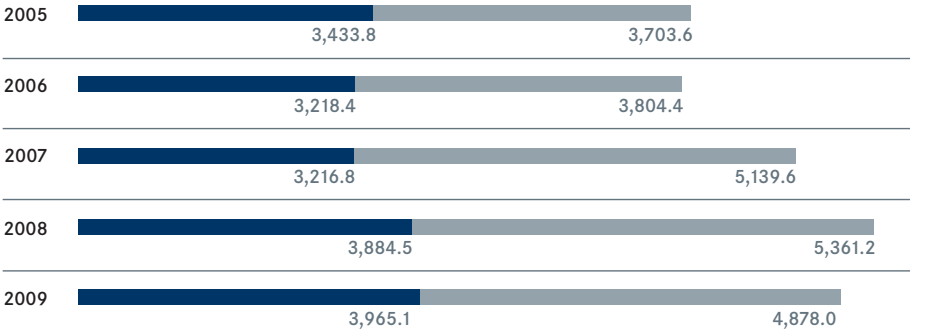
Shaping the future

Annual Report 2009

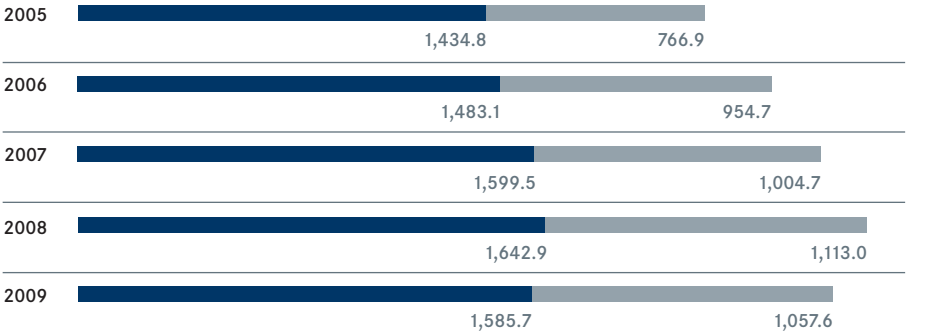
MTU Aero Engines

Key indicators reviewed over 5 years

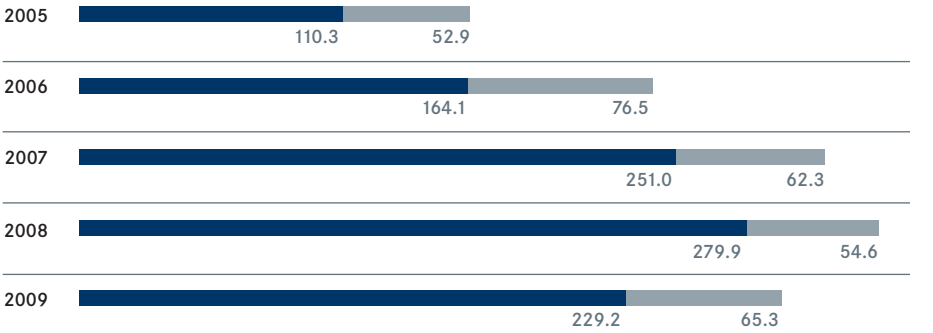
Order backlog by segments (without consolidation) in € million



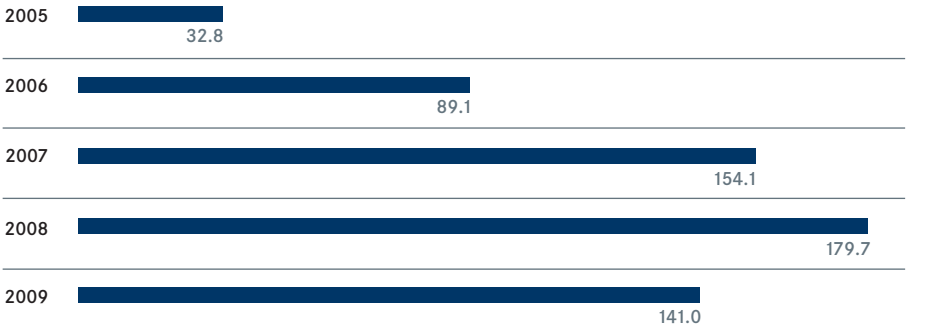
Revenues by segments (without consolidation) in € million



EBIT adjusted by segment in € million (before consolidation)



Earnings after tax (EAT) in € million



Selected consolidated financial information and key figures at a glance

in € million (unless otherwise specified)	Change 2009 - 2008		2009	2008	2007
Revenues and earnings					
Revenues	-113.5	-4.2%	2,610.8	2,724.3	2,575.9
attributable to the commercial engine business[1]	-92.6	-8.1%	1,053.7	1,146.3	1,102.0
attributable to the military engine business[1]	35.4	7.1%	532.0	496.6	497.5
attributable to the commercial maintenance business[1]	-55.4	-5.0%	1,057.6	1,113.0	1,004.7
Gross profit	-24.9	-5.1%	458.6	483.5	446.4
Earnings before interest and tax (EBIT)	-1.4	-0.6%	246.9	248.3	243.3
Earnings after tax (EAT)	-38.7	-21.5%	141.0	179.7	154.1
Earnings (adjusted)					
Earnings before interest and tax (EBIT adjusted)	-38.7	-11.7%	292.3	331.0	312.6
EBIT margin (adjusted)			11.2	12.1	12.1
Balance sheet					
Total assets	-47.0	-1.5%	3,149.1	3,196.1	3,085.5
Equity	113.3	18.4%	730.7	617.4	562.0
Equity ratio in %			23.2	19.3	18.2
Net financial liabilities	-112.3	-44.1%	142.4	254.7	223.4
Cash flow					
Cash flow from operating activities	-153.1	-37.7%	252.7	405.8	236.2
Cash flow from investing activities	149.7	53.0%	-132.5	-282.2	-104.5
Free cash flow	-3.4	-2.8%	120.2	123.6	131.7
Cash flow from financing activities	58.5	45.9%	-68.9	-127.4	-165.8
Number of employees at year-end					
Commercial and military engine business (OEM)	-15	-0.3%	4,885	4,900	4,610
Commercial maintenance business (MRO)	143	5.4%	2,780	2,637	2,520
Share data					
Earnings per share in €					
Undiluted earnings per share	-0.75	-20.6%	2.89	3.64	2.95
Diluted earnings per share	-0.74	-20.9%	2.80	3.54	2.83
Dividend per share in €			0.93	0.93	0.93
Dividend yield in %			2.4	4.7	2.3
Total dividend (€ million)[2]	0.1	0.2%	45.5	45.4	47.2
Outstanding common stock at Dec.31 (million shares)	0.1	0.2%	48.9	48.8	50.7

[1] before consolidation

[2] Proposal presented at the Annual General Meeting / previous years: resolution by the Annual General Meeting for the financial year

Shaping the future

MTU Aero Engines is not only Germany's leading engine manufacturer but also firmly established worldwide. For decades we have been developing, manufacturing and providing support for commercial and military aero engines and industrial gas turbines. As a leader in key technology areas, we are an indispensable partner, working together with the top names in the industry to develop tomorrow's technologies. We are shaping progress – that was always the case and will remain so.

In order to focus all our energy on the future, we have brought together our vision and our goals for the company in a new set of MTU Principles. These Principles are the basis on which we can continue to meet the high standard we have set ourselves:

Working to shape the future of aviation.

MTU: thrusting skyward

We are technology leaders in the aviation industry.

Indispensable for our partners, customers and shareholders

We operate profitably and generate sustainable value.

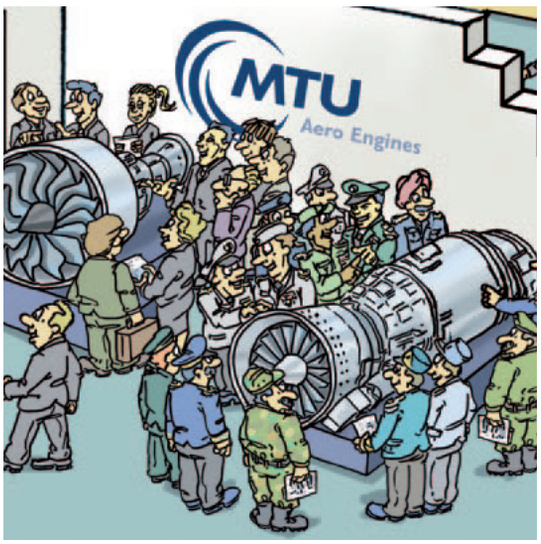
Working together for a successful future

Each and every one of us helps shape the company's future.

Environmental and social responsibility

We are committed to protecting the environment and helping society.

EUROJET
TURBOUNION
MTU
Maintenance
AIR FRANCE
KLM
Rolls-Royce
Pratt & Whitney
ON POINT SOLUTIONS
CFMI
ST AERO
MRO
OEM
MAINTENANCE
TOTAL ENGINE CARE
MTU
Aero Engines

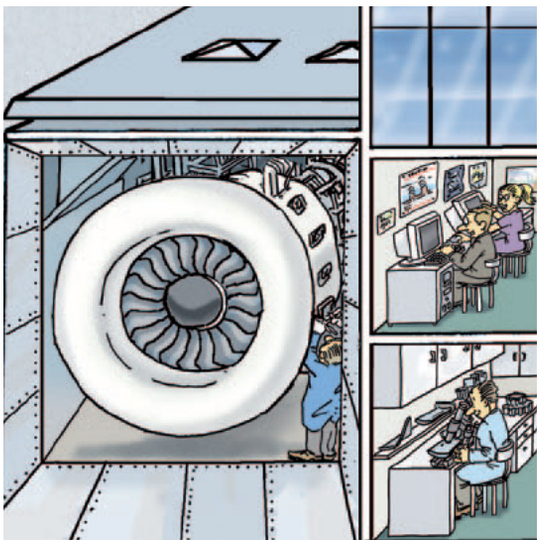


Corporate principles

‘Shaping the future’ – that is the core of MTU’s new Corporate Principles. These Principles reflect how the company sees itself and point the way to the future. They follow on from the company’s original Principles, which had 2010 as their horizon, fine-tuning them to fit the decade ahead.

To help anchor the new Principles in our workforce, an image of MTU was developed that also provides the visual outline for this Annual Report. The underlying idea was to present the world of MTU in all its many facets – locations, products, technologies, customers, partners and staff. The details of this picture clearly reveal the tasks, goals and values that – day in, day out – determine how we work. The result is a vivid and colorful representation of the company that lends visual support to the Principles summarized on the following pages.

MTU
Aero Engines
MTU
Maintenance
SUPPLIER
SUPPLIER
POLSKA
ASSB
RSAF
TOTAL
ENGINE
CARE

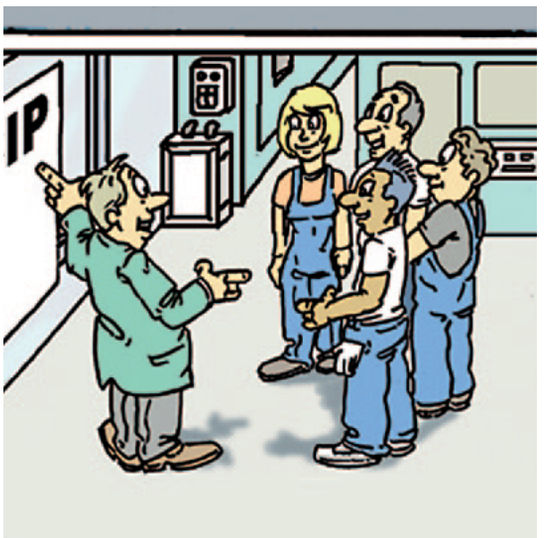


Products and technology

In the aviation industry, three simple letters stand for advanced technology of the highest order: MTU. The company is thrusting skyward and driving progress. We are the high-tech leaders worldwide for high-pressure compressors, low-pressure turbines, repair techniques and manufacturing processes. We are the world's largest independent provider of maintenance services for commercial engines and also service industrial gas turbines. In the military sector, we can boast comprehensive systems expertise: at national level we are lead industrial partner to the German armed forces and, internationally, we are active in the European, U.S. and Saudi Arabian defense markets.

High quality and competitive pricing are our key to facing the challenges posed by the market. Our unique technologies grant us a competitive edge – one that we want to maintain and exploit in order to increase our market share. Our goal is to be an indispensable partner in every engine segment.

MTU
Aero Engines
75
YEARS
PRODUCT
COSTS
PERFORMANCE
VOLVO
AERO
LBA FAA EASA



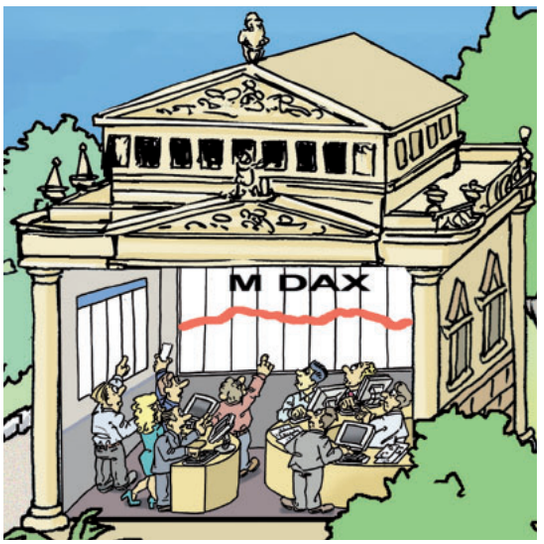
Cooperation and leadership

If you want to offer innovative technologies, top-class products and services that fit like a glove, you need a strong team – one that runs like clockwork and whose members are highly qualified and highly motivated. Just like the people who work for MTU Aero Engines.

Expressed in the words of our MTU Principles, this means working together in an atmosphere of mutual regard, respect and fairness. The diversity provided by different cultures and age groups enhances the innovative power of each individual and, in turn, of the company as a whole. We are active agents of change, with our sights oriented on agreed objectives and continuously striving for improvement.

Every one of MTU's over 7,500 employees worldwide has specialized knowledge, works in a cost-effective manner and makes a contribution to the overall success of the company. It is the mix of experienced specialists and talented newcomers that is decisive. MTU has the right mix and is using it to lay solid foundations for the future.

MTU
Aero Engines
VERICOR
SUPPLIER
LEASE
ENGINES
TAM
jetBlue
THAI
Pratt & Whitney
Emirates
snecma



Partners, customers and shareholders

MTU can look back on a 75-year history, but at the same time we are a modern company with global reach. We work quickly, reliably and profitably, creating sustainable value for our partners, customers and shareholders alike.

Our mission is to leverage our unique technological expertise and our dominant position in both the commercial and military segments to become an indispensable partner for all the major engine manufacturers. As a service provider we aim to offer our customers an unbeatable combination of skills, reliability and versatility, fulfilling their expectations with innovative and competitive products that meet the highest quality and safety standards.

As for our investors, we want to provide them with an attractive return. Profitable growth is the bedrock of a sound future, helping us to consolidate and enhance our strong position in the long term.

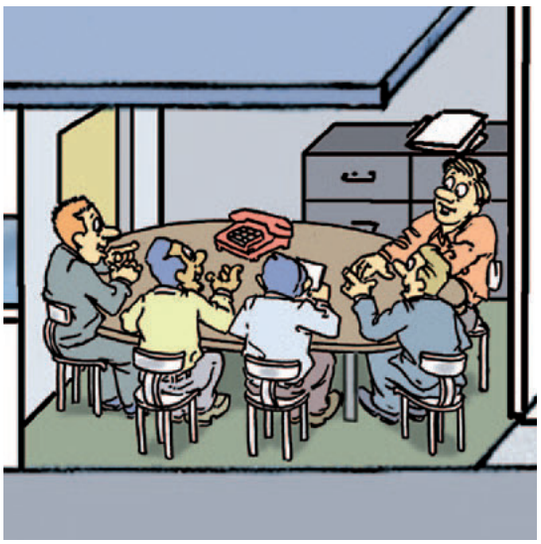
MTU
Maintenance
MTU
Aero Engines
SUPPLIER
LEASE
ENGINES
TAM
jetBlue
THAI
AIR FRANCE
UNITED

Environment and society

One of MTU's core values is accepting responsibility – not only for our products, services, employees, customers and partners, but in equal measure for the environment and society as a whole. The goals we set ourselves are ambitious: to produce sustainable products and processes and to play an active role in the world around us. To achieve this we rely on the active commitment of every one of our staff and on their compliance with the ethical rules of our code of conduct. We offer attractive jobs in a high-tech industry and encourage our staff to achieve a good work-life balance.

The aircraft and engines of the future will need to be even quieter, cleaner and more economical. In cooperation with our partners in industry, science and research, we are working to develop new technologies. One such technology is Claire, which stands for Clean Air Engine and is an optimized geared turbofan that MTU is implementing in collaboration with Pratt & Whitney. Maintenance is another area where environmental ideas are being put into practice: The slogan 'repair beats replacement' sums up the approach taken by our maintenance experts when they set out to develop new, unique repair techniques that help save resources and protect the environment.

MTU
Maintenance
75
YEARS
COSTS
GOALS
MTU
THROUGHPUT TIME
RELIABLE DELIVERY
PRODUCTIVITY
CIP
POLSKA
LBA FAA EASA
MTU
Aero Engines
SUPPLIER
Avio
Avio



Workshop for the future

The values embodied in our new Principles – which find expression in the phrase ‘Facing the future together’ – were the subject of a so-called ‘Workshop for the future’. The driving idea behind the workshop was a cascade process targeting the entire company, with intensive talks taking place at all levels of the hierarchy.

First of all, the managers in the company were provided with detailed training and presentation material and asked to elaborate and discuss the values, principles and goals together with their various departments, teams and staff. The next step was decisive: the individual groups derived team objectives from the overarching corporate principles. Our sights are now firmly set on these objectives, with the MTU Principles determining the course we are taking.

We have thus come full circle. MTU relies on the contribution of every one of its employees. Let us shape the future of our company together, doing our level best every day for the collective benefit of MTU, its customers, partners and investors, and the aviation industry as a whole.


MTU
Maintenance
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SUPPLIER
LEASE
ENGINES
TAM
jetBlue
THAI
AIR FRANCE
UNITED
Emirates

To the shareholder

Egon Behle
Chief Executive Officer
MTU Aero Engines

MTU Aero Engines

Shaping the future

Dear Shareholders,

In the 2009 financial year we succeeded in linking the tradition of MTU Aero Engines to the future. We not only celebrated the 75-year anniversary of our company, but also paused to take thorough stock of the present and prepare ourselves to meet the future. The result of these endeavors is our new set of MTU Principles, which we have communicated to our staff company-wide. The Principles contain all the elements that characterize MTU – business model and products, customers and partners, values and goals – and are intended to provide all our staff with a compass to guide their day-to-day work. Our goal is to focus all our strength in order to make our vision of the future a reality. We want to continue doing what we have done in the past: playing a decisive role in shaping the future of aviation.

Throughout its corporate history, MTU has amassed unrivaled expertise in engine construction and worked hard to attain a strong position in the global aviation market. We are one of the drivers in the development, production and maintenance of commercial and military aircraft engines and have established our name in the industry as a highly innovative and reliable partner. In the years ahead our plan is to expand this leading role and consolidate it by growing profitably. We want to participate in further promising aero engine programs and strengthen our commitment to projects we are already involved in. Increasing our presence in international markets is another focal point of our strategy. By doing so, we aim to safeguard our business success in the long run and create sustainable value – for our partners, for our customers and for you, our shareholders.

The financial year 2009 presented MTU with a host of major challenges. The global economic and financial crisis developed into the worst recession of the post-war period, leaving its marks on our industry, too. International passenger traffic fell by about 4 %, freight traffic posted a double-digit drop in percentage terms, while the business jet segment took a nosedive. Additional headwind for the market came from reviving oil prices and the persistently strong Euro. Given this difficult market environment, MTU put in a solid performance: with revenues of € 2.6 billion and an operating profit of € 292 million we were again able to achieve a double-digit EBIT margin. Although the slower market demand led to a slight drop in revenue, operating profit was higher than expected. At 11.2 %, the adjusted EBIT margin was still higher than we had predicted in October, when we revised the

forecast upwards to 11 %. You, our shareholders, will again benefit this year from our earnings power: we are proposing a dividend of € 0.93 per share. This underscores our commitment to keep dividends at the high level of the previous two years, when general economic conditions were much better.

This continuity in our dividend payments is possible thanks to the positive results of our business policy, which is oriented towards stability, being based on a broad portfolio of comparatively young products. Our engines and engine components have allowed us to position MTU in all thrust and power categories. Being active in a variety of markets enables us to compensate more easily for fluctuations in individual sectors. The comparatively low age of the engines in our portfolio means they are not being withdrawn from service and decommissioned. In fact, the percentage of parked aircraft equipped with engines containing MTU components is below the industry average. In 2009, our biggest revenue earners were the V2500 engine for the Airbus A320 family, the PW2000 for the Boeing 757, and the C-17 and CF6-80C, which are used to power widebody jets such as the A330 or Boeing 747.

A key pillar of our business model is commercial maintenance. In 2009 we succeeded in strengthening our position as the top independent maintenance provider worldwide and secured a number of important long-term contracts. For example, we were able to renew our licensing agreement with General Electric for CF34 repair techniques for a further ten years, in advance of its original expiry date, while in the R&D area we signed a framework agreement with the same partner for the joint development of repair processes. This partnership underscores MTU's role as a global technology leader.

We not only maintained but substantially boosted our level of investment in research and development: in the financial year 2009, our capital expenditure on R&D was 27% higher than the previous year.

Strengthening our hand as a global technology leader is also at the top of our agenda in 2010, with the focus here firmly on implementation of the PW1000G geared turbofan. Initial applications for this engine include the Mitsubishi Regional Jet, the Bombardier CSeries and Irkut's MS-21. Our activities in the field of materials, production processes and repair techniques continue at the same high level as always. In this area, our engineers are working flat out on new processes and forward-looking programs. Examples of these include the GE38 engine for heavy-lift transport helicopters and the GEnx, which is destined for the Boeing 787 Dreamliner and the Boeing 747-8.

Shaping the future

We can give a positive report of our Challenge 2010 cost-reduction program, which is proceeding according to plan. This year we are looking to save about € 30 million; from 2011 onward that figure is set to rise to € 50 million per annum. With expenses for new programs on the rise, this is the only way to maintain our earnings at the current level. Our efforts are focused on optimizing product costs and making savings in production and logistics processes. Last year our system of flexible working hours proved to be a useful tool that prevented us having to introduce short-time working or make staff cuts. It granted us the flexibility to respond quickly to the dramatically deteriorating economic climate. We will be relying on it again in 2010.

In the short term, the general economic climate will remain challenging. In addition to the strained situation of many airlines, exchange rate volatility and rising oil prices will continue to weigh on our business. And yet, we are sanguine about the long-term outlook. Once we have weathered the current turbulence, the global aviation market will enter a new phase of growth. Industry experts expect passenger volumes to increase at an annual rate of close to 5 % over the next 20 years; the forecasts for Asia and the Middle East are even higher. Against this backdrop, MTU is systematically strengthening its presence in these regions. We took important steps in this direction in 2009, for example by acquiring a stake in the Saudi Arabian maintenance company MEPC and signing a cooperation agreement with the Chinese engine manufacturer AVIC.

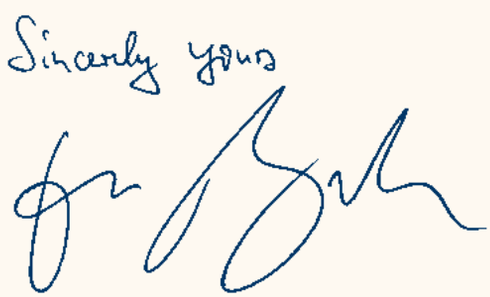
Increasing our global reach is one way of strengthening MTU and making the company fit for the challenges that lie ahead. Another lies in the ongoing improvement of our cost structures and processes. One initiative in this respect is CIP, MTU's Continuous Improvement Program. Here we have launched improvement processes in all areas of the company, are ensuring that they are implemented consistently, and are thus enhancing overall efficiency. Optimization of the production network is of key importance to us, and in 2009 we notched up two milestones along this path: we sold our production facility in the United States and opened a new plant in Poland. The result will be a substantial improvement in our production cost structure.

All in all, we are well equipped for the future. With our strong global presence, the deep roots we have in the key growth markets, our technological edge and our efficient organization, I am optimistic that MTU will emerge invigorated from the current crisis.

But what is a company without its staff? Last year, MTU's some 7,600 employees worldwide proved yet again just what they are capable of achieving. With their skills, motivation and dedication they make MTU what it is today – a top-class high-tech company of global stature. I would like to thank all our staff sincerely for this.

My thanks go also to our customers for their loyalty and trust, another cornerstone of our future success.

Our gratitude to you, the owners of MTU, is of a very special nature. Your financial commitment is what makes our success as a company possible in the first place. Therefore, from myself and on behalf of the entire company and my fellow members of the Board of Management, sincere thanks to all our shareholders. Your confidence instills in us a sense of purpose that motivates us to continue shaping the future of aviation while at the same time sustainably increasing the value of our company.



Egon Behle

(left to right): Reiner Winkler
Dr. Rainer Martens
Dr. Stefan Weingartner
Egon Behle
Board of Management
of MTU Aero Engines

The Board of Management

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

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.

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

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. 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.

