbursed under the Performance Share Plan (PSP) to purchase MTU Aero Engines Holding AG shares, which must then be held for a further three years. At the end of the vesting period, these shares are matched on the basis of a Share Matching Plan (SMP), with each Board of Management member being awarded one additional free share for every three MTU shares acquired in this way. The entitlement to additional free shares is deemed to have expired once the corresponding number of such shares has been transferred to the member of the Board of Management. The total value of the matching shares available for allocation at the end of the vesting period is limited to three times the initial purchase price.

The number of future matching shares depends on the amount paid out under the PSP. For an explanation of the PSP we refer you to the corresponding section of Note 32. (Other provisions). In order to determine the fair value, a combined Monte Carlo simulation and Black-Scholes pricing model was used. The expected payout was determined on the basis of exactly the same assumptions used to value the Long Term Incentive Plan (PSP). The payout calculated serves as a basis for valuing the SMP in accordance with the Black-Scholes pricing model. The fair value of this forward option estimated at the grant date is recognized in the balance sheet taking into account the vesting conditions. The vesting period of the forward option is 52 months.

The fair value per performance share of the SMP, which was calculated by an independent expert in accordance with the recommendations of IFRS 2, amounted to € 3.72 at January 1, 2010 and € 4.23 at July 1, 2010, taking into account a fluctuation rate of 4 %. The accounting methods used to calculate these figures are documented in the fairness opinion established at the grant date. Rounded to the nearest thousand, the total expense of the 40,727 performance shares granted under the share matching program in the financial year 2010 was € 158,000, of which € 31,000 was recognized in the financial year 2010.

In the financial year 2010, the following numbers of performance shares were granted to the members of the MTU Board of Management under the first tranche of the PSP:

SMP performance shares

Members of the Board of Management	Grant date	Performance shares (number)
Egon Behle	July 1, 2010	12,061
Dr. Rainer Martens	January 1, 2010	9,214
Dr. Stefan Weingartner	January 1, 2010	9,214
Reiner Winkler	January 1, 2010	10,238
Total		**40,727**

The method of calculation is documented in the fairness opinion established at the grant date.

The fair values of the options granted in the financial year 2010 and effective January 1, 2010 were calculated on the basis of the following parameters:

SMP parameters at January 1, 2010

	Effective Jan. 1, 2010
Dividend yield in %	2.436
Expected volatility in %	52.82
Risk-free interest rate in %	2.297 / 3.131
Expected time to vesting of (forward) options in months	88
Average share price on 30 consecutive trading days prior to the grant date in €	36.63

The fair value per performance share calculated in this manner amounted to € 4.44 or, taking into account a fluctuation rate of 4 %, € 3.72.

The fair values of the options granted in the financial year 2010 and effective July 1, 2010 were calculated on the basis of the following parameters:

SMP parameters at July 1, 2010

	Effective July 1, 2010
Dividend yield in %	2.068
Expected volatility in %	52.82
Risk-free interest rate in %	1.368 / 2.252
Expected time to vesting of (forward) options in months	88
Average share price on 30 consecutive trading days prior to the grant date in €	46.52

The fair value per performance share calculated in this manner amounted to € 5.05 or, taking into account a fluctuation rate of 4 %, € 4.23.

MAP EMPLOYEE STOCK OPTION PROGRAM

In the financial year 2008 and each succeeding year, the Board of Management of MTU Aero Engines Holding AG, Munich, has invited group employees to purchase shares under the MAP employee stock option program, which runs for a period of two years in each case. Under this program, MTU offers to match each participant's investment at the end of a two-year vesting period with a taxable cash payment of an amount corresponding to 50 of the amount invested by the employee in MTU shares at the beginning of the program.

The number of shares sold to group employees under the terms of the MAP employee stock option program since the financial year 2008 is as follows:

MAP employee stock option program

Issue date	Number of shares sold	Average acquisition cost (in € million)	Total proceeds of sale (in € million)	Selling price per share (in €)
June 2010	59,096	2.7	2.5	42.58
June 2009	150,863	6.7	3.3	21.80
June 2008	192,959	8.2	4.9	25.19

The purchase price for the third tranche of MTU shares distributed in the financial year 2010 was based on the lowest share price on April 16, 2010 (purchase date) and amounted to € 42.58 per share. The issued shares, valued at the average acquisition cost, were removed from the equity item 'treasury shares'. The difference between the proceeds of the sale and the original acquisition cost amounted to a total of € 0.2 million (2009: € 3.4 million) and was deducted from capital reserves.

The total expense for the matching exercise in connection with the MAP in the financial year 2010 amounted to € 1.7 million (2009: € 2.0 million) and was recognized in the income statement on a pro rata basis over the duration of the respective tranche. At December 31, 2010, the liability amounted to € 2.0 million (2009: € 2.8 million).

29.5. REVENUE RESERVES

Revenue reserves comprise the post-acquisition and non-distributed earnings of consolidated group companies.

29.6. TREASURY SHARES

PURCHASE OF TREASURY SHARES IN ACCORDANCE WITH THE AUTHORIZATIONS GRANTED BY THE ANNUAL GENERAL MEETING ON APRIL 22, 2010

The Board of Management of MTU Aero Engines Holding AG, Munich, has been authorized by resolution of the Annual General Meeting to buy back shares. These shares may be purchased on the stock market or by means of a public offering addressed to all shareholders. The purchase price paid in consideration of these shares must not exceed or undercut the market value by more than 10 %, net of any supplementary transaction fees.

The authorization to buy back shares granted to the company by resolution of the Annual General Meeting on May 26, 2009 expired on November 26, 2010 and was replaced by a new authorization. Pursuant to Section 71(1) item 8 of the German Stock Corporation Act (AktG) as amended by the German Act of July 30, 2009 implementing the EU's Shareholders' Rights Directive (ARUG), the authorization may now be granted for a period of up to five years. The Board of Management of MTU was 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 SHARES

In the financial year 2010, the company purchased 300,000 shares (2009: 0 shares) for a total price of € 13.6 million. The average acquisition cost for the shares purchased was € 45.55 per share. The shares were purchased in order to meet contractual obligations attached to the convertible bond issue, to issue shares to group employees under the Matching Stock Program (MSP) and the MAP employee stock option program, and to honor the company's commitments under the Share Matching Plan (SMP) in the financial year 2010. The following table shows the development and average acquisition costs of all the shares acquired since the start of share buybacks.

Reconciliation of weighted average number of outstanding shares

	2010			2009		
number of shares	Outstanding	Treasury shares	Outstanding	Outstanding	Treasury shares	Outstanding
Balance at January 1		**3,078,192**			**3,229,055**	
Buyback and issue of shares						
January	48,921,808		48,921,808	48,770,945		48,770,945
February	48,921,808		48,921,808	48,770,945		48,770,945
March	48,921,808	-632	48,922,440	48,770,945		48,770,945
April	48,922,440		48,922,440	48,770,945		48,770,945
May	48,922,440		48,922,440	48,770,945		48,770,945
June (conversion of convertible bond)	48,922,440	-2,020	48,924,460	48,770,945		48,770,945
June (issue MSP / MAP)	48,924,460	-127,947	49,052,407	48,770,945	-150,863	48,921,808
July (buyback)	49,052,407	60,000	48,992,407	48,921,808		48,921,808
August (buyback)	48,992,407	240,000	48,752,407	48,921,808		48,921,808
September	48,752,407		48,752,407	48,921,808		48,921,808
October	48,752,407		48,752,407	48,921,808		48,921,808
November	48,752,407		48,752,407	48,921,808		48,921,808
December	48,752,407		48,752,407	48,921,808		48,921,808
Balance of treasury shares at December 31		**3,247,593**			**3,078,192**	
Weighted average at December 31			**48,868,149**			**48,858,948**

RECONCILIATION OF AVERAGE WEIGHTED NUMBER OF OUTSTANDING SHARES

At December 31, 2010, MTU held 3,247,593 treasury shares (2009: 3,078,192 shares). This represents 6.2 % of the company's capital stock (2009: 5.9 %).

As a result of the share buyback exercise, the weighted average number of outstanding shares in 2010 amounted to 48,868,149 shares (2009: 48,858,948 shares). At December 31, 2010, a total of 48.752.407 shares in MTU (2009: 48,921,808 shares), each with a par value of one euro, were in issue and entitled to receive a dividend.

ISSUE OF SHARES TO EMPLOYEES UNDER EMPLOYEE STOCK OPTION SCHEMES

In the financial year 2010, a total of 68,086 treasury shares (2009: 0 shares) were issued to the Board of Management and other executive managers under the fourth tranche of the Matching Stock Program.

A total of 59,096 shares (2009: 150,863 shares) were sold to group employees in June 2010 under the MAP employee stock option program.

29.7. OTHER COMPREHENSIVE INCOME (OCI)

In 2010, other comprehensive income increased by a total of € 5.1 million to € 2.7 million (2009: decreased by € 2.4 million), principally as a result of gains arising from translating the financial statements of foreign subsidiaries and of fair value losses on derivative financial instruments.

The table below shows the income and expenses arising from valuation changes recognized in other comprehensive income, together with the related tax effects:

Items recognized in other comprehensive income

	2010			2009		
in € million	Before	Income taxes	After	Before	Income taxes	After
Translation differences	9.1		9.1	-2.3		-2.3
Available-for-sale financial instruments	-0.2	0.1	-0.1			
Change in fair value of derivative financial instruments	-5.8	1.9	-3.9	21.1	-6.9	14.2
Income and expenses recognized in other comprehensive income	**3.1**	**2.0**	**5.1**	**18.8**	**-6.9**	**11.9**

29.8. DISCLOSURES RELATING TO CAPITAL MANAGEMENT

MTU strives to maintain a strong financial profile in the interests of carrying out the company's business within a flexible financing framework and in order to generate confidence on the part of its shareholders.

Consequently, the group's capital management activities are focused on optimizing the ratio between equity and net financial debt, and on improving the equity ratio.

Capital management

in € million	Change 2010-2009	Dec. 31, 2010	Dec. 31, 2009
EBIT (adjusted)	19.1	311.4	292.3
Net financial debt	**-86.2**	**56.2**	**142.4**
Balance-sheet total	277.0	3,426.1	3,149.1
Equity	**88.6**	**819.3**	**730.7**
Equity ratio	0.7%	23.9%	23.2%
Gearing (ratio of net financial debt to equity)	**-12.6%**	**6.9%**	**19.5%**

30. PENSION PROVISIONS

Defined benefit and defined contribution plans are in place for MTU employees. In the case of **defined contribution plans**, the company has no further obligations beyond the payment of fixed contributions to the plan. In the case of **defined benefit plans**, the company has an obligation to fulfill commitments to current and former employees. For group companies in Germany, these benefits are financed primarily by provisions recognized in the financial statements, which are largely not covered by plan assets. In contrast, MTU Maintenance Canada Ltd., Richmond, Canada, has a fund-financed retirement benefit plan.

In some cases, it is difficult to differentiate between defined contribution and defined benefit plans. In Germany, for example, a minimum level of benefits is guaranteed for defined contribution plans, such that, even when the plan is organized via an external fund or insurance company, it is still the employer that remains liable. The so-called 'ultimate liability of employer' is governed by Section 1 (1) sentence 3 of the German Law on Retirement Pensions (BetrAVG). For financial reporting purposes, the term 'defined benefit plans' is required to be interpreted on the basis of the underlying economic substance of the arrangements. Insofar as the MTU group has no further obligations beyond its so-called ultimate liability once the contributions have been paid to state and private retirement funds, these plans are classified as defined contribution plans. Current contributions are recognized as expenses in the period in which payments are made.

30.1. DEFINED CONTRIBUTION PLANS

Since January 1, 2007, no new pension benefits have been granted to new employees in Germany. Instead MTU pays contributions to a company-sponsored external fund for employees who joined the company after that date. Other plans that exist within the MTU group are direct insurance contracts funded by employee contributions.

Employer's contributions to the state pension scheme in the financial year 2010 totaled € 34.1 million (2009: € 33.1 million). In addition, contributions of € 0.1 million (2009: € 0.1 million) were made to the company-sponsored external fund.

30.2. DEFINED BENEFIT PLANS

The pension obligations of MTU are measured using the projected unit credit method in accordance with IAS 19, taking account of future salary and pension increases and other adjustments expected to be made to benefits and pension plans, such as stock-flow adjustments. The provision for defined benefit plans recognized in the balance sheet corresponds to the fair value of the benefits payable for current and past service (the defined benefit obligation) of beneficiaries less the fair value of plan assets at the balance sheet date and adjusted for cumulative unrecognized actuarial gains and losses. Extensive actuarial reviews and computations are carried out annually for each pension plan by independent actuaries.

Actuarial gains or losses can result from increases or decreases either in the present value of the defined benefit obligations or in the fair value of the plan assets. Causes of actuarial gains or losses include the effect of changes in the measurement parameters, changes in the assessment of risks on pension obligations and differences between the actual and expected return on plan assets. The interest rates used to calculate present values are usually determined by reference to high-quality corporate bonds with similar maturities.

Present value and funding status of the defined benefit obligation:

Present value of the defined benefit obligation

in € million	Dec. 31, 2010	Dec. 31, 2009
Germany		
Provision-financed pension obligations	486.3	431.6
Loan-financed pension obligations	24.6	23.1
Total Germany	**510.9**	**454.7**
Other countries		
Fund-financed pension obligations	23.0	18.6
Total other countries	**23.0**	**18.6**
Total	**533.9**	**473.3**

In the financial year 2010, the defined benefit obligation (DBO) increased as a result of a reduction of 0.75 percentage points in the discount rate both for the pension plans in Germany and abroad. The negative impact from the reduction of the discount rate was partially offset by a reduction of 0.5 percentage points in salary trends.

Of the total amount of pension obligations of € 533.9 million (2009: € 473.3 million), an amount of € 510.9 million (2009: € 454.7 million) relates to group companies in Germany; this represents 95.7 % (2009: 96.1 %) of the total amount.

The following weighted parameters were applied to measure the pension obligations at December 31 of the respective year and to measure the pension plan expense in the respective year under review:

Actuarial assumptions: Germany

in %	Dec. 31, 2010	Dec. 31, 2009
Interest rate for accounting purposes	4.50	5.25
Expected return on plan assets[1)]	n.a.	n.a.
Salary trend	2.5	3.0
Pension trend	2.0	2.0

[1)] relates to one variable-interest loan subject to the 3-month Euribor rate plus 50 basis points per year (see text headed 'Loan-financed plan assets')

Actuarial assumptions: Other countries

in %	Dec. 31, 2010	Dec. 31, 2009
Interest rate for accounting purposes	5.00	5.75
Expected return on plan assets[1)]	7.00	7.25
Salary trend	3.0	3.0
Pension trend	2.5	2.5

The market yields on high-quality corporate bonds have fallen compared to the previous year. For this reason, obligations for pensions and long-service awards in Germany were discounted at December 31, 2010 using a discount rate of 4.50% (2009: 5.25%). The biometric tables issued by Prof. Dr. Heubeck (RT 2005G) were used for the purpose of measuring the obligations of pension plans in Germany. In the case of foreign group companies, up-to-date biometric assumptions for each relevant country were applied. The expected salary trend refers to the expected rate of salary increase, which is estimated depending on inflation and the length of service of employees within the group.

Employee turnover, mortality and disability rates were estimated on the basis of statistical data. For the effects of the experience adjustments, reference is made to the table showing the funding status and the experience adjustments at the end of the financial year presented near the end of this note.

Based on constant assumptions otherwise, a change of 25 basis points in the discount rate would have had the following effects on the pension obligations at the end of 2010:

Sensitivity analysis of defined benefit obligation

in € million	At Dec. 31, 2010 4,50%	Interest rate sensitivity +25	-25
Defined benefit obligation (DBO)	533.9	521.3	547.1
Cumulative unrecognized actuarial losses	-75.3	-62.7	-88.5

In the following table, the defined benefit obligation and plan assets are reconciled to the recognized pension provision:

Reconciliation of defined benefit obligation and plan assets to recognized pension provisions

in € million	**Dec. 31, 2010**	Dec. 31, 2009
Total amount of the defined benefit obligation	**533.9**	**473.3**
Fair value of plan assets	-28.9	-26.5
Cumulative unrecognized actuarial losses	-75.3	-37.6
Net obligation	**429.7**	**409.2**
Capitalized surplus of plan assets	3.5	2.4
Pension provisions recognized in the balance sheet	**433.2**	**411.6**

FAIR VALUE OF PLAN ASSETS

The total amount of the defined benefit obligation (measured using the projected unit credit method) is reduced by the fair value of the plan assets of one fund-financed and one loan-financed pension plan totaling € 28.9 million (2009: € 26.5 million). On account of the more favorable exchange rate parities between the euro and the Canadian dollar at December 31, 2010 compared with the prior year and due to the return on the plan assets of MTU Maintenance Canada Ltd., Richmond, Canada, the fair value of the plan assets at December 31, 2010 increased year on year by a total of € 2.4 million (2009: increased by € 1.4 million).