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

Recovery on the capital markets

The first quarter of 2009 was marked by the most severe global recession of the post-war period, with capital markets taking a punishing. However, as of the second quarter, share prices began rallying strongly. Future prospects for the global economy improved rapidly from this point onward, further fueling the upward trend. In the wake of these developments, the Dow Jones improved by 19 % in the course of the year and the DAX, the barometer of the German share market, rose 24 % to 5,957 points. The German mid-cap index MDAX, on which the MTU share is listed, improved by 34 % in the course of the year to close at 7,507 points.

For the most part, shares in the aerospace sector also performed well, tracking the general market trend. Whereas the drop in air traffic brought about by the recession kept share prices down in the first quarter, improving economic indicators triggered a strong recovery from the second quarter onwards. In the course of the year, the Dow Jones Aerospace & Defense Index – which includes companies such as Rolls-Royce, EADS and BAE Systems alongside MTU – rose by 26 %, making up in part for the losses of the previous year.

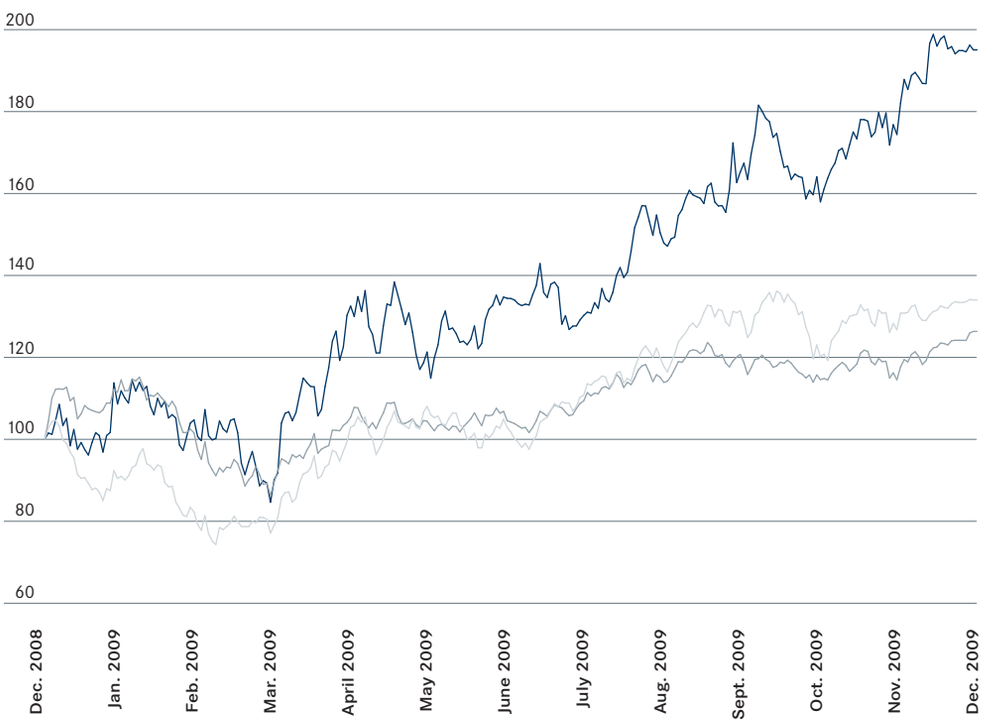
The MTU share: a strong performance

Gaining 95 % in 2009, the MTU share clearly outperformed the two benchmark indices, the MDAX and the Dow Jones Aerospace & Defense Index, and, at close of trade on December 30, 2009, it was valued at € 38.19.

Like most listed stocks, the MTU share suffered from the global financial and economic crisis in the first quarter 2009, touching bottom for the year on March 30 with a price of € 16.57. As of the second quarter, the MTU share followed the general upward trend and recovered quickly, gaining 33 % in the second quarter alone. Its highest quoted price for the year was € 38.93 on December 14, 2009.

In the course of the year, the share price received additional positive impulses. These included the stable business results we posted despite the difficult market environment, the improved earnings forecast issued in the fall, and the predominantly positive comments by analysts, especially following our Investor and Analyst Day in September.

MTU share performance: (Indices at 1.1.2009=100)



Share data: year-on-year comparison

	2009		2008	
Lowest quoted share price	March 30, 2009	€ 16.57	October 28, 2008	€ 12.87
Highest quoted share price	December 14, 2009	€ 38.93	January 3, 2008	€ 39.28
Year-end share price	December 31, 2009	€ 38.19	December 31, 2008	€ 19.58
Market capitalization	December 31, 2009	€ 1,986 million	December 31, 2008	€ 1,018 million
Earnings per share	December 31, 2009	€ 2.89	December 31, 2008	€ 3.64
Proposed dividend		€ 0.93		€ 0.93

Stable trading volume compared with market average

2009 witnessed a strong drop in the worldwide volume of shares traded, and the MTU share was unable to buck this trend. Whereas an average of 660,000 shares were traded daily in 2008, this volume fell to around 300,000 shares per day in 2009. That equates to a daily trading volume of about € 8 million (2008: € 16 million). Still, in the monthly liquidity ranking of German stocks published by the German Stock Exchange, the MTU share performed well, reaching 13th in the MDAX rankings at year-end after 16th place in the previous year. In spite of being lower in absolute terms, the trading volume of MTU shares was thus slightly improved relative to the market. The MTU share posted its highest daily trading volume on July 23, 2009, at 981,000 units or € 25 million.

Well-positioned

MTU's year-end market capitalization in 2009 was € 1,986 million. In terms of free float, the company advanced from 19th to 10th spot in the MDAX year-on-year and is now among the top ten MDAX companies.

Broadly diversified shareholder base

At December 31, 2009, the company held 3,078,192 treasury shares, which is equivalent to 5.9 % of its capital stock. Consequently, the free float (as defined by the German Stock Exchange) accounted for 94.1 % of MTU shares. Institutional investors held around 90 % of these, while the remaining 10 % was owned by retail investors. Around 80 % of the institutional investors were based outside Germany, primarily in the United States, the UK, France and other western European countries. In view of these figures, MTU can rightly claim to have a broadly diversified shareholder base.

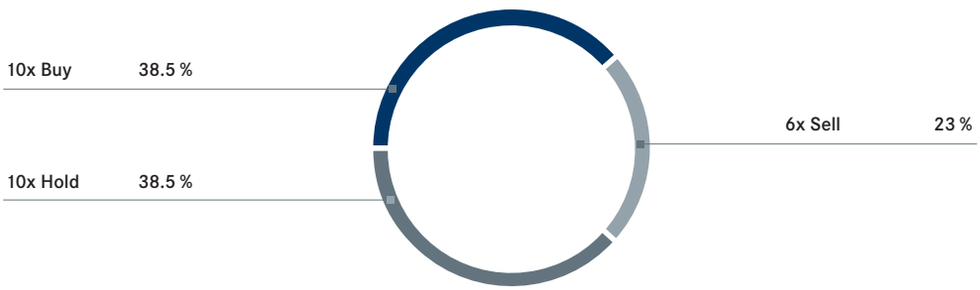
At December 31, 2009, the stock-market authorities were in possession of notifications from the following investor, who holds more than 5 % of voting share rights in the company: BlackRock, Inc., New York (7.01 %). In addition, the following shareholders are individually in possession of more than 3 % of the voting share rights: Longview Partners LP, London (3.11 %), and Capital Research and Management Company, Los Angeles (3.02 %).

High profile among analysts

The high degree of interest in the MTU share shown by financial analysts underscores its status is an attractive investment proposition. Throughout 2009, 26 financial institutions – among them, for the first time, Credit Suisse, Natixis Securities and Merck Finck & Co. – regularly published studies on MTU.

At the close of 2009, 20 banks recommended buy or hold, while six favored sell (2008: 22 buy or hold; 3 sell).

Analysts' recommendations



Proposed dividend per share of € 0.93

The company's performance in 2009 enables us to maintain the dividend at an attractive level. At the Annual General Meeting on April 22, 2010, the Board of Management and the Supervisory Board intend to propose a dividend payment of € 0.93 per share, as in the previous year. The dividend is expected to be paid out on April 23, 2010.

Investor relations work pays off

In 2009, MTU maintained its ongoing dialog with investors and analysts. Both management and the investor relations team took part in numerous road shows and investor conferences across Europe and the United States, presenting MTU's business model and its potential as a company in around 200 personal meetings and group events.

A key platform for a direct dialog with shareholders was the MTU Annual General Meeting held in Munich on May 26, 2009. It was attended by shareholders representing 58 % of the share capital with voting rights (previous year: 42 %).

The Paris Air Show in Le Bourget is the world's premier event of its kind and there, in 2009, MTU staged an information event for financial analysts, also organizing additional individual and group discussion sessions with selected investors and analysts.

The company's annual Investor and Analyst Day in Munich on September 25 was attended by over 40 analysts and investors, who discussed MTU's current business situation and the challenging economic climate with the Board of Management in the MTU Museum at company headquarters.

The Internet is an important medium of communication for investor relations and, in June 2009, an improved version of the Investor Relations section of the MTU website went live, featuring new content and functions and an updated design. Visitors to MTU's site will find comprehensive background information on the company there, presented in an easy-to-navigate layout.

At the annual German Investor Relations awards 2009, which were organized by Deutscher Investor Relations Verband e.V. (DIRK) in conjunction with the multimedia news agency Thomson Reuters, MTU was able to improve its ranking among MDAX companies to 6th place, up from 35th place in the previous year. This is testimony to the high regard of analysts and investors alike for the company's investor relations work.

What is more, the accolades for MTU's Annual Report 2008 are proof of the positive feedback for the company's financial communications: the MTU report ranked 5th in Manager magazine's 'Best Annual Reports' category for MDAX companies, which was 13 places higher than in 2008.

MTU share indicators

Number of shares	52 million shares of no-par stock
Type of share	Registered shares
Equity capital	€ 52 million
Voting rights	One vote per share
German Securities Identification Number (WKN)	A0D9PT
International Securities Identification Number (ISIN)	DE000A0D9PT0
Stock exchange symbol	MTX
Trading segment	Official market – Prime Standard
Stock-market segment	MDAX
Business year	Identical with calendar year
Accounting rules	IFRS
Designated sponsor	Goldman Sachs
Official notes	Electronic version of the Federal Gazette (Bundesanzeiger)


MTU
VERICOR
SUPPLIER
LEASE ENGINES
TAM
jetBlue
THAI
Pratt & Whitney
Emirates
snecma
IAE
SR Technics

Group management report

1. The enterprise MTU

MTU Aero Engines Holding AG, Munich, together with its consolidated group of companies (designated below as 'MTU', 'the group', 'the enterprise' or 'the company') is Germany's leading engine manufacturer and one of the world's largest.

1.1. Business activities and markets

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.

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 business covers new commercial engines and the supply of spare parts, plus the whole of the company's military business

OEM business

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

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

MTU's products for the commercial aero engine market cover all thrust and power categories and the most important components and subsystems. The company designs and manufactures modules and components and carries out final assembly work on complete engines. The focus of MTU's work on engine modules lies on low-pressure turbines and high-pressure compressors. MTU also develops and manufactures industrial gas turbines (IGTs). The commercial aero engines currently of greatest importance, alongside the long-serving CF6 and PW2000, are the GP7000 for the Airbus A380, the V2500 engine that powers the Airbus A320 family, and the business jet engines PW300 and PW500. Significant future-oriented programs are the PW1000G geared turbofan family, destined for the Mitsubishi Regional Jet, the Bombardier CSeries and the Irkut MS-21, and the GEnx engine for the Boeing 787 and 747-8.

For the military engine market, MTU supplies basic technologies, develops and manufactures engine modules and components, manufactures spare parts, is responsible for engine final assembly, and carries out maintenance work. Other services include providing technical and logistical support for MTU products and training military and civilian personnel of the armed forces. The air forces of many different nations number among the company's customers. As lead industrial partner to the German armed forces, MTU provides service support for virtually every type of aero engine in service with the airborne units. It is also the German partner in all major military engine programs at European level. Examples include the EJ200 Eurofighter engine, the RB199 for the Tornado, the TP400-D6 for the A400M military transporter, and the MTR390 engine, as well as the more powerful MTR390 Enhanced Version that powers the Tiger combat helicopter. In the U.S. military market, the largest in the world, MTU is a risk- and revenue-sharing partner in America's F414, F404 and F110 aircraft engine and GE38 helicopter engine programs.

MRO business covers all commercial maintenance activities

MRO business

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

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 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, the capital markets and, most importantly, the shareholders. MTU Aero Engines Holding AG, Munich, together with the affiliates, associated companies and joint ventures shown in the chart on page 33, has a worldwide presence in all the most important markets and regions. Details of major shareholdings are provided in Note 2. to the consolidated financial statements (Group reporting entity).

MTU group's headquarters and its main manufacturing site are located in Munich

MTU Aero Engines GmbH, Munich

The MTU group's headquarters and its main manufacturing site are located in Munich. All affiliates and associated companies, joint ventures and other equity investments are controlled from here, along with a large part of the group's research and development activities. The Munich plant manufactures engine components for the commercial engine business. Munich is also the central location for activities in connection with military engine programs in which MTU is involved as a member of various management consortia. Many new military engines have undergone final assembly and testing here over the decades, including the Eurofighter EJ200. The site also performs related maintenance work.

MTU Maintenance Hannover GmbH, Langenhagen

MTU Maintenance Hannover GmbH, based in Langenhagen, is the largest plant in the MTU Maintenance network. This affiliate is responsible for the maintenance of mid-sized and large commercial engines, including the CF6, the PW2000, the V2500 and the CFM56. Its extensive range of services also include engine leasing, 24-hour AOG service, training and Total Engine Care. The plant in Langenhagen is the MTU group's center of competence for high-tech repairs, and develops new repair techniques using the latest advanced technology. A new test rig went into service here in 2009, which now enables very large engines with a thrust of up to 150,000 pounds to be tested – such as the GP7000 for the Airbus A380 mega-jumbo.

MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde

This company specializes in the maintenance of aero engines in the lower to middle thrust and power category, and also services industrial gas turbines. Its portfolio encompasses several Pratt & Whitney Canada engines – notably the PT6A, PW200, PW300 and PW500 – and the General Electric CF34 family. The Ludwigsfelde site is MTU's center of competence for the maintenance of industrial gas turbines (IGTs), with special emphasis on the General Electric LM series. The test center is equipped with one the largest and most advanced IGT test cells, alongside a variety of test rigs for turboshaft and jet engines. It is also here that the TP400-D6 engine for the new A400M military transporter is assembled. The rig used for acceptance testing of the production engines is the only one in Europe qualified to test this engine, as well as being one of most modern of its type in the Western hemisphere.

P&WC Customer Service Centre Europe GmbH, Ludwigsfelde
The Pratt & Whitney Canada Customer Service Centre Europe is also based in Ludwigsfelde. This joint venture between MTU Maintenance Berlin-Brandenburg and Pratt & Whitney Canada (P&WC) looks after the marketing and distribution of P&WC engines, serving customers in Europe, Africa and the Middle East.

MTU Maintenance Canada Ltd., Richmond, Canada
MTU Maintenance Canada became a consolidated group company in 1998. It was managed as a joint venture with Air Canada (formerly Canadian Airlines) until 2003, since when it has been a wholly owned subsidiary of MTU Aero Engines GmbH, Munich. The company specializes in the servicing of auxiliary units and the maintenance of CF6-50 and CFM56-3 engines.

MTU Maintenance Zhuhai is the largest maintenance provider for commercial engines in China

MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China
MTU Maintenance Zhuhai is a joint venture with China Southern Airlines, the country's largest airline. The company is the largest maintenance provider for commercial engines in China. By teaming up with China Southern Airlines in this 50:50 joint venture, MTU has established a strong position in the fast-growing Asian market. The MTU Maintenance Zhuhai facilities are equipped with high-tech plant and machinery, including an ultramodern test rig for engines generating a thrust of up to 150,000 pounds. The company specializes in the maintenance, repair and overhaul of the engine types V2500 (IAE) and CFM56 (CFMI). It is meanwhile the Chinese market leader for V2500 and CFM56 engine maintenance.

Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia
Airfoil Services Sdn. Bhd. (abbreviated ASSB) in Malaysia is a 50:50 joint venture with Lufthansa Technik. The company repairs blades for CF6-50, CF6-80, CF34, V2500 and CFM56-series engines. Its new manufacturing facilities in Kota Damansara near Kuala Lumpur have been operating since 2007. The capacity of the new plant is four times greater than the old facilities it has replaced.

Middle East Propulsion Company Ltd., Riyadh, Saudi Arabia
In 2009, MTU gained a solid foothold in the high-growth-potential Middle Eastern market by acquiring a 19.3-percent stake in the Middle East Propulsion Company (MEPC). MEPC specializes in the maintenance of military aircraft engines. While presently concentrating on the Boeing F-15 fighter jet and its F100 engine, the company intends to expand its portfolio to include other military engines.

MTU Aero Engines North America Inc., Newington, USA
MTU Aero Engines North America (AENA), based in Newington near East Hartford, Connecticut, develops components for aircraft engines and industrial gas turbines. AENA's manufacturing operations were sold by MTU in 2009, as part of the restructuring of the group's manufacturing organization.

Vericor Power Systems LLC., Atlanta, USA
Aero-derivative gas turbines for marine and industrial applications are developed, marketed, distributed and supported by Vericor Power Systems in Atlanta, Georgia, USA.

MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland
MTU Aero Engines Polska started operations at the location in Rzeszów, Poland in 2009. The company designs, manufactures and repairs engine parts.

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

Ceramic Coating Center SAS, Paris, France

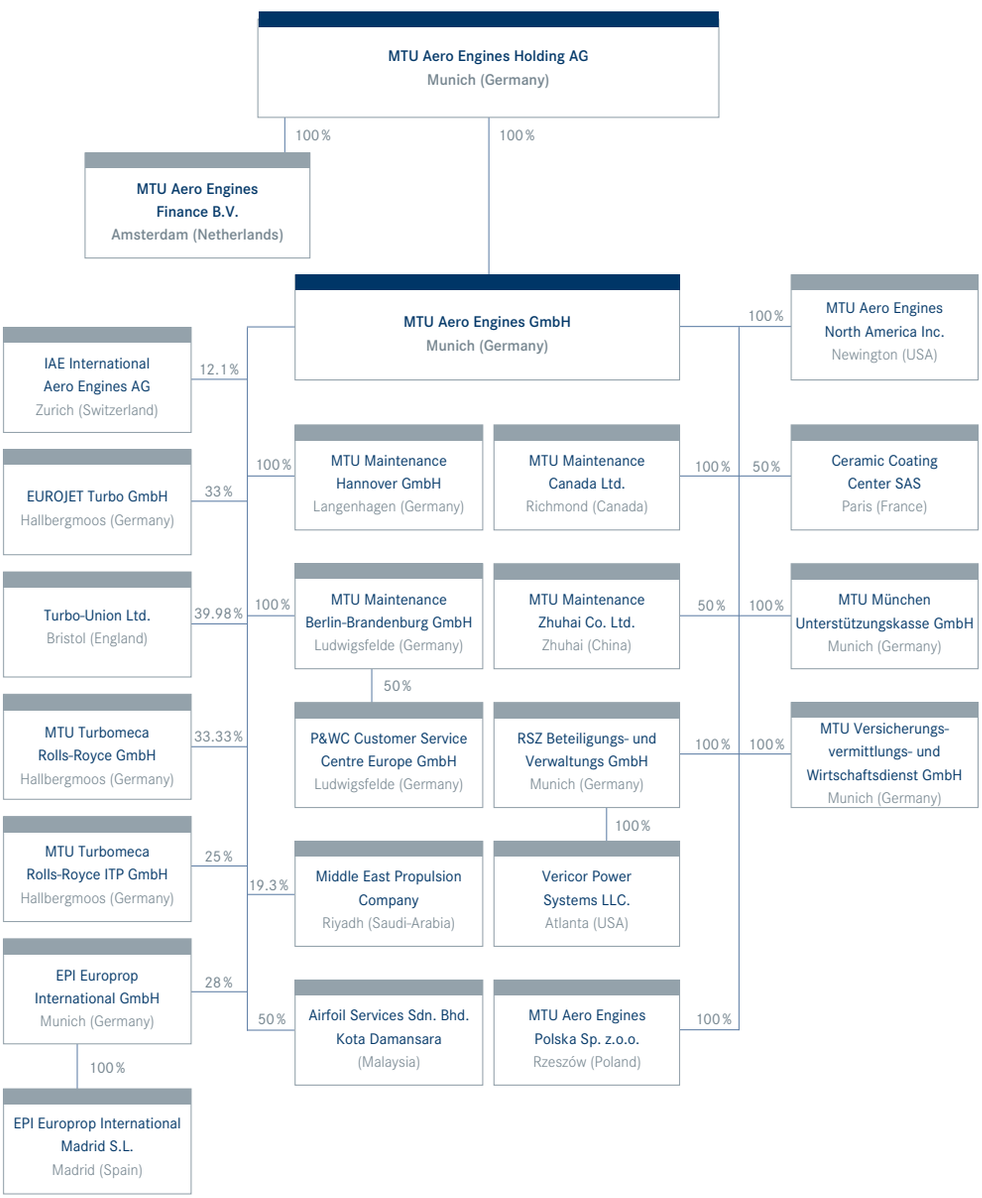
MTU operates the Ceramic Coating Center (CCC) in partnership with French company Snecma Services (SAFRAN Group). Ceramic coatings are applied to turbine blades at this location.

MTU is an important partner in international management consortia for engine programs

Other equity investments

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

Structure of the MTU Group



MTU is represented in all major markets and regions worldwide

Locations

The map below shows the locations of the affiliates and associated companies of MTU Aero Engines Holding AG, Munich:

MTU Maintenance Canada Ltd.

MTU Aero Engines North America Inc.

IAE International Aero Engines AG[1)]

Vericor Power Systems LLC.

MTU Aero Engines GmbH

MTU Maintenance Hannover GmbH

MTU Maintenance Berlin-Brandenburg GmbH

MTU Aero Engines Polska Sp. z o.o.

MTU Aero Engines Finance B.V.

Eurojet Turbo GmbH[1)]

EPI Europrop International GmbH[1)]

Turbo-Union Ltd.[1)]

MTU Turbomeca Rolls-Royce GmbH[1)]

MTU Turbomeca Rolls-Royce ITP GmbH[1)]

Pratt & Whitney Canada Customer Service Centre Europe GmbH[1)]

Ceramic Coating Center SAS[1)]

MTU Maintenance Zhuhai Co. Ltd.[1)]

Airfoil Services Sdn. Bhd.[1)]

Middle East Propulsion Company Ltd.[1)]

[1)] major joint ventures

MTU Aero Engines Holding AG, Munich, operates as a management holding company

Organization

There were no changes to the legal organizational structure of MTU Aero Engines Holding AG, Munich in the financial year 2009. MTU Aero Engines Holding AG, Munich is a management holding company, and as such does not conduct business itself, but manages its interests in the MTU group through group-wide corporate functions. The revenues reported by the parent company, amounting to € 11.6 million, relate exclusively to revenues resulting from the exercise of functions on behalf of the group in its capacity as a holding company. No changes were made to the administrative structure or to organizational processes, and no such changes were planned at the time this Annual Report went to press.

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 22).

- Egon Behle is chairman of the Board of Management and the company's Chief Executive Officer (CEO). He bears overall responsibility for the corporate decision-making units, and is personally in charge of program management for commercial and military engine programs, business development, corporate communications, investor relations, legal affairs, intellectual property management, corporate audits and corporate security.
- Dr. Rainer Martens is the company's Chief Operating Officer (COO), with overall responsibility for engineering and production. He directs the activities of the group's development, technology, production and military maintenance operations. Other specific areas of responsibility include production development, materials management, procurement, logistics and quality management. The managing director of MTU Aero Engines Polska reports directly to the COO.
- Dr. Stefan Weingartner is responsible for the company's commercial maintenance operations. The heads of the MTU Maintenance locations, Vericor Power Systems and the MRO business development department all report directly to him.
- Reiner Winkler is the company's Chief Financial Officer (CFO) with responsibility for finance, financial reporting, taxation and controlling. He is also in charge of IT and human resources, and is the company's director of industrial relations.

In 2009, MTU acquired an interest in the Middle East Propulsion Company, based in the Kingdom of Saudi Arabia

Acquisitions and disposal of assets and liabilities

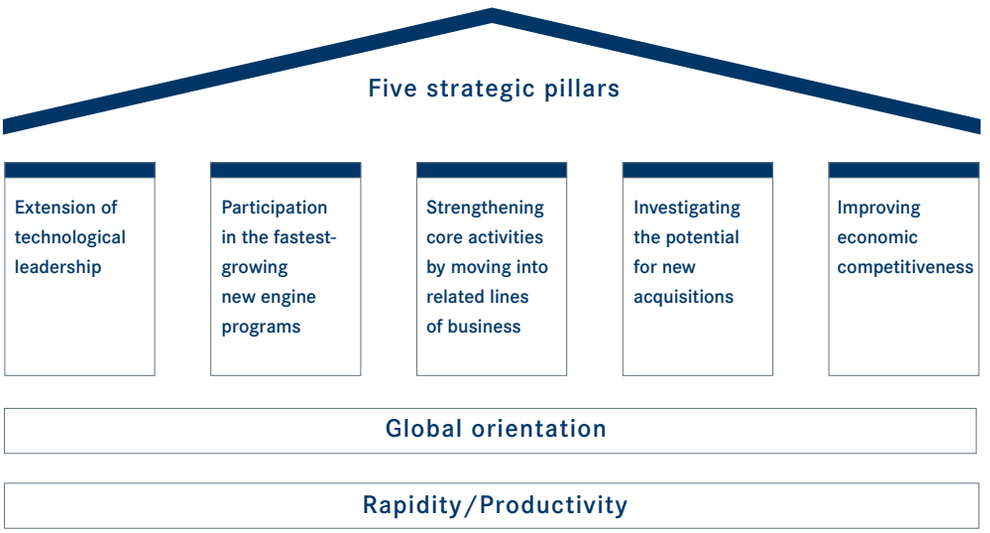
With effect of September 29, 2009, MTU acquired a 19.3% interest in the Middle East Propulsion Company, Riyadh (MEPC), based in the Kingdom of Saudi Arabia, at a cost of € 3.0 million. Disclosures concerning this addition to the group's assets can be found in the Notes to the consolidated financial statements under 'Financial assets'.

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 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). More details concerning the sale of this disposal group can be found in Note 11. to the consolidated financial statements (Other operating income and expenses).

1.3. Corporate strategy and control

1.3.1. Strategy

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



Success at MTU is founded on five strategic pillars

MTU has aligned the activities of all operating segments with its growth targets. The global economic crisis may have stretched the timeframe within which these targets can be met, but has by no means diminished long-term prospects for growth. The company already holds a large share of the service and MRO markets, and has paved the way to further sustainable growth with its forward-looking program portfolio, well-established and durable customer relationships, motivated workforce, and global structures to reinforce its position in the major growth markets.

Extension of technological leadership

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

Participation in the fastest-growing new engine programs

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

MTU is a partner in the GEnx and PW1000G engine programs

The top priority for MTU's commercial engine business is to obtain a stake in the new engine programs for the successor aircraft to the A320 family and the Boeing B737, and for planned long-haul airliners. A typical example is the company's acceptance as a partner in the GEnx program. MTU is already well positioned in the market for large business and regional jets with the Mitsubishi Regional Jet (MRJ), and at the lower-capacity end of the market for short- and medium-haul aircraft, for instance with the Bombardier CSeries. The advanced PW1000G engine selected for both of these aircraft, and which MTU is helping to design, represents a major technological breakthrough for this sector of the market.

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

MTU's commercial maintenance activities are concentrated on increasing the company's market share of existing, successful programs such as the V2500, PW2000, CF6, and CF34, and acquiring stakes in additional widebody airliner programs with attractive growth prospects.

Strengthening core activities by moving into related lines of business

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

Investigating the potential for new acquisitions

MTU regularly investigates the potential of acquisition opportunities that promise to contribute towards its growth targets. Additions to the group's portfolio serve to strengthen its engine development and manufacturing activities, secure access to the requisite technologies and remain competitive. An example is the recent acquisition of a stake in MEPC (see Note 2. to the consolidated financial statements (Group reporting entity)). A further objective is to gain entry into specific markets that will enable MTU to establish its own presence in the growth areas of the future. Through cooperation with airlines, the company also assures itself of additional avenues to profitable growth in the maintenance sector.

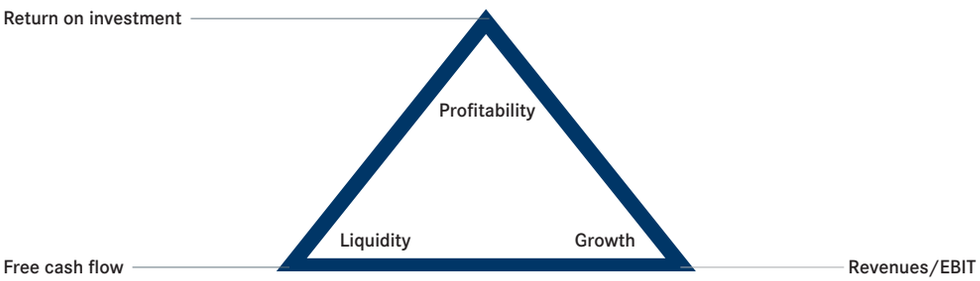
Improving economic competitiveness

The measures initiated by MTU in the past years to optimize its economic competitiveness resulted in significant cost savings in 2009. Through its Challenge 2010 program, MTU aims to generate additional annual cost savings of € 50 million from 2011 onward. The company is pressing ahead with the development of its new facilities in Poland and the introduction of local centers of competence for engine repairs. Moreover, further steps to boost productivity and optimize manufacturing processes are being taken and implemented in all sections of the company.

1.3.2. 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 this integrated control system are:

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



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

Growth expressed as revenues and EBIT

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

Operating profit or EBIT (adjusted) is the second most important performance indicator. Please refer to Section 3 (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.

This ratio makes it possible to compare the profitability of differently sized operating units.

Performance indicators: revenues and EBIT adjusted

in € million	2009	2008	2007	2006	2005
Revenues	2,610.8	2,724.3	2,575.9	2,416.2	2,182.7
EBIT adjusted	292.3	331.0	312.6	237.7	161.7
EBIT margin adusted (in %)	11.2	12.1	12.1	9.8	7.4

MTU's aim is to outperform the return on investment expected by shareholders on the basis of general capital-market trends

Profitability expressed as return on investment

MTU's aim is to outperform the return on investment expected by shareholders on the basis of general capital-market trends (shareholder return). The expected return is measured as a function of the cost of capital, averaged to account for both debt capital and equity capital, i.e. the weighted average cost of capital (WACC). It is calculated on a pre-tax basis and comprises components for the weighted cost of equity capital and debt capital and the interest component of pension provisions.

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

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

Based on these factors, the weighted average cost of capital in the financial year 2009 amounted to 11.2% (2008: 13.5%) for the group as a whole. The weighted average cost of capital calculated separately for the individual operating segments (OEM: 11.2%, MRO: 11.2%) reflects their specific risk structures.

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. The business portfolio is optimized by concentrating on those investments that can be expected to produce the highest return in the medium term.

The group uses the expected return in two ways: Firstly as a central value-oriented performance indicator representing an absolute measure of the added value contributed by the operating segments and the individual engine programs, and secondly as a key target to ensure that all operating activities will contribute towards increasing the value of the company. Since the aim is to generate added value, this means that the group must always earn interest at least equivalent to the cost of capital.

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

ROCE and value contribution[1)]

	2009	2008	2007
EBIT adjusted (€ million)	292.3	331.0	312.6
Capital employed (€ million)	959.8	880.4	802.6
ROCE (in %)	30.5	37.6	38.9
WACC (in %)	11.2	13.5	13.8
Relative value contribution before tax (in %)	19.3	24.1	25.1
Value contribution before tax (€ million)	185.2	212.1	201.5

[1)] All items have been adjusted to exclude intangible assets and property, plant and equipment arising from purchase price allocation, together with the associated depreciation charges/amortization. A fuller explanation of the consequences of purchase price allocation is provided in Section 3 of this group management report (Financial situation).

MTU's return on capital employed (ROCE) in 2009 amounted to 30.5% (2008: 37.6%). This is attributable to the lower EBIT (adjusted), which decreased by € 38.7 million, combined with an increase in fixed assets (an element of capital employed). Development costs incurred in connection with the company's stake in the GEnx engine program were capitalized in December 2008. One twelfth of these costs were consequently recognized as an element of capital employed in 2008. In 2009, by contrast, the entire cost of this investment flowed into capital employed, increasing it still further. The generated ROCE consequently exceeded the weighted average cost of capital (WACC) of 11.2% (2008: 13.5%) by 19.3 percentage points.

The resulting contribution to the value of MTU amounts to € 185.2 million (2008: € 212.1 million), or 19.3% (2008: 24.1%) when expressed as a percentage. The calculation of the cost of capital is described in Note 40. to the consolidated financial statements (Measurement of the recoverable amount of operating segments to which goodwill has been attributed).

Optimization of free cash flow ensures that the group will be able to maintain its financial assets into the future

Liquidity expressed as free cash flow

By optimizing its free cash flow, the company ensures that it will be able to maintain its financial assets into the future. Free cash flow comprises elements relating to operating activities (operating profit, changes in current working capital, and capital expenditure) and unrelated elements (financing expense, share of profit/loss of joint ventures, and taxes).

Free cash flow

in € million	2009	2008	2007	2006	2005
Cash flow from operating activities	252.7	405.8	236.2	209.8	273.3
Cash flow from investing activities	-132.5	-282.2	-104.5	-94.1	-83.9
Free cash flow	**120.2**	**123.6**	**131.7**	**115.7**	**189.4**

The enterprise strives to optimize free cash flow through its operating profit. Additionally, a firm hand is applied in the management of the current working capital (WoC), given that MTU's business activities require high capital expenditure on plant and inventories. Working capital is hence a crucial indicator for the group: It is the balance that remains after trade payables, construction contract payables and prepayments have been deducted from the value of inventories, trade receivables and contract production receivables. By observing changes in this indicator, it is possible to track the way in which working capital varies as a function of business cycles. In order to ensure that these principles are firmly embodied in the group's organizational structure, senior management has delegated the immediate responsibility for operating profit, working capital optimization and capital expenditure to the managers of the operating segments.

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

In addition to its financial objectives, MTU also works towards other important non-financial objectives

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

In addition to its financial objectives (operating performance), MTU also works towards other important objectives of a non-financial nature:

Non-financial performance indicators (SD-KPIs)	Description of related activities and objectives under subheading:
Environmental protection	1.5.3. Environmental report
Technologies, quality	1.4. Research and development
Customer satisfaction	1.5. Corporate responsibility
Employee satisfaction (Training and development, Motivation)	1.5. Corporate responsibility

Other information relevant to non-financial performance indicators can be found in MTU's separately published 'Human Resources Report'.

1.4. Research and development

1.4.1. Framework and objectives

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

MTU aims to achieve a 30% reduction in CO_2 emissions through Claire by 2035

In terms of developing new commercial engines, MTU's medium-term goals 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, it also addresses long-term future requirements such as cutting CO_2 emissions by up to 30 percent by the year 2035 (see Section 1.5.3. Environment).

The specifications of future engines for military applications are largely dictated by the specific features of propulsion systems for unmanned aerial vehicles (UAVs). Achieving long-range solutions that offer high thrust and low fuel consumption while operating close to the ground requires innovative approaches. MTU has therefore positioned itself as a key player in national and European studies, including the European Technology Acquisition Programme (ETAP). The company also continues to focus on reducing the cost of ownership and improving agility.

1.4.2. Technology strategy

MTU's technology portfolio comprises approximately 100 technology projects, which are firmly focused on future customer requirements. The MTU technology program follows a clearly defined procedure. The first step involves analyzing how engines may change in the future to reflect social, economic and environmental issues and then drawing up forecasts for commercial and military aviation. The next stage is the development of preliminary engine designs, known as pilot concepts, which fulfill future requirements while exploiting newly available technologies. The pilot concepts specify the basic technological approach and satisfy the requirements of the market. Based on these pilot concepts and the company's current abilities, MTU derives its technology requirements, subsequently enabling it to define technology programs designed to provide the required technologies. The next step is to demonstrate that the technology is ready to be applied – only then can the technology be deployed in the actual engine development program.

1.4.3. Technologies for engine products 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, 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 percent.

Following the first flight of the geared turbofan demonstrator engine on the wing of a Boeing 747SP in 2008, flight testing on the Airbus flying test bed – an A340-600 – was completed successfully in the year under review. In total, 120 hours of flight testing were carried out. The whole series of tests ran without a hitch, clearly confirming the outstanding improvements that have been made to both fuel consumption and noise emissions.

MTU contributes two key components to the geared turbofan demonstrator: the high-pressure compressor and the high-speed low-pressure turbine.

Market introduction of the geared turbofan is scheduled for 2013

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. These two companies are joined by the Russian aircraft maker Irkut, which intends to equip its 150-seater MS-21 with the PW1000G. The geared turbofan is scheduled to be available on the market from the year 2013, with the maiden flight of the MRJ earmarked for 2011.

The variants of the geared turbofan are based on an essentially identically configured core engine (high-pressure compressor, combustor and high-pressure turbine) which is simply scaled up or down. Development has proceeded according to schedule, and the core engine of the PW1217G was tested successfully for the first time in December 2009 on a test rig at Pratt & Whitney. Discussions are also underway regarding a further potential application within the context of re-engining the Airbus A320.

Military engine programs

The main focus of military development activities was on the TP400-D6 for the Airbus A400M military transporter. This three-shaft engine is the most powerful turboprop engine in the Western world. MTU is contributing the entire intermediate-pressure section, comprising the intermediate-pressure compressor, intermediate-pressure turbine and spool. It is also developing the engine and propeller control system in cooperation with French partner Snecma.

In April 2009, four engines were delivered to Airbus for the first A400M. Flight testing of the TP400-D6 took place on the wing of a Hercules C-130K and was brought to a successful conclusion in September after 54 flying hours. In November, certification for the engine control software was obtained from the European Aviation Safety Agency (EASA). The A400M finally took off on its successful maiden flight from Seville, Spain on December 11, 2009, equipped with four TP400-D6 engines.

MTU's involvement in General Electric's GE38 helicopter engine program takes the company into new territory, marking the first time that MTU 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 will be undertaking maintenance, final assembly and testing of the GE38 engines that will be powering a future heavy-lift cargo helicopter. The GE38 successfully completed its first test run in June and has fulfilled all expectations.

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. In the MTR390 program, MTU is responsible for the development and manufacture of the combustor and high-pressure turbine. An important milestone was reached in July 2009 with the successful first flight of the new MTR390E engine variant.

General development technologies

Compressor technologies

The high-pressure compressor is the most challenging component of an aircraft engine, and only a few manufacturers worldwide have mastered the technology required. In the 1980s, MTU took the decision to venture into the development of high-load transonic high-pressure compressors, starting with the high-pressure compressor for the Eurofighter's EJ200 engine. This compressor propelled MTU to the top of the major league with its low number of stages and integrated blisk (blade integrated disk) design.

In cooperation with Pratt & Whitney, MTU is working on a new high-pressure compressor that will set new standards worldwide. It is set to be used in the new Pratt & Whitney engines in the thrust range of 10,000 to 30,000 pounds. The key development goals were to achieve greater efficiency and lower weight at competitive production costs. Efficiency and weight have a direct impact on fuel consumption and, consequently, on CO_2 emissions. The development phase concluded in March 2009 with the high-pressure compressor having successfully completed more than 400 hours of operation on the MTU test rig. The new compressor's first application will be in the geared turbofan engines PW1217G and PW1524G.

Turbine technologies

The low-pressure turbine is a prime example of MTU's outstanding engine expertise

MTU's low-pressure turbines have been heralded as a prime example of the company's outstanding engine expertise ever since the start of the 1980s. The company's breakthrough into the commercial market came with its low-pressure turbine for the PW2000 engine. Today, MTU caters to a huge range of applications – from conventional low-pressure turbines for business jet engines generating less than 10,000 pounds of thrust and power turbines for helicopters right through to large conventional low-pressure turbines for engines of up to 100,000 pounds of thrust. MTU is the only company in the world to have mastered the technology of high-speed low-pressure turbines. These will be available for the new generation of aircraft engines.

MTU bolsters its technological leadership through technology programs designed to enhance conventional and high-speed turbines. Plans for the next five years include improving turbine efficiency by up to 1.5% by means of various methods, for example by designing flow ducts in three dimensions. Meanwhile, MTU is hoping to achieve a weight reduction of up to ten percent by using new, lightweight materials such as titanium aluminide.

Engine system technologies

Optimum engine control and monitoring and optimum auxiliary units are two essential aspects of achieving efficient and safe operation. This is an area in which MTU has amassed extensive experience thanks to its participation in military engine programs, and its product portfolio includes complete control and monitoring systems as well as the integration of subsystems and equipment. For the next generation of aircraft, today's hydraulic and pneumatic systems are expected to be replaced by electric systems (More/All Electric Aircraft). Advantages can also be gained from replacing mechanical and hydraulic components with electric components in the engine. The 'More Electric Engine' of the future will come with a plurality of sensors, motors and control elements, posing new power management and control engineering challenges. Potential solutions include integrated generators and control systems for all components.

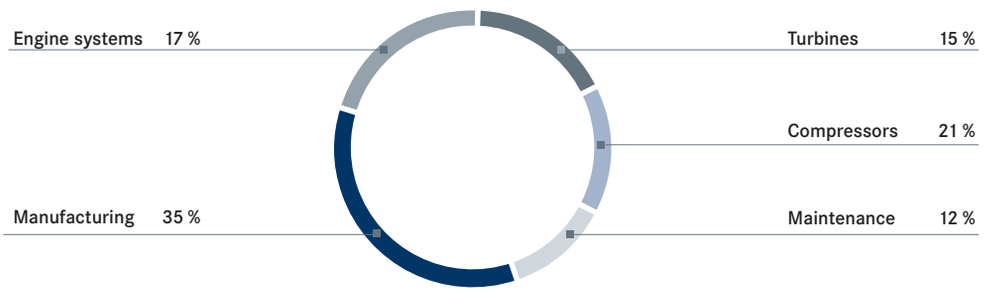
Technologies for manufacturing and maintenance

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.

1.4.4. Technology rights (intellectual capital)

As of December 31, 2009 MTU's patent portfolio comprises almost 900 families of patents. The diagram below shows how these patents are distributed over MTU's various fields of technology.

Distribution of MTU's patent portfolio over its various fields of technology



1.4.5. Strategic and cooperative ventures

Centers of competence

For decades, cooperation arrangements with universities and research institutions have formed a key component of MTU's research and development activities. Strategic working alliances have been built up with expert research partners in order to strengthen ties between universities and industry and safeguard MTU's innovative capabilities. Cooperation arrangements with leading German universities and research establishments have been stepped up and optimized over the past few years with the establishment of six centers of competence (CoCs).

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.

1.4.6. Average number of R&D employees

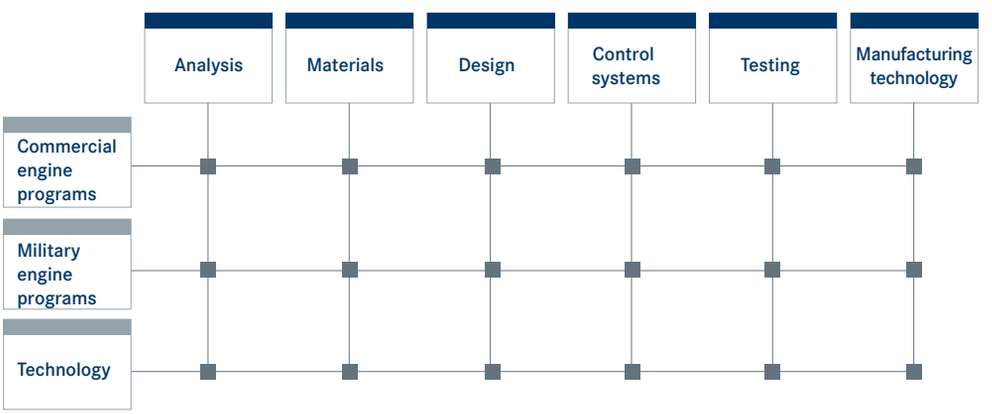
On average, 845 employees (2008: 766) were engaged in R&D activities in the financial year 2009. This represents 11.1 % of the group's average total workforce (2008: 10.5 %). The table below shows how the average number of R&D employees has changed over the last few years.

R&D employment ratio

	2009	2008	2007	2006	2005
Number of employees in R&D	845	766	715	737	736
as % of average total workforce (entire group)	11.1 %	10.5 %	10.1 %	10.5 %	10.4 %

MTU's research and development activities are arranged in the form of a matrix, with specialist departments responsible for areas such as design, materials, controls and testing interlinking with the program departments for commercial and military engines and technology programs. Development work in the technology and engine programs is carried out by interdisciplinary teams. The members of these teams are seconded from the specialist departments and program departments to meet the requirements of each stage of the respective program.

How the R&D department is organized



1.4.7. Capital expenditure on research and development

Research and development expenditure in 2009 totaled € 230.2 million, an increase of € 48.6 million compared with the previous year. R&D as a percentage of revenues, at 8.8%, was 2.1% higher than the previous year's level. The following table shows research and development expenditure prior to the capitalization of development costs, together with R&D as a percentage of revenues.

Research and development expenditure

in € million	Change 2009 - 2008		2009	2008	2007
Commercial engine business	10.0	11.1%	100.1	90.1	82.0
Commercial maintenance business	6.3	86.3%	13.6	7.3	6.8
Commercial engine / maintenance business	16.3	16.7%	113.7	97.4	88.8
Military engine business	32.3	38.4%	116.5	84.2	87.6
Research and development expenditure (prior to capitalization)	**48.6**	**26.8%**	**230.2**	**181.6**	**176.4**
R&D as a percentage of revenues			8.8%	6.7%	6.8%

R&D expenditure rose to a total of € 230.2 million in 2009

A distinction is made between company-funded and externally funded R&D expenditure. Company-funded expenditure originates from the group's own resources. Such expenditure is examined to determine whether it meets the criteria for capitalization as a self-created intangible asset. In addition to meeting the general requirements for recognition and initial measurement as an intangible asset, the asset's technical and commercial feasibility must be established and it must be possible to reliably measure the attributable costs. It must be probable that future economic benefits will flow from the intangible asset, that it is identifiable, and that it can be assigned to a specific engine program or product. Development expenditure that meets the criteria for capitalization is amortized over the expected production output expressed as a number of units. If it is not possible to reliably estimate the number of units to be produced, the capitalized development costs are amortized on a straight-line basis over the expected useful life of the self-created intangible asset. The amortization expense is included in the cost of sales. Company-funded expenditure is disclosed in the consolidated income statement in Note 8. (Research and development expenses) to the consolidated financial statements. All costs attributable to the research phase of an engine project are expensed.

In 2008, company-funded R&D expenditure amounted to € 123.0 million and externally funded R&D expenditure to € 107.2 million.

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.

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

Expensed and capitalized research and development costs (company-funded)

in € million	Change 2009 - 2008		2009	2008	2007
Commercial engine business	10.0	11.1%	100.1	90.1	82.0
Commercial maintenance business	6.3	86.3%	13.6	7.3	6.8
Military engine business	5.6	151.4%	9.3	3.7	
Company-funded R&D	**21.9**	**21.7%**	**123.0**	**101.1**	**88.8**
Expenditure meeting recognition criteria for intangible assets (OEM)	-9.8	350.0%	-12.6	-2.8	
Expenditure meeting recognition criteria for intangible assets (MRO)	-1.4	41.2%	-4.8	-3.4	-4.3
Research and development costs recognized as expense	**10.7**	**11.3%**	**105.6**	**94.9**	**84.5**
Capitalized development costs (in %)			14.1%	6.1%	4.8%

The R&D expenditure meeting recognition criteria for intangible assets in the commercial and military engine business (OEM) amounting to € 12.6 million (2008: € 2.8 million) relates to company-funded development costs for the GE38 and GEnx engine programs. The commercial maintenance business (MRO) has developed special repair techniques for more cost-efficient engine maintenance, requiring capitalization totaling € 4.8 million (2008: € 3.4 million). The percentage of development costs capitalized in 2009 amounted to 14.1%, 8.0 percentage points higher than the previous year's level.

Capitalized development costs

MTU's involvement in General Electric's GEnx engine program contributes to securing MTU's future

GEnx engine program (commercial engine business)

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 cooperation agreement signed by the General Electric Company and MTU Aero Engines GmbH, Munich in December 2008 saw MTU take on a 6.65% stake in the GEnx program. The engine – which has been developed to power the Boeing 787 Dreamliner and the Boeing 747-8 – provides MTU with access to the crucial long-haul aircraft segment of the market. The program has already achieved some major milestones, including the first flight of the GEnx-2B on GE's flying test bed – a Boeing 747 – in March 2009. Expenditure on the GEnx engine program amounting to € 126.1 million was capitalized for the first time in the financial year 2008. Further development costs amounting to € 4.3 million were capitalized in 2009.

GE38 engine program (military engine business)

MTU's acquisition of an 18% stake in General Electric's GE38 helicopter engine program in 2008 represents the first time that the company has been awarded full development responsibility for a module of a U.S. military engine program. The engine's first application will be in the Sikorsky CH-53K heavy-lift transport helicopter. Company-funded development expenditure amounting to € 8.3 million was capitalized for this military engine program. In the previous year, € 2.8 million of company-funded development expenditure and € 45.2 million of development assets acquired in return for payment were capitalized.

Non-capitalized research and development expenses

The geared turbofan is the most important development program currently underway at MTU

The most important research program currently underway at MTU is the geared turbofan (GTF), a concept for the next generation of aircraft engines. MTU has developed the geared turbofan for the Bombardier CSeries and for Mitsubishi Heavy Industries' regional jet, the MRJ. The core engine of the GTF, which was tested in the financial year 2009, also provides a basis for applications in large business jets. MTU spent a total of € 43.9 million on research for this future-oriented engine technology in 2009 (2008: € 12.5 million). In addition to this R&D expense for an entire engine family, the company also expended a further € 61.7 million (2008: € 82.4 million) on other programs and in general development costs.

1.5. Corporate responsibility (CR)

1.5.1. 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.

The company's commitment in this area includes support for the community foundation of Karlsfeld, a township located in close proximity to the company's Munich head office. The purpose of the community foundation is to organize non-profit projects of an environmental, educational, artistic or cultural nature and to provide assistance to members of the community who are in need.

A further example of MTU's active commitment is its cooperation 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. The goal is to help young people to decide on a career and to awaken their interest in technology at an early age.