CUMULATIVE UNRECOGNIZED ACTUARIAL LOSSES

At December 31, 2010, cumulative unrecognized actuarial losses on pension obligations increased to € 75.3 million (2009: € 37.6 million) primarily as a result of the reduction of 0.75 percentage points in interest rates in addition to experience adjustments and effects from changes in estimates. In accordance with IAS 19.92, these losses were not recognized in the income statement. An actuarial loss of € 0.1 million (2009: actuarial gain of € 1.0 million) resulted for the plan assets in the financial year 2010. The actuarial losses on pension obligations in the financial year 2010 amounted to € 37.6 million (2009: € 17.8 million).

The defined benefit obligation developed as follows:

Calculation of the defined benefit obligation

in € million	2010	2009
DBO at January 1	**473.3**	**434.2**
Current service cost[1)]	8.7	8.1
Contributions for pension plan subscribers[1)]	4.8	4.5
Interest cost	24.4	24.5
Past service cost	2.3	1.4
Pension benefit payments	-19.1	-18.5
Plan curtailments or settlements	-0.6	
Transfers / translation differences	2.5	1.3
Experience adjustments	1.4	
Actuarial gains (-) / losses (+)	36.2	17.8
DBO at December 31	**533.9**	**473.3**

[1)] Aggregated under current service cost in 2009 financial statements.

The fair value of plan assets developed as follows:

Calculation of the fair value of plan assets

in € million	2010	2009
Fair value at January 1	**26.5**	**25.1**
Allocation to plan assets		
Expected return on plan assets	1.5	1.7
Actuarial gains / losses (-) from:		
Fund-financed plan assets	-0.1	1.5
Loan-financed plan assets		-0.5
Transfers / translation differences	2.3	0.5
Employer contributions	1.2	0.8
Employee contributions to plan	0.1	
Pension benefit payments	-2.6	-2.6
Fair value at December 31	**28.9**	**26.5**

In the financial year 2010, pension benefit payments totaling € 2.6 million (2009: € 2.6 million) were granted out of the plan assets. Payments of € 1.3 million (2009: € 1.3 million) were made by MTU München Unterstützungskasse and of € 1.3 million (2009: € 1.3 million) by MTU Maintenance Canada. The actual return on plan assets totaled € 1.4 million in the financial year 2010 (2009: € 2.7 million).

The expense from defined benefit plans and similar obligations comprises the following components:

Expense from defined benefit pension plans and similar obligations

in € million	**2010**	2009
Current service cost	8.7	8.1
Interest cost	24.4	24.5
Expected return on fund-financed plan assets	-1.3	-1.1
Expected return on loan-financed plan assets	-0.2	-0.6
Amortization of actuarial gains (-) / losses (+)	0.5	0.3
Positive (+) / negative (-) past service cost	2.3	1.4
Total expense	**34.4**	**32.6**

FUND-FINANCED PLAN ASSETS

The fund-financed plan assets relate to MTU Maintenance Canada Ltd. and do not include any securities pertaining to MTU group entities or any assets used by the MTU group.

The composition of plan assets to cover pension obligations is as follows at the respective balance sheet dates:

Composition of fund-financed plan assets

in %	**Dec. 31, 2010**	Dec. 31, 2009
Stocks	62.7	63.3
Fixed-income securities	28.5	34.3
Cash and cash equivalents and other assets	8.8	2.4
Composition of fund-financed plan assets	**100.0**	**100.0**
Expected return on plan assets	7.00%	7.25%

The expected return determined for each category of assets took account of generally available information concerning capital market forecasts. The expected return on fixed-income securities is based on the maturities of securities held and on the past record of average yields achieved for these investment classes with maturities between 10 and 20 years. The expected return on equity investments reflects the long-term expectation of yields on the stock markets. An expected return of 7.0% (2009: 7.25%) was applied to measure the fair value of fund-financed plan assets. A return of 6.5% is assumed for the financial year 2011.

LOAN-FINANCED PLAN ASSETS

Loan-financed plan assets relate to a loan issued by MTU München Unterstützung-skasse, Munich, to MTU Aero Engines München GmbH, Munich, representing a receivable amount of € 7.8 million at December 31, 2010 (2009: € 9.0 million). The loan is subject to interest at the three-month Euribor rate plus 50 basis points.

FUNDING STATUS AND EXPERIENCE ADJUSTMENTS

The **actuarial gains and losses** arising in the financial year relate on the one hand to experience adjustments which are attributable to the fact that the assumptions made at the beginning of a financial year for variables such as mortality, disability and employee turnover develop differently to forecasts. On the other hand, changes to actuarial as-sumptions also have an effect, for example the change of 0.75 percentage points in the interest rate for discounting pension obligations and the reduction of 0.5 percentage points in salary trends.

To calculate the experience adjustments and the effects of changes to actuarial assumptions, the DBO was determined at the current balance sheet date based on the assumptions made at the beginning of the financial year. As a result, the experience adjustments correspond to the difference between the expected DBO and the DBO – with changes that had actually occurred at the balance sheet date – calculated based on the actuarial assumptions at the beginning of the year.

Unrecognized actuarial gains and losses resulted in the following experience adjustments to pension obligations and plan assets:

Funding status and experience adjustments at the end of the financial year

in € million	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Defined benefit obligation	533.9	473.3	434.2	423.9	467.2
Fair value of plan assets	-28.9	-26.5	-25.1	-29.8	-18.0
Net obligation	**505.0**	**446.8**	**409.1**	**394.1**	**449.2**
Change in experience adjustments included in actuarial gains (+) / losses (-) (at December 31)					
Experience adjustments relative to the defined benefit obligation (DBO)	0.3	3.3	-11.9	-8.4	-9.7
Experience adjustments relative to plan assets	-0.1	1.0	-3.5	-2.0	0.9

EXPECTED FUTURE PENSION BENEFIT PAYMENTS

In addition to the employer's contributions to plan assets, the company is expecting the following pension benefit payments in the coming years:

Expected distribution of pension payments over annual periods

in € million	2011	2012	2013	2014
Expected amount of pension payments	25.2	25.9	29.8	32.8

Employer's contributions to fund-financed plan assets for the financial years 2011 - 2012 are expected to amount to between € 0.8 million and € 1.0 million.

As a result of switching to the new 'MTU kapitalPlus 2006' pension plan, in place since the financial year 2006, a life-long pension to group employees was converted into an immediate cash payment. In individual cases and after consultation with the company, it is also possible to grant a ten-year payment by installments or continue to make pension payments indexed by 1% each year. The group's expectations regarding the annual spread of pension benefit payments under the new pension plan are based on the assumption that an immediate cash payment will be made as soon as the end of the contribution period is reached.

31. INCOME TAX PAYABLE

The income tax payable amounting to € 71.2 million (2009: € 12.5 million) comprises corporation and municipal trade tax amounting to € 70.7 million (2009: € 12.4 million) and taxes on the income of foreign group companies amounting to € 0.5 million (2009: € 0.1 million).

Income tax payable

in € million	**2010**	2009
Balance Jan. 1	12.5	23.0
Utilized	-12.5	-23.0
Allocated	71.2	12.5
Balance Dec. 31	**71.2**	**12.5**

The income tax liabilities are due for payment within one year.

32. OTHER PROVISIONS

At the balance sheet date, other provisions comprised the following items:

Other provisions

	Total		Non-current		Current	
in € million	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
Warranty obligations and risks from pending losses on onerous contracts	25.2	32.6	6.3		18.9	32.6
Risks and uncertainties linked to the TP400-D6 engine program		45.3				45.3
Personnel obligations	43.1	45.1	8.8	5.5	34.3	39.6
Contingent liabilities arising from business combinations	124.9	153.6	124.9	153.6		
Losses arising from the settlement of accounts	64.9	75.4			64.9	75.4
Other obligations	81.6	68.7			81.6	68.7
Other tax obligations	0.4	0.4			0.4	0.4
Total other provisions	**340.1**	**421.1**	**140.0**	**159.1**	**200.1**	**262.0**

WARRANTY OBLIGATIONS AND RISKS FROM PENDING LOSSES ON ONEROUS CONTRACTS

Risks from pending losses on onerous contracts primarily contain provisions for pending losses on onerous contracts, legal disputes and relate to current obligations in respect of probable third-party claims for which the likely expense can be reliably estimated. Provisions for warranties mainly consist of obligations in connection with product entry into service, products that have been sold and for which accounts have been settled, and a variety of other services.

In the commercial maintenance business, MTU has identified onerous contracts for the maintenance of engines for which the unavoidable costs of fulfilling contractual obligations are higher than the expected economic benefits. Expenses exceeding the economic benefits were set aside as expense and are included in the warranty obligations and risks from pending losses on onerous contracts. It was not necessary to recognize impairment losses on assets relating to the contracts in 2010 or 2009 or they were already recognized in previous financial years.

RISKS AND UNCERTAINTIES LINKED TO THE TP400-D6 ENGINE PROGRAM

The basic premises underlying the measurement of construction contract receivables for the TP400-D6 military engine program had to be entirely reviewed in the financial year 2009 due to the uncertainties arising from delayed deliveries at the end of the 2009 financial year and the uncertain technical status on the one hand, and the general uncertainty surrounding the future of the program on the other. As a result of the reassessment of the time schedule undertaken by MTU at the end of 2009, taking into account all recalculated premises, the carrying amount of construction contract receivables for the TP400-D6 engine program was written down in 2009 and a valuation allowance for receivables recognized in the income statement. In addition, a provision of € 45.3 million was recognized in the income statement. The measurement of the valuation allowance and allocated provision at December 31, 2009 also included a proportional share of contract penalties that – according to MTU's estimates at the time – the company would have been required to pay in the event of the program being discontinued.

Following the signing of an agreement in principle – the 'A400M Understanding' – in March 2010, the customer nations (represented by the procurement agency OCCAR) and Airbus Military subsequently agreed the details of the changes to the A400M contract. Although the agreements envisage that the overall economics will remain unchanged, there is nevertheless one major change that must be taken into consideration, namely Germany's decision to reduce its order from 60 to 53 aircraft and the United Kingdom's decision to trim its order from 25 to 22 aircraft. The 'A400M Understanding' was followed by appropriate agreements between Airbus Military and the military engine consortium Europrop International GmbH, Munich (EPI). This saw the total number of firm orders for the A400M project decrease to 170 and the number of Europrop TP400-D6 engines fall to approximately 680. The first aircraft are now expected to be delivered in early 2013.

Based on this generally satisfactory solution for the overall project, the review of the TP400-D6 engine program at December 31, 2010, took into consideration the absence of the contractual penalties for possible program discontinuation or non-performance penalties taken into account in 2009 and also took into consideration postponements of deliveries, cancellations of previous orders by customer nations, reworking of the software for engine control and price escalations.

The TP400-D6 engine program was subjected to detailed analysis and evaluation at December 31, 2010, on the basis of the agreements made in December 2010. This led to the provisions being reversed. The gain of € 45.3 million is included in cost of sales in the income statement.

PERSONNEL OBLIGATIONS

The personnel obligations comprise provisions allocated for profit-sharing and performance-related bonuses amounting to € 31.0 million (2009: € 28.3 million), provisions to cover unfunded pension liabilities in connection with pre-retirement part-time working arrangements amounting to € 3.0 million (2009: € 1.2 million), provisions for long-service awards amounting to € 5.8 million (2009: € 5.8 million) and provisions for restructuring measures following the introduction of single-status pay agreements (ERA) amounting to € 2.8 million (2009: € 8.6 million).

TV FlexÜ, a collective agreement on flexible transition into retirement, came into effect in the respective German collective bargaining regions at the beginning of the financial year 2010. In addition, the MTU group companies in Germany entered into an agreement with the Works Council, effective until December 31, 2016, which replaces the collective bargaining agreement. For each of the group companies in Germany, upper limits were agreed for the maximum number of employees covered by collective bargaining agreements who can assert a claim to a pre-retirement part-time employment contract. These upper limits are 450 contracts in Munich, 130 in Hannover and 30 in Ludwigsfelde. Implementation of these contracts will be spread over the period to 2016. On the basis of the agreements made with group employees, provisions to cover the unfunded pension liabilities amounting to € 3.0 million (2009: € 1.2 million) were recognized in the financial year 2010.

For more detailed explanatory comments concerning the annual performance bonus (APB), please refer to the management compensation report in the Corporate Governance section of this Annual Report. One half of the annual performance bonus is paid in the calendar year following the financial year in which it was earned. The withheld portion of the annual performance bonus (the remaining 50 %) is paid in two equal portions in the two subsequent years.

The deferred components of the 2010 annual performance bonus (APB Deferral 1 and 2) were agreed for the first time effective January 1, 2010. The ultimate amount to be paid depends on the goal achievement level attained in respect of the two key performance indicators at group level and on the discretionary factor applied in the financial years 2011 and 2012.

Additionally, as of the financial year 2010, the long-term compensation awarded to members of the MTU Board of Management will include “annual tranches” granted within the framework of a Long Term Incentive Performance Share Plan (PSP). For more detailed explanatory comments concerning the annual performance bonus (APB), please refer to the management compensation report in the Corporate Governance section of this Annual Report.

Share-based compensation gave rise to the following expenses in the financial year 2010:

Performance Share Plan (PSP)

in € million	Expense 2010	Balance Dec. 31, 2010
Recognized share-based payment expense	0.3	
Carrying amount of share-based payment liabilities		0.3
Total	**0.3**	**0.3**

CONTINGENT LIABILITIES ARISING FROM BUSINESS COMBINATIONS

The obligations arising under engine programs absorbed in the purchase price allocation relate to the amortized measurement of contingent liabilities for engine programs identified and measured in connection with the acquisition of the company by Kohlberg Kravis Roberts & Co. from the then

DaimlerChrysler AG. The contingent liabilities are measured according to IFRS 3.56. Reference is made to further comments in Note 5.22. (Discretionary scope, measurement uncertainties and sensitivity) for sensitivity assumptions and other estimating parameters in respect of the measurement of contingent liabilities.

LOSSES ARISING FROM THE SETTLEMENT OF ACCOUNTS

Losses arising from the settlement of accounts relate to retrospective price adjustments or special conditions agreed with end customers by the consortium leader, expected cancellations by end customers leading to loss of revenues, and disputed amounts from contracts already invoiced between the consortium leaders and end customers, as well as potential reimbursement claims asserted by public-sector customers.

OTHER OBLIGATIONS

Provisions for other obligations cover a multitude of identifiable individual risks and contingent liabilities.

OTHER TAX OBLIGATIONS

Tax obligations relate to probable obligations in respect of trade taxes and other taxes on business operations, for which provisions have been allocated to cover payments due for 2010 and previous financial years.

Non-current other provisions developed as follows:

Change in non-current other provisions 2010

in € million	Balance at Jan, 1, 2010	Transferred	Utilized	Reversed	Allocated	Discount reversed	Effect of change in discount rate	**Balance at Dec. 31, 2010**
Warranty obligations and risk of losses on onerous contracts		8.1		-2.4		0.6		6.3
Personnel obligations	5.5	-1.0	-0.2		3.6	0.9		8.8
Contingent liabilities arising from business combinations	153.6		-42.6		12.6	13.1	-11.8	124.9
Total non-current other provisions	**159.1**	**7.1**	**-42.8**	**-2.4**	**16.2**	**14.6**	**-11.8**	**140.0**

The following cash outflows are expected from the carrying amounts of non-current other provisions:

Expected cash outflow from non-current other provisions

in € million	Carrying amount Dec. 31, 2010	Probable cash outflow / financial year 2011	2012
Warranty obligations and risk of losses on onerous contracts	6.3		1.8
Personnel obligations	8.8		2.6
Contingent liabilities arising from business combinations[1)]	124.9	59.2	68.8
Total other provisions	**140.0**	**59.2**	**73.2**

[1)] Since the carrying amount of contingent liabilities arising from business combinations is a discounted figure, the expected cash outflows each year do not tally with the carrying amount. Furthermore, cash inflows are also expected in later years.