'Social Step' is a program initiated by MTU that is designed to develop both the personal and professional skills of the company's managers, who spend two weeks 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, in spring 2009, 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. This initiative is supported at national level by the German Aerospace Industries Association (BDLI). As a signatory, MTU formally recognizes the industry standards and undertakes to actively support them.

MTU works closely together with universities and research institutions

Cooperation arrangements in scientific fields

MTU actively supports the networks of universities and research institutions specializing in relevant technological areas, and its activities in this area are diverse. For instance, engine prototypes are made available to universities and colleges, MTU experts hold lectures or act as mentors for those carrying out experimental projects or writing theses for diplomas and doctorates; students are also given active support whilst carrying out their assignments and final dissertation work. MTU honors outstanding achievements: every year the company awards the Heilmann prize to a young scientist who merits recognition for achievements in engine technology.

MTU plays an active role in scientific development and research through the creation of centers of competence and its initiation of the Bauhaus Luftfahrt think tank. For more details see Section 1.4.5. (Strategic alliances and cooperation).

Cooperation with universities and research institutions

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

1.5.2. Employees

Total MTU Workforce, by company

	Change 2009 - 2008	Change in %	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
MTU Aero Engines GmbH, Munich	32	1	4,579	4,547	4,412
MTU Maintenance Hannover GmbH, Langenhagen	75	5	1,708	1,633	1,580
MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde	40	7	593	553	531
Locations in Germany	**147**	**2**	**6,880**	**6,733**	**6,523**
MTU Maintenance Canada Ltd., Richmond, Canada	-7	-4	166	173	168
MTU Aero Engines North America Inc., Newington, USA	-123	-66	63	186	198
Vericor Power Systems LLC., Atlanta, USA	3	9	37	34	34
MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland	76	46	243	167	
MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China (50%)	32	13	276	244	207
International locations	**-19**	**-2**	**785**	**804**	**607**
Total workforce	**128**	**2**	**7,665**	**7,537**	**7,130**

MTU's workforce grew by 2 % to 7,665 employees

Organizational development

In 2009, the focus of organizational development fell on the evolution of our MTU Principles, the intention being to strengthen the MTU identity and to offer staff an anchor for orienting themselves within the organization. The launch of the new MTU Principles was accompanied by the kick-off of a company-wide process of change entitled 'Building the future together', the goals of which were based directly on the findings of the employee satisfaction survey. In so-called Workshops for the Future, all staff were given an opportunity to get to grips with the company's strategic orientation. Managers at all hierarchical levels were provided with a large-format 'dialog picture', using it to discuss the whole business world of MTU with their staff. In a second step, employees and managers derived from the MTU Principles concrete goals for their particular area along with measures for their implementation.

Another new measure launched in 2009 was the MTU Dialog, a new form of personal exchange between the Board of Management and employees at all levels. The idea behind the MTU Dialog is to promote the exchange of ideas irrespective of the participants' professional field or position in the hierarchy and to foster mutual understanding. In the course of the initiative's first year, more than 300 employees took part.

Production launch at the new site in Poland

To help to ensure a smooth start at MTU Aero Engines Polska Sp. z o.o., Rzseszów, Poland, it was important that the new management team there combined MTU staff with many years of experience and new recruits from Poland – the right mix of talents was crucial. In the first eight months of 2009, some 100 MTU employees from Germany provided start-up support on the spot in Rzeszów, and a number of experienced MTU managers are currently preparing their successors to take on key management functions. The smooth production start in April 2009 confirmed just how successful the preparation work had been. By the end of 2009 around 240 employees had been recruited across all departments at the new location – from development and maintenance through to administration.

With an apprenticeship quota of 4.5%, MTU continues to invest strongly in future talent

Vocational training

Apprenticeships at MTU are much sought after, with about 2,500 applications reaching the company in 2009 alone. To ensure that we get to know as many young people as possible with the right qualification profile, at the end of 2009 MTU added an online test to its application process for apprentices at all locations in Germany. Apprenticeships at MTU are no longer oriented towards metalworking techniques in general, but focus more specifically on the production processes for particular engine components. MTU can only achieve this degree of specialization by offering its own training courses. With an apprenticeship quota of about 4.5%, the company continues to invest strongly in future talent. All in all, MTU employed a total of 323 apprentices at its German sites at year-end 2009.

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 capacity utilization for certain product lines fluctuates, cross-qualified staff can be flexibly deployed, even in areas normally requiring long lead-in times.

Compensation

With the launch at the Hannover site in 2009, MTU completed the Germany-wide introduction of the single-status pay agreement (ERA), the aim of which is to ensure a transparent and coherent system of employee compensation. Within the space of two years, the three MTU subsidiaries in Germany have replaced the collective bargaining system that had been in place for thirty years with the new, performance-related single-status pay system.

Despite the financial and economic crisis, the MAP employee stock option program generated much interest among staff in 2009, with 822 employees investing in this additional compensation component offered by the company. In comparison with the year before the crisis, that was a drop of 25%. MTU will be offering the program again 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%. As the volume of funds invested by staff in 2008 was around € 4.9 million, MTU will pay out a total of more than € 2.4 million to the participating employees in 2010.

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 and elderly care sabbaticals are arrangements that enable staff to spend more time with their families when this need is uppermost in their lives. An external family service is also made available to 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 allows 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 for the period up to the next planned audit in 2011. These 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 management program covers occupational medicine, promotion of occupational health, general, emergency and environmental medicine as well as social counseling and prevention. Since 2009, MTU staff suffering from protracted illnesses have been offered targeted support by the company health service, while the health management program has established a supplementary network of experts to assist in cases of mental illness. Another, similar kind of network, which will cover the vast array of diseases affecting the spine and the musculoskeletal system, is currently being piloted.

MTU's attractiveness as an employer

Fringe benefits are becoming an ever more important component of the total compensation package, and employees nowadays pay particular attention to flexible working time models, company catering, leave benefits, childcare facilities, health management services and opportunities for further training. Above and beyond all these aspects, MTU has even more to offer when it comes to an attractive workplace. Thanks to its network of cooperation partners across the globe, the company provides an excellent starting point for international careers. An international assignment can be the first stepping stone in a career as a specialist or manager, and MTU has different concepts for this that are tailored to the specific needs of apprentices, trainees or managers.

MTU was awarded the coveted title of one of Germany's top employers for the fourth time in a row

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 'junge karriere' job magazine of the Handelsblatt business publishing company, assesses German employers and their services in the categories of work-life balance, corporate culture, market position and image as well as job security and compensation. In 2010 MTU was awarded the coveted title of one of Germany's top employers for the fourth time in a row.

MTU is also determined to remain an attractive future employer for students. In 2009 the company further expanded the MTU Careers Club, a program for supporting students and doing follow-up work. Invitations to industry events, further-training opportunities, a newsletter and international internships are all designed to create close contact between the students and their potential future line of work while they are still studying. Qualified staff are also available to look after all projects the students may be working on. The success of MTU's commitment in this field is evident in the 2009 trendence study: graduates in mathematics, IT, science and technology ranked MTU 17th – out of a total of 125 – among their favorite companies for their job applications.

Social responsibility

For MTU, a far-sighted human resources policy goes hand in hand with an active commitment to society, and the company supports local social groups, associations and organizations by providing know-how, funding and contacts.

MTU is particularly active in the promotion of women, so as to facilitate young women's access to technical occupations on a permanent basis. In fact, the foundation the company set up to promote motivated and talented female students will be celebrating 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.

In addition to organizing internships and information events for school pupils and cooperating with schools in the vicinity of its locations, MTU also takes part in the 'Teachers in Industry' program, in which teachers can work at MTU for one year and get to know about day-to-day working life in a company. Both sides profit from the arrangement: teachers receive impulses for the practicability of what they teach, while MTU gains a better insight into what teaching in schools today involves.

MTU has also offered concrete working opportunities to unemployed people with training in the metal-cutting trades. Following a test of their knowledge of math and physics, 16 people were selected to attend a lead-in program in the workplace. The new recruits should be being ready to start work in 2010.

For further information on human resources activities at MTU Aero Engines, we refer you to the separate Human Resources Report 2009/2010.

1.5.3. Environment

Today, the aviation industry operates within an environment characterized by conflicting factors: the increasing mobility of society, ever-scarcer energy 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 the MTU group, 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 applies stringent environmental protection criteria to all of its procedures and processes

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 Regulation of the European Parliament and Council EMAS (Eco Management Audit Scheme) at the German locations in Munich and Hannover. The latest audit took place in spring 2009. 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 OPHSAS 18001. 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.

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 in Munich is an active partner and which supports environmentally friendly measures adopted by the Bavarian government and the City of Munich. 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 necessary technologies, including alternative fuel sources, are being defined in a coordinated action plan, and responsibilities are being allocated for different parts of the program.

Conserving resources is a central goal in protecting the environment

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 direct recycling of materials in the original loop. MTU is making great efforts to combat climate change. Given the present high energy prices, these measures have the added advantage of improving MTU's cost efficiency.

Use of renewable and emissions-neutral energy

Achieving sustainability in air traffic entails replacing oil-based kerosene with alternative 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. In addition, MTU is a taking part in key initiatives and joint research projects with aircraft manufacturers, energy providers and suppliers, for example FAIR (Airbus transition phase to kerosene replacement).

In 2009 MTU joined the Algal Biomass Organization (ABO), a non-profit organization based in the U.S. state of Washington, whose purpose is to drive forward research into and production of fuels based on algae. Biofuels are of particular interest as they are exempt from the CO_2 emissions trading scheme for aviation that will come into force in Europe in 2012, the reason being that 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. The rising price of oil is another incentive to develop biofuels. Initial tests have shown that their use makes technical sense, too. Firstly, they have a higher energy content than conventional kerosene and, secondly, they do not produce impurities, such as sulfur, during combustion. That could help extend the lifecycle of aero engines. Algae, in particular, are a suitable raw material for biofuels as there is no competition with the foodstuffs industry. Compared with raw materials from agriculture, very little land is required to produce algae. Although there are still obstacles on the way to large-scale production of algal fuels, they do not appear insuperable.

Eliminating environmentally harmful production processes and materials

Doing without environmentally harmful production and repair processes and materials can make a big contribution towards reducing the environmental impact of future products. This includes a ban on the use of mercury, cadmium and chromate in materials used for components, joints and coatings.

1.5.4. Production and procurement

Concentration on manufacturing

To better meet market needs going forward, MTU has optimized its production strategy, taking into account the production network of its international locations. One of the results of this was the decision to close down production at MTU Aero Engines North America Inc., Newington, USA, and to set up a Polish subsidiary at Rzeszów built in accordance with state-of-the-art production principles.

Whereas technologically sophisticated production tasks are now concentrated in Germany, the site in Poland focuses on products with a lower level of complexity. Thanks to this optimized cost structure, revenues can be kept within the company that would otherwise have had to be outsourced to suppliers.

Reduction of manufacturing costs and turnaround times

The Challenge 2010 cost-reduction program continues to be a success, and it has been possible to identify further potential for improving efficiency in both direct and indirect areas of production. The detailed value stream and process analyses carried out revealed additional opportunities to reduce production costs and turnaround times, thus helping push down processing costs even further.

MTU's new logistics concept serves to optimize inventories and reduce indirect production expenses

New logistics concept

The main thrust of our new logistics concept is to optimize inventories and reduce indirect production expenses. But it also aims to improve overall equipment efficiency (OEE). The result is more flexible production with a structurally open supply chain and better utilization of investments.

Investments in automated manufacturing systems

Production of the high-tech components for the turbine center frame (TCF) deployed in the GEnx engine, which is destined for the Boeing 787 and 747-8 aircraft, required investments in new, highly automated manufacturing systems. Systems such as these represent a new generation of manufacturing technology in terms of their degree of automation, flexibility and process stability.

Lower product costs thanks to optimized supplier relationships (process capital)

In 2009, MTU continued to intensify collaboration with its suppliers. The main focus was on working together to come up with ideas for reducing and avoiding costs where they arise – in our suppliers' production facilities around the world. The close cooperation between our development engineers and procurement specialists and our suppliers' production managers resulted in the implementation of a large number of design modifications. Processing costs were reduced, production stability enhanced and some materials replaced altogether. The measure was a resounding success, with a reduction in product costs of several million euros being achieved for existing contracts while maintaining the same function and quality of the components. This success confirms that MTU's relations with its suppliers are partnerships based on trust. Intensive joint workshops with our suppliers enable us to integrate their expertise early on in the development phase, which ensures that the components designed are both cost-effective and production-optimized. Mutual openness, we believe, is the basis for long-term contracts.

In 2009, awards were bestowed to the best suppliers for the third time

MTU award for supplier capital

MTU's close cooperation with its supplier network is a key to safeguarding the company's competitiveness. Suppliers are selected using standardized assessment criteria, with cost-efficiency, technical capability, economic stability and technological potential all being considered. Goal agreements are used to set joint initiatives for the active development of individual suppliers. In recognition of their valuable work, MTU presented the best suppliers with MTU Awards in the categories costs, quality, innovation and cooperation. 2009 was already the third year in which these awards had been bestowed.

Reducing exchange rate fluctuations in materials sourcing

The procurement team at MTU responsible for production materials, production-related goods such as fixtures and tools, services and capital goods made a substantial contribution towards reducing the risk of exchange rate fluctuations. As revenues, especially in the commercial engine business, are posted in U.S. dollars, the procurement team buys the components and services for these programs in U.S. dollars too, regardless of where the work is performed. The volume of materials and services sourced in the NAFTA region has also been further increased in the interests of long-term security of supplies. For information on the company's hedging transactions in connection with the procurement of raw materials and supplies (net exposure) see Note 42. (Risk management and financial derivatives) to the consolidated financial statements.

Changes in prices and conditions

MTU concentrates on lean, efficient production processes. This involves reducing production costs and turnaround times, introducing new logistics concepts, driving innovation with automated manufacturing systems, lowering product costs through optimized relationships with suppliers, and reducing the risk of exchange rate fluctuations through a centralized procurement organization. Thanks to all these measures, MTU has been able to stay on top of the changes in prices and conditions occurring in both its procurement and sales markets.

MTU has faced the general deterioration in the economic climate with more intensive risk management and more active insolvency management, both of which have helped to avoid any impairments to its own ability to deliver. Fluctuations in the commodities markets are subject to continual monitoring by a central commodities management committee, and long-term delivery contracts will tend to minimize the risk in this area. What is more, hedging strategies are in place for commodities such as nickel and platinum.

2. Economic environment

2.1. General economic climate

At the end of 2008, the financial crisis had spread to the economy as a whole, triggering the worst global recession since the end of the Second World War. The result was a 2.2% contraction of the global economy in 2009. In the leading economies, state aid on an unprecedented scale helped to avert a catastrophe and ushered in a period of recovery.

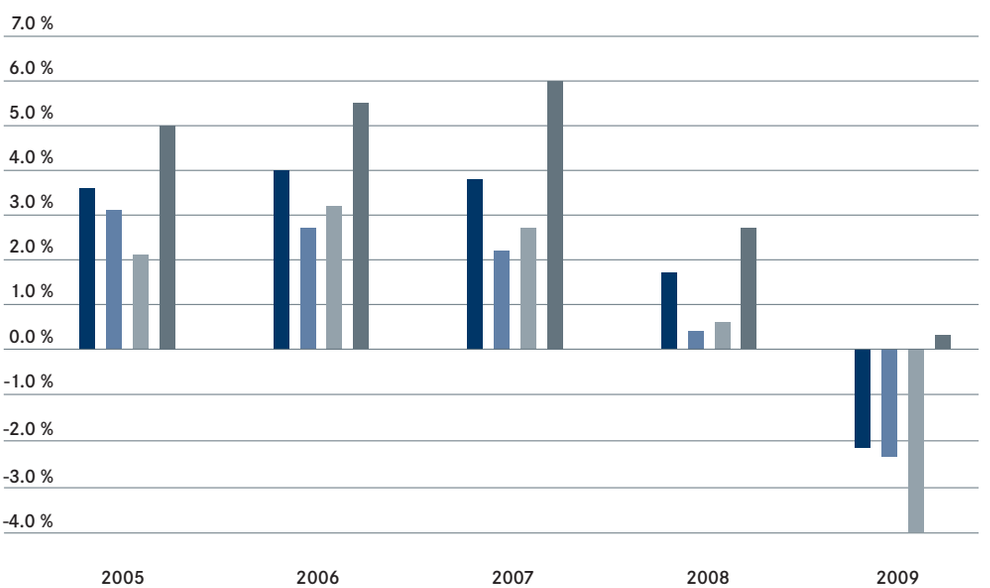
The global economy contracted by 2.2% in 2009

But the recovery was not uniform. Whereas the majority of developed countries only gradually began pulling out of recession towards the end of the year, a number of newly industrializing countries, chiefly those in Asia, were already experiencing a strong upswing in the spring. China provided the main motor: as its domestic economy recovered, the outlook for other economies in Asia brightened, too.

In 2009, economic performance in the Asia-Pacific region remained stable, with a growth rate of 0.3%, in North America the drop was slightly worse at 2.4%, while Western Europe's figure of 4.1% was even more dramatic. 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.

Even the Middle East – a fast-growing market with strong future potential for the aviation industry – could not escape the negative trend in economic growth, with the region having to deal with falling crude oil prices, a real estate slump and more restricted access to global credit markets. Dubai, one of the United Arab Emirates, was particularly hard hit.

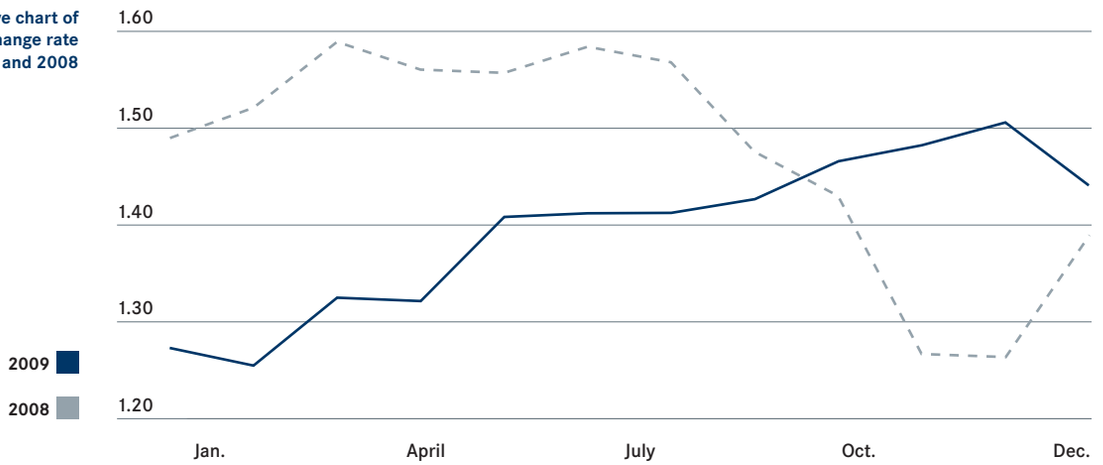
Change in growth rates of economic regions (source: EIU March 2010)



The U.S. dollar steadily lost value against the euro in 2009

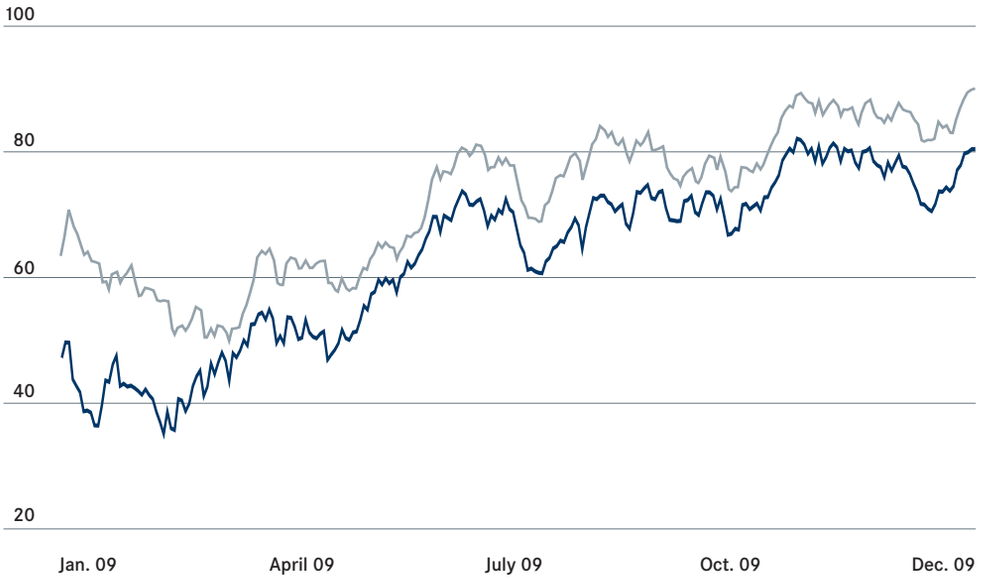
As an export-oriented aviation company, MTU has a strong interest in the euro / U.S. dollar exchange rate. In 2009 this exchange rate hit a low of 1.2455 U.S. dollars to the euro on March 4, thereafter steadily rising over the course of the year. As a result of this trend, MTU's revenues were lower than originally planned. The U.S. dollar continued to lose value against the euro, reaching an annual low of 1.5144 on November 25, 2009. The average exchange rate for the period January 1 to December 31, 2009 was 1.3946 U.S. dollars to the euro and thus below the previous year's figure of 1.4710. Further information on the effects of altered exchange rate parities is provided in Section 3. (Financial situation).

Comparative chart of U.S. dollar exchange rate movements 2009 and 2008



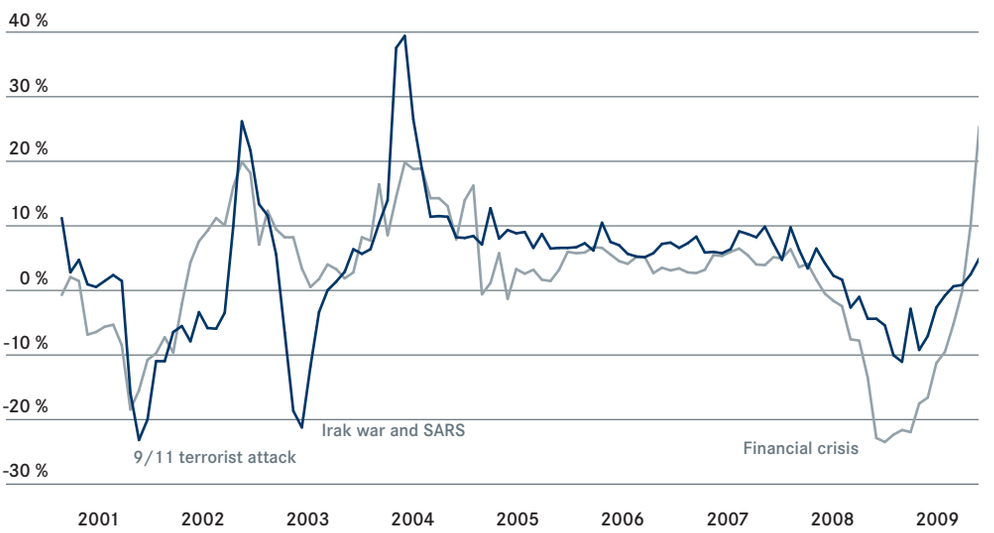
The mean crude oil price in 2009 was 62 U.S. dollars per barrel, or 40 % below the mean value of 100 U.S. dollars per barrel of the previous year. In the first quarter, at the height of the financial crisis, the oil price remained low. It began rising steadily to reach a peak of 70 U.S. dollars per barrel in mid-June, after which it fluctuated between 60 and 80 U.S. dollars per barrel. One agent in this price rise was growing optimism in the wake of the economic recovery since March. The return to low oil prices in the first quarter of 2009 was thus short-lived. As their kerosene bill is the biggest cost factor for airlines, the trend towards grounding and phasing out old, inefficient aircraft types remained unbroken and helped to fill order books for newer models. All this served to strengthen the importance of ongoing projects to develop innovative, fuel-efficient engines and aircraft.

Evolution of crude oil and kerosene prices in 2009 (spot price in U.S. dollar/barrel, Source: US Energy Information Administration)



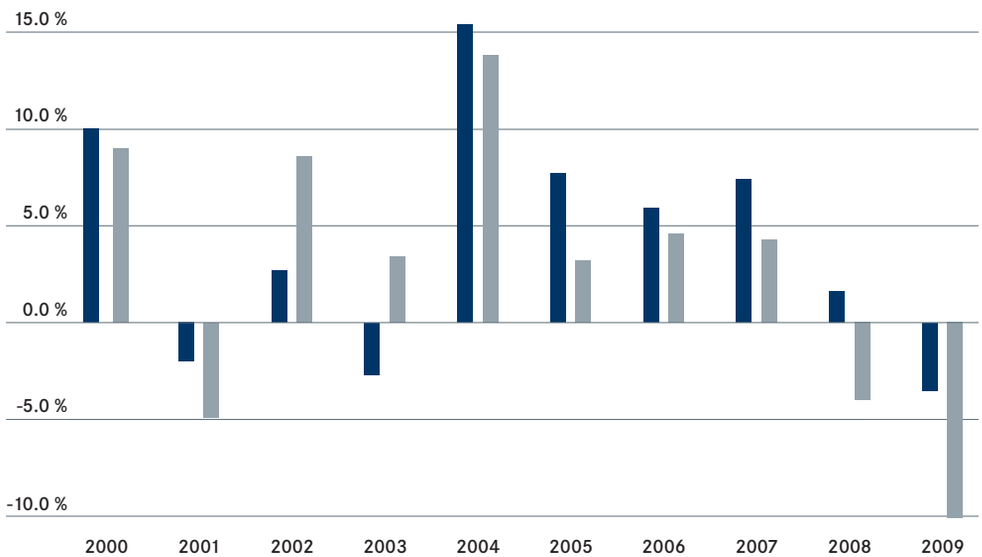
2.2. Industry-specific developments in the aviation sector

Growth in the volume of international passenger and freight traffic (growth rates compared with the same month of the previous year, Source: IATA)



Gross domestic product (GDP) has a decisive influence on growth in the aviation sector, and the recovery of the global economy was clearly reflected in the rising volume of passenger traffic in 2009. After an inauspicious start, with growth in March down 11 % on the same month of the previous year, the figures for international air traffic then improved steadily over the following months. In December a positive growth rate of 4.5 % was reached, albeit relative to the rather weak figure of the previous December. The return to positive growth had its price, however, being bought at the expense of large discounts on ticket prices. In the lucrative premium segment, the decline in traffic was even more pronounced, having fallen by around 20 %. Freight traffic also touched bottom early in the year, with a negative growth rate of 20 %, but by December 2009 the market had recovered to a level 24.4 % higher than that of the previous year. Nevertheless, demand in the airfreight sector remains depressed on the whole.

Growth in the volume of international passenger and freight traffic (Source: IATA)



International passenger traffic and global freight traffic fell in 2009

Year on year, international passenger traffic and global freight traffic fell in 2009 by 3.5 % and 10.1 % respectively, showing that the impact of this crisis was much greater than any other comparable situation in the past. Nearly all regions went through this 'V' curve, with two notable exceptions: China's growth rate of 17% demonstrated that this market was still very robust, while the Middle East notched up almost 11 %.

The key indicators of capacity in the engine parts / engine maintenance sector – SKO (seat kilometers offered) or TKO (ton kilometers offered) – were similarly reduced, although not in the same magnitude as RPK (revenue passenger kilometers) and RTK (revenue ton kilometers), which reveal actual utilization. The figures for the latter showed a drop of 3.0 % in the passenger segment and 8.4 % for freight, and this growing surplus capacity had a negative impact on airlines' business performance.

Faced with overcapacity, airlines responded by grounding aircraft. Consequently, the number of commercial aircraft in storage increased from around 2,000 in December 2008 to nearer 2,200 in December 2009, an increase of 10 %. Almost 50 % of the aircraft currently parked will not be taken into service again owing to their age, high fuel consumption or outdated equipment levels. Today's high fuel prices are another compelling argument for keeping them on the ground.

In an effort to boost demand, airlines offered large discounts on ticket prices. This, in combination with surplus capacity and rising oil prices, negatively impacted their results. The industry as a whole posted a drop in revenue of 17%, from U.S. $ 535 billion in 2008 to U.S. $ 456 billion in 2009, and total losses are estimated at U.S. $ 11 billion.

Lower demand for transportation, airlines' deteriorating earnings, and the necessity to save capital brought on by more restrictive lending practices by banks, were all factors in the collapse of orders for new aircraft and the postponement of deliveries in 2009. The statistics are eloquent: whereas Airbus and Boeing received orders for 1,510 aircraft in 2008, the figure had withered to 570 the following year (source: Ascend). Orders for 160 aircraft were canceled in 2009 compared with 130 in 2008 – it must be said, however, that this constitutes only 2 % of the current order backlog. All in all, the number of firm orders for new aircraft held by Airbus and Boeing decreased by 8 %, from 7,430 to 6,860 aircraft, between year-end 2008 and year-end 2009.

Despite the economic crisis, the number of aircraft delivered in 2009 increased by 14 %

In spite of the financial turbulence being experienced by airlines, Airbus and Boeing together delivered 978 commercial aircraft in 2009. This was in line with their announced delivery targets and equates to an increase of 14 % (858 commercial aircraft) over the previous year. It should be borne in mind, however, that Boeing's production output in 2008 was lower than usual due to the effects of strike action. The ongoing effects of the crisis have thus not yet reached the market for large aircraft engines. Nor has the dreaded credit crunch, the word on everyone's lips at the start of 2009, materialized as yet, largely thanks to concessions by aircraft manufacturers and favorable terms offered by export credit agencies.

In contrast to the passenger aircraft market, the business jet segment was severely hit. In 2009, deliveries of business jets collapsed by 34 % from 1,313 to 870 aircraft (source: GAMA).

2.3. Overall assessment of the business situation

In the wake of the financial crisis, the global economy – which is main driver of the aviation sector – went into severe recession. State aid prevented the already grave situation from getting any worse in the leading industrialized countries and triggered an Asian-led recovery in the world economy.

The global economic trend is mirrored in growth rates for passenger traffic, which bottomed out in the first quarter of 2009 and consistently improved throughout the rest of the year. Nevertheless, the volume of air passengers fell by 3.5 % over the year as a whole.

According to IATA estimates, this decline in passenger numbers, in conjunction with falling ticket prices, made a big dent in airlines' revenues. Higher kerosene prices added to the burden, generating estimated losses for airlines totaling U.S. $ 11 billion. Airlines responded by cutting capacity and decommissioning aircraft, which conspired to produce a lasting reduction in the number of hours flown by the international aircraft fleet. This in turn cranked down demand for engine parts and maintenance, particularly for older aircraft models.

In stark contrast to this negative trend, production at Airbus and Boeing was barely affected by the crisis, with the two manufacturers racking up a new record by delivering a combined total of 978 new aircraft. The backlog of 6,860 firm orders is a clear indicator of potential revenues from large aircraft engines in 2010.

3. Financial situation

The following explanatory comments and analyses are derived from the audited MTU consolidated financial statements for the financial years ending December 31, 2009, 2008 and 2007. The consolidated financial statements are drawn up in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), to the extent that these have been adopted by the European Union.

In accordance with IFRS requirements, certain new or revised/amended standards and interpretations were applied for the first time in the financial statements for 2009. 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 judgements with respect to the application of the accounting standards had an effect on the group's business performance in the reporting period.

MTU became an independently controlled company as from the 2004 financial year

MTU Aero Engines Holding AG, Munich was created in 2004 as a result of MTU Aero Engines Erste Holding GmbH's transformation into a joint stock company, shortly before the IPO. Prior to the IPO, the company was owned by funds managed by one of the world's leading private equity firms, Kohlberg Kravis Roberts & Co. Ltd. (KKR). The funds had acquired the company at the end of 2003. Until that time, it had been a wholly owned subsidiary of the then DaimlerChrysler AG. Additional amortization expenses on intangible assets and depreciation expenses on property, plant and equipment arose as a result of the acquisition with effect of January 1, 2004 and through the subsequent purchase price allocation. These expenses are recognized in the income statement. To facilitate comparison, adjustments for these depreciation and amortization items are applied when determining earnings before interest and tax (EBIT). Because the long-established MTU only became an independently controlled company again as from the 2004 financial year, the comparative presentations at the end of this Annual Report are limited to the years 2005 to 2009 (5-year presentation).

Information on exchange rates

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

Information on exchange rates

Currency	ISO-Code	Rate on balance sheet date			Average rate		
		Dec. 31, 2009 1 euro =	Dec. 31, 2008 1 euro =	Dec. 31, 2007 1 euro =	2009 1 euro =	2008 1 euro =	2007 1 euro =
United States dollar	USD	1.4406	1.3917	1.4721	1.3946	1.4710	1.3702
Canadian dollar	CAD	1.5128	1.6998	1.4449	1.5853	1.5589	1.4680
Chinese yuan renminbi	CNY	9.8350	9.4956	10.7524	9.5268	10.2262	10.4163
British pound sterling	GBP	0.8881	0.9525	0.7334	0.8909	0.7957	0.6842
Malaysian ringgit	MYR	4.9326	4.8048	4.8682	4.9078	4.8895	4.7079
Polish zloty	PLN	4.1045	4.1535	3.5935	4.3282	3.5098	3.7844

3.1. Operating results

MTU Aero Engines Holding AG, Munich in its present form was created with effect of 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 according to IFRS 3 and measured at fair value. Since then, the identified intangible assets, in particular, have led to considerable scheduled amortization expenses each year. In the following text, they are referred to collectively as 'effects of the purchase price allocation' and corresponding adjustments have been applied to eliminate them from the indicators presented below, to facilitate comparison. Explanatory comments on business performance and a presentation of the non-recurring items contained in the consolidated income statement are provided below.

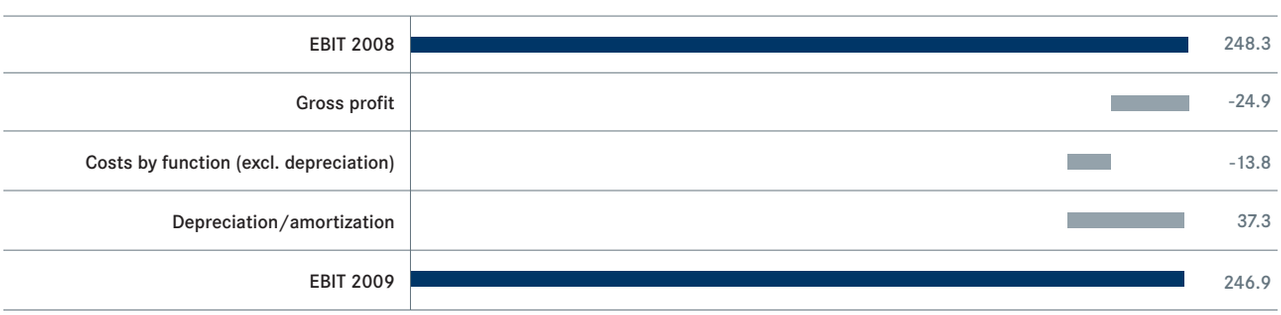
3.1.1. Group

MTU successfully held sway against the growing adversities of the general economic climate. Group revenues were 4.2 % down on 2008 at € 2,610.8 million. Operating profit (EBIT adjusted) amounted to € 292.3 million (2008: € 331.0 million) and the adjusted EBIT margin came to 11.2 % (2008: 12.1 %). As a result of the good operating profit, however, earnings after tax (EAT) which amounted to € 141.0 million (2008: € 179.7 million) were slightly over the forecast level for the financial year 2009.

Consolidated income statement

	Change 2009 - 2008		2009		2008		2007	
	€ million	%	€ million	%	€ million	%	€ million	%
Revenues	**-113.5**	**-4.2**	**2,610.8**	**100.0**	**2,724.3**	**100.0**	**2,575.9**	**100.0**
Cost of sales	88.6	4.0	-2,152.2	-82.4	-2,240.8	-82.3	-2,129.5	-82.7
Gross profit	**-24.9**	**-5.1**	**458.6**	**17.6**	**483.5**	**17.7**	**446.4**	**17.3**
Costs by function	23.5	10.0	-211.7	-8.1	-235.2	-8.6	-203.1	-7.9
Depreciation/amortization and nonrecurring items	-37.3	-45.1	45.4	1.7	82.7	3.0	69.3	2.7
Operating profit (EBIT adjusted)	**-38.7**	**-11.7**	**292.3**	**11.2**	**331.0**	**12.1**	**312.6**	**12.1**
Depreciation/amortization and nonrecurring items								
Write-down on assets resulting from PPA	2.1	4.4	-45.4	-1.7	-47.5	-1.7	-54.6	-2.1
Impairment losses (IAS 36)	35.2	100.0			-35.2	-1.3	-14.7	-0.5
Earnings before interest and tax (EBIT)	**-1.4**	**-0.6**	**246.9**	**9.5**	**248.3**	**9.1**	**243.3**	**9.5**
Financial result	11.1	22.0	-39.4	-1.5	-50.5	-1.8	-63.9	-2.5
Earnings before tax (EBT)	**9.7**	**4.9**	**207.5**	**8.0**	**197.8**	**7.3**	**179.4**	**7.0**
Income taxes	-48.4	-267.4	-66.5	-2.6	-18.1	-0.7	-25.3	-1.0
Earnings after tax (EAT)	**-38.7**	**-21.5**	**141.0**	**5.4**	**179.7**	**6.6**	**154.1**	**6.0**
Undiluted earnings per share in €	-0.75	-20.6	2.89		3.64		2.95	
Diluted earnings per share in €	-0.74	-20.9	2.80		3.54		2.83	

Changes in MTU group EBIT 2008 to 2009 in € million

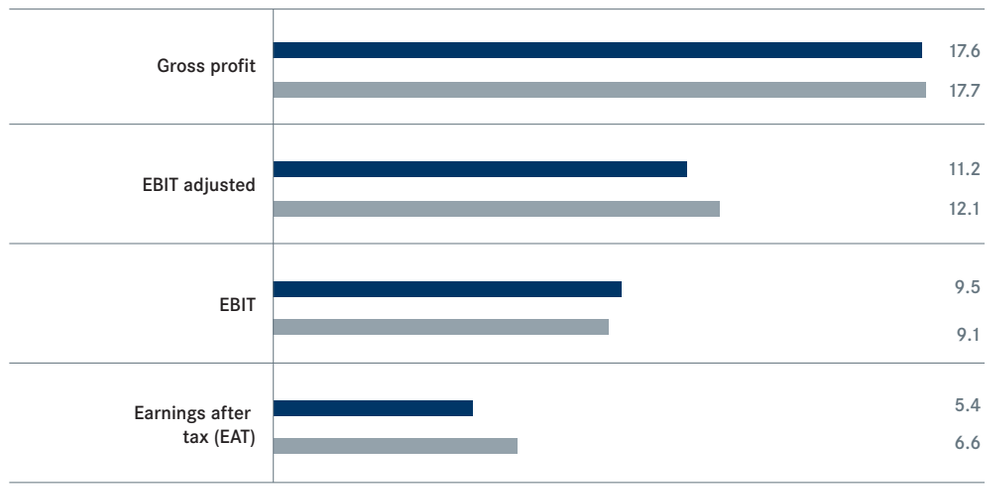


For explanatory comments on depreciation/amortization and nonrecurring items, please refer to the table later in this section showing the reconciliation of the consolidated income statement.

Changes in margins

The gross profit margin in 2009, at 17.6%, remained virtually unchanged compared with the previous year (2008: 17.7%). The adjusted EBIT margin amounted to 11.2% (2008: 12.1%) while the EBIT margin increased by 0.4 percentage points to 9.5% (2008: 9.1%). The ratio of earnings after tax (EAT) to revenues (return on sales) was reduced by 1.2 percentage points to 5.4% (2008: 6.6%).

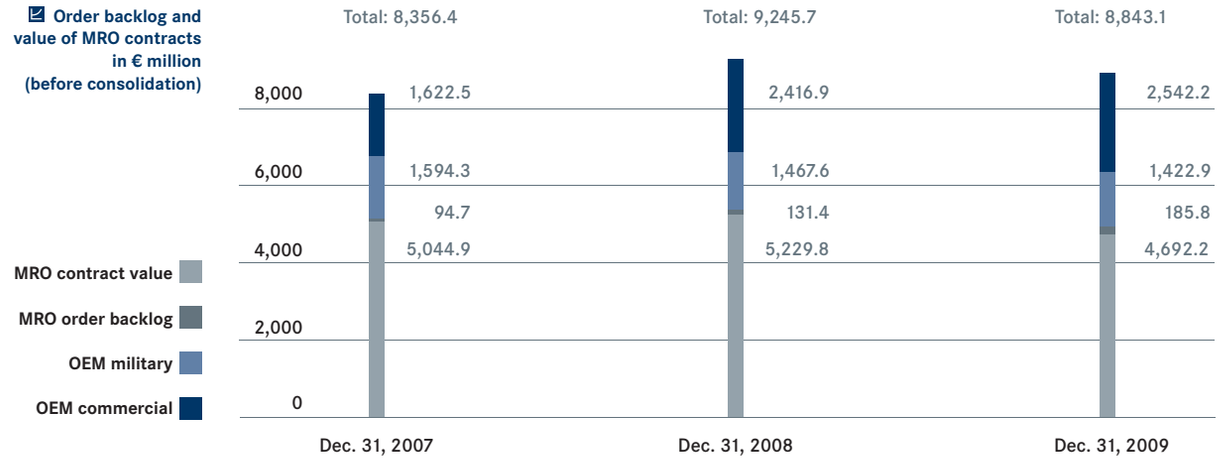
Changes in MTU group margins in %



Order backlog and value of MRO contracts (order volume)

MTU's order backlog consists of firm customer orders which commit the group to delivering products or providing services. Orders for maintenance work to be performed under the contractual terms of long-term service agreements are not included in the order backlog for the commercial maintenance business. In order to obtain a fair picture of the economic value of the total contracted order volume and the corresponding degree of capacity utilization, the figures for the contractual value of service agreements in the commercial maintenance business (MRO) are stated in a separate line of the financial statements, in addition to the conventionally defined order backlog for the commercial and military engine business (OEM) and for the commercial maintenance business (MRO). Further information on the valuation of contracts in the commercial maintenance business (MRO) is provided in Section 3.1.4. (MRO segment).

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



The group's total order backlog amounted to € 8,843.1 million at the end of 2009

At December 31, 2009, the group order volume (total order backlog including the value of commercial MRO contracts) amounted to € 8,843.1 million, which is a reduction of € 402.6 million (4.4%) compared with the previous year's figure of € 9,245.7 million. The majority of orders in the commercial engine business and in commercial MRO are priced in U.S. dollars. If translated at the exchange rate in effect on December 31, 2008, the group order volume would have been € 260.8 million (2.9%) higher, at a total of € 9,103.9 million. Adjusted to eliminate the effect of the U.S. dollar exchange rate, the reduction in the group order volume would thus have amounted to 1.5%.

The group order backlog, which excludes the value of commercial MRO contracts, amounted to € 4,150.9 million, or € 135.2 million (3.4%) higher than the previous year's level. Applying the exchange rate parity prevailing at December 31, 2008, the group order backlog would have been € 95.9 million higher, at a total of € 4,246.8 million. This would have equated to an increase in the group order backlog of 5.8% compared with the previous year.

Orders in the military engine business are priced in euros. The corresponding order backlog at year-end 2009 had fallen by € 44.7 million (3.0%) to € 1,422.9 million (2008: € 1,467.6 million).

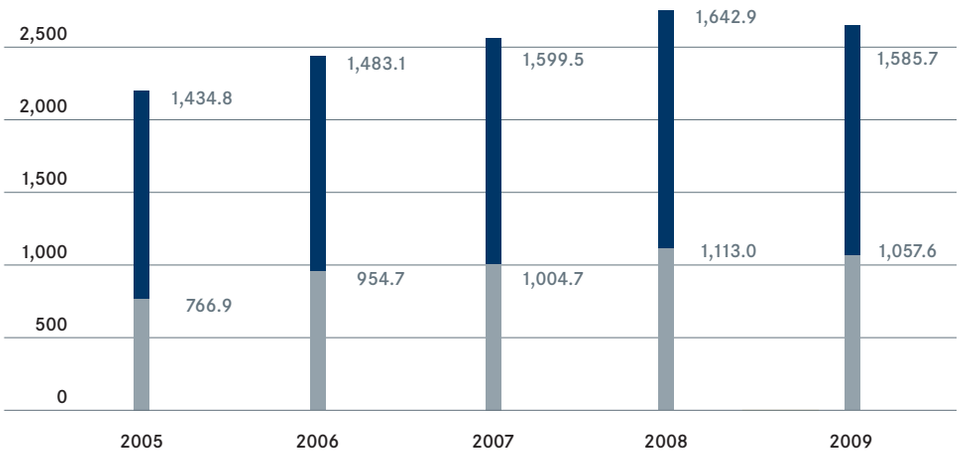
Altogether, the total volume of book orders (order value plus value of contracts) represents a workload of approximately three years.

MTU achieved revenues of € 2,610.8 million in the financial year 2009

Revenues

Group revenues decreased in the financial year 2009 by € 113.5 million (4.2%) to € 2,610.8 million. Compared with the previous year, revenues in the commercial and military engine business (OEM) fell by € 57.2 million (3.5%) to € 1,585.7 million, while revenues in the commercial maintenance business (MRO) fell by € 55.4 million (5.0%) to € 1,057.6 million.

Revenues by segment in € million



Cost of sales and gross profit

Cost of sales decreased by € 88.6 million (4.0%) to € 2,152.2 million. Due to the fact that cost of sales decreased to a lesser extent than sales revenue, gross profit fell to € 458.6 million (2008: € 483.5 million), a year-on-year decrease of € 24.9 million (5.1%). The gross margin remained virtually unchanged at 17.6% (2008: 17.7%). For the income statement effects of risks and uncertainties linked to the TP400-D6 engine program and the measurement of contingent liabilities arising from business combinations, please refer to Section 3.3. (Net assets), and to Note 24. (Construction contract receivables) and Note 33. (Other provisions) to the consolidated financial statements.

Research and development expenses

Research and development costs recognized in the income statement amounted to € 105.6 million, which is € 10.7 million higher than the equivalent figure in 2008. A more detailed description of the composition of these expenses and their allocation to the respective operating segments is provided in Section 1.4. (Research and development).

Selling and general administrative expenses

As a member of risk- and revenue-sharing partnerships (RRSP) with the world's leading engine manufacturers, MTU does not have any actual marketing expenses for new products or services because only the leading partner in the relevant consortium for an engine program (General Electric or Pratt & Whitney) has direct contact with customers in the marketplace. Recognized selling expenses include expenses in connection with trade shows and exhibitions including notably the company's presence at the Paris Air Show in Le Bourget, France, media relations expenses, and valuation allowances and write-downs on trade receivables. In 2008, under the terms of the risk- and revenue-sharing agreement with the General Electric Company (GE), MTU acquired sales and supply rights amounting to € 27.6 million.

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

Depreciation and amortization

In 2009, total depreciation and amortization expenses included in the costs by function amounted to € 126.4 million (2008: € 125.0 million). This includes € 45.4 million resulting from the purchase price allocation (2008: € 47.5 million).

Impairment losses

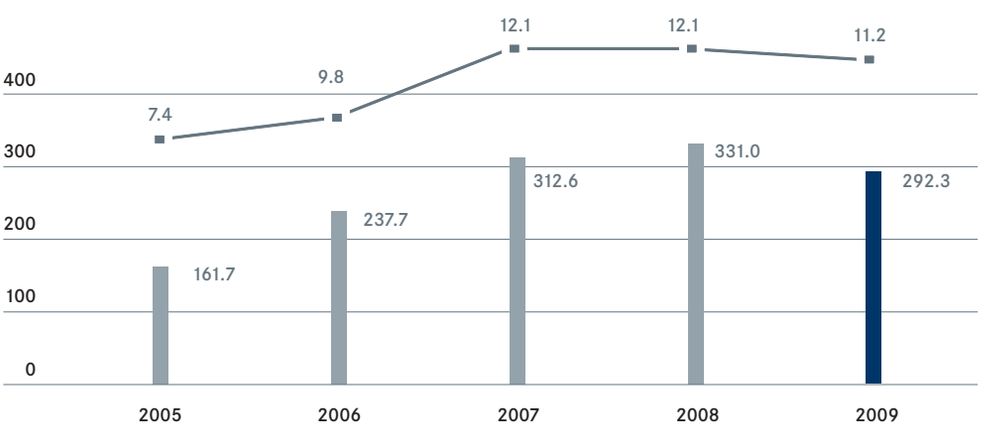
The costs by function for the financial year 2009 do not include any impairment losses (2008: € 35.2 million). Explanatory comments and a more detailed breakdown of the total amount can be found in Section 3.1.1. (Group operating results).

Adjusted EBIT margin of 11.2 % reported for the financial year 2009

EBIT adjusted and EBIT margin

Adjusted earnings before interest and tax (EBIT adjusted) are determined by adding the effects of purchase price allocation arising from the company's acquisition (described below) to earnings before interest and tax (EBIT). Operating profit (EBIT adjusted) decreased by 11.7 % to € 292.3 million (2008: € 331.0 million). The adjusted EBIT margin narrowed by 0.9 percentage points to 11.2 % (2008: 12.1 %).

Group EBIT (adjusted)



EBIT (adjusted) in € million

(margin in %)

Reconciliation of adjusted performance indicators

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

The adjusted performance indicators should not be viewed in isolation as an alternative to the presented figures for EBIT, earnings after tax (EAT), cash flow from operating and investing activities, nor to the liabilities and other indicators presented in the consolidated balance sheet for MTU Aero Engines Holding AG, Munich in accordance with IFRSs.

Performance indicators can also be adjusted to exclude nonrecurring items.

Adjusted EBIT for the operating segments and the group as a whole is derived from earnings before interest and tax (EBIT). In the reconciliation of the consolidated income statement, adjusted EBIT is obtained by applying adjustments to eliminate the effect of depreciation/amortization and impairment losses on intangible assets and property, plant and equipment arising from the purchase price allocation.

The main reason why adjustments are applied is to eliminate the effect of nonrecurring items which are superimposed on the results of operating activities and thus obscure the true comparability of 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 nonrecurring items.

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

The table below shows the reconciliation between individual lines in the consolidated income statement and the equivalent items adjusted for nonrecurring effects. The reconciliation table presents comparative data for previous annual periods in addition to the data for the year under review.