MTU expects that the stated personnel obligations will become due within the next one to five years.

Current other provisions developed as follows:

Changes in current other provisions 2010

in € million	Balance Jan. 1, 2010	Transferred	Utilized	Reversed	Allocated	Translation differences	**Balance Dec. 31, 2010**
Warranty obligations and risk of losses on onerous contracts	32.6	-8.1	-13.9	-0.1	8.2	0.2	18.9
Personnel obligations	39.6	1.0	-36.0	-1.1	30.7	0.1	34.3
Losses arising from settlement of accounts	75.4		-19.0	-25.9	34.4		64.9
Risks and uncertainties linked to the TP400-D6 engine program	45.3			-45.3			
Other obligations	68.7		-25.6	-3.2	41.3	0.4	81.6
Other tax obligations	0.4		-0.3		0.3		0.4
Total current other provisions	**262.0**	**-7.1**	**-94.8**	**-75.6**	**114.9**	**0.7**	**200.1**

The cash outflows resulting from the carrying amounts of current other provisions are expected to be realized in the next calendar year following the reporting period.

33. FINANCIAL LIABILITIES

Financial liabilities

	Total			Non-current			Current		
in € million	**Dec. 31, 2010**	Dec. 31, 2009	Jan. 1, 2009	**Dec. 31, 2010**	Dec. 31, 2009	Jan. 1, 2009	**Dec. 31, 2010**	Dec. 31, 2009	Jan. 1, 2009
Bonds									
Convertible bond	148.6	145.0	141.5	148.6	145.0	141.5			
Interest liability on convertible bond	3.8	3.9	3.9				3.8	3.9	3.9
Liabilities to banks									
Promissory notes	25.3	65.4		24.7	64.6		0.6	0.8	
Revolving credit facility (RCF)			61.2						61.2
Other liabilities to banks	34.4	14.6	21.3	26.3		9.7	8.1	14.6	11.6
Other financial liabilities									
Finance lease liabilities	24.9	25.8	34.0	0.2	24.6	25.7	24.7	1.2	8.3
Purchase price adjustment in favor of Daimler AG			15.0						15.0
Loan from the province of British Columbia to MTU Maintenance Canada		12.9	11.1					12.9	11.1
Derivative financial liabilities	24.9	12.2	48.4	4.9	4.6	23.5	20.0	7.6	24.9
Total financial liabilities	**261.9**	**279.8**	**336.4**	**204.7**	**238.8**	**200.4**	**57.2**	**41.0**	**136.0**

BONDS

On January 23, 2007, MTU Aero Engines Finance B.V., Amsterdam, Netherlands, issued a convertible bond with a par value of € 180.0 million and an effective date of February 1, 2007, guaranteed by MTU Aero Engines Holding AG, Munich. The convertible bond is divided into 1,800 units each with a par value of € 100,000 and its term to maturity runs until February 1, 2012.

The bond is convertible into registered non-par-value common shares of MTU Aero Engines Holding AG, Munich. Bondholders are entitled to exercise the conversion right at any time between March 13, 2007 and January 18, 2012 in accordance with the 'bond features' at a conversion price fixed at the issue date of € 49.50. The coupon rate is 2.75% p.a., payable yearly on February 1 starting on February 1, 2008. Depending on changes in the share price, the bond features authorize MTU to proceed with the repayment of the convertible bond on or after February 15, 2010.

MTU is furthermore authorized to call all remaining outstanding units of the convertible bond for early repayment in the event that the total par value of the outstanding units of the convertible bond should at any time fall below the threshold of 10% of the total par value of the originally issued bond.

The convertible bond was split according to its substance into liability and equity components for the purpose of initial recognition, in accordance with the definitions of IAS 32.11. The liability component was measured at fair value, whereby transaction costs directly attributable to the bond issue were included in the calculation. The present value of all future cash flows arising from the contractual obligation was determined by applying a discount at the market interest rate of 5.425% p.a., which corresponds to the rate that MTU would have had to pay at the bond issue date for a non-convertible bond.

In subsequent periods, the liability component was measured at amortized cost using the effective interest method, so that the expense over the life of the convertible bond agreement represents the reversal of the discounting at the applied rate.

The original equity component of the convertible bond issue was recognized directly in equity, taking deferred taxes into account. The proportionate amount of transaction costs allocated to the equity component, less the corresponding income tax reductions, was deducted from the equity component.

In the financial year 2008, MTU repurchased units of its own convertible bond on the market with a total nominal volume of € 27.2 million. The total value of these securities at that time amounted to € 21.9 million. In addition, one bondholder exercised his conversion right on June 23, 2010, at which stage partial convertible bonds with a nominal value of € 100,000 were exchanged – based on their amortized cost at the conversion date – for 2,020 shares.

Following the repurchase of units of the convertible bond in 2008 and the conversion in 2010, the associated conversion rights theoretically corresponded at the end of the financial year 2010 to approximately 3.1 million (2009: 3.1 million) non-par-value shares of conditional capital. If these conversion rights had been exercised in the financial year 2010, earnings per share would have been reduced to € 0.07 (2009: € 0.08).

More detailed explanatory comments concerning the conditional capital increase are provided in Note 29.3. (Conditional capital). Information on the dilutive effect of the potential issue of shares through the exercise of conversion rights is provided in Note 16. (Earnings per share). Additional information regarding the retrospective change in presentation of the convertible bond as a non-current financial liability is provided in Note 1.3. (Notes relating to changes in the reporting of the consolidated financial statements).

LIABILITIES TO BANKS

PROMISSORY NOTES

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

Tranches of the promissory notes

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

[1)] 6-month Euribor rate plus margin.

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

REVOLVING CREDIT FACILITY

MTU meets its financing requirements in its functional currency, the euro, principally through the uptake of loans, the issuance of a convertible bond, and credit arrangements with banks (revolving credit facility). On August 3, 2009, the existing revolving credit facility for an amount of € 250.0 million was replaced by a new line of credit with a contractual term of 3 years. As a result, the group now has access to overdraft facilities amounting to € 100.0 million made available by two banks. On December 1, 2010 MTU renegotiated the existing revolving credit facility, extending its term by 5 years.

Of this line of credit, a total of € 29.0 million had been drawn down as bank guarantees in favor of third parties at December 31, 2010 (December 31, 2009: € 27.7 million).

Any credit actually utilized is subject to interest at market index average rates plus an additional margin. Unused credit facilities are subject to a loan commitment fee.

FINANCIAL COVENANTS

MTU has undertaken the obligation to ensure that certain financial indicators remain within defined boundaries throughout the contractual period of the promissory notes and until all final amounts payable in connection with the promissory notes have been settled in full, as well as for the overdraft facilities, as follows: MTU's debt-equity ratio at the end of each quarter during the contractual period of each promissory note shall not exceed 2.5; the times interest earned ratio at the end of each quarter during the contractual period of each promissory note shall not lie below 4.0.

The financial indicators are calculated according to the following formulae:

- **Times interest earned ratio** = EBITDA adjusted/consolidated net interest expense
- **Debt-equity ratio** = Consolidated net financial debt/EBITDA adjusted (earnings before interest, tax, depreciation and amortization)

The financial indicators that MTU has undertaken to observe at the end of each quarter are obtained from the quarterly interim financial reports.

In the financial year 2010 and in the previous year, MTU and its affiliates met all loan repayment and other obligations arising from financing arrangements.

OTHER LIABILITIES TO BANKS

The other liabilities to banks amounting to € 34.4 million (2009: € 14.6 million) relate to third-party loans provided to subsidiaries.

OTHER FINANCIAL LIABILITIES

Finance lease liabilities represent obligations under finance lease arrangements that are capitalized and amortized using the effective interest method; see Note 20.

The loan from the province of British Columbia to MTU Maintenance Canada Ltd., Richmond, Canada, was repaid in full at the end of 2010.

DERIVATIVE FINANCIAL LIABILITIES

Derivative financial liabilities amounting to € 24.9 million (2009: € 12.2 million) relate principally to changes in the fair value of forward foreign exchange contracts and currency option transactions.

34. TRADE PAYABLES

Trade payables

in € million	Dec. 31, 2010	Dec. 31, 2009
Trade accounts payable to:		
Third parties	331.8	251.3
Related companies		
Associated companies, joint ventures and other equity investments	84.9	60.6
Non-consolidated subsidiaries	7.8	9.0
Total trade payables	**424.5**	**320.9**

The total amount of trade payables is due within one year.

35. CONSTRUCTION CONTRACT PAYABLES

Liabilities arising from construction contracts primarily concern advance payments for construction contracts for specific engine programs.

Construction contract payables

in € million	Dec. 31, 2010	Dec. 31, 2009
Advance payments received for construction contracts	952.4	847.6
offset against:		
Construction contract receivables	-286.1	-240.6
Total construction contract payables	**666.3**	**607.0**

Advance payments received which exceed the amount of accounts receivable due in more than 12 months are measured at fair value by application of a discount rate.

36. OTHER LIABILITIES

Other liabilities

	Total		Non-current		Current	
in € million	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Liabilities to employees						
Social security	2.1	2.0			2.1	2.0
Pre-retirement part-time working arrangements	20.5	1.6	18.3	0.7	2.2	0.9
Other liabilities to employees	37.6	38.9	2.7	2.6	34.9	36.3
Accrued interest expense	18.7	21.4	18.7	21.4		
Outstanding maintenance work on returned operate-lease engines	8.8	8.1	8.8	8.1		
Repayment of grants toward development costs	57.3		57.3			
Sundry other liabilities	24.5	18.2	5.6	1.2	18.9	17.0
Other tax liabilities	8.6	8.4			8.6	8.4
Total other liabilities	**178.1**	**98.6**	**111.4**	**34.0**	**66.7**	**64.6**

LIABILITIES TO EMPLOYEES

Amounts due for social security principally comprise contributions to social insurance against occupational accidents amounting to € 1.5 million (2009: € 1.5 million) and amounts due to health insurers totaling € 0.6 million (2009: € 0.5 million).

TV FlexÜ, a collective agreement on flexible transition into retirement, came into effect in the German collective bargaining regions at the beginning of the financial year 2010. In addition, each of the MTU group companies in Germany entered into an agreement with the Works Council, effective until December 31, 2016, which supersedes the collective bargaining agreement. For each of the group companies in Germany, upper limits were agreed for the maximum number of employees covered by collective bargaining agreements who can assert a claim to a pre-retirement part-time employment contract. These upper limits are 450 contracts in Munich, 130 in Hannover and 30 in Ludwigsfelde. Implementation of these contracts will be spread over the period to 2016. Within the scope of the agreed terms for part-time early retirement working arrangements, agreements on top-up and severance payments amounting to € 20.5 million (2009: € 1.6 million) were concluded with group employees.

Other liabilities to employees are composed of unclaimed vacation entitlements, flexitime credits, obligations arising from pre-retirement part-time working arrangements and obligations arising from efficiency-improvement programs in prior periods. This item also includes liabilities to group employees under the MAP employee stock option program amounting to € 2.0 million (2009: € 2.8 million). Additional information concerning the MAP employee stock option program is provided in Note 29.4. (Capital reserves).

ACCRUED INTEREST EXPENSE

Long-term advance payments received for construction contracts are discounted at the prevailing market rate over the duration of financing and recognized under ‘other liabilities’ until the engine is delivered to the customer. The interest expenses relate to advance payments received for long-term military construction contracts amounting to € 18.7 million (2009: € 16.6 million) and to advance payments of € 4.8 million received in 2009 for long-term engine programs in the commercial engine business. Further explanations are given in Note 5.10. (Inventories).

OUTSTANDING MAINTENANCE WORK ON RETURNED OPERATE-LEASE ENGINES

These non-current liabilities relate to outstanding maintenance work on the present fleet of 12 operate-lease engines.

REPAYMENT OF GRANTS TOWARD DEVELOPMENT COSTS

In the financial years from 1976 to 1991, MTU received grants toward the internally generated costs of developing the PW2000 engine from the German Federal Ministry of Economics and Technology which were recognized in the income statement. Once the contractually agreed sales figures of PW2000 production engines have been reached for the Boeing 757 and C-17, MTU is obliged to pay back the grants (government subsidy of development costs) within a timeframe of 10 years. Due to a significant increase in the probability of repayment during the course of 2010 as a result of strong demand for engines in the C-17 military application, a liability of € 57.3 million (2009: € 0.0 million) was recognized at fair value as an expense in cost of sales in the financial year 2010. The first installment of the repayment is expected to become due in early 2012.

SUNDRY OTHER LIABILITIES

Sundry other liabilities cover a multitude of minor individual obligations.

OTHER TAXES

The tax liabilities amounting to € 8.6 million (2009: € 8.4 million) concern payable wage and church taxes, solidarity surcharges and transactional taxes.

CASH OUTFLOWS OF FINANCIAL LIABILITIES

The following tables list the contractually agreed undiscounted payments of interest and principle on the non-derivative financial liabilities and derivative financial instruments measured at fair value through profit or loss held by MTU:

Payment cash flows for financial liabilities 2010

		Cash flows 2011			Cash flows 2012			Cash flows 2013			Cash flows 2014 ff.		
in € million	Carrying amount Dec. 31, 2010	Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle
Trade payables	424.5			424.5									
Bonds	152.4	4.2			4.2		152.7						
Liabilities to banks	59.7	0.9	1.8	8.1	0.9	1.4	22.1	0.9	0.4	17.7	0.9		11.5
Other interest-bearing liabilities	81.9[3]						7.5			6.9			59.1
Other interest-free liabilities	61.8			53.0			6.5			2.2			0.1
Derivative financial liabilities													
Derivatives without hedging relationship	5.4			4.1			1.2						0.1
Derivatives with hedging relationship	19.5			15.9			3.4			0.1			0.1
Other disclosures													
Contingent liabilities under risk- and revenue-sharing partnerships	71.6			71.6[1]									
Guarantees	55.0			55.0									
Finance lease liabilities	24.9			24.7						0.1			0.1
Other financial liabilities, not within the scope of either IFRS 7 or IAS 39	527.4[2]			98.8			31.6			35.3			291.8

[1] Relates to delay-related contingent liabilities arising from RRSP contracts.

[2] Cash flows from pension provisions known only for the period to 2020, as stated in the expert assessment.

[3] Including discounted cash flow valuation of interest expense.

Payment cash flows for financial liabilities 2009

in € million	Carrying amount Dec. 31, 2009	Cash flows 2010			Cash flows 2011			Cash flows 2012			Cash flows 2013 ff.		
		Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle	Fixed interest	Variable interest	Principle
Trade payables	320.9			320.9									
Bonds	148.9	4.2			4.2			4.2		152.8			
Liabilities to banks	80.0	3.1		14.6	4.3			3.8		28.5	4.9		36.5
Other interest-bearing liabilities	21.4			4.8									16.6
Other interest-free liabilities	55.2			47.1			8.1						
Derivative financial liabilities													
Derivatives without hedging relationship	6.2			4.3			1.9						
Derivatives with hedging relationship	6.0			3.4			2.6						
Other disclosures													
Contingent liabilities under risk- and revenue-sharing partnerships	62.1			62.1[1)]									
Guarantees	82.4			82.4									
Finance lease liabilities	25.8			1.2			4.8			1.2			18.6
Other financial liabilities, not within the scope of either IFRS 7 or IAS 39	498.9			103.7			23.9			27.3			347.4

[1)] Relates to delay-related contingent liabilities arising from RRSP contracts.

The statement includes all instruments in the portfolio at December 31, 2010 for which payment terms had been contractually agreed. It does not include planned estimates for future new liabilities. Amounts denominated in a foreign currency are translated at the exchange rate prevailing on the respective balance sheet date. The variable-rate interest payments on the financial instruments are based on the most recent interest rate fixed prior to December 31, 2010. Financial liabilities with no fixed repayment date and contingent liabilities are always assigned to cash flows on the basis of the earliest likely repayment dates. For further information concerning the stated carrying amounts, please refer to Note 42. (Contingent liabilities and other financial obligations).