Reconciliation of the consolidated income statement to key performance figures adjusted for non-recurring effects

	2009			2008			2007		
in € million	**Financial year**	**Non-recurring items**	**Financial year w/o non-recurring items**	**Financial year**	**Non-recurring items**	**Financial year w/o non-recurring items**	**Financial year**	**Non-recurring items**	**Financial year w/o non-recurring items**
Revenues	**2,610.8**		**2,610.8**	**2,724.3**		**2,724.3**	**2,575.9**		**2,575.9**
Cost of sales	-2,152.2	40.7	-2,111.5	-2,240.8	75.6	-2,165.2	-2,129.5	63.6	-2,065.9
Gross profit	**458.6**	**40.7**	**499.3**	**483.5**	**75.6**	**559.1**	**446.4**	**63.6**	**510.0**
Research and development expenses	-105.6	2.5	-103.1	-94.9	4.3	-90.6	-84.5	2.3	-82.2
Selling expenses	-72.2	1.3	-70.9	-100.2	1.5	-98.7	-75.0	2.0	-73.0
General administrative expenses	-44.8	0.9	-43.9	-44.2	1.3	-42.9	-45.8	1.4	-44.4
Other operating income and expenses	10.9		10.9	4.1		4.1	2.2		2.2
Earnings before interest and tax (EBIT)	**246.9**	**45.4**	**292.3**	**248.3**	**82.7**	**331.0**	**243.3**	**69.3**	**312.6**
Financial result	-39.4		-39.4	-50.5		-50.5	-63.9		-63.9
Earnings before tax (EBT)	**207.5**	**45.4**	**252.9**	**197.8**	**82.7**	**280.5**	**179.4**	**69.3**	**248.7**
Income taxes	-66.5	-15.9	-82.4	-18.1	-73.3	-91.4	-25.3	-75.2	-100.5
Earnings after tax (EAT)	**141.0**	**29.5**	**170.5**	**179.7**	**9.4**	**189.1**	**154.1**	**-5.9**	**148.2**
EBIT	**246.9**	**45.4**	**292.3**	**248.3**	**82.7**	**331.0**	**243.3**	**69.3**	**312.6**
Depreciation/amortization of:									
Intangible assets									
- Acquisition-related amortization expense (PPA)	40.1	-40.1		40.1	-40.1		42.5	-42.5	
- Impairment losses according to IAS 36				35.2	-35.2		14.7	-14.7	
Property, plant and equipment									
- Acquisition-related depreciation expense (PPA)	5.3	-5.3		7.4	-7.4		12.1	-12.1	
EBIT adjusted	**292.3**		**292.3**	**331.0**		**331.0**	**312.6**		**312.6**

In the financial year 2009, no impairment losses were recognized on intangible assets or on property, plant and equipment.

Impairment losses

In the financial year 2009, no impairment losses were recognized on intangible assets or on property, plant and equipment.

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

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

Depreciation/amortization resulting from the purchase price allocation

The subject of depreciation/amortization resulting from the purchase price allocation is dealt with in the introductory paragraphs at the beginning of this Section.

Financial result

MTU's financial result improved by € 11.1 million in 2009 to a net expense of € -39.4 million (2008: € -50.5 million). The deterioration in the interest result for 2009 compared with that for 2008 is attributable to lower interest income. The financial result on other items improved in the financial year 2009, with a net expense reduced by € 13.9 million to € -24.8 million (2008: € -38.7 million). The factors responsible for this change were gains on forward commodity sales contracts for nickel amounting to € 4.6 million (2008: losses of € 11.7 million), fair value gains on currency derivatives and interest rate derivatives amounting to € 2.9 million (2008: € -1.3 million), and the effect of discount reversals and changes in the discount rate for other provisions and contingent liabilities.

Earnings before tax (EBT)

In addition to the good business operating performance, the improved financial result also had a positive impact on earnings before tax (EBT), which increased by € 9.7 million to € 207.5 million (2008: € 197.8 million).

Income taxes

Income taxes in the financial year 2009 amounted to a total of € 66.5 million (2008: € 18.1 million). The effective group tax rate, relative to earnings before tax, amounted to 32.0% (2008: 9.2%). 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).

Impact of tax field audit

The tax field audit covering the period 2000 to 2003 was completed in the financial year 2008. Since tax pooling arrangements had been in place during that period with the company that is now Daimler AG, an additional tax expense was taken into account in tax assessments at the level of Daimler AG. Due to the contractual terms and conditions agreed by MTU and Daimler AG, this additional tax expense triggered a retrospective adjustment to the purchase price (originally agreed in 2003) for the MTU group. On the basis of the tax audit findings, a financial liability amounting to € 15.0 million was provisionally recognized at December 31, 2008. After further evaluation and consultation, the final amount of the retrospective adjustment to the purchase price was established by agreement with Daimler AG at € 12.1 million. This liability was settled in full in the third quarter of 2009. The amount of the payment is recognized in cash flow from financing activities. All claims by either party arising from the sale of MTU by Daimler AG are thereby settled.

The corresponding reductions in MTU's tax expense for the financial years 2004 to 2008 were recognized in 2008 with a positive tax effect of € 33.0 million.

Treasury shares revalued in 2009 to original acquisition cost

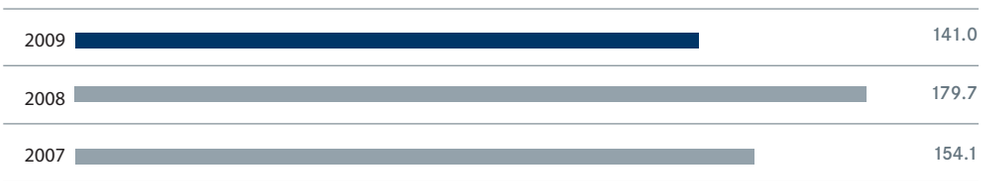
Impact of tax-effective write-ups/write-downs on treasury shares

Unlike for IFRS accounting purposes, treasury shares acquired by MTU Aero Engines Holding AG, Munich, are required to be presented for German accounting (HGB) and tax purposes within current assets measured at their average acquisition cost. Such assets are required to be written down to their 'fair value' (for HGB purposes) or their 'Teilwert' (for tax purposes) if lower at the end of the reporting period. MTU Aero Engines Holding AG, Munich is classified for tax purposes as a finance company. In the financial year 2008, the fall in the MTU share price as a result of the financial and banking crisis made it necessary to write down the group's holding of treasury shares by an amount of € 36.9 million. 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. Reference is made to Note 30.6 to the consolidated financial statements (Treasury shares) for the calculation of the average purchase price of treasury shares.

Earnings after tax (EAT)

Despite the satisfactory business performance in 2009, earnings after tax (EAT) were reduced by € 38.7 million (21.5%) to € 141.0 million (2008: € 179.7 million) owing to the positive tax effects included in the previous year's results.

Earnings after tax (EAT) in € million



Net profit available for distribution

The net profit available for distribution to the shareholders of MTU Aero Engines Holding AG, Munich, as determined in accordance with the German Commercial Code (HGB), amounted to a total of € 61.3 million for the financial year 2009. The Board of Management and Supervisory Board's proposal to the Annual General Meeting is to allocate an amount of € 15.8 million from this net profit to revenue reserves and to distribute the remaining € 45.5 million to shareholders as a dividend (2008: dividend payment € 45.4 million). At December 31, 2009, 48,921,808 shares (2008: 48,770,945) were entitled to receive a dividend.

Earnings per share

Undiluted earnings per share amounted to € 2.89 (2008: € 3.64). 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 € 2.80 (2008: € 3.54).

The Board of Management and Supervisory Board of MTU Aero Engines Holding AG, Munich, will propose a dividend of € 0.93 per share

High dividend payment

In view of the group's continuing good business performance, the Board of Management and Supervisory Board of MTU Aero Engines Holding AG, Munich will propose to the Annual General Meeting on April 22, 2010 that an unchanged dividend of € 0.93 per share (2008: € 0.93) should be paid out to shareholders. The total dividend payment amounts to € 45.5 million (2008 at the time of the Annual General Meeting's resolution: € 45.4 million), after deduction of the proposed allocation to revenue reserves. The net dividend yield for 2009, based on the share price of € 38.19 at December 31, 2009, thus amounts to 2.4%. The dividend is expected to be paid on April 23, 2010 – 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 the IFRSs to the net profit available for distribution of MTU Aero Engines Holding AG, Munich, can be found in Part VII. of the notes to the consolidated financial statements (Reconciliation of group earnings after tax (EAT) to the net profit available for distribution of MTU Aero Engines Holding AG, Munich).

3.1.2. Operating segments

The performance data for the operating segments developed as follows in the financial year 2009:

Operating performance data by segment

in € million	Change 2009 - 2008		2009	2008	2007
Revenues					
Commercial engine business	-92.6	-8.1%	1,053.7	1,146.3	1,102.0
Military engine business	35.4	7.1%	532.0	496.6	497.5
Commercial and military engine business (OEM)	**-57.2**	**-3.5%**	**1,585.7**	**1,642.9**	**1,599.5**
Commercial maintenance business (MRO)	-55.4	-5.0%	1,057.6	1,113.0	1,004.7
Other consolidated entities	-0.9	-2.8%	-32.5	-31.6	-28.3
Group	**-113.5**	**-4.2%**	**2,610.8**	**2,724.3**	**2,575.9**
Order backlog and value of MRO contracts[1] (2008: Dec. 31)					
Commercial and military engine business (OEM)	80.6	2.1%	3,965.1	3,884.5	3,216.8
Commercial maintenance business (MRO)	-483.2	-9.0%	4,878.0	5,361.2	5,139.6
Group	**-402.6**	**-4.4%**	**8,843.1**	**9,245.7**	**8,356.4**
Capital expenditure on intangible assets and property, plant and equipment					
Commercial and military engine business (OEM)	-158.8	-61.0%	101.7	260.5	63.4
Commercial maintenance business (MRO)	5.4	16.3%	38.6	33.2	37.4
Group	**-153.4**	**-52.2%**	**140.3**	**293.7**	**100.8**
Earnings before interest and tax (EBIT adusted)					
Commercial and military engine business (OEM)	-50.7	-18.1%	229.2	279.9	251.0
Commercial maintenance business (MRO)	10.7	19.6%	65.3	54.6	62.3
Other consolidated entities	1.3	37.1%	-2.2	-3.5	-0.7
Group	**-38.7**	**-11.7%**	**292.3**	**331.0**	**312.6**
EBIT margin (adusted, in %)[2]					
Commercial and military engine business (OEM)	-2.5		14.5%	17.0%	15.7%
Commercial maintenance business (MRO)	1.3		6.2%	4.9%	6.2%
Group	**-0.9**		**11.2%**	**12.1%**	**12.1%**
Number of employees (quarterly average)					
Commercial and military engine business (OEM)	227	4.8%	4,908	4,681	4,645
Commercial maintenance business (MRO)	128	5.0%	2,710	2,582	2,447
Group	**355**	**4.9%**	**7,618**	**7,263**	**7,092**

[1] includes engines for which maintenance agreements are in place (see explanation under Section 3.1.4. (MRO segment)), before consolidation
[2] Change stated as percentage

3.1.3. 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. $ 3,662.3 million at December 31, 2009, and therefore U.S. $ 298.7 million (8.9%) higher than in 2008, when it stood at U.S. $ 3,363.6 million.

The order backlog translated into euros at the 2009 year-end closing rate increased by € 125.3 million (5.2%) to € 2,542.2 million (2008: € 2,416.9 million).

In purely arithmetical terms, the order backlog 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 € 1,422.9 million at the end of 2009. This is € 44.7 million (3.0%) below the previous year's amount of € 1,467.6 million.

In purely arithmetical terms, the order backlog represents slightly less than three years' production capacity.

Order backlog for OEM business

in € million	Change 2009 - 2008		Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Commercial engines in US-$	298.7	8.9%	3,662.3	3,363.6	2,388.5
Commercial engines	125.3	5.2%	2,542.2	2,416.9	1,622.5
Military engines	-44.7	-3.0%	1,422.9	1,467.6	1,594.3
Total order backlog	**80.6**	**2.1%**	**3,965.1**	**3,884.5**	**3,216.8**

The OEM segment generated revenues of € 1,585.7 million in 2009

Revenues

The company generated revenues of € 1,585.7 million in the OEM segment. This is € 57.2 million (3.5%) less than the result achieved in 2008.

During the reporting period, revenues from the commercial engine business decreased by € 92.6 million to € 1,053.7 million. The main contributing factors were the slump in demand for business jets (Pratt & Whitney Canada programs) and lower requirements for spare parts, particularly for legacy programs, due to the decline in the volume of air traffic. Adjusted for the effect of the U.S. dollar exchange rate, revenues decreased by around 12.8%.

Revenues in the military engine business increased by € 35.4 million (7.1 %) from € 496.6 million in 2008 to € 532.0 million in 2009. The ongoing entry into service of the Eurofighter Typhoon assures a steady flow of revenue from the EJ200 engine, and revenues generated by other military programs have also remained stable.

Revenues and EBIT adusted (OEM)

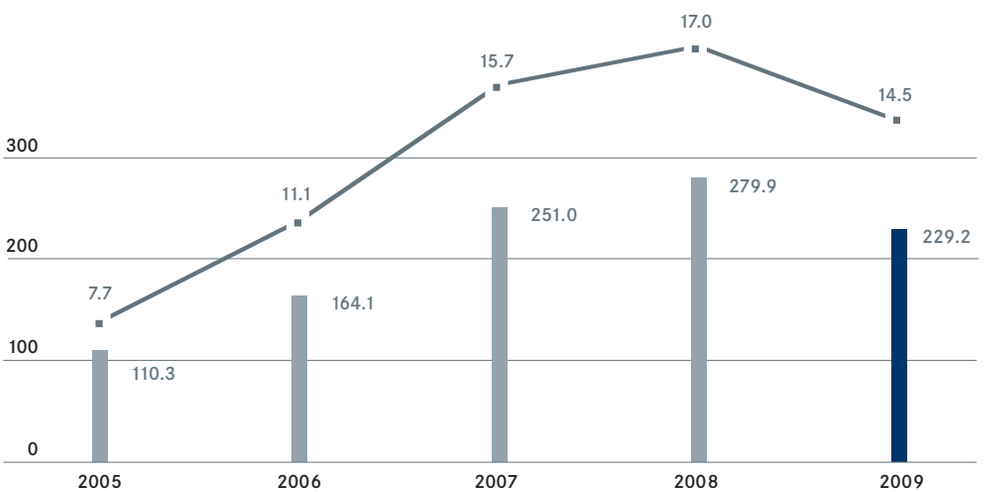
in € million	Change 2009 - 2008		2009	2008	2007
Revenues	-57.2	-3.5 %	1,585.7	1,642.9	1,599.5
Cost of sales	11.8	0.9 %	-1,242.1	-1,253.9	-1,244.1
Gross profit	**-45.4**	**-11.7 %**	**343.6**	**389.0**	**355.4**
Gross margin in %			21.7	23.7	22.2
EBIT adjusted	**-50.7**	**-18.1 %**	**229.2**	**279.9**	**251.0**
EBIT margin adusted in %			14.5	17.0	15.7

In the OEM segment, the adjusted EBIT margin is 14.5 %

EBIT adjusted and EBIT margin

Adjusted earnings before interest and tax (EBIT adjusted) in the OEM segment reflected the difficulties of operating in a depressed economic climate, reducing from € 279.9 million to € 229.2 million. The adjusted EBIT margin fell from 17.0 % to 14.5 %.

OEM EBIT (adjusted)



EBIT in € million

Margin in %

3.1.4. 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. When revenues are recognized from the orders, the order backlog is reduced accordingly.

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

The order backlog fort he commercial maintenance business amounted to U.S.$ 267.7 million at the close of 2009

The short- to medium-term workload can be estimated by adding together the order backlog and the value of contracts. On a purely arithmetical basis, the sum total of order backlog and value of contracts represents a workload of 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 2009 amounted to U.S. $ 267.7 million, which is U.S. $ 84.8 million or 46.4 % higher than the equivalent figure for 2008 of U.S. $ 182.9 million. The value of orders for work on engines for which maintenance agreements are in place decreased by 7.1 % to U.S. $ 6,759.6 million in the year under review.

Translated into euros, the order backlog and value of contracts decreased by € 483.2 million (9.0 %) to € 4,878.0 million (2008: € 5,361.2 million) at the end of 2009.

Order backlog and value of contracts for commercial MRO business

in million	Change 2009 - 2008		Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Commercial engine maintenance					
Order backlog MRO Engines delivered to shop in US-$	84.8	46.4 %	267.7	182.9	139.4
Order backlog in €	**54.4**	**41.4 %**	**185.8**	**131.4**	**94.7**
Value of MRO contracts					
Engines for which maintenance agreements are in place in US-$	-518.7	-7.1 %	6,759.6	7,278.3	7,426.6
Value of contracts in €	**-537.6**	**-10.3 %**	**4,692.2**	**5,229.8**	**5,044.9**
Total order backlog and value of contracts in €	**-483.2**	**-9.0 %**	**4,878.0**	**5,361.2**	**5,139.6**

Revenues in the MRO segment totalled € 1,057.6 million in 2009

Revenues

MTU's revenues from the commercial maintenance business in 2009 amounted to € 1,057.6 million (2008: € 1,113.0 million), despite cutbacks in seat capacity by the airlines. The revenues reported by MTU Maintenance Zhuhai Co., Ltd., Zhuhai, China, stabilized at an overall positive level, increasing slightly from € 125.9 million in 2008 to € 128.9 milion in 2009. Revenues generated by MTU Maintenance Berlin-Brandenburg, Ludwigsfelde also moved upwards, due to improved revenues from work on stationary industrial gas turbines. Adjusted to eliminate the effect of the U.S. dollar exchange rate, revenues would have decreased overall by roughly 9.9%.

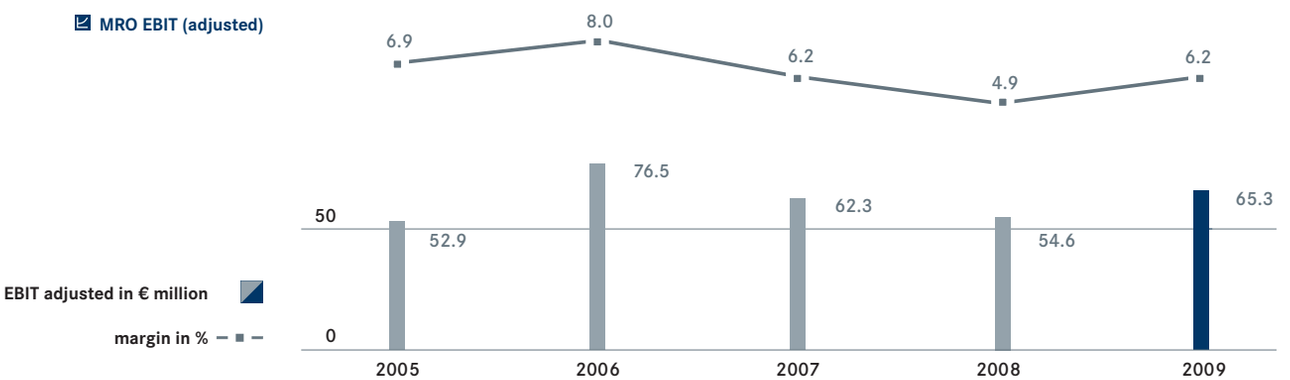
Revenues and EBIT adjusted (MRO)

in € million	Change 2009 - 2008		MRO business 2009	2008	2007
Revenues	-55.4	-5.0%	1,057.6	1,113.0	1,004.7
Cost of sales	75.1	7.4%	-943.0	-1,018.1	-915.6
Gross profit	**19.7**	**20.8%**	**114.6**	**94.9**	**89.1**
Gross margin in %			10.8	8.5	8.9
EBIT adjusted	**10.7**	**19.6%**	**65.3**	**54.6**	**62.3**
EBIT margin adjusted in %			6.2	4.9	6.2

EBIT adjusted and EBIT margin

Adjusted earnings before interest and tax (EBIT adjusted) in the MRO segment increased by € 10.7 million (19.6%) to € 65.3 million, reflecting the stabilization of process costs. The EBIT margin increased correspondingly to 6.2% (2008: 4.9%).

MRO EBIT (adjusted)



3.2. Financial situation

Principles and objectives of financial management

The main objectives of financial management are to ensure the constant availability of adequate liquid reserves, avoid financial risks, and diversify sources of financing in the interests of flexibility. Measures to safeguard liquidity are based on forward financial planning with integrated liquidity planning spanning a period of several years. All consolidated group companies take part in this planning process. The business operations of the operating segments and the resulting cash inflow represent the group's main source of liquidity. Longer-term liquidity forecasts are based on operative planning. Short-to-medium-term forecasts are updated once a month. MTU utilizes cash flow surpluses generated by individual group companies to cover the funding requirements of other companies in the group (cash pooling). This reduces the need for external loans and optimizes net interest expenses. MTU also makes use of a variety of internal and external funding instruments to assure its future liquidity, including long-term financing via pension provisions, the convertible bond with a term to maturity of five years issued in 2007, the raising of four promissory notes in 2009, and credit arrangements covering short-to-medium-term financing needs. These sources of financing are supplemented by off-balance-sheet operating lease agreements. The financing measures introduced by MTU in the financial year 2009 provide the company with a sound basis on which to meet its future financing requirements.

Financing sources:

Financing instruments[1]	Maturity date	Currency	Interest rate
Convertible bond	Feb. 1,2012	Euro	Fixed
Pension obligations	Continuous	Euro	Return on investment for premium fixed-income industrial bonds
Promissory notes	June 5, 2012 / 2014	Euro	Fixed and variable (6-month Euribor rate + margin)
Revolving credit facility (RCF)[2]	Aug. 3, 2012	Euro	Euribor rate + margin
Operating lease agreements	1 – 5 years	Euro/US dollar	Fixed

[1] Financial resources with unlimited availability.
[2] Partially utilized lines of credit (RCF) give MTU wider scope in its financing activities.

Corporate-level departments control financing in accordance with the group structure

The factors considered when choosing financing instruments include flexibility, credit terms, the profile of maturity dates, and borrowing costs. The corporate-level departments control financing in accordance with the group structure. 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 convenants both at December 31, 2009 and at the end of every quarter. Further information on agreed covenants is provided in Note 34. 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 42. to the consolidated financial statements (Risk management and derivative financial instruments), information is provided on MTU's approach to financing and valuation risks, methods used to hedge risks associated with interest rates and foreign currencies, and methods of dealing with price-change, nonpayment and liquidity risks.

The prescribed procedures for dealing with banking policy, the approval of banking relationships, loan agreements, worldwide liquidity and asset management, the management of currency and interest risks and the management of the group's internal cash flow are laid down in the treasury principles. It is a basic principle of the group that its lines of credit are administered at corporate level. Certain of these lines of credit are passed on to affiliated companies and, if necessary in individual cases, guaranteed by the parent company. By centralizing the liquidity management function, the group is in a position to allocate resources efficiently within the organization. As a rule, the group's financial liabilities are not secured by collateral.

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

MTU's credit rating has been monitored by leading rating agencies on a regular basis since 2005

Agencies' ratings

Issuer ratings facilitate access to the international capital markets. Issuer ratings for MTU have been published by the rating agencies Standard & Poor's (S&P) und Moody's since 2005.

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

Comparison of MTU ratings over several years

	2009	Outlook	2008	Outlook	2007	Outlook	2006	Outlook	2005	Outlook
Standard & Poor's										
Corporate	BB+	stable	BB+	stable	BB+	stable	BB+	stable	BB	positive
Convertible bond[1)]	BB+	n/a	BB+	n/a	BB-	n/a	n/a	n/a	n/a	n/a
Moody's										
Corporate	Ba1	positive	Ba1	stable	Ba1	stable	Ba2	positive	Ba2	stable

[1)] Issued on February 1, 2007; for information on the performance of the convertible bond, see Section 3.2. (Financial situation).

Corporate rating

S&P continues to affirm a corporate credit rating for MTU of BB+ with stable outlook, while Moody's rates the company at Ba1 with positive outlook (2008: with stable outlook).

Convertible bond

S&P has been evaluating MTU's convertible bond since June 2007. Its rating in 2009 remains the same as in 2008, namely BB+.

3.2.1. Financial analysis

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

MTU does not expect any significant effects to arise from the level of interest rates nor from possible changes in lending conditions, given the hedging measures initiated in the financial year 2009. A sensitivity analysis of risk concentration based on credit, market and liquidity risks is presented in Note 42. to the consolidated financial statements (Risk management and derivative financial instruments).

The group has not engaged in any transactions involving off-balance-sheet financial instruments, such as the sale of receivables in connection with asset-backed securities, sale-and-leaseback agreements, or obligations toward special-purpose entities not included in the consolidated financial statements, neither in 2009 nor in any prior year. The group does not make use of government grants to meet its financing needs, and does not plan to do so in the future.

As at 31 Dec. 2009, net financial liabilities decreased to a total of € 142.4 million

Net financial liabilities

Net financial liabilities is used as a performance indicator by leading capital market analysts, and is a common reference in MTU's market sector. MTU defines net financial liabilities as the difference between gross financial liabilities and current financial assets. It serves as an indicator of the MTU group's overall liquidity. Total net financial liabilities decreased by € 112.3 million (44.1 %) to € 142.4 million compared with the amount of € 254.7 million reported at December 31, 2008. Factors contributing to this decrease include fair value gains on financial assets and financial liabilities classed as derivative financial instruments, totaling € 41.0 million (2008: fair value losses of € 63.5 million), the settlement of liabilities arising from the retrospective purchase price adjustment, and a significantly higher level of cash and cash equivalents.