37. ADDITIONAL DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

CARRYING AMOUNTS, MEASUREMENT/RECOGNITION METHODS AND FAIR VALUES AGGREGATED BY CATEGORY

In the following tables, the carrying amounts of financial instruments are aggregated by category, regardless of how they are recognized and irrespective of whether or not the instruments fall within the scope of IFRS 7 or IAS 39. The presented information also includes separate amounts for each category as a function of the measurement/recognition method applied. Finally, the carrying amounts are set opposite the fair values for comparison. Note 5.12. (Financial instruments) provides explanatory material on the categories of financial instruments as defined in the International Financial Reporting Standards and the accounting policies applied.

Disclosures concerning financial instruments
carrying amounts, measurement/recognition methods and fair values aggregated by category 2010

in € million	Category as defined in IAS 39 / Other category	Carrying amount Dec. 31, 2010	Cash reserve Nominal value
ASSETS			
Other assets			
Loans and receivables	LaR	17.9	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AfS	79.8	
Financial assets held for trading	FAHfT		
Trade receivables	LaR	531.9	
Construction contract receivables	LaR	424.3	
Derivative financial assets			
Derivatives without hedging relationship	FAHfT	4.2	
Derivatives with hedging relationship	n.a.	17.6	
Cash and cash equivalents	Cash reserve	111.9	111.9
EQUITY AND LIABILITIES			
Trade payables	FLAC	424.5	
Bonds	FLAC	152.4	
Liabilities to banks	FLAC	59.7	
Other interest-bearing liabilities	FLAC	81.9	
Other interest-free liabilities	FLAC/n.a.	61.8	
Derivative financial liabilities			
Derivatives without hedging relationship	FLHfT	5.4	
Derivatives with hedging relationship	n.a.	19.5	
OTHER DISCLOSURES			
Contingent liabilities under risk- and revenue-sharing partnerships	Financial guarantees	71.6	
Guarantees	Financial guarantees	55.0	
Thereof aggregated by category as defined in IAS 39			
Loans and receivables	LaR	974.1	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AfS	79.8	
Financial assets held for trading	FAHfT	4.2	
Financial liabilities measured at amortized cost	FLAC	780.3	
Financial liabilities held for trading	FLHfT	5.4	
Finance lease liabilities	n.a.	24.9	
Financial instruments not within the scope of either IFRS 7 (IFRS 7 B2b) or IAS 39		527.4	

Abbreviations:
LaR = Loans and Receivables
HtM = Held-to-Maturity Investment
AfS = Available-for-Sale Financial Assets
FAHfT = Financial Assets Held for Trading
FLAC = Financial Liabilities Measured at Amortised Cost
FLHfT = Financial Liabilities Held for Trading

Amount carried in balance sheet in accordance with IAS 39				Amount carried in balance sheet IAS 17	Financial instruments not within the scope of IAS 39 or IFRS 7	Total	Fair value Dec. 31, 2010
Measured at amortized cost	Measured at cost	Fair value recognized in equity	Fair value recognized in income statement				
17.9						17.9	17.9
	7.8	72.0				79.8	79.8
531.9						531.9	531.9
424.3						424.3	424.3
			4.2			4.2	4.2
		17.6				17.6	17.6
						111.9	111.9
424.5						424.5	424.5
152.4						152.4	155.5
59.7						59.7	61.6
81.9						81.9	81.9
53.0				8.8		61.8	61.8
			5.4			5.4	5.4
		19.5				19.5	19.5
						71.6	71.6
						55.0	55.0
974.1						974.1	974.1
	7.8	72.0				79.8	79.8
			4.2			4.2	4.2
771.5				8.8		780.3	785.3
			5.4			5.4	5.4
				24.9		24.9	24.9
					527.4	527.4	597.1

Financial instruments not within the scope of either IFRS 7 or IAS 39 mainly comprise pension provisions or plan assets and other liabilities arising from employee benefits accounted for in accordance with IAS 19.

The table below provides comparative information on the carrying amounts, measurement/recognition methods and fair values aggregated by category for the financial year 2009.

Disclosures concerning financial instruments
carrying amounts, measurement/recognition methods and fair values aggregated by category 2009

in € million	Category as defined in IAS 39 / Other category	Carrying amount Dec. 31, 2009	Cash reserve Nominal value
ASSETS			
Other assets			
Loans and receivables	LaR	18.5	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AfS	7.8	
Financial assets held for trading	FAHfT		
Trade receivables	LaR	391.2	
Construction contract receivables	LaR	339.0	
Derivative financial assets			
Derivatives without hedging relationship	FAHfT	6.7	
Derivatives with hedging relationship	n.a.	9.9	
Cash and cash equivalents	Cash reserve	120.8	120.8
EQUITY AND LIABILITIES			
Trade payables	FLAC	320.9	
Bonds	FLAC	148.9	
Liabilities to banks	FLAC	80.0	
Other interest-bearing liabilities	FLAC	21.4	
Other interest-free liabilities	FLAC/n.a.	55.2	
Derivative financial liabilities			
Derivatives without hedging relationship	FLHfT	6.2	
Derivatives with hedging relationship	n.a.	6.0	
OTHER DISCLOSURES			
Contingent liabilities under risk- and revenue-sharing partnerships	Financial guarantees	62.1	
Guarantees	Financial guarantees	82.4	
Thereof aggregated by category as defined in IAS 39			
Loans and receivables	LaR	748.7	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AfS	7.8	
Financial assets held for trading	FAHfT	6.7	
Financial liabilities measured at amortized cost	FLAC	626.4	
Financial liabilities held for trading	FLHfT	6.2	
Finance lease liabilities	n.a.	25.8	
Financial instruments not within the scope of either IFRS 7 (IFRS 7 B2b) or IAS 39		498.9	

Abbreviations:
LaR = Loans and Receivables
HtM = Held-to-Maturity Investment
AfS = Available-for-Sale Financial Assets
FAHfT = Financial Assets Held for Trading
FLAC = Financial Liabilities Measured at Amortised Cost
FLHfT = Financial Liabilities Held for Trading

Amount carried in balance sheet in accordance with IAS 39				Amount carried in balance sheet IAS 17	Financial instruments not within the scope of IAS 39 or IFRS 7	Total	Fair value Dec. 31, 2009
Measured at amortized cost	Measured at cost	Fair value recognized in equity	Fair value recognized in income statement				
18.5						18.5	18.5
	7.8					7.8	7.8
391.2						391.2	391.2
339.0						339.0	339.0
			6.7			6.7	6.7
		9.9				9.9	9.9
						120.8	120.8
320.9						320.9	320.9
148.9						148.9	138.7
80.0						80.0	82.3
21.4						21.4	21.4
47.1				8.1		55.2	55.2
			6.2			6.2	6.2
		6.0				6.0	6.0
						62.1	62.1
						82.4	82.4
748.7						748.7	748.7
	7.8					7.8	7.8
			6.7			6.7	6.7
618.3				8.1		626.4	618.5
			6.2			6.2	6.2
				25.8		25.8	25.8
					498.9	498.9	533.0

Cash and cash equivalents, trade receivables and construction contract receivables are generally due within a relatively short time. For this reason, their carrying amounts at the balance sheet date are approximated to the fair value.

As a rule, trade payables and construction contract payables are due within a relatively short time; the amounts carried in the balance sheet are approximated to the fair value.

The fair value of the convertible bond, amounting to € 173.3 million (2009: € 155.4 million), is obtained by multiplying the par value of exercisable convertible bonds, totaling € 152.7 million (2009: € 152.8 million), by the factor of 113,49 % (2008: 101,73 %), representing the quoted share price at the balance sheet date. Based on prevailing market assumptions on the balance sheet date relating to risk-free interest rates for the remaining term of the convertible bond, conversion price, share price, expected dividend payments and volatility of the MTU share, a proportional value of € 7.00 (2009: € 6.67) was calculated per exercised conversion option.

The equity component of the convertible bond amounts to € 21.6 million (2009: € 20.6 million), based on a total of 3,084,849 (2009: 3,086,869) exercisable conversion options.

Accordingly, the fair value of the equity component amounted to € 151.7 million (2009: € 134.8 million) at the balance sheet date. Taking into account the separately recognized interest of € 3.8 million (2009: € 3.9 million) accrued over the eleven months up to December 31, 2010, the fair value inclusive of interest amounts to € 155.5 million (2009: € 138.7 million). The carrying amount inclusive of accrued interest over eleven months amounts to € 152.4 million (2009: € 148.9 million).

CLASSIFICATION OF FAIR VALUE MEASUREMENTS OF FINANCIAL ASSETS AND LIABILITIES ACCORDING TO THE FAIR VALUE HIERARCHY

In order to evaluate the significance of the factors used as input when measuring financial assets and liabilities at their fair value, MTU assigns these assets and liabilities to three levels of a fair value hierarchy.

The three levels of the fair value hierarchy are described below, together with their utilization when measuring financial assets and liabilities:

Level 1: Quoted prices in active markets for identical assets or liabilities (unadjusted input)

Level 2: Directly observable market inputs other than Level 1 inputs, i.e. input factors that can be related directly (price) or indirectly (derived from price) to the financial assets or liabilities

Level 3: Input factors used to measure assets and liabilities that are not based on observable market data (unobservable input factors)

In the following table, financial assets and liabilities measured at fair value are allocated to the three levels of the fair value hierarchy:

Classification of fair value measurements of financial assets and liabilities according to the fair value hierarchy for the financial year 2010

in € million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial instruments		21.8		21.8
Available-for-sale financial assets	31.5	40.5		72.0
Total financial assets	**31.5**	**62.3**		**93.8**
Financial liabilities measured at fair value				
Derivative financial instruments		24.9		24.9
Total financial liabilities		**24.9**		**24.9**

The result of applying the fair value hierarchy to the fair value measurement of financial assets and liabilities in the prior year is shown in the following tables:

Classification of fair value measurements of financial assets and liabilities according to the fair value hierarchy for the financial year 2009

in € million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial instruments		16.6		16.6
Total financial assets		**16.6**		**16.6**
Financial liabilities measured at fair value				
Derivative financial instruments		12.2		12.2
Total financial liabilities		**12.2**		**12.2**

EXPLANATORY COMMENTS RELATING TO NET GAIN/LOSS ON FINANCIAL INSTRUMENTS BY CATEGORY

The table below shows the gains/losses arising from transactions involving financial instruments, aggregated by category. Interest income and expense in connection with financial assets and liabilities, which are recognized in the income statement at fair value, are not included here:

Net gain/loss on financial instruments by category 2010

Aggregated by category as defined in IAS 39	from interest	from investments	from remeasurement				from disposal	Net gain / loss 2010
			at fair value		currency translation	valuation allowances		
in € million			recognized	unrecognized				
Loans and receivables (LaR)	9.9				-5.6	-2.3		2.0
Held-to-maturity investments (HtM)								
Available-for-sale financial assets (AfS)	0.9	1.5						2.4
Financial assets held for trading (FAHfT)			13.5				0.4	13.9
Financial liabilities measured at amortised cost (FLAC)	-19.9		-9.5		0.6			-28.8
Financial liabilities held for trading (FLHfT)			-21.7				-0.5	-22.2
Financial instruments not within the scope of either IFRS 7 or IAS 39	1.4	-2.1			10.5			9.8
Total	**-7.7**	**-0.6**	**-17.7**		**5.5**	**-2.3**	**-0.1**	**-22.9**

The interest component of financial instruments is recognized under net interest expense (see Note 12. Interest result). Other components of net income or loss are recorded in MTU's financial statements in the financial result on other items (Note 14. Financial result on other items), with the exception of the expense for allowances on trade receivables, which comes under the category of loans and receivables and is recognized under selling expenses, and gains/losses arising from translation differences on trade receivables and payables, which are recognized under revenues or cost of sales respectively. The loss of € 2.1 million (2009: loss of € 1.5 million) generated by the joint venture Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde, which is accounted for using the equity method, is recognized under 'profit/loss of companies accounted for using the equity method' (Note 13. Profit/loss of companies accounted for using the equity method).

EXPLANATORY COMMENTS RELATING TO NET INTEREST EXPENSE

The net interest expense on financial liabilities classified as financial liabilities measured at amortized cost (an expense of € 19.9 million) mainly comprises interest expenses attributable to the convertible bond, finance lease liabilities and credit agreements with banks.

EXPLANATORY COMMENTS RELATING TO EQUITY INVESTMENTS

The column headed 'from investments' includes the profit/loss of companies accounted for using the equity method (Note 13. Profit/loss of companies accounted for using the equity method) in addition to profit/loss of other related companies accounted for at cost (Note 14. Financial result on other items).

EXPLANATORY COMMENTS RELATING TO MEASUREMENT SUBSEQUENT TO INITIAL RECOGNITION

Measurement of fair value

Financial instruments measured at fair value mainly comprise securities transactions, exchange rate gains and losses on ineffective currency hedging transactions, and losses arising from the measurement of interest rate derivatives.

Currency translation

Losses from the currency translation of financial instruments classified as loans and receivables amounting to € 5.6 million (2009: gain of € 0.5 million) are mainly attributable to exchange rate gains and losses arising from the measurement of trade receivables.

The following table provides comparative information on the effect of transactions involving financial instruments, aggregated by category.

Net gain/loss on financial instruments by category 2009

Aggregated by category as defined in IAS 39	from interest	from investments	from remeasurement				from disposal	Net gain / loss 2009
			at fair value		currency translation	valuation allowances		
in € million			recognized	unrecognized				
Loans and receivables (LaR)	2.4				0.5	-0.1		2.8
Held-to-maturity investments (HtM)								
Available-for-sale financial assets (AfS)		1.7						1.7
Financial assets held for trading (FAHfT)			29.9					29.9
Financial liabilities measured at amortised cost (FLAC)	-15.7		-8.3		0.1			-23.9
Financial liabilities held for trading (FLHfT)			-22.1				-0.2	-22.3
Financial instruments not within the scope of either IFRS 7 or IAS 39	0.8	-1.5			-11.5			-12.2
Total	**-12.5**	**0.2**	**-0.5**		**-10.9**	**-0.1**	**-0.2**	**-24.0**

38. DEFERRED TAXES

Deferred tax assets and liabilities were created for assets and liabilities and for measurement differences on the equity component of the convertible bond, for available-for-sale assets that are not measured at fair value through profit or loss, and for derivative financial instruments. Income tax assets were also recognized for tax credits and losses available for carry-forward.

Changes in deferred tax assets and liabilities

in € million	Dec. 31, 2010 Deferred tax assets recognized in balance sheet	Dec. 31, 2010 Deferred tax liabilities recognized in balance sheet	Dec. 31, 2010 Deferred tax assets recognized in equity	Dec. 31, 2010 Deferred tax liabilities recognized in equity	2010 Tax income / expense (-) recognized in profit or loss[1]	Dec. 31, 2009 Deferred tax assets recognized in balance sheet	Dec. 31, 2009 Deferred tax liabilities recognized in balance sheet
Assets							
Intangible assets	0.2	199.9			6.8	0.7	207.5
Property, plant and equipment	3.7	74.8			4.5	2.6	78.3
Financial assets	3.0				-0.2	3.2	
Inventories	2.6	15.9			0.9	2.0	16.3
Receivables and other assets	4.3	15.4			5.6	4.7	21.3
Equity							
Convertible bond[2]		5.1		5.1			5.1
Available-for-sale assets not recognized at fair value	0.1		0.1				
Derivative financial instruments[3]	0.6		0.6				1.3
Special taxed reserves					4.2		4.2
Liabilities							
Pension provisions	11.7	0.1			-0.2	11.8	
Other provisions	35.9	0.1			-0.5	36.5	0.2
Liabilities	27.2	3.7			12.0	16.5	5.0
Deferred tax on assets and liabilities	**89.3**	**315.0**	**0.7**	**5.1**	**33.1**	**78.0**	**339.2**
Tax credits and losses available for carry-forward							
Tax credits carried forward[4]	22.2				1.3	21.5	
Tax losses carried forward[5]	9.4				-2.4	20.9	
Valuation allowances and unrecognized recoverable tax payments							
Valuation allowance on tax credits	-11.7					-12.6	
Valuation allowance on tax losses carried forward	-7.4					-17.0	
Temporary differences for which no deferred tax assets were recognized	-1.6					-1.6	
Tax credits and losses carried forward	**10.9**				**-1.1**	**11.2**	
Deferred tax assets/liabilities before offset	**100.2**	**315.0**	**0.7**	**5.1**	**32.0**	**89.2**	**339.2**
Offset	-83.5	-83.5				-72.3	-72.3
Net deferred tax assets/liabilities	**16.7**	**231.5**	**0.7**	**5.1**	**32.0**	**16.9**	**266.9**

[1] Consolidated income statement.
[2] Equity component.
[3] Balance of assets and liabilities.
[4] MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland, and Vericor Power Systems LLC., Atlanta, USA.
[5] MTU Maintenance Canada Ltd., Richmond, Canada, MTU Aero Engines North America Inc., Newington, USA, and Vericor Power Systems LLC., Atlanta, USA.

Reference is made to Note 15. (Income taxes) for further information relating to current and deferred tax assets and liabilities resulting from the balance sheet and other items listed above and to the reconciliation between expected and actual tax expense.

Deferred tax assets and liabilities are only offset if the balances relate to income taxes levied by the same taxation authority and with similar maturities.

Deferred tax assets were recognized for deferred tax losses/credits available for carry-forward in the case of the following group companies:

Deferred tax assets on tax losses/credits available for carry-forward at December 31

in € million	USA	Canada	Poland	2010	2009
Unused tax losses	19.0	7.4		26.4	60.2
Tax credits available for carry-forward	0.3		21.9	22.2	21.5
Potential tax impact of tax losses/credits available for carry-forward	**7.7**	**2.0**	**21.9**	**31.6**	**42.4**
Valuation allowance on tax losses carried forward	-7.4			-7.4	-17.0
Valuation allowance on tax credits	-0.1		-11.6	-11.7	-12.6
Balance sheet effect of deferred tax assets on tax losses/credits available for carry-forward	**0.2**	**2.0**	**10.3**	**12.5**	**12.8**

The tax credits of € 10.3 million relate to the production site of MTU Aero Engines Polska. These credits are available to the Polish company to promote business investments due to the fact that the production site is located in a free trade zone. The actual utilization of the tax credits depends on the level of investment and actual taxable profits through to the financial year 2017.

In the United States, tax losses can be carried forward for 20 years. The same ruling has applied to tax losses in Canada since the financial year 2006. In relation to the disposal of a group of assets and associated liabilities of MTU Aero Engines North America Inc., Newington, USA in the financial year 2009, a large proportion of that company's already fully impaired tax loss carry-forwards were viewed as no longer being recoverable in 2010 due to the low remaining volume of business and were written off. Losses available for carry-forward and valuation allowances for MTU Aero Engines North America Inc., Newington, USA therefore decreased compared with 2009.

In Germany, tax losses can be carried forward indefinitely. The tax losses of group companies in Germany were fully utilized by the end of the financial year 2008.

Temporary differences for which no deferred tax assets were recognized totaled € 3.5 million in the financial year 2010 (2009: € 3.5 million) and related to MTU Aero Engines North America. The resulting potential tax impact of € 1.6 million (2009: € 1.6 million) was therefore not taken into account in the computation of income tax expense.

Applying the same accounting treatment of deferred taxes as when the convertible bond was issued, the deferred tax liabilities of € 5.1 million (2009: liabilities of € 5.1 million) relating to the equity component of the convertible bond are presented in capital reserves. Deferred taxes on cash flow hedges and securities are presented in other comprehensive income.

DEFERRED TAX LIABILITIES FOR TAXABLE TEMPORARY DIFFERENCES ARISING FROM INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES

In accordance with IAS 12, deferred tax liabilities were not recognized for temporary differences amounting to € 237.5 million (2009: € 205.9 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 € 3.9 million (2009: € 3.4 million), based on the current provisions of Section 8b of the German Corporate Income Tax Act (KStG).

IV. OTHER DISCLOSURES

39. MEASUREMENT OF THE RECOVERABLE AMOUNT OF OPERATING SEGMENTS TO WHICH GOODWILL HAS BEEN ATTRIBUTED

The group tests the goodwill of the cash-generating units for impairment annually. At MTU, the two operating segments – commercial and military engine business (OEM) and commercial maintenance business (MRO) – are viewed as cash-generating units. The value in use of each of the two operating segments at June 30, 2010, was calculated in order to determine their respective recoverable amounts. The recoverable amount determined for each operating segment was compared with the corresponding carrying amount. The calculations are based on the following assumptions:

- The calculations are based on the planned EBIT for each of the two operating segments, from which the future free cash flows are derived (cash inflows and outflows are planned without reference to financing activities or taxation).
- An analysis of possible changes to the planned cash flows, in respect of both the amount and the timing.
- The variables that enter into the calculation of weighted average cost of capital (WACC) before tax are:
    - risk-free base interest rate;
    - entrepreneurial risk (market risk premium multiplied by a beta coefficient based on peer group analysis);
    - perpetuity divided by discount rate less growth rate;
    - costs of debt capital and
    - the group's capital structure

The following table provides a review of the goodwill analysis, showing the projected figures and assumed values used to test goodwill:

Review of analysis of goodwill

	OEM Commercial and military engine business		MRO Commercial maintenance business	
	2010	2009	**2010**	2009
Carrying amount	€ 992 million	€ 1,088 million	€ 574 million	€ 535 million
Impairment	n.a.	n.a.	n.a.	n.a.
Carrying amount of goodwill of operating segment	€ 304.4 million	€ 304.4 million	€ 100.8 million	€ 99.0 million
Projected annual revenue growth rate for the planning period	-1.8% to 5.0%	4.3% to 7.7%	7.8% to 9.1%	6.9% to 7.7%
Projected EBITDA margin for the planning period	17.8% to 18,5%	15.3% to 16.8%	8.4% to 9.9%	8.8% to 10.8%
Projected reinvestment ratio for the planning period	4.1% to 5.7%	4.4% to 7.1%	1.9% to 2.2%	1.9% to 2.2%
Length of planning period	3 years	3 years	3 years	3 years
Annual growth premium applied for the period beyond the planning horizon (perpetuity)	1.0%	1.0 %	1.0%	1.0%
Discount rate (before tax)	11.0%	11.2%	10.6%	11.2%

The WACC is measured as a function of the cost of capital, averaged to account for both debt capital and equity capital. The cost of equity capital is first calculated after tax. For this purpose MTU in 2010 used a risk-free base interest rate of 3.3% (2009: 4.3%), a market risk premium of 5.0% (2009: 5.0%) and a beta coefficient of 1.01 (2009: 1.03) based on peer group analysis. The cost of debt capital was 3.0% (2009: 3.8%) after tax. The tax rate applied to determine the result before tax was set at 32.6% (2009: 32.6%). The relationship of equity capital to debt capital was 78.5% to 21.5% (2009: 66.0% to 34.0%). The higher equity ratio is attributable to the year-on-year increase in market capitalization.

The detailed forecasting period for the projected EBIT and cash flow figures to determine the value in use covers the three-year period from 2011 to 2013 for which detailed operating forecasts were available. The annual revenue growth rate of the perpetuity after the end of this planning period was extrapolated from these figures on the basis of sustainable cash flows. For both operating segments, these cash flows were determined with reference to projected earnings before interest and tax (EBIT) for the detailed forecasting period, assuming a sustainable reinvestment ratio for intangible assets and property, plant and equipment, and a sustainable increase in required working capital.

The calculations present no indications at the present time that could lead MTU to the conclusion that an impairment loss on goodwill for either of the operating segments is necessary.

40. SENSITIVITY ANALYSIS OF GOODWILL

The group makes estimations and assumptions relating to future events and conditions. These estimations and assumptions, which imply a significant risk in the form of possible major adjustments to the carrying amounts of assets and liabilities during the next financial year, are discussed in the following sections.

Sensitivity analyses were carried out to determine the possible impact that a sustainable 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 analysis for the OEM segment concluded that there would be no necessity to recognize an impairment loss on the goodwill for this operating segment, even in the event of a sustainable reduction in EBIT to 30 % below the earnings forecast established by management for this segment. In the MRO segment, a sustainable reduction in EBIT to 30 % below the earnings forecast established by management would require the group to recognize an impairment loss on the goodwill for this operating segment amounting to € 18.9 million.

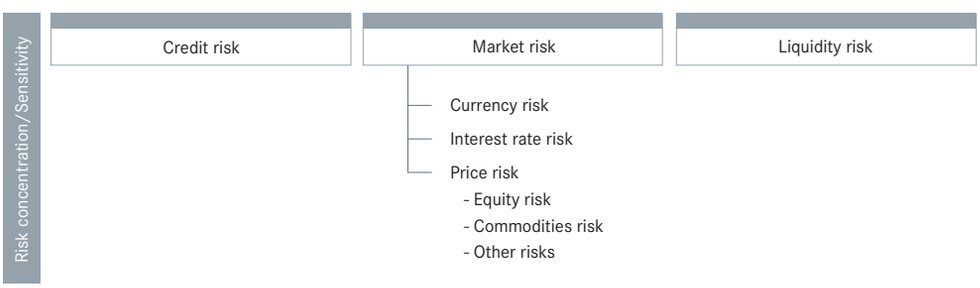
41. RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

PRINCIPLES OF RISK MANAGEMENT

MTU is exposed to credit risks, market risks, and liquidity risks with respect to its assets, liabilities and forecast transactions. The objective of financial risk management is to minimize these risks by means of current financing related activities. This involves the use of selected hedging instruments, depending on the estimated degree of risk exposure. Hedging is principally used to ward off risks affecting the group's cash flow.

The group's basic financial policy guidelines are defined at annual intervals by the Board of Management and monitored by the Supervisory Board. The responsibility for implementing the agreed financial policy and performing ongoing risk management lies with the group's Treasury Board. Certain transactions require the prior approval of the Board of Management, whose members are kept regularly informed of the extent and amount of current risk exposure.

Types of risk



41.1. CREDIT RISK

MTU is exposed to a number of credit risks arising from its operating and financing activities. Outstanding payments in connection with operating activities are constantly monitored by the operating segments. Specific allowances are used to account for the risk of non-payment. The consortium leaders in the commercial engine and spare parts businesses have extensive receivables management systems in place.

In the commercial MRO business, the responsible MTU departments track open accounts receivable in short cycles. Before a deal is finalized, risks are assessed and any necessary precautions are taken.

In the case of derivative financial instruments, the group is also exposed to a credit risk which arises as a result of contract partners not fulfilling contractual agreements. In the context of financing activities, this credit risk is diminished by ensuring that business is conducted only with partners with a credit rating of investment grade (IG) or better. For this reason, the general credit risk resulting from the use of derivative financial instruments is not considered to be significant.

There are no indications of any concentrations of credit risk arising from business relations, individual debtors, or groups of debtors.

The maximum credit risk is represented on the one hand by the carrying amounts of the financial assets recognized in the balance sheet. No material agreements exist at the balance sheet date which could reduce the maximum credit risk. On the other hand, MTU is exposed to a liability risk and hence potential credit risk as a result of obligations assumed in connection with risk- and revenue-sharing partnerships and the associated contingent liability. At the balance sheet date, proportionate shares of contingent liability under risk- and revenue-sharing partnerships totaled a nominal amount of € 71.6 million (2009: € 62.1 million). In addition to these contingent liabilities, the group also held guarantees issued for group companies amounting to € 55.0 million (2009: € 82.4 million).

41.2. MARKET RISKS

41.2.1. CURRENCY RISK

More than 80 % of MTU's revenues are generated in U.S. dollars. Approximately half of this currency risk is offset in the normal course of business by costs incurred likewise in U.S. dollars. Most other costs are incurred in euros and in Chinese yuan renminbi, and to a lesser extent in Canadian dollars and Polish zloty. Consequently, earnings are dependent on changes in the exchange rate parity between the U.S. dollar and the cited currencies from the order date to the delivery date, in the measure to which MTU does not make use of financial instruments to hedge against its current and future net exposure. MTU makes use of hedging strategies for the exclusive purpose of minimizing the effect of U.S. dollar exchange rate volatility on EBIT.

Translation differences resulting from the translation of annual financial statements into the group's functional currency are not included.

HEDGING STRATEGY

For accounting purposes, MTU designates future cash flows (forecast transactions) as hedged items to reduce the expected net currency risk exposure. As a result, postponements or cancellations of business transactions and the associated cash inflows do not affect the hedging relationship as long as the actual gross inflow of a foreign currency exceeds the hedged amount.

FORWARD FOREIGN EXCHANGE CONTRACTS

At December 31, 2010, MTU held forward foreign exchange contracts for a contractual period up to December 2015 to sell a nominal volume of U.S. $ 1,310.0 million (which translates to € 980.4 million at the exchange rate prevailing at the balance sheet date) at futures rates for a total of € 981.5 million. Changes in the fair value of the forward foreign exchange contracts amounted to a loss of € 5.8 million in 2010 (2009: a gain of € 21.1 million). At December 31, 2009, MTU had hedged cash flows amounting to U.S. $ 700 million (which translates to € 485.9 million at the exchange rate prevailing at December 31, 2009) for the financial years 2010 – 2011.

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	**2010**	2009
2010		410.0
2011	550.0	290.0
2012	380.0	
2013	150.0	
2014	120.0	
2015	110.0	
Total in U.S. $	**1,310.0**	**700.0**
Translated into € at the exchange rate prevailing on the balance sheet date	**980.4**	**485.9**

A loss of € 25.4 million (2009: € a loss of 3.1 million) from effective forward foreign exchange contracts realized in the financial year was recycled from equity to revenues. The total amount of the ineffective portion of the fair value of hedging transactions in 2010 was recognized in the financial result as a loss of € 2.5 million (2009: a loss of € 0.1 million). At December 31, 2010, net of deferred taxes, fair value losses on forward foreign exchange contracts amounting to € 1.2 million (2009: fair value gains of € 2.7 million) were recognized directly in equity (see consolidated statement of changes in equity).

There are no forecast transactions for which cash flow hedges were recognized in prior periods that are not expected to occur.

As a further element of its risk management strategy, MTU employs derivative financial instruments which do not form part of a hedging relationship as defined by IAS 39:

CURRENCY OPTION TRANSACTIONS

These types of transaction (commonly referred to as 'plain vanilla options') enable MTU to sell a defined quantity of U.S. dollars at agreed euro exchange rates on a range of different dates. The risk of loss from these transactions is limited to the premiums that have already been paid.

In addition to plain vanilla options, the group also holds structured products as a currency hedge that allow a minimum quantity of U.S. dollars to be sold at fixed exchange rates. These products present a risk if the exchange rate falls since MTU is obliged to sell U.S. dollars at a previously agreed euro/U.S. dollar exchange rate.

CURRENCY SWAPS

U.S. dollar holdings were sold during the financial year 2010 at the daily rate. The same U.S. dollar amount was repurchased after an agreed period at a previously agreed, fixed exchange rate that differed only marginally from the earlier selling rate. This swap is not material to MTU from the point of view of risk.

SENSITIVITY ANALYSIS

As part of the disclosures about market risk, IFRS 7 requires a sensitivity analysis showing the effects of hypothetical changes in relevant risk variables on earnings after tax and equity. The periodic effects are determined by applying the hypothetical changes in the risk variables to the financial instruments held at the balance sheet date. This implies the assumption that the holding at the balance sheet date is representative of the whole year.

A large proportion of the non-derivative financial instruments, trade receivables and payables, and finance lease liabilities are invoiced in U.S. dollars and therefore have an impact on earnings after tax (EAT) and equity, as a result of exchange rate parities. All other non-derivative financial instruments are denominated in the functional currency and are hence not included in the exchange rate sensitivity analysis.

The equity instruments held by the group are not of a monetary nature, and so consequently do not present a currency risk as defined by IFRS 7.

EXCHANGE RATE SENSITIVITY

If it is assumed that the exchange rate of the euro to the U.S. dollar at December 31, 2010 or at the prior year's balance sheet date had been 10 % higher or lower than the actual closing rate, the sensitivity analysis based on this assumption produces the following hypothetical effects on earnings after tax (EAT) and equity:

Exchange rate sensitivity (€ / U.S. $)

	2010		2009	
in € million	-10%	+10%	-10%	+10%
Closing exchange rate Dec. 31, 2010: 1.3362 (Dec. 31, 2009: 1.4406)	1.20	1.47	1.30	1.58
Earnings after tax (EAT)	**3.5**	**-4.0**	**-0.4**	**2.1**
Equity[1]	**-57.1**	**46.6**	**-20.7**	**16.9**
of which: hedge reserve (fair value)[1]	-72.9	59.6	-36.3	29.7

[1] net of taxes.