The components of net financial liabilities changed as follows in the financial year 2009:

Net financial liabilities

in € million	Change 2009 - 2008		Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Bonds					
Convertible bond	3.5	2.4%	148.9	145.4	167.3
Financial liabilities to banks					
Promissory notes	65.4		65.4		
Revolving credit facility (RCF)	-61.2	-100.0%		61.2	69.6
Other liabilities to banks	-6.7	-31.5%	14.6	21.3	26.5
Finance lease liabilities	-8.2	-24.1%	25.8	34.0	41.7
Loan from the province of British Columbia to MTU Maintenance Canada	1.8	16.2%	12.9	11.1	12.5
Retrospective purchase price adjustment	-15.0	-100.0%		15.0	
Derivative financial liabilities	-36.2	-74.8%	12.2	48.4	8.9
Gross financial debt	**-56.6**	**-16.8%**	**279.8**	**336.4**	**326.5**
less:					
Cash and cash equivalents	50.9	72.8%	120.8	69.9	67.3
Derivative financial receivables	4.8	40.7%	16.6	11.8	35.8
Net financial liabilities	**-112.3**	**-44.1%**	**142.4**	**254.7**	**223.4**

Bonds

The € 180.0 million convertible bond issued in the financial year 2007 is an important financing instrument that serves as a supplement to conventional bank loans. The convertible bond has a par value of € 180.0 million (divided into 1,800 units each with a par value of € 100,000) and a term to maturity of five years. The units of the bond are scheduled for repayment on February 1, 2012 (date of final maturity) at par value plus interest accrued up to that date, unless they are repaid, converted, or repurchased and invalidated prior to the date of final maturity. The units of the bond can be converted into registered non-par value common shares of the company corresponding to a proportionate amount (€ 1 per share) of the company's total share capital.

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

In the period from September 17 to October 31, 2008, MTU repurchased units of its own convertible bond on the market with a total nominal volume of € 27.2 million (approximately 15.1 % of the original nominal volume of € 180.0 million) prior to their final maturity. The average 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. The outstanding units of the convertible bond with a total nominal value of € 152.8 million (2008: € 152.8 million) are recognized at amortized cost. More detailed comments, including the calculation of the equity and liability components of the repurchased units of the bond, are provided in Note 34. (Financial liabilities) to the consolidated financial statements.

Financial liabilities to banks

In 2009, MTU issued four promissory notes for a total nominal note amount of € 65.0 million

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:

Promissory notes

Note amount (nominal) in € million	Maturity date	Type of interest	Interest rate	Interest payment dates
1.5	June 5, 2012	fixed	5.89 %	annual
11.5	June 5, 2014	fixed	7.57 %	annual
27.0	June 5, 2012	variable[1)]	4.70 %	six-monthly
25.0	June 5, 2014	variable[1)]	5.75 %	six-monthly
65.0				

[1)] 6-month Euribor rate plus margin

The cash inflow from the promissory notes was used to reimburse existing liabilities to banks in connection with the revolving credit facility (old RCF). 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.

Other liabilities to banks

At December 31, 2009, MTU had not drawn down any funds under bilateral banking credit facilities (2008: € 61.2 million). The other liabilities to banks amounting to € 14.6 million (2008: € 21.3 million) relate to third-party loans provided to subsidiaries. In total, financial liabilities to banks decreased by € 2.5 million to € 80.0 million (2008: € 82.5 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, is recognized at amortized cost. The change compared with 2008 is mainly attributable to movements in the exchange rate parity between the euro (€) and the Canadian dollar (CAD). The interest-free loan was originally due for repayment on December 31, 2009. However, in a supplementary agreement between MTU Maintenance Canada Ltd., Richmond, Canada, and the province of British Columbia, the lending period was extended by just short of a year, to November 2, 2010.

Retrospective purchase price adjustment

The financial liability amounting to € 15.0 million that was provisionally recognized in 2008 in respect of the retrospective adjustment of the purchase price in favor of Daimler AG was settled in the third quarter of 2009 after completion and evaluation of the tax field audit for the period 2001 to 2003, through payment of € 12.1 million to the beneficiary. The amount of the payment is recognized in cash flow from financing activities. All claims by either party arising from the sale of MTU by Daimler AG are thereby settled. Further explanatory comments are provided in Section 3.1. (Operating results).

80 % of the surplus income denominated in U.S. dollars was covered by hedging transactions in 2009

Derivative financial assets and liabilities

In the financial year 2009, 80 % of the surplus income denominated in U.S. dollars with respect to expenses denominated in U.S. dollars (dollar exposure) was covered by hedging transactions. At December 31, 2009, hedging transactions were in place for the financial years 2010 and 2011 covering 69 % and 34 % respectively of the surplus U.S. dollar income.

The reduction in derivative financial liabilities by € 36.2 million to a total of € 12.2 million (2008: € 48.4 million) mainly related to the fair value measurement of forward foreign exchange transactions used to hedge cash flows and forward commodity sales contracts for nickel.

The currency derivatives item mainly represents the fair values of forward foreign exchange transactions used to hedge cash flows. Derivative financial assets increased by € 4.8 million to € 16.6 million (2008: € 11.8 million) as a result of market-related changes in the exchange rate parity between the euro and the U.S. dollar.

For further details on credit and market risks arising from derivative financial assets and liabilities, please refer to Note 42. to the consolidated financial statements (Risk management and financial derivatives).

Cash and cash equivalents

The cash and cash equivalents of € 120.8 million (2008: € 69.9 million) comprise checks, cash in hand and the balance on current bank accounts.

Relative indebtedness improved to 48.7%

Relative indebtedness

The indicator 'relative indebtedness' represents the ratio of net financial liabilities to EBIT (adjusted to eliminate the effect of nonrecurring items). It improved by 28.2 percentage points to 48.7% (2008: 76.9%) compared with 2008, due to the significant decrease in net financial liabilities due to changes in the fair value of derivative financial instruments, settlement of the retrospective purchase price adjustment, and the increase in cash and cash equivalents.

Relative indebtedness

in € million	Change 2009 - 2008		Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Net financial liabilities	-112.3	-44.1%	142.4	254.7	223.4
EBIT (adjusted)	-38.7	-11.7%	292.3	331.0	312.6
Relative indebtedness (in %)			**48.7**	**76.9**	**71.5**

Borrowing capacity

The group's medium-term flexibility is assured by unused lines of credit amounting to € 72.3 million at the end of the financial year 2009 (2008: € 171.9 million). MTU continuously monitors the need for available lines of credit on the basis of the volume of financial liabilities at any given time as well as future financing requirements.

Any credit actually utilized is subject to interest at the usual market reference rates plus an additional margin. MTU does not expect to see any major changes in lending conditions at the present time. As of December 31, 2009, MTU and its affiliates had met all loan repayment and other obligations arising from financing arrangements. The availability of unused lines of credit increases the scope and flexibility of the group's financing opportunities.

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

3.2.2. Analysis of capital expenditure

Capital expenditure by segment

Capital expenditure in the financial year 2009 amounted to € 143.3 million (2008: € 293.7 million). Of this total amount, € 104.7 million concerned the OEM segmnt (2008: € 260.5 million) and € 38.6 million concerned the MRO segment (2008: € 33.2 million).

Capital expenditure by class of asset

Capital expenditure on assets of all categories was divided up as follows: € 24.6 million (2008: € 193.8 million) on intangible assets, € 115.7 million (2008: € 99.9 million) on property, plant and equipment, and € 3.0 million (2008: € 0.0 million) on financial assets.

Capital expenditure

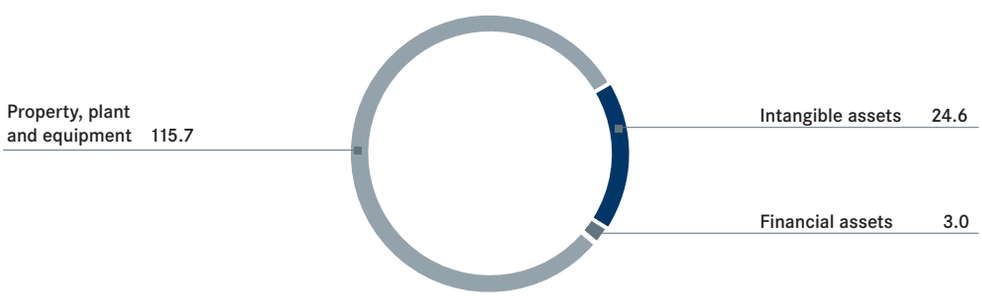
Total capital expenditure decreased to € 143.3 million in 2009

in € million	Change 2009 - 2008		2009	2008	2007
OEM	-168.4	-90.3%	18.0	186.4	9.7
MRO	-0.8	-10.8%	6.6	7.4	4.6
Intangible assets	**-169.2**	**-87.3%**	**24.6**	**193.8**	**14.3**
OEM	9.6	13.0%	83.7	74.1	53.7
MRO	6.2	24.0%	32.0	25.8	32.8
Property, plant and equipment	**15.8**	**15.8%**	**115.7**	**99.9**	**86.5**
OEM	3.0		3.0		5.3
Financial assets[1]	**3.0**		**3.0**		**5.3**
Total capital expenditure	**-150.4**	**-51.2%**	**143.3**	**293.7**	**106.1**

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

The charts illustrate the changes in capital expenditure on assets of all classes:

Capital expenditure and depreciation/amortizion by class of asset 2009 in € million



Capital expenditure on intangible assets

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

MTU's participation in General Electric's GE38 helicopter engine development project has enabled the company to acquire an 18% stake in the engine program for the Sikorsky CH-53K heavy-lift helicopter in 2008. Additional development costs amounting to € 8.3 million (2008: € 2.8 million) arising from this program share in 2009 are included in the intangible assets for the OEM business.

The commercial maintenance business has developed special repair techniques to reduce the cost and increase the efficiency of engine maintenance, and thereby further consolidate its technological and competitive lead. The recognition criteria for these technologies were met in the financial year 2009, allowing capitalized development costs amounting to € 4.8 million (2008: € 3.4 million) to be recognized within intangible assets.

A detailed analysis of capital expenditure on intangible assets, which amounted to a total of € 24.6 million (2008: € 193.8 million) is provided in Note 18. to the consolidated financial statements (Changes in intangible assets, property, plant and equipment, and financial assets).

Capital expenditure on property, plant and equipment

IThe capital expenditure on technical equipment, plant and machinery totaling € 21.9 million (2008: € 14.7 million) relates mainly to the purchase of various CNC lathes and milling machines, vacuum furnaces, and one used engine.

One leased engine owned by the group is furthermore recognized in property, plant and equipment; four engines and one stationary gas turbine were disposed of in the financial year 2009. For the remaining engine, the company may be required to recognize an additional expense at the end of the leasing period if the proceeds from the disposal of the lease asset are lower than the carrying amount. The liabilities arising from all lease assets are recognized at the present value of the minimum lease payments and amortized on a yearly basis.

Additions to advance payments and work in progress in the financial year 2009, totaling € 46.4 million (2008: € 59,8 million) relate to work in progress on technical equipment, plant and machinery for new engine programs at the German sites.

Capital expenditure on property, plant and equipment amounted to € 115.7 million in 2009

A full presentation of capital expenditure on property, plant and equipment is provided in Note 18. to the consolidated financial statements (Analysis of changes in intangible assets, property, plant and equipment, and financial assets).

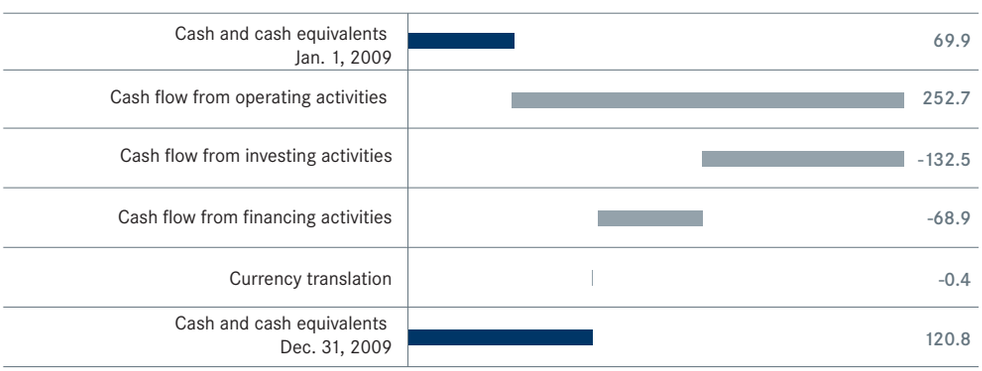
3.2.3. Liquidity analysis

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

Consolidated Cash Flow Statement (abridged)

in € million	Change 2009 - 2008		2009	2008	2007
Cash flow from operating activities	-153.1	-37.7%	252.7	405.8	236.2
Cash flow from investing activities	149.7	53.0%	-132.5	-282.2	-104.5
Free cash flow	**-3.4**	**-2.8%**	**120.2**	**123.6**	**131.7**
Cash flow from financing activities	58.5	45.9%	-68.9	-127.4	-165.8
Translation differences	-6.8	-106.3%	-0.4	6.4	-0.8
Change in cash and cash equivalents	**48.3**		**50.9**	**2.6**	**-34.9**
Cash and cash equivalents at beginning of financial year			69.9	67.3	102.2
Cash and cash equivalents at end of financial year			120.8	69.9	67.3

Cash inflow and outflow 2009 in € million



Cash flow from operating activities

Cash flow from operating activities in 2009 amounted to € 252.7 million, or € 153.1 million (37.7%) lower than the previous year's level of € 405.8 million.

Cash flow from investing activities

Cash flow from investing activities decreased by € 149.7 million (53.0%) to € 132.5 million (2008: € 282.2 million) as a result of the expenditure described in Section 3.2.2. (Analysis of capital expenditure). Cash flow from investing activities includes proceeds from the disposal of assets amounting to € 10.8 million (2008: € 11.5 million).

1 Free cashflow in 2009 amounted to € 120.2 million

Free cash flow

Free cash flow, i.e. cash flow from operating activities less cash flow from investing activities, amounted to € 120.2 million in 2009 (2008: € 123.6 million). In the financial year 2009, the majority of the free cash flow was used to cover the dividend payment of € 45.4 million for the financial year 2008 (€ 46.3 million for the financial year 2007), for repayment of a part of the current liabilities, and to settle the retrospective purchase price adjustment through a payment of € 12.1 million to the beneficiary. Further explanatory comments on the repayment of financial liabilities is provided in Note 34. to the consolidated financial statements (Financial liabilities).

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

Free cash flow

	Change 2009 - 2008		2009		2008		2007	
	€ million	in %	€ million	as % of revenues	€ million	as % of revenues	€ million	as % of revenues
Free cash flow	-3.4	-2.8	120.2	4.6	123.6	4.5	131.7	5.1

At December 31, 2009, the composition of cash and cash equivalents was as follows:

Cash and cash equivalents

in € million	Change 2009 - 2008		Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Balance on current accounts, cash in hand	48.8	133.3%	85.4	36.6	-1.1[1]
Fixed-term and overnight deposits	27.1	326.5%	35.4	8.3	50.8
Securities	-25.0	-100.0%		25.0	17.6
Total cash and cash equivalents	**50.9**	**72.8%**	**120.8**	**69.9**	**67.3**

[1] short-term overdraft

3.3. Net assets

Total assets decreased year-on-year by € 47.0 million (1.5%) to € 3,149.1 million (2008: € 3,196.1 million), while the equity ratio increased as a result of the operating results to 23.2% (2008 19.3%).

Changes in balance sheet items

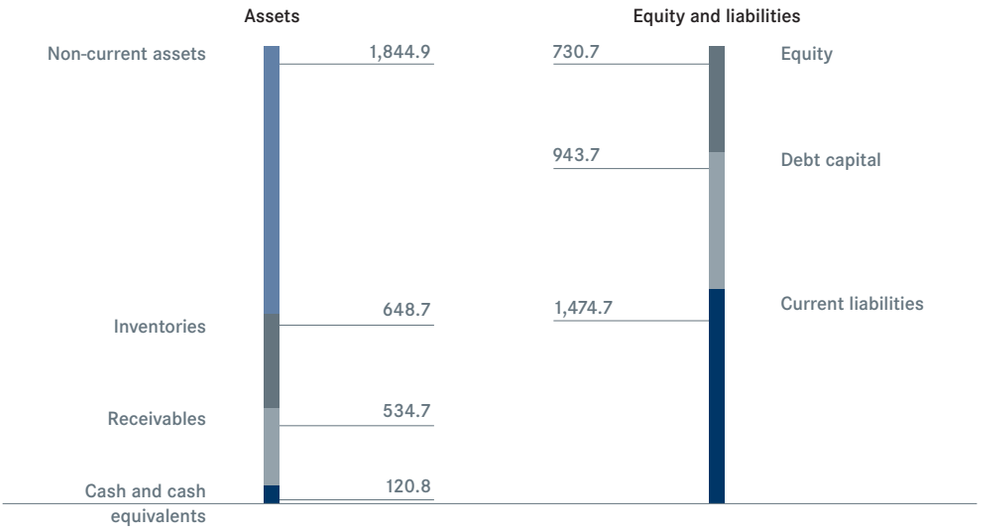
The table below shows an overview of the changes in assets, equity and liabilities, giving separate figures for current and non-current items:

MTU consolidated balance sheet

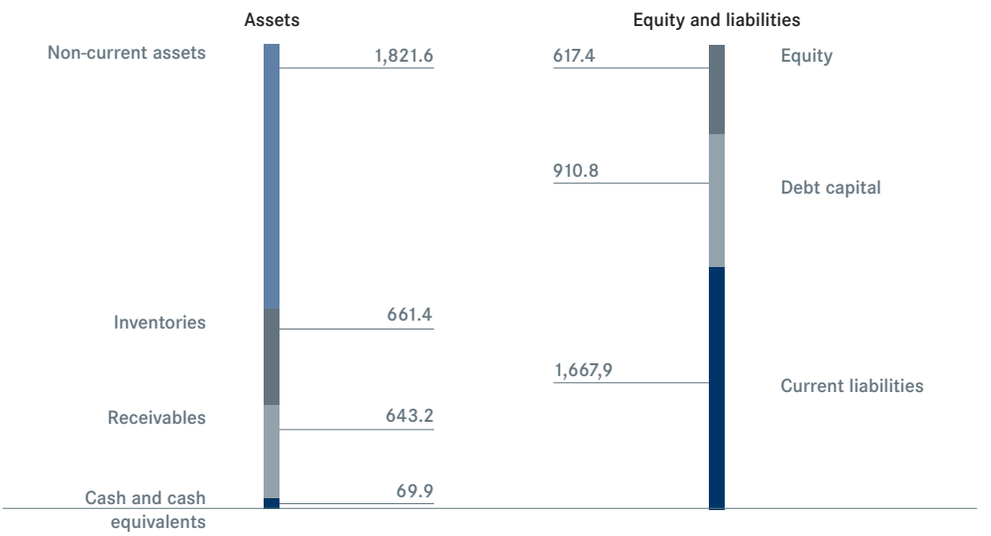
	Change 2009 - 2008		Dec. 31, 2009		Dec. 31, 2008		Dec. 31, 2007	
	€ million	in %	€ million	in %	€ million	in %	€ million	in %
Assets								
Intangible assets and property, plant and equipment	4.9	0.3	1,804.9	57.3	1,800.0	56.3	1,674.7	54.3
Other assets	18.4	85.2	40.0	1.3	21.6	0.7	21.6	0.7
Non-current assets	**23.3**	**1.3**	**1,844.9**	**58.6**	**1,821.6**	**57.0**	**1,696.3**	**55.0**
Inventories	-12.7	-1.9	648.7	20.6	661.4	20.7	587.8	19.0
Receivables[1], construction contract receivables, advance payments and other assets	-108.5	-16.9	534.7	17.0	643.2	20.1	734.1	23.8
Cash and cash equivalents	50.9	72.8	120.8	3.8	69.9	2.2	67.3	2.2
Current assets	**-70.3**	**-5.1**	**1,304.2**	**41.4**	**1,374.5**	**43.0**	**1,389.2**	**45.0**
Total assets	**-47.0**	**-1.5**	**3,149.1**	**100.0**	**3,196.1**	**100.0**	**3,085.5**	**100.0**
Equity and liabilities								
Equity	113.3	18.4	730.7	23.2	617.4	19.3	562.0	18.2
Debt capital								
Provisions	-46.7	-7.8	549.0	17.5	595.7	18.6	614.8	19.9
Liabilities	79.6	25.3	394.7	12.5	315.1	9.9	360.8	11.7
Total debt capital	32.9	3.6	943.7	30.0	910.8	28.5	975.6	31.6
Non-current financing funds	**146.2**	**9.6**	**1,674.4**	**53.2**	**1,528.2**	**47.8**	**1,537.6**	**49.8**
Provisions/income tax liabilities	-0.7	-0.2	296.2	9.4	296.9	9.3	299.1	9.7
Liabilities	-192.5	-14.0	1,178.5	37.4	1,371.0	42.9	1,248.8	40.5
Current financing funds	**-193.2**	**-11.6**	**1,474.7**	**46.8**	**1,667.9**	**52.2**	**1,547.9**	**50.2**
Total equity and liabilities	**-47.0**	**-1.5**	**3,149.1**	**100.0**	**3,196.1**	**100.0**	**3,085.5**	**100.0**

[1] Trade receivables and construction contract receivables

Assets and capital structure 2009 in € million



Assets and capital structure 2008 in € million



Assets

On the assets side, intangible assets and property, plant and equipment increased by a total of € 4.9 million or 0.3% to € 1,804.9 million (2008: € 1,800.0 million). Intangible assets decreased by € 26.7 million, due to the fact that scheduled amortization charges exceeded additions. Property, plant and equipment increased by € 31.6 million as a result of capital expenditure.

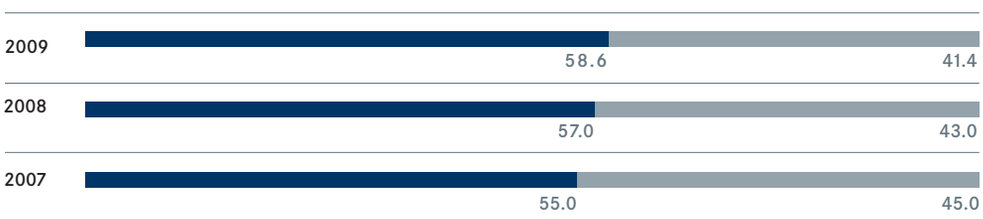
In 2009, inventories fell by € 12.7 million or 1.9% to € 648.7 million (2008: € 661.4 million). Inventories of raw materials and supplies decreased by € 2.7 million to € 308.8 million (2008: € 311.5 million) and work in progress, at € 306.0 million, was € 16.2 million lower than the previous year's amount of € 322.2 million. Advance payments increased by € 6.2 million to € 33.9 million (2008: € 27.7 million). In total, inventories accounted for 20.6% of net assets, virtually unchanged from the 2008 figure of 20.7%. Inventory turnover expressed as a percentage of revenues decreased only slightly from 4.4 to 4.0. Trade receivables, construction contract receivables (after deducting advance payments) and other assets including advance payments decreased year-on-year by € 108.5 million (16.9%) to € 534.7 million. Of these, trade receivables fell by € 69.2 million (15.0%) to € 391.2 million. The basic premises underlying the measurement of the TP400-D6 military engine program for the A400M military transporter had to be entirely reviewed in 2009 due to uncertainties arising from delayed deliveries and the uncertain technical status on the one hand, and the general uncertainty surrounding the future of the program. As the result of the reassessment of the time schedule undertaken by MTU at the end of the year, taking into account all recalculated premises, the amount of construction contract receivables for the TP400-D6 in excess of advance payments received, namely € 51.9 million, was written down and recognized in the income statement. More detailed explanatory comments concerning the remeasurement of the engine program are provided in Note 5.22. (Discretionary scope, measurement uncertainties and sensitivity) and in Note 33. (Other provisions) to the consolidated financial statements. In total, construction contract receivables, net of the corresponding advance payments, shrank by € 40.5 million (29.2%) compared with the previous year to € 98.4 million.

A valuation allowance on trade receivables was recognized in respect of the TP400-D6.

Cash and cash equivalents amounted to € 120.8 million (2008: € 69.9 million) at the balance sheet date. Expressed as a percentage of total assets, this item thereby increased to 3.8% (2008: 2.2%).