41.2.2. INTEREST RATE RISK

MTU is exposed to interest rate risk principally in the euro zone, and to a lesser extent in Canada, China, Poland and the United States. To minimize the effects of interest rate fluctuations in these regions, MTU manages interest rate risk separately for net financial liabilities denominated in euros, Canadian dollars, Chinese yuan renminbi, Polish zloty and U.S. dollars.

U.S. dollar interest rate swaps / U.S. dollar caps

The purpose of interest rate swaps is to reduce exposure to interest rate fluctuations. These are purely financial transactions, and consequently present no additional currency risk, even if they do present a minor interest rate risk.

At December 31, 2010, the company held one interestrate cap with a nominal value of € 10 million and a maturity date of June 5, 2014, which fixes a ceiling of 4% on floating-rate loans on which interest is payable at the 6-month Euribor rate plus an additional margin.

Sensitivity analysis

IFRS 7 requires the presentation of interest rate risk in the form of a sensitivity analysis. This demonstrates the effects of changes in market interest rates on interest payments, interest income and expense, other income statement items, earnings after tax (EAT), and equity. The interest rate sensitivity analysis is based on the following assumptions:

Changes in the market interest rate of non-derivative financial instruments bearing interest at a fixed, normal rate only have an effect on earnings after tax and equity if these financial instruments are classified as ‘at fair value through profit or loss’ or were so designated at initial recognition. Consequently, all fixed-interest financial instruments measured at amortized cost have no effects on earnings after tax or equity that must be accounted for. There may be a possible effect on earnings after tax in the event of early repayment, repurchase or maturity, resulting from the difference between carrying amounts and fair values of the financial liabilities, which is disclosed in the notes.

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 sensitivity analysis of market risks.

Interest rate sensitivity

In the financial year 2010, an average of 80% (2009: 66%) of the group's financial liabilities denominated in euros bore interest at a fixed rate. This average is representative for the whole year.

If it is assumed that the market interest rate at December 31, 2010 had been 100 basis points higher or lower, the sensitivity analysis based on this assumption produces the following hypothetical effects on earnings after tax for the year:

Interest rate sensitivity in basis points

	2010		2009	
in € million	+100	-100	+100	-100
Earnings after tax (EAT)	**0.5**	**-0.2**	**-2.6**	**2.9**

41.2.3. PRICE RISK

In connection with the presentation of market risk, IFRS 7 also requires disclosure of the effects that hypothetical changes in risk variables relating to prices and the fair value of financial instruments might have on earnings after tax for the year and equity. The risk variables of most relevance in this context are the quoted MTU share price, as a factor influencing the conversion option threshold for the convertible bond and forward commodity sales contracts for nickel alloys.

Convertible bond

The expense over the convertible bond's term to maturity consists of the present value calculated as above, discounted at the applied market interest. As a result of changes in the yield curve, the fixed coupon rate of the convertible bond may present an interest rate risk, which ultimately represents a market-related fair value risk, out of which differences might arise between the carrying amount and the fair value of the liability portion of the convertible bond at the balance sheet date.

The possible effect on the financial result in the event of early repayment, repurchase or maturity is represented by the difference between the carrying amount of € 152.4 million (2009: € 148.9 million) and the fair value of € 155.5 million (2009: € 138.7 million). The increase in the fair value of the liability component in 2010 is attributable to the significant rise in the MTU share price and the narrowing of the credit spread for corporate bonds as a result of the weakening financial market crisis.

Forward commodity sales contracts

To minimize the risk of increasing commodity prices for the necessary quantity of nickel, MTU has, as at December 31, 2010, concluded forward commodity sales contracts with banking institutions for a total of 490 tons of nickel over the period of 2011 to 2012. The contracted fixed prices for nickel range between U.S. $ 10.9 and 21.6 thousand per ton. If the market price for nickel on the respective due date exceeds the agreed fixed price, MTU will receive a payment for the difference from the bank with which the contract was concluded. In the opposite case, MTU is obligated to compensate the bank. No effective hedging relationship as defined in IAS 39 has been established for these transactions. The fair value gains amounting to € 3.3 million (2009: € 4.6 million) arising from these forward commodity sales contracts are recognized in the financial result on other items (see Note 14. Financial result on other items).

If it is assumed that the market price of forward commodity sales contracts for nickel had been 10% higher or lower, the effect on earnings after tax would have been € 0.7 million higher or lower, respectively (2009: € 0.7 million).

41.3. LIQUIDITY RISK

Liquidity risk management is the responsibility of the Treasury Board. The controlling process is based on an analysis of all future cash flows. The process includes the monitoring and limitation of aggregated cash outflow and cash borrowing. Observed parameters include diversification effects and customer concentration. To guarantee MTU's solvency and financial flexibility at all times, a liquidity reserve consisting of lines of credit and cash and cash equivalents is kept available. Transactions in connection with financing activities are conducted exclusively with partners who have an excellent credit rating. Outstanding payments in connection with operating activities are monitored on an ongoing basis. Specific allowances are used to account for the risk of non-payment (see Note 23. Trade receivables).

The group's lines of credit consist of a revolving credit facility for an amount of € 100.0 million made available by two banks in conjunction with agreements that run to December 1, 2015. The funds raised through these lines of credit are generally intended to finance capital expenditure on operating equipment and are not covered by collateral. At December 31, 2010 the group had not drawn down any funds through these lines of credit. However, of the € 100.0 million available at the balance sheet date, € 29.0 million (2009: € 27.7 million) had been drawn down as bank guarantees in favor of third parties. The availability of the unused lines of credit amounting to € 71.0 million (2009: € 72.3 million) increases the scope and flexibility of the group's financing opportunities. As of December 31, 2010, MTU and its affiliates had met all loan repayment and other obligations (covenants) arising from financing agreements.

The maximum credit risk is represented by the carrying amounts of the financial assets recognized in the balance sheet. Irrespective of existing collateral, the amount stated for the financial assets specifies the maximum default risk pertaining to the case in which a customer is unable to meet its contractual payment obligations. In order to minimize default risk, payment arrangements are secured by collateral, credit rating information is obtained, or historical data from the existing business relationship (and in particular payment patterns) are used.

MTU is also exposed to default risk through contingent liabilities and other financial obligations (see Note 42. Contingent liabilities and other financial obligations).

42. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Contingent liabilities

in € million	Dec. 31, 2010	Dec. 31, 2009
I. Contingent liabilities under risk- and revenue-sharing partnerships with:		
IAE International Aero Engines AG	49.3	39.1
Pratt & Whitney Aircraft Company	20.4	19.9
General Electric Company	1.9	3.1
Total contingencies	**71.6**	**62.1**
II. Guarantees and other contingent liabilities	52.1	81.1
III. Contingent liabilities arising from pre-retirement part-time working arrangements	1.5	
IV. Obligations arising from equity investments in joint ventures	1.4	1.3
Total contingent liabilities	**126.6**	**144.5**

No provisions were allocated for contingent liabilities in 2010, as the risk of their being invoked is considered very unlikely.

When MTU enters into risk- and revenue-sharing agreements, the company assumes obligations with respect to the sales financing of engines for selected airlines. The means of providing sales financing are generally secured through access rights granted by the consortium leader in an engine program. MTU additionally benefits from safe-guarding clauses drawn up by the leader of the engine consortium, which take the imputed risks and legislative framework into consideration. MTU is of the view that the estimated market value of the financed engines is sufficient to offset potential losses arising from financing transactions.

Guarantees and other contingent liabilities relate primarily to service agreements for gas turbine maintenance and guarantee obligations arising from maintenance agreements amounting to € 16.9 million (2009: € 16.3 million), and investment grants amounting to € 28.9 million (2009: € 20.6 million).

TV FlexÜ, a collective agreement on flexible transition into retirement, came into effect in the respective German collective bargaining regions at the beginning of the financial year 2010. In addition, the MTU group companies in Germany entered into an agreement with the Works Council, effective until December 31, 2016, which supersedes the collective bargaining agreement. For each of the group companies in Germany, upper limits were agreed for the maximum number of employees covered by collective bargaining agreements who can assert a claim to a preretirement part-time employment contract. Implementation of these contracts will be spread over the period to 2016. These upper limits had not yet been fully reached as of the date on which the consolidated financial statements were approved for publication by the Board of Management. It is possible, though currently unlikely, that further agreements may take effect representing a maximum additional liability in the order of € 1.5 million (2009: € 0.0 million) over and above the amounts already set aside.

The obligations arising from equity investments in joint ventures relate to accorded loans recognized in proportion to the interest in the joint venture and totaled € 1.4 million (2009: € 1.3 million). MTU does not have any capital obligations toward the partner company itself.

42.1. OTHER FINANCIAL OBLIGATIONS

42.1.1. OBLIGATIONS ARISING FROM OPERATING LEASE ARRANGEMENTS

Apart from liabilities, provisions and contingent liabilities, the company has additional other financial obligations, particularly pertaining to rental and lease contracts for buildings, machines, tools, office and other equipment.

The rental and lease contracts for buildings, machines, tools, office and other equipment have terms of one to eighteen years and in certain cases contain extension and purchase options and/or price adjustment clauses. With regard to rental and lease agreements, payments of € 18.2 million (2009: € 17.5 million) were expensed in the financial year 2010.

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, 2010	Dec. 31, 2009
Due in less than one year	11.1	12.2
Due in more than one and less than five years	16.7	22.6
Due in more than five years	2.5	2.5
Total future minimum lease payments	**30.3**	**37.3**

The decrease in the nominal total of future minimum lease payments from € 37.3 million in 2009 to € 30.3 million at December 31, 2010 is mainly attributable to contracts for leased engines in the commercial maintenance business. The lease agreements on 10 engines expired in 2010, and the engines were returned to the lessor. Only one new engine lease agreement was concluded, meaning that the total obligation has now been reduced to 15 engines (2009: 24 engines). These engines are made available to customers as replacements while their own engines are undergoing repairs.

In addition to engine leasing in commercial MRO with a total volume of € 9.5 million (2009: € 15.0 million), other major individual obligations, totaling € 13.5 million (2009: € 14.5 million), comprise the future lease payments for an office building at MTU Aero Engines GmbH, Munich, payments for the building at the air base in Erding as part of a cooperative arrangement with the German Air Force, and payments for the lease of floor conveyor vehicles.

At December 31, 2010, 91 % of the leasing contracts, in arithmetical terms, are due to expire within 5 years. 9 % are valid for more than 5 years, while a small number of leasing contracts have no definite expiration date.

42.1.2. OBLIGATIONS ARISING FROM FUTURE MINIMUM PAYMENTS ON RENTAL AGREEMENTS FOR SUBLET PROPERTY

Nominal total of future minimum payments arising from rental agreements for sublet property

in € million	Dec. 31, 2010	Dec. 31, 2009
Total minimum receivable rental income from property subletting agreements	1.8	2.3
Total future minimum rental payments under property subletting agreements	-1.8	-2.2
Surplus amount		**0.1**

42.1.3. ORDER COMMITMENTS FOR FINANCIAL OBLIGATIONS

At December 31, 2010, other financial obligations comprised order commitments for the purchase of intangible assets, totaling € 0.1 million (2009: € 0.4 million), and financial obligations for the purchase of property, plant and equipment, totaling € 29.9 million (2009: € 30.0 million). These financial obligations were thus within normal limits.

43. RELATIONSHIPS WITH RELATED COMPANIES AND PERSONS

43.1. RELATED COMPANIES

MTU maintains normal business relationships with non-consolidated, related subsidiaries. Transactions between group companies and joint ventures or associated companies were, without exception, conducted in the context of their normal business activities and made on terms equivalent to those that prevail in arm's length transactions.

Business transactions between companies included in the consolidated financial statements were eliminated in the course of consolidation and are therefore not subject to any further separate disclosure in these notes.

43.1.1. BUSINESS WITH RELATED COMPANIES

During the course of the business year, companies within the group conducted transactions amongst themselves (intragroup sales). The following business transactions were carried out with non-consolidated related companies in the financial year 2010 and in 2009:

Receivables due from related companies

	Outstanding balance		Value of business transactions			
	Receivables		Revenues/income/sales		Expenses/purchases	
in € million	**Dec. 31, 2010**	Dec. 31, 2009	**2010**	2009	**2010**	2009
Current receivables						
Eurojet Turbo GmbH, Munich[1)]	25.3	31.6	243.6	218.3	-1.5	-1.9
MTU Turbomeca Rolls-Royce GmbH, Hallbergmoos[1)]	1.2	2.3	10.3	10.7	-0.7	-0.1
MTU Turbomeca Rolls-Royce ITP GmbH, Hallbergmoos[1)]	0.5	0.6	1.4	3.9	-0.4	-0.6
Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde	1.1	3.3	33.6	35.9		-0.1
Ceramic Coating Center S.A.S., Paris, France	0.4	0.3			-3.2	-2.5
Turbo Union Ltd., Bristol, England[1)]	3.7	6.7	68.8	84.5	-0.1	
Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia	0.8	1.6	0.5	0.2	-2.7	-4.3
Middle East Propulsion Company Ltd., Riyadh, Saudi Arabia	0.5	0.2	0.5	0.2	-0.2	
Gesellschaft zur Entsorgung von Sondermüll in Bayern GmbH, Munich					-0.2	-0.1
Total	**33.5**	**46.6**	**358.7**	**353.7**	**-9.0**	**-9.6**

[1)] Associated companies.

Liabilities to related companies

	Outstanding balance		Value of business transactions			
	Payables		Revenues/income/sales		Expenses/purchases	
in € million	**Dec. 31, 2010**	Dec. 31, 2009	**2010**	2009	**2010**	2009
Current liabilities						
IAE International Aero Engines AG, Zurich, Switzerland	75.0	44.3	468.1	477.1	-430.1	-478.5
MTU Versicherungsvermittlungs- und Wirtschaftsdienst GmbH, Munich					-9.1	-8.3
EPI Europrop International GmbH, Munich[1)]	8.1	14.1	2.0	1.8	-6.6	-1.3
MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China	1.8	2.2	1.6	1.4	-13.5	-26.3
MTU München Unterstützungskasse GmbH, Munich	7.8	9.0			-0.1	-0.1
Total	**92.7**	**69.6**	**471.7**	**480.3**	**-459.4**	**-514.5**

[1)] Associated companies.

43.1.2. MAJOR SHAREHOLDINGS

The list of major shareholdings shows MTU's capital share in each company together with the equity that this represents at December 31, 2010 and the profit or loss generated by each company in the financial year 2010:

List of shareholdings

Name and registered office of entity	Consolidation method[10]	Shareholding in % Dec. 31, 2010	Equity in € 000 Dec. 31, 2010	Profit/loss in € 000 2010
I. Investments in subsidiaries				
MTU Aero Engines Finance B.V., Amsterdam, Netherlands	full	100.00	-2,124	-3,903
MTU Aero Engines GmbH, Munich	full	100.00	896,454	41,322[2]
MTU Maintenance Hannover GmbH, Langenhagen	full	100.00	107,613	-7,722[2]
MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde	full	100.00	134,083	3,265[2]
MTU Aero Engines North America Inc., Newington, U.S.A.	full	100.00	3,743[3]	370[7]
MTU Maintenance Canada Ltd., Richmond, Canada	full	100.00	1,716[3]	7,147[7]
Vericor Power Systems LLC., Atlanta, U.S.A.	full	100.00	24,891[3]	782[7]
RSZ Beteiligungs- und Verwaltungs GmbH, Munich	full	100.00	13,431	-1
MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland	full	100.00	54,621[3]	-862[7]
MTU Versicherungsvermittlungs- und Wirtschaftsdienst GmbH, Munich	at cost	100.00	26[4]	[2/4]
MTU München Unterstützungskasse GmbH, Munich	[11]	100.00	7,788[4]	[4]
II. Investments in associated companies				
Turbo Union Ltd., Bristol, England	at cost	39.98	309[1]	-13[1]
EUROJET Turbo GmbH, Hallbergmoos	at cost	33.00	2,298[1/4]	399[1/4]
EPI Europrop International GmbH, Munich	at cost	28.00	493[1/4]	427[1/4]
MTU Turbomeca Rolls-Royce GmbH, Hallbergmoos	at cost	33.33	100[1/4]	62[1/4]
MTU Turbomeca Rolls-Royce ITP GmbH, Hallbergmoos	at cost	25.00	65[1/4]	38[1/4]
III. Equity investments in joint ventures				
MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China	proportionate	50.00	115,787[3]	22,283[7]
Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde	at equity	50.00		-4,247
Ceramic Coating Center S.A.S., Paris, France	at cost	50.00	4,107[1]	924[1]
Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia	at cost	50.00	3,379[1/6]	896[1/8]
IV. Other equity investments				
IAE International Aero Engines AG, Zurich, Switzerland	at cost	12.10	38,083[1/6]	2,252[1/8]
Middle East Propulsion Company Ltd., Riyadh, Saudi Arabia	at cost	19.30	21,662[1/6]	3,113[1/8]

[1] Date for previous year, actuals not available.
[2] Profit/loss for German GAAP purposes (HGB) transfered under profit and loss transfer agreement 2010.
[3] Translated at closing exchange rate, Dec. 31, 2010.
[4] German GAAP (HGB) amount; no IFRS financial statements drawn up.
[5] Translated at annual average rate for 2010.
[6] Translated at closing exchange rate, Dec. 31, 2009.
[7] Translated at monthly closing exchange rates 2010.
[8] Translated at annual average rate for 2009.
[9] Financial statements not yet audited at time of reporting.
[10] full = fully consolidated.
at cost = measured at acquisition cost, because fair value cannot be reliably determined.
at equity = carrying amount of investment increased or reduced to reflect changes in equity of group's percentage interest.
proportionate = consolidated in the same proportion as the group's interest.
[11] Plan assets according to IAS 19.

43.2. RELATED PERSONS

No group company has conducted any business subject to disclosure requirements with members of the group's Board of Management or Supervisory Board or with any other individuals holding key management positions, or with companies in which these persons hold a seat on the managing or supervisory board, with the exception of the transactions presented in Note 43.2.4. (Other related party transactions). This is also applicable for close family members of this group of persons. For information concerning the purchase of shares and share options by members of the Board of Management and the Supervisory Board, please refer to Note 43.2.4. (Other related party transactions).

43.2.1. MEMBERS OF THE BOARD OF MANAGEMENT

At December 31, 2010, the MTU Board of Management comprised the following members:

Board of Management

Egon Behle Chief Executive Officer of MTU Aero Engines Holding AG, Munich	Munich
Dr. Rainer Martens Chief Operating Officer of MTU Aero Engines Holding AG, Munich	Munich
Dr. Stefan Weingartner President and CEO Commercial Maintenance of MTU Aero Engines Holding AG, Munich	Munich
Reiner Winkler Chief Financial Officer of MTU Aero Engines Holding AG, Munich	Munich

43.2.2. BOARD OF MANAGEMENT COMPENSATION

At the proposal of the Chairman of the Supervisory Board, the Supervisory Board takes decisions on the compensation system for the members of the Board of Management – including the key contract provisions – and reviews the compensation system on a regular basis. The statutory and regulatory requirements arising from the recently implemented German Act on the Appropriateness of Management Board Compensation (VorstAG) of August 5, 2009 prompted the Supervisory Board to review the compensation structure again in 2009 and 2010 and to develop a new version for the future that reflects the intentions of the legislator embodied in VorstAG. The Supervisory Board drew on the services of an independent external compensation consultant in the course of developing the new compensation structure.

The members of the Board of Management received total compensation amounting to € 8.7 million (2009: € 7.8 million) in the financial year 2010 for their services as Board members.

The total compensation is broken down into the following components:

Board of Management compensation

	2010		2009	
	in € million[1]	in %	in € million[1]	in %
Short-term employee benefits				
Non-performance-related components	2.4		2.9	
Performance-related components excluding long-term incentive[2]	1.6		2.6	
Total	**4.0**	**46.0**	**5.5**	**70.5**
Post-employment benefits				
Service cost[3]	3.1		2.0	
Total	**3.1**	**35.7**	**2.0**	**25.7**
Other long-term benefits				
Performance-related components (long-term incentive)	1.1			
Total	**1.1**	**12.6**		
Share-based payment benefits				
Performance-related components (long-term incentive)	0.5		0.3	
Total	**0.5**	**5.7**	**0.3**	**3.8**
Total compensation	**8.7**	**100.0**	**7.8**	**100.0**

[1] Benefits paid to members of the Board of Management for active board service in the stated years.
[2] Non-deferred payments.
[3] Excluding interest cost; 2009 figure adjusted accordingly.

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

Provisions established to cover current and future pension obligations

in € million	Dec. 31, 2010	Dec. 31, 2009
Total	**4.5**	**3.4**

Key features of the compensation system for the members of the Board of Management

At the proposal of the Chairman of the Supervisory Board, the Supervisory Board determines the total compensation (the so-called target direct compensation) and its components for the members of the Board of Management. The target direct compensation is broken down into non-performance-related (40 %) and performance-related (60 %) components. Approximately half of the performance-related components are linked to the development of the share price of MTU Aero Engines Holding AG. The target direct compensation comprises the following components:

- Non-performance-related components
  The non-performance-related components consist of the basic salary and other benefits which are reviewed at regular intervals and paid monthly. Other benefits include the taxable reimbursement of expenses and non-cash benefits such as company cars for business and personal use and insurance premiums, including any taxes incurred.

- Performance-related components
  The performance-related components consist of annual performance-related compensation, a long-term incentive Performance Share Plan (PSP), and the Matching Stock Program (MSP). Payment of all or part of each component is made on a deferred basis. At the end of the PSP assessment period, the members of the Board of Management have the option to convert the payment under the Performance Share Plan (PSP) into treasury shares within the scope of the Share Matching Plan (SMP).

- Provisions after termination of employment
  In addition to the general adjustments made to the contractual agreements with members of the Board of Management to fulfill the requirements of the German Act on the Appropriateness of Management Board Compensation (VorstAG), the financial year 2010 also saw revisions made to the provisions governing the termination of employment contracts with members of the Board of Management. These revisions affect the benefits to which the members of the Board of Management are entitled in the event of a regular termination of employment as well as the benefits to which they are entitled in the event of a premature termination of employment.

  The members of the Board of Management are insured under a defined benefit plan in which the benefits promised are based on the contributions made. The benefits payable to members of the Board of Management under this plan correspond to those of their peers in comparable companies. The amended pension plan contracts for the Board of Management came into effect on January 1, 2010. The amendments resulted in an increase in accrued pension rights, as well as in the pension provisions and in the defined benefit obligation.

More detailed information on the new compensation system introduced in the financial year 2010 and the effects of the amended pension plan contracts for MTU's Board of Management is provided in the management compensation report in the Corporate Governance section of this Annual Report.

Share-based compensation

Share-based compensation settled by the issuance of equity instruments corresponds to the fair value of phantom stocks at the date on which they were granted under the Matching Stock Program (MSP) and at the grant date of the performance shares under the Share Matching Plan (SMP). For further explanatory comments concerning share-based compensation under the MSP and the SMP, including the calculation and measurement of the fair value of the phantom stocks and performance shares, please see Note 29.4. (Capital reserves) and the management compensation report in the Corporate Governance section of this Annual Report.

Members of the Board of Management did not receive any compensation for mandates on boards of the group's own companies. No loan facilities have been granted by the company to members of the Board of Management.

At December 31, 2010, as in the previous year, no loan facilities or advances were granted to members of the Board of Management. Similarly, as in the previous year, no contingent liabilities were assumed by the company in favor of members of the Board of Management.

43.2.3. MEMBERS OF THE SUPERVISORY BOARD

As in the previous year, the members of the Supervisory Board did not receive any additional compensation for supervisory board mandates over and above that received for their supervisory board mandate with MTU Aero Engines Holding AG, Munich. Compensation for active members of the Supervisory Board amounted to € 0.7 million (2009: € 0.7 million).

At December 31, 2010, as in the previous year, no loan facilities or advances were granted to members of the Supervisory Board. Similarly, as in the previous year, no contingent liabilities were assumed by the company in favor of members of the Supervisory Board.

For details of the compensation awarded to individual members of the Supervisory Board, and other related information, please refer to the management compensation report in the Corporate Governance section of this Annual Report.

43.2.4. OTHER RELATED PARTY TRANSACTIONS

MTU shares and options bought or sold by members of the Board of Management and the Supervisory Board in the financial year 2010, as in the previous year, were bought and sold under normal market conditions. The transactions were published in the commercial registry and posted on the MTU website at www.mtu.de/en under Investor Relations – Corporate Governance – Directors' Dealings.

V. SEGMENT INFORMATION

44. SEGMENT REPORTING

MTU reports on two operating segments: the commercial and military engine business (OEM) and the commercial maintenance business (MRO). Segmentation is based on classifications used in the internal organizational structure and reporting system, and takes into account the risks and returns to which the segments are subject.

COMMERCIAL AND MILITARY ENGINE BUSINESS (OEM)

In the commercial and military engine business, the group develops, manufactures, assembles and delivers commercial and military engines and components. Maintenance, repair and overhaul of military engines is also included in this segment.

COMMERCIAL MAINTENANCE BUSINESS (MRO)

In the commercial maintenance business, the group maintains, repairs and overhauls aircraft engines and industrial gas turbines. Activities encompass full engine maintenance and repair, the complete overhaul of engine modules and special repairs.

PROFIT/LOSS OF COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount and the share in profit/loss of consolidated group companies accounted for using the equity method are included in reporting by operating segment if such companies can be directly allocated to an operating segment.

SEGMENT ASSETS

Segment assets and liabilities comprise all assets and liabilities that can be allocated to specific operating activities and whose positive or negative operating results have an impact on earnings before interest and tax (EBIT/EBIT adjusted). Assets are allocated to the operating segment in which they are used to generate business. The positive consolidation/reconciliation amount of € 1,378.1 million (2009: € 1,263.9 million) in the segment assets line relates to the consolidation of the fair value of subsidiaries (financial assets) and of accounts receivable from intersegment sales.

SEGMENT LIABILITIES

Liabilities are allocated to the operating segment that bears the legal obligation for their settlement. In the segment information, the liabilities amount of € 316.6 million (2009: € 200.8 million) in the 'consolidation/reconciliation' column relates to internal liabilities of the group companies that were reconciled with financial liabilities of the holding company.

SEGMENT CAPITAL EXPENDITURE

Segment capital expenditure relates to additions to intangible assets and to property, plant and equipment.

CONSOLIDATION/RECONCILIATION COLUMN

The amounts in the 'consolidation/reconciliation' column for earnings before interest and tax (EBIT/EBIT adjusted) are used to eliminate revenues from intersegment sales from group revenues.

SEGMENT INFORMATION BY GEOGRAPHICAL AREA

An analysis by geographical area is provided for external revenues, for capital expenditure on intangible assets and property, plant and equipment, and for non-current assets. The geographical areas are defined as the regions in which MTU is active: Germany, Europe (excluding Germany), North America, South America, Africa, Asia, and Australia/Oceania. North America consists of the United States and Canada.

Capital expenditure on intangible assets and property, plant and equipment, and non-current assets are allocated to the geographical areas according to the location of the asset in question. The non-current assets mainly consist of intangible assets and property, plant and equipment. External revenues are allocated according to the customer's country of domicile.

VI. EVENTS AFTER THE BALANCE SHEET DATE

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.

VII. RECONCILIATION OF GROUP EARNINGS AFTER TAX (EAT) TO THE NET PROFIT AVAILABLE FOR DISTRIBUTION OF MTU AERO ENGINES HOLDING AG, MUNICH

Unlike the consolidated financial statements, which are based on the IFRSs issued by the IASB, the annual financial statements of MTU Aero Engines Holding AG, Munich, are prepared in accordance with the German Commercial Code (HGB) and German Stock Cooperation Act (AktG). The IFRS rules are also applied in the separate financial statements where it is permissible and fitting to do so. In numerous cases, the accounting policies applied in the annual financial statements of MTU Aero Engines Holding AG, Munich and those of the German subsidiaries differ from the accounting policies applied in the consolidated financial statements.

The following reconciliation table contains the major differences between group earnings after tax and the net profit available for distribution by MTU Aero Engines Holding AG, Munich:

Reconciliation

in € million	**2010**	2009
Earnings after tax (EAT) (IFRS)	142.2	141.0
Income taxes	85.0	66.5
Earnings before tax (EBT)	**227.2**	**207.5**
Elimination of share in profit/loss of group companies outside Germany	-16.9	0.6
Elimination of share in profit/loss of MTU Maintenance Berlin-Brandenburg GmbH		-4.4
+/- Deviations from German Commercial Code (HGB)		
Construction contract receivables / PoC	22.0	4.9
Amortization and partial disposal of goodwill	-11.0	-9.7
Non-capitalized development costs	-19.1	-17.4
Recognition of special tax reserves	13.0	
Dividend payment of MTU Maintenance Zhuhai Ltd., China	23.1	
Adjustment of the carrying amount of MTU AENA, U.S.A.	-11.4	
Reversal of write-down on treasury shares		36.9
MAP employee stock option program		-3.4
Other deviations	-15.1	-14.5
Earnings before tax of MTU Aero Engines Holding AG (HGB)	**211.8**	**200.5**
Income taxes	-80.3	-41.0
Net profit of MTU Aero Engines Holding AG (HGB)	**131.5**	**159.5**
Reduction in net profit due to first application of German Accounting Law Modernization Act (BilMoG)	-37.4	
Appropriation of net income		
Transfers from revenue reserves		
from reserve for treasury shares		6.7
Allocation to revenue reserves		
to reserve for treasury shares		-36.9
to other reserves[1]	-40.5	-68.0
Distributable net profit of MTU Aero Engines Holding AG (HGB)	**53.6**	**61.3**
Allocation to revenue reserves		-15.8
Proposed profit distribution[2]	53.6	45.5

[1] In accordance with a resolution by the Board of Management and Supervisory Board.

[2] Proposal by the Board of Management and Supervisory Board to the Annual General Meeting.

EXPLANATORY COMMENTS RELATING TO KEY ITEMS IN THE RECONCILIATION TABLE

Profit/loss of MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde

Effective July 5, 2010, a profit and loss transfer agreement was concluded between Munich-based MTU Aero Engines GmbH and Ludwigsfelde-based MTU Maintenance Berlin-Brandenburg GmbH. As a result, it is no longer necessary to apply an adjustment to earnings in the reconciliation table to reflect the profit or loss of the subsidiary as of the financial year 2010.

Construction contract receivables / PoC

Contrary to the provisions of the German Commercial Code (HGB), the international financial reporting standards (IFRSs) prescribe the use of the percentage-of-completion (PoC) method under certain conditions when accounting for construction contracts according to IAS 11. MTU satisfies the requirements for recognizing a proportion of the profits from certain of its engine projects, which must consequently be eliminated in the reconciliation between IFRS and HGB statements. Further information on the relevant accounting policies is provided in Note 5.10. (Inventories) and Note 24. (Construction contract receivables).

Amortization / partial disposal of goodwill

Group earnings before tax (EBT) do not include any impairment of goodwill (IAS 36). The goodwill arising from the acquisition of the company is reported in the HGB balance sheet and is subject to scheduled amortization over 15 years in accordance with Section 246 (1) sentence 4 in combination with Section 253 (3) of the German Commercial Code (HGB).

Under an asset purchase agreement dated May 18, 2009, MTU disposed of a group of assets and associated liabilities deriving from its interest in MTU Aero Engines North America Inc., Newington, USA. The disposal group mainly comprised property, plant and equipment, trade receivables, inventories, trade payables, and other liabilities. The discontinued operation formed part of a cash-generating unit (the OEM segment). The partial disposal of goodwill amounting to € 1.3 million – which was recognized uniquely in the consolidated income statement – was eliminated in the reconciliation of group earnings to the net profit of MTU Aero Engines Holding AG.

Non-capitalized development costs

Development costs that are capitalized only under IFRS are recognized as an expense in the annual financial statements prepared in accordance with the German Commercial Code.

Recognition of special tax reserves

In the financial year 2006, proceeds from the sale of land and buildings amounting to € 13.0 million were recognized uniquely in the HGB financial statements in a special tax reserve, with no impact on the net profit/loss for the year. Since no transfer to other assets had taken place in the period up to December 31, 2010, it was necessary to dissolve the special tax reserve and reclassify it to profit or loss in the HGB financial statements.

Dividend payment of MTU Maintenance Zhuhai Ltd., China

In November 2010, in accordance with a decision taken by its board of directors, MTU Maintenance Zhuhai Ltd. distributed a dividend of € 23.1 million to each of its two shareholders, China Southern Airlines and MTU Aero Engines GmbH. This event is eliminated in the consolidated financial statements.

Adjustment of the carrying amount of MTU Aero Engines North America Inc.

In the financial year 2010, the carrying amount of MTU Aero Engines North America Inc. was compared with its recoverable amount. This resulted in a write-down of € 11.4 million which was recognized in the HGB financial statements.

Reversal of write-down on treasury shares

In the financial year 2009, as the markets began to revive, the MTU share recovered to such an extent that it became necessary to reverse the previous year's write-down on treasury shares of € 36.9 million, restoring their measurement to their original acquisition cost.

MAP employee stock option program

Pursuant to the first application of the German Accounting Law Modernization Act (BilMoG), the sale of treasury shares to group employees under the MAP employee stock option program did not have any impact on the net profit/loss for the year. In the financial year 2009, a total of 150,863 shares were sold to group employees at a total price of € 3.3 million. The average purchase price of the shares originally amounted to € 6.7 million. The loss arising from the difference between the proceeds of the sale and the original acquisition cost, amounting to € 3.4 million, was recognized in the income statement in accordance with the applicable commercial laws and tax regulations.

Reduction in net profit due to first application of German Accounting Law Modernization Act (BilMoG)

Expenses amounting to € 140.9 million for deferred tax liabilities that are to be recognized for the first time in the HGB financial statements as of the financial year 2010 were deducted from revenue reserves in accordance with Section 274 of the German Commercial Code (HGB) in combination with Article 66 (3) of the Introductory Act to the German Commercial Code (EGHGB). The remaining deferred tax liabilities amounting to € 37.4 million were recognized as a reduction in net profit at January 1, 2010.

Allocation to revenue reserves

In accordance with Section 58 (2) of the German Stock Corporation Act (AktG), a total of € 40.5 million (2009: € 68.0 million) of the 2010 net profit – after the deduction of deferred tax liabilities under the first application of the German Accounting Law Modernization Act (BilMoG) – was allocated to other reserves by the Board of Management and the Supervisory Board of MTU Aero Engines Holding AG.

Recommendation for the distribution of net profit

At the Annual General Meeting on May 5, 2011, the Board of Management and the Supervisory Board of MTU Aero Engines Holding AG, Munich, intend to recommend that a dividend of € 1.10 (2009: € 0.93) per share be distributed for the financial year 2010 after transfers to other reserves. For the 48,752,407 shares entitled to a dividend, on condition that this proposal is accepted by the Annual General Meeting, the total dividend payment amounts to € 53.6 million. Based on the quoted share price at the close of 2010 of € 50.61 (2009: € 38.19), this is equivalent to a dividend yield of 2.2% (2009: 2.4%).

Pending approval by the Annual General Meeting, the dividend for the financial year 2010 is to be paid on May 6, 2011.

Electronic version of the Federal Gazette

The annual financial statements of MTU Aero Engines Holding AG, Munich, which were granted an unqualified audit certificate by Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft, Munich, are published in the Electronic Federal Gazette (elektronischer Bundesanzeiger). Print copies can be obtained on request from MTU Aero Engines Holding AG, 80995 Munich, Germany.

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

The declaration of conformity by the Board of Management and Supervisory Board of MTU Aero Engines Holding AG pursuant to Section 161 of the German Stock Corporation Act (AktG) is published in the MTU Annual Report 2010 and also permanently available to shareholders on the MTU website at www.mtu.de.

STATEMENT BY THE LEGAL REPRESENTATIVE

We hereby affirm that, to the best of our knowledge, the consolidated financial statements present a true and fair view of the group's net assets, financial position and operating results in accordance with the applicable financial reporting standards, and that the group management report provides a faithful and accurate review of the group's business performance, including operating results and situation, and outlines the significant risks and opportunities of the group's likely future development.

Munich, February 7, 2011

Egon Behle
Chief Executive Officer

Dr. Rainer Martens
Chief Operating Officer

Dr. Stefan Weingartner
President and CEO Commercial Maintenance

Reiner Winkler
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by MTU Aero Engines Holding AG, Munich, comprising Consolidated Income Statement and Consolidated statement of comprehensive income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Group segment reporting and Notes to the Consolidated Financial Statements, together with the Group Management Report for the business year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB, are the responsibility of the company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of MTU Aero Engines Holding AG, Munich, comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, February 23, 2011

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Plendl
German Public Auditor

Prosig
German Public Auditor

Michael Schreyoegg, Senior Vice President Defence Programs

» We support the German armed forces and other armies around the world in line with our motto ‘committed to the mission’. Our collaboration with the German air force is a model example of just how successful such partnerships can be. «

ADDITIONAL INFORMATION

Glossary of engine terms	222
Overview of engines	224
Index	225
Financial calendar	226
Photo credits	226
Contact	227

GLOSSARY OF ENGINE TERMS

CLAIRE

Clean Air Engine (Claire) is a technology program jointly developed by MTU and Bauhaus Luftfahrt. It aims to drastically reduce the fuel consumption and carbon dioxide output of aircraft engines. The goal is to achieve a 30-percent reduction by 2035. At the same time, it aims to substantially cut noise levels. All key components of the Claire program have already been tested or demonstrated proof of principle, and fulfill all expectations concerning energy efficiency and economic viability.

COMBUSTOR

A combustor or combustion chamber consists of an outer casing and a flame tube or 'can' in which the actual combustion takes place. Inside, the compressed air flowing into the chamber is mixed with fuel, which is then ignited and burns at a temperature of over 2,000 degrees Celsius. Due to the high temperatures involved, combustors require special thermal barrier coatings.

COMPRESSOR

The task of the compressor is to ingest air and compress it before it is fed into the combustor. Compressors consist of bladed disks (rotors) that rotate at very high speed between stationary guide vanes (stators). In order to achieve a compression ratio of over 40:1, which is standard in all modern two-shaft engines, it is necessary to use multi-stage low-pressure and high-pressure compressors rotating at different speeds on dual concentric shafts. These are driven by the corresponding turbines.

FAN

The first rotor of the low-pressure compressor is called the fan. It accelerates the bypass stream flowing aftward and provides the engine's main thrust. It is driven by the low-pressure turbine via the low-pressure shaft.

GEARED TURBOFAN

Geared turbofan engines consume far less fuel and generate significantly less noise than today's engine types. They therefore have every chance of becoming the standard type for use in future aircraft. Normally, an engine's fan, low-pressure compressor and low-pressure turbine are all rigidly connected to one shaft. In contrast, the geared fan is 'decoupled' from the low-pressure section by means of a reduction gear unit. This enables the low-pressure turbine and the low-pressure compressor to run at their optimum high speeds, while the fan rotates at a much lower speed (in a ratio of approx. 3:1). This results in significantly improved overall engine efficiency and greatly reduced noise levels.

INDUSTRIAL GAS TURBINES

The operating principle of an industrial gas turbine is essentially the same as that of an aero engine. However, instead of the customary low-pressure turbine used in aircraft, industrial gas turbines have a power turbine. This turbine delivers the power, either directly or via a gear unit, to an additional attached power unit such as a pump or generator. Nearly all industrial gas turbines of the lower and intermediate power classes are aero-engine derivatives.

MRO BUSINESS

MRO stands for maintenance, repair and overhaul. At MTU, the term 'MRO business' is also used more specifically to designate one of the company's two business segments, where it refers to maintenance services for commercial engines, or commercial MRO.

OEM BUSINESS

At MTU, the original equipment manufacuring – or OEM - business segment refers to the development, manufacture and assembly of (new) commercial and military engines. Spare parts for (in-service) commercial and military engines and maintenance services for military engines are also included in this business segment.

RISK- AND REVENUE-SHARING PARTNERSHIP

In a risk- and revenue-sharing partnership, each partner contributes a certain share of the resources needed for a specific engine program (work capacity and funding), thus carrying part of the risk. In return, each partner is entitled to a corresponding percentage of the overall sales revenue from that program.

SUBSYSTEM

A complete aircraft engine is made up of a number of subsystems. These include the high-pressure and low-pressure compressors, the combustor, the high-pressure and low-pressure turbines and the engine control system.

THRUST CLASS

Jet engines are generally grouped into three thrust classes: engines with a thrust of between 2,500 and around 20,000 pounds (around 10 – around 90 kN), engines with a thrust of between 20,000 and approximately 50,000 pounds (around 90 – around 225 kN), and engines with a thrust ranging from 50,000 to more than 100,000 pounds (around 225 – around 450 kN).

TURBINE

In a turbine, the energy contained in the gases emerging at high pressure and velocity from the combustor is converted into mechanical energy. Like the compressor, the turbine is subdivided into a high-pressure and a low-pressure section, each of which is directly connected to the corresponding compressor via the respective shaft. The turbine has to withstand much higher stresses than the compressor, as it has to deal not only with the high gas temperatures but also with extreme centrifugal forces of several tons acting on the outer rim of its disks.

TURBINE CENTER FRAME

The turbine center frame connects the high-pressure to the low-pressure turbine. It has to be able to withstand the high mechanical and thermal loads. The center frame includes struts to support the shaft bearings, clad with an aerodynamic fairing, and the air and oil supply lines.

TURBOFAN ENGINE

The turbofan is an advancement of the turbojet principle, the main difference being its enlarged first compressor stage, the fan. While in turbojet engines, all of the ingested air flows consecutively through the compressor, the combustor and the turbine, turbofans separate the air stream behind the fan. A fraction of the air reaches the combustor via a number of further compressor stages and is burned. The rest, however – which constitutes a much larger fraction – is channeled around the inner components. The ratio between these two airflows is known as the bypass ratio. In modern commercial engines, this ratio can be higher than 10:1. The greater the bypass ratio, the more economical, environmentally compatible and silent the engine. Turbofans are far more fuel-efficient than turbojets.

TURBOPROP ENGINE

The most noticeable external feature of a turboprop is its propeller. Inside, however, the engine differs only slightly from the turbojet and the turbofan. The turbine is larger, and drives not only the compressor but also the propeller, the latter via a gear unit. Consequently, more energy has to be drawn from the exhaust gas stream in the turbine of a turboprop than in that of other engine types. Over 90 percent of the energy is required for the compressor and the propeller. Turboprop airplanes can only achieve flight speeds of up to 800 km/h. They are thus slower than turbojets or turbofans, but they do have the advantage of consuming far less fuel. This predestines them for use in roles where speed is less important, such as on shorthaul routes or for air freight.

TURBOSHAFT ENGINE

Turboshaft engines are used in helicopters and are similar to turboprops.

OVERVIEW OF ENGINES

Commercial Engines

Type	Thrust range	Application
PW4000Growth	340 – 440 kN	Boeing 777
GP7000	315 – 380 kN	Airbus A380
GEnx	235 – 333 kN	Boeing 787, 747-8
CF6	180 – 320 kN	Airbus A300, A310, A330, Boeing 747, 767, DC-10, MD-11
PW2000	170 – 190 kN	Boeing 757, C-17
CFM56*	82 – 154 kN	Boeing 737, Airbus A318 - A321
V2500	100 – 150 kN	Airbus A319, A320, A321, Boeing MD-90
PW1000G	67 – 146 kN	Mitsubishi Regional Jet, Bombardier CSeries, Irkut MS-21, Airbus A320neo
PW6000	98 – 106 kN	Airbus A318
JT8D-200	90 – 100 kN	Boeing MD-80-series
CF34*	41-91 kN	business- and regional jets
PW300	18 – 30 kN	medium-weight business and regional jets
PW500	13 – 20 kN	light and medium-weight business jets
PT6A*	500 – 2.000 shp	business- and cargo-props
PW200*	500 – 1.000 shp	light-to-medium weight twin-engined helicopters

*MRO only

Industrial Gas Turbines

Type	Original engine; Thrust	Application
LM6000	CF6-80; up to 44,000 kW	Electrical power stations
LM5000	CF6-50; up to 34,000 kW	Electrical power stations, mechanical power systems, oil and gas industry
LM2500/LM2500+	CF6-6; to 22,000/30,500 kW	Electrical power stations, mechanical power systems, oil and gas industry, power systems for ships
ASE/TF 40/50	up to 4,100 kW	Electrical power systems, power systems for ships, mechanical power systems, generator sets

Military Engines

Type	Description; Thrust	Application
F110	Two-spool turbofan engine with afterburner; 122 – 145 kN	Lockheed F-16, Boeing F-15K
F404/F414	Two-spool turbofan engine with afterburner; 80 – 97 kN	Boeing F/A-18 Hornet, amongst others
EJ200	Two-spool turbofan engine with afterburner, 90 kN	Eurofighter
RB199	Three-spool turbofan engine with afterburner and thrust reverser; 70 – 80 kN	Panavia Tornado
J79	Single-shaft turbojet engine with afterburner; 70 – 80 kN	F-4 Phantom
Larzac04	Two-spool turbofan engine; 14 kN	Alpha Jet
TP400-D6	Three-spool engine; 8,000 kW	Airbus A400M
GE38	Turboprop engine; 5,500 kW	Sikorsky CH-53K
Tyne	Turboprop engine; 3,955 kW power range	Breguet Atlantic und Transall C-160
T64	Turboshaft engine; 3,000 kW	Sikorsky CH-53G
MTR390/MTR390 Enhanced	Enhanced Turboshaft engine; 950 kW	Eurocopter Tiger
RR250-MTU-C20B	Turboshaft engine; 310 – 340 kW	PAH 1, Bo 105 and others

INDEX

B	
Balance sheet	77, 108, 148
Board of Management	12, 210
Bond	73, 100, 180
C	
Capital stock	98, 159
Cash flow	51, 76, 111
Cash flow statement	76, 111
Change of control	38, 102
Compliance	23, 95
Consolidated Financial Statements	117
Consolidated Statement of Changes in Equity	110
Consolidated Statement of Comprehensive Income	107, 168
Corporate Governance	20, 98, 218
Corporate management	20, 98
Cost of capital	51, 199
Cost of materials	139, 147
D	
Declaration of conformity	20, 98
Directors' Dealings	98
Diversity	22
Dividend	16, 68, 86, 134, 216, 217
E	
EBIT	50, 67, 70, 71, 86, 146
Economic environment	60
Employees	55, 70, 72, 94, 147, 165
Equity	79, 109, 159
Exchange rate	60, 64, 94, 201
F	
Financial debt	73
Financial reporting	23, 89, 120
Financial situation	64
Forecasts	82
Free cash flow	51, 76, 77, 86
G	
General economy	60, 82, 92
Group management report	48
Group reporting entity	122
Group structure	48
I	
Income statement	65, 67, 106, 146, 155
Industry-specific developments	62, 83
Intangible assets	76, 126, 128, 152
Inventories	129, 155
Investor relations	17
L	
Liquidity	50, 72, 76, 205
M	
Management compensation report	25, 98
Market capitalization	15
MRO segment	65, 66, 70, 213
O	
OEM segment	65, 66, 69, 213
Order backlog	65, 69, 70
Organization	49, 56, 96
P	
Personnel expenses	139, 147
Property, plant and equipment	76, 127, 152
R	
Research and development	51, 126, 140
Revenues	50, 66, 70, 71, 85, 86, 115, 125, 139
Risk report	87
Risk management	23, 87, 200
S	
Segment reporting	112, 213
Share	14
Staff training	56, 94
Supervisory Board	22, 39, 40, 44, 213
Suppliers	93
Sustainability	21, 55
SWOT analysis	97
T	
Taxes	132, 144, 196

FINANCIAL CALENDAR

February 23, 2011	Publication of provisional business results for 2010
	Annual results press conference
	Conference call with analysts and investors
May 3, 2011	Interim Report as at March 31, 2011
	Conference calls with journalists, analysts and investors
May 5, 2011	Annual General Meeting
August 1, 2011	Interim Report as at June 30, 2011
	Conference calls with journalists, analysts and investors
October 26, 2011	Interim Report as at September 30, 2011
	Conference calls with journalists, analysts and investors

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This Annual Report published by MTU Aero Engines Holding AG is available in print form in German and English. We would be happy to send you copies on request. The report is also available on the Internet in German and English.

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