In terms of the structure of assets, the proportion of non-current assets increased by 1.6 percentage points to 58.6% (2008: 57.0%). The chart below compares the relative proportions of current and non-current assets at the end of 2009 and the two previous years:

Structure of assets in %



Group equity

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

Changes in group equity

in € million	2009	2008	2007
Equity at January 1	**617.4**	**562.0**	**562.3**
Other comprehensive income			
Change in fair value of derivative financial instruments	14.2	-29.1	2.1
Translation differences	-2.3	3.4	-3.6
Earnings after tax (EAT)	141.0	179.7	154.1
Equity portion of convertible bond		-1.3	11.7
Dividend payment to shareholders of MTU Aero Engines Holding AG	-45.4	-46.3	-43.6
Purchase of treasury shares		-56.4	-113.6
Capital reduction due to retirement of treasury shares			
Capital reduction		-3.0	
Transfer to capital reserves		-101.4	
Transfer from reserves for treasury shares		104.4	
Valuation and sale of treasury shares under the Matching Stock Program (MSP)	1.4	0.5	-7.4
Sale of treasury shares under the employee stock option program (MAP)	4.4	4.9	
Equity at December 31	**730.7**	**617.4**	**562.0**

Group equity increased by € 113.3 million as at 31 Dec. 2009 to a total of € 730.7 million

Positive changes in group equity

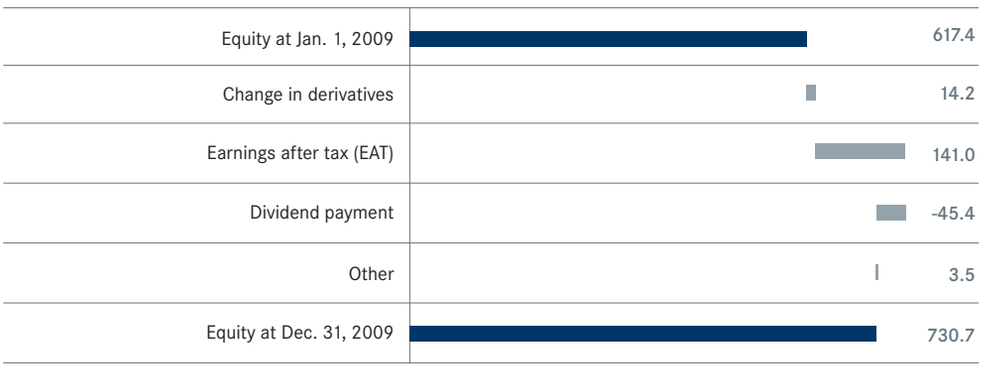
The overall increase in group equity in 2009 of € 113.3 million (2008: increase of € 55.4 million) is mainly attributable to the earnings after tax (EAT) generated in the financial year, which amounted to € 141.0 million (2008: € 179.7 million). Individual positive changes in equity include an amount of € 1.4 million relating to the fair value measurement of the Matching Stock Program (MSP) share-based payment scheme and an amount of € 4.4 million relating to shares sold to employees under the MAP stock option program. A more detailed description of the components of the share-based payment arrangements is provided in Note 30.4. to the consolidated financial statements (Capital reserves). A further positive change in group equity was the amount of € 14.2 million from fair value gains on cash flow hedges (2008: negative change of € 29.1).

Negative changes in group equity

Negative changes in group equity include an amount of € 45.4 million for the dividend payment to shareholders of MTU Aero Engines Holding AG, Munich for the financial year 2008 (€ 46.3 million for the financial year 2007) and the negative balance of currency translation differences recognized in equity amounting to € 2.3 million (2008: positive balance of € 3.4 million), which is mainly attributable to MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China.

The following chart illustrates the changes in group equity in the financial year 2009:

Changes in group equity 2009 in € million

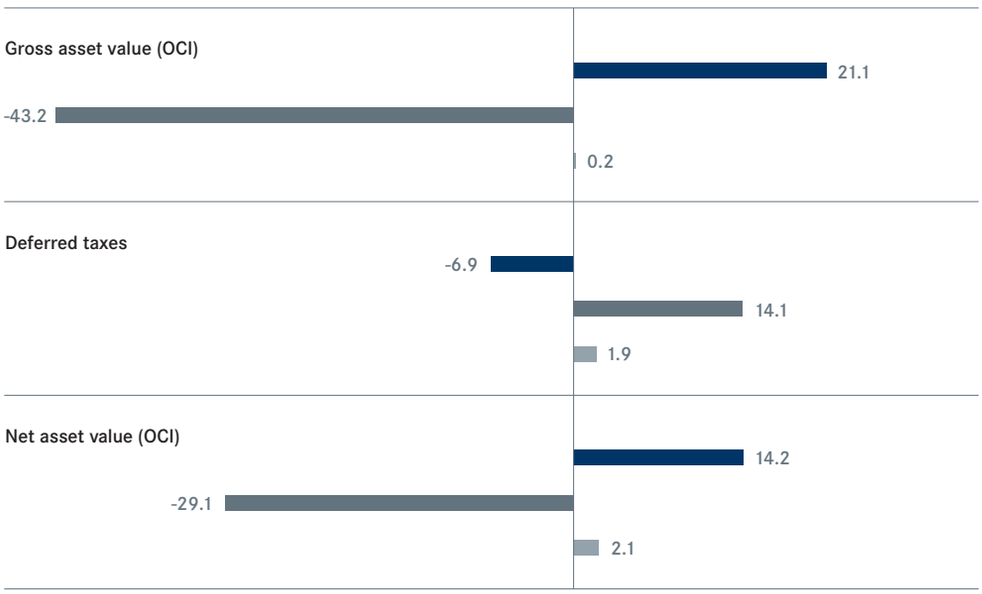


Changes in the fair value of derivative financial instruments recognized under other comprehensive income (OCI)

At December 31, 2009, the nominal amount of the outstanding portfolio of hedging instruments classified as cash flow hedges in accordance with IAS 39 amounted to U.S. $ 700.0 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 2009, based on the €/USD exchange rate of 1.44 prevailing at the balance sheet date, resulted in a positive change in the fair value recognized under other comprehensive income (OCI) of € 14.2 million compared with December 31, 2008. In the previous year, the measurement based on the €/USD exchange rate of 1.39 prevailing at the balance sheet date had resulted in a negative change in the fair value recognized under OCI of € 29.1 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).

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

Change in fair value in € million



The positive change in the fair value of cash flow hedges in 2009 resulted in an increase of € 14.2 million in the fair value of the net assets (after deduction of taxes) recognized under other comprehensive income (OCI), whereas in 2008 the fair value of these net assets had been reduced by € 29.1 million.

Medium- to long-term debt capital increased in 2009 to € 943.7 million

Financial debt

Medium- to long-term debt capital increased by € 32.9 million (3.6%) to € 943.7 million. Their proportion of total equity and liabilities rose by 1.5 percentage points to 30.0% (2008: 28.5%). This figure includes pension provisions amounting to € 389.9 million (2008: € 371.7 million), which had increased as expected by € 18.2 million (4.9%). In particular, delays in the delivery of engines had an impact on the measurement of contingent liabilities for certain engine programs in the financial year 2009. Due to the significant change in the schedule of payments, income of € 70.5 million was recognized in the income statement for the engine programs in question in the financial year 2009, in addition to the utilization of other provisions. Effects of price escalations were taken into account when measuring contingent liabilities due to the delay in engine production corresponding to the increases in output stipulated each year by the engine consortium. Furthermore, the change in the interest rate applied to discount non-current obligations, which was recognized in the financial result, had an impact on related earnings. Non-current provisions were reduced to € 159.1 million (2008: € 224.0 million) at December 31, 2009, 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 33. to the consolidated financial statements (Other provisions).

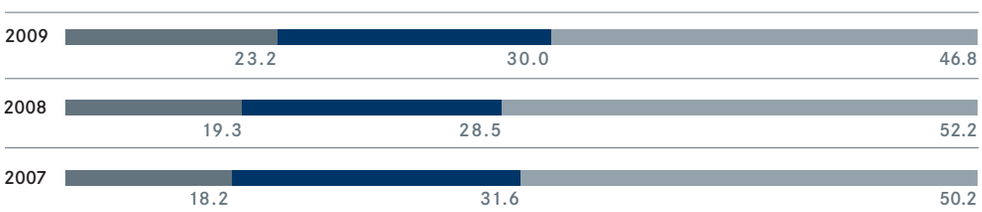
Non-current liabilities totaling € 394.7 million (2008: € 315.1 million) principally comprise financial liabilities amounting to € 93.8 million (2008: € 58.9 million), and deferred tax liabilities amounting to € 266.9 million (2008: € 227.6 million).

Non-current financing funds increased in the financial year 2009 to € 1,674.4 million

Non-current (i.e. medium- and long-term) financing funds increased in the financial year 2009 by € 146.2 million (9.6%) to € 1,674.4 million (2008: € 1,528.2 million). This means that 90.8% (2008: 83.9%) of the company's non-current assets are matched by financing funds available on a medium- to long-term basis.

Current (i.e. short-term) financing funds decreased by € 193.2 million (11.6%) to € 1,474.7 million, including a reduction in provisions and income tax liabilities of € 0.7 million (0.2%) to € 296.2 million. These provisions include pension provisions amounting to € 21.7 million (2008: € 18.5 million). Current liabilities decreased by € 192.5 million (14.0%) to € 1,178.5 million. These include obligations towards employees totaling € 37.2 million (2008: € 40.6 million), financial liabilities amounting to € 186.0 million (2008: € 277.5 million), trade payables amounting to € 320.9 million (2008: € 495.7 million), accounts payable for construction contract after deduction of the corresponding receivables amounting to € 607.0 million (2008: € 520.6 million), and sundry other identifiable obligations. Current provisions have remained virtually unchanged. On account of uncertainties arising from delivery delays and the uncertain technical status on the one hand, and the general uncertainty surrounding the future of the program, all basic premises underlying the measurement the TP400-D6 engine program had to be reassessed in the financial year 2009. As a result, a provision over and above the carrying amount of the construction contract receivables was recognized in the income statement. Detailed comments on the risks and uncertainties linked to the TP400-D6 engine program are presented in Note 33. to the consolidated financial statements (Other provisions). The chart below shows a comparison of the relative proportions of equity, non-current and current financing funds in 2009 and the two previous years:

Structure of equity and financial debt in %



Within the structure of equity and financial debt, the equity ratio increased by 3.9 percentage points to 23.2% (2008: 19.3%) compared with the previous year, while current liabilities decreased by 5.4 percentage points. Overall, there has been a shift in the structure away from current and towards long- and medium-term financing funds.

The ratio of net financial liabilities to equity (gearing) improved by 21.8 percentage points

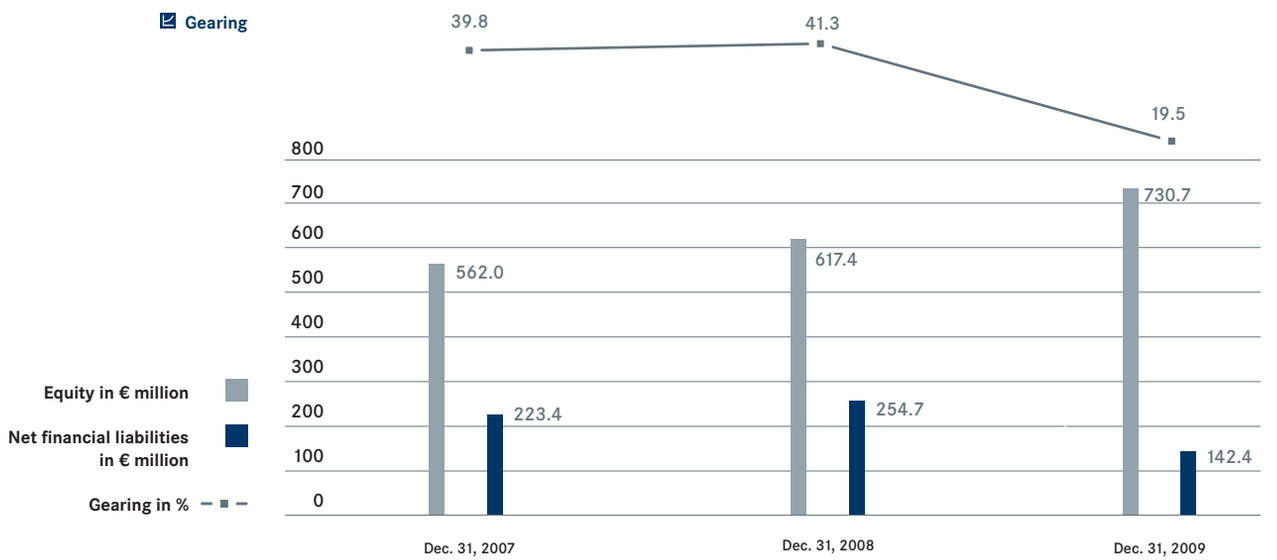
Gearing

The ratio of net financial liabilities to equity (gearing) dropped by 21.8 percentage points to 19.5% (2008: 41.3%). While net financial liabilities decreased by a total of 44.1% compared with the previous year (€ 112.3 million), principally as a result of the reduction in liabilities arising from derivative financial instruments (€ 36.2 million) and the increase in cash and cash equivalents (€ 50.9 million), equity increased by 18.4% (€ 113.3 million) relative to the previous year.

Gearing (Ratio of net financial liabilities to equity)

in € million	Change 2009 - 2008		Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Net financial liabilities	-112.3	-44.1%	142.4	254.7	223.4
Equity	113.3	18.4%	730.7	617.4	562.0
Gearing (in %)			**19.5**	**41.3**	**39.8**

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



3.4. Value added statement

The value added statement reflects the wealth created by MTU in the course of the financial year after deduction of purchased materials and services. The net method of calculating value added considers depreciation/amortization, cost of materials and other expenses as purchased materials and services. Under the incomes received method, the part of the value creation process attributable to each party is made visible. The gross value added method regards depreciation/amortization as a component of the value chain, which would otherwise be accounted for as internal financing under the incomes received method.

Net value added increased in 2009 to € 739.2 million

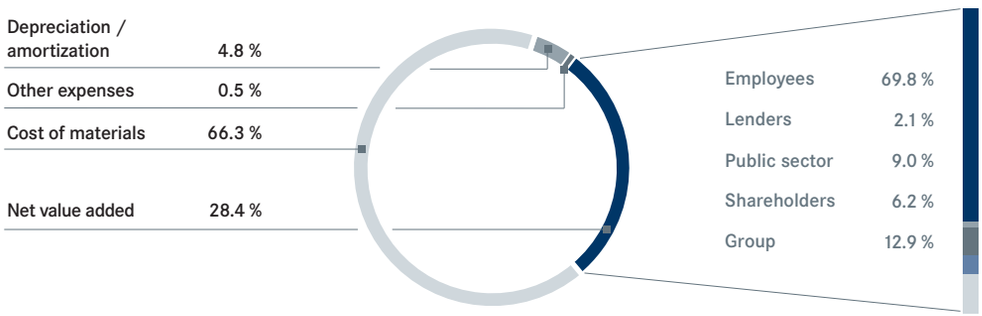
In 2009, MTU's gross value added decreased by 1.5% to € 865.6 million (2008: € 878.4 million). This decrease compared with 2008 is mainly attributable to the reduction in revenues of € 113.5 million, against which it was necessary to offset a corresponding reduction in the cost of purchased materials and services amounting to € 77.5 million. On balance, the decrease in the cost of purchased materials and services was more pronounced than the decrease in value created by company activities. This had a positive impact on gross value added. Depreciation and amortization expenses fell by € 33.8 million. As a result of this effect, net value added increased by 2.9% to € 739.2 million (2008: € 718.2 million).

The company's employees were the beneficiaries of the major part of the net value added, namely 69.8% (2008: 70.1%). The portion received by lenders fell by 0.3 percentage points to 2.1% (2008: 2.4%). The public sector received 9.0% (2008: 2.5%), including deferred tax liabilities. The shareholders' portion of the net value added was slightly lower than the previous year's level, at 6.2% (2008: 6.3%). The remaining 12.9% (2008: 18.7%) of the net value added has been retained by the group for the financing of future business activities.

MTU value added statement

	Change 2009 - 2008		2009		2008		2007	
	€ million	in %	€ million	in %	€ million	in %	€ million	in %
Value creation								
Revenues	-113.5	-4.2	2,610.8	100.0	2,724.3	100.9	2,575.9	100.2
Financial income/expense (-)	1.7	4.1	-39.5	-1.5	-41.2	-1.5	-16.5	-0.6
Other income	21.5	120.1	39.4	1.5	17.9	0.6	10.8	0.4
Value created by company activities	**-90.3**	**-3.3**	**2,610.7**	**100.0**	**2,701.0**	**100.0**	**2,570.2**	**100.0**
Cost of materials	-34.5	-2.0	1,731.5	66.3	1,766.0	65.4	1,691.7	65.8
Other expenses	-43.0	-76.0	13.6	0.5	56.6	2.1	39.8	1.6
Purchased materials and services	**-77.5**	**-4.3**	**1,745.1**	**66.8**	**1,822.6**	**67.5**	**1,731.5**	**67.4**
Gross value added	**-12.8**	**-1.5**	**865.6**	**33.2**	**878.4**	**32.5**	**838.7**	**32.6**
Depreciation / amortization	-33.8	-21.1	126.4	4.8	160.2	5.9	149.6	5.8
Net value added	**21.0**	**2.9**	**739.2**	**28.4**	**718.2**	**26.6**	**689.1**	**26.8**
Distribution								
Employees	12.8	2.5	516.0	69.8	503.2	70.1	470.9	68.3
Lenders	-1.5	-8.7	15.7	2.1	17.2	2.4	38.8	5.7
Public sector	48.4	267.4	66.5	9.0	18.1	2.5	25.3	3.7
Shareholders	0.1	0.2	45.5	6.2	45.4	6.3	47.2	6.8
Group	-38.8	-28.9	95.5	12.9	134.3	18.7	106.9	15.5
Net value added	**21.0**	**2.9**	**739.2**	**100.0**	**718.2**	**100.0**	**689.1**	**100.0**

MTU value added statement 2009 in %



3.5. Major events affecting business performance

Earnings for the financial year 2009 were not affected by any significant nonrecurring factors. Fluctuations in the U.S. dollar exchange rate, and its more recent recovery, did not have a significant impact due to the fact that MTU had hedged the larger part of its U.S. dollar surplus with the aid of forward currency transactions.

3.6. Comparison of actual and forecast business performance

In the comparison of actual and forecast business performance, actual revenues were € 189.2 million lower than the forecast made in the early part of the financial year. The cause of this was the deterioration of the exchange rate parity between the U.S. dollar and the euro in the course of the financial year 2009. Compared with the revised forecast issued on October 26, 2009, actual revenues of € 2,610.8 million exceeded expectations by a slight 0.4%. Despite the unfavorable development of exchange rate parities in the course of the business year, operating profit (EBIT adjusted), at € 292.3 million, either met or exceeded the forecasts, as did the adjusted EBIT margin which reached 11.2%. As a result of the good operating results, earnings after tax (EAT) also exceeded the forecast by 0.7% to reach € 141.0 million. Free cash flow in the financial year 2009 amounted to € 120.2 million, which is 20.2% higher than was predicted.

Forecast and actual results

in € million	Actual 2009	Forecast at Oct. 26, 09	Forecast at March 23, 09	Actual 2008	Actual 2007
Revenues	2,610.8	2,600	2,800	2,724.3	2,575.9
EBIT adjusted	292.3	290	280	331.0	312.6
EBIT margin adjusted (in %)	11.2	11	10	12.1	12.1
Earnings after tax (EAT)	141.0	140	140	179.7	154.1
Free cash flow	120.2	100	80 - 100	123.6	131.7

Revenue forecast

In the outlook for 2009 presented by the Board of Management in the Annual Report 2008, it was anticipated that it would be possible to generate revenues on a slightly higher level than in 2008 (€ 2,724.3 million), based on an expected U.S. dollar exchange rate of 1.35 to the euro.

In its third-quarter interim report issued on October 26, 2009, MTU published a revised full-year estimate of the revenues it expected to generate in 2009, with a forecast of € 2,600 million. The main reason for this lower forecast was the deterioration in the exchange rate parity between the U.S. dollar and the euro. At year-end, MTU had exceeded this forecast by approximately 0.4%, having generated revenues of € 2,610.8 million.

Earnings forecast for operating profit (EBIT adjusted)

During the presentations on September 30, 2008 in connection with the publication of the third-quarter interim report, MTU forecast that operating profit (EBIT adjusted) would rise 3.6% higher than the originally planned result to € 290.0 million, producing an operating margin of 11.0%. This forecast was moderately exceeded, with a year-end EBIT adjusted of € 292.3 million.

Earnings after tax (EAT) amounted to € 141.0 million, which was slightly higher than expected

Earnings forecast for earnings after tax (EAT) / net income

The forecast presented by the Board of Management in the Annual Report 2008 expected earnings after tax (EAT/net income) in the financial year 2009 to amount to around € 140 million, on condition that it would not be necessary to take significant measures involving derivatives to reduce exposure to U.S. dollar exchange rate risk. This forecast was reaffirmed in the third-quarter interim report at September 30, 2009. At December 31, 2009, earnings after tax (EAT) actually amounted to € 141.0 million. This was slightly higher than expected, and based on the achieved operating results resulting from a good business performance.

Free cash flow

Free cash flow in 2009 was forecast to lie in the region of € 80 to 100 million, both in the group management report in the Annual Report 2008 and again in the third-quarter interim report at September 30, 2009. The actual result of € 120.2 million for the financial year 2009 was higher than expected, and due to a stable business performance.

Other disclosures

MTU has not engaged in any transactions such as sale-and-leaseback agreements, factoring, ABS structures of transactions in or with non-consolidated special-purpose entities (SPEs). For information on discretionary decision-making with respect to the use of accounting and measurement methods and necessary estimates, see Note 5.22. (Discretionary scope, measurement uncertainties and sensitivity) and Note 41. (Sensitivity analysis of goodwill) to the consolidated financial statements.

3.7. Overall assessment of business performance 2009

2009 was marked by the worst economic crisis since the end of the Second World War. The global economy shrank by 2.2%, passenger air traffic by 3.5% and the volume of air freight by as much as 10.1%. In this economic climate, MTU's revenues decreased by 4.2% (or 8.2% if the effect of the U.S. dollar exchange rate is eliminated). Operating profit fell to € 292.3 million (2008: € 331.0 million). This reflects not only the effect of the weaker market but also additional expenditure on new engine programs, and hence active measures to safeguard the company's future. Despite all of these negative factors, MTU nevertheless produced an operating margin of over 11%. Free cash flow has once again developed very positively, reaching around € 120 million, which has helped to further reduce net financial liabilities. Overall, the group's performance indicators surpassed the forecasts made in the course of the year.

4. Subsequent events

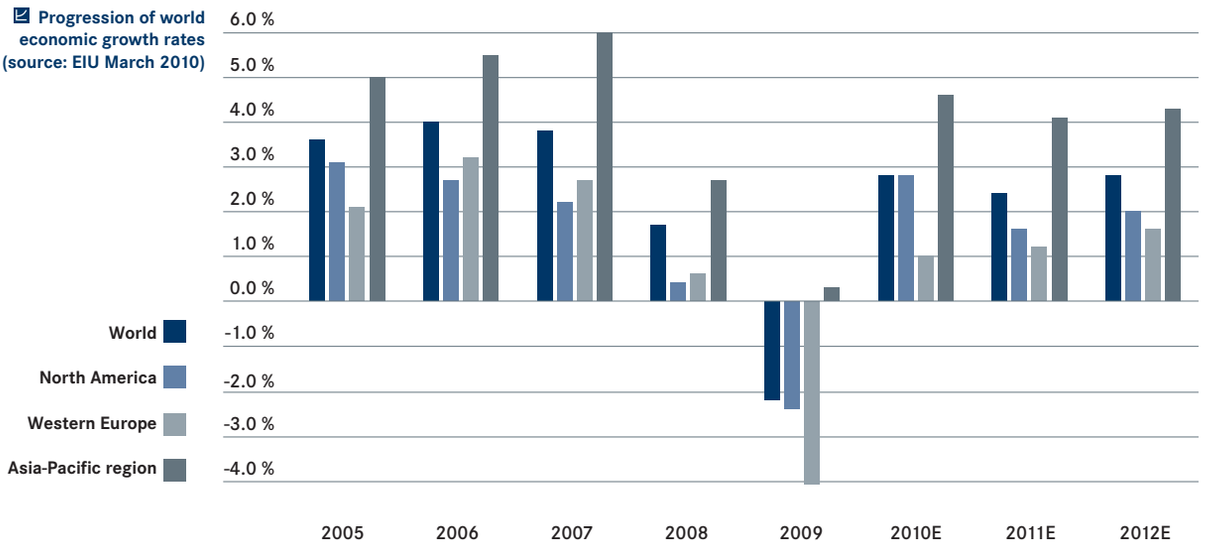
No events of material importance with any significant impact on the financial situation, net assets or operating results of the MTU group occurred after the end of the reporting period.

5. Forecasts

5.1. General economic climate

Despite all the aid given by governments, the economic recovery is bound to be hesitant. In the opinion of the Economist Intelligence Unit (EIU), the global economy is set to grow by 2.8% in 2010, while the International Monetary Fund (IMF) forecasts growth of 2.4%. Further, the EIU predicts economic growth of 2.4% in 2011 and 2.8% in 2012.

Progression of world economic growth rates (source: EIU March 2010)



Growth in industrialized countries expected to be sluggish in 2010 and 2011

The recovery is unlikely to be uniform, with the developed economic regions growing only sluggishly. For North America, the EIU is expecting the following scenario: growth in 2010 should reach 2.8%, falling back again to just 1.6% in 2011 as the effect of government stimulus measures wears off. The economy is then forecast to pick up again slightly in 2012, posting growth of 2.0%. The recovery in western Europe is predicted to be weaker overall, but less erratic than in North America, with growth rates of between 1.0 and 1.6% in the period 2010 to 2012.

The forecasts for newly industrializing nations are quite diverse. Not surprisingly, Asia – led by China and India – is expected to be the world's fastest growing economic region, with average growth rates of 6 to 7%. The mean growth rate for the Asia-Pacific region as a whole is expected to be close to 4% per annum. The recovery already suggests that the shift in world economic power from the developed economies to the strongest among the newly industrializing countries will accelerate as a result of the current crisis.

After dropping from 5.9% to 1.5% in 2009, economic growth in the Middle East is expected to pick up pace again over the next few years, reaching 4 to 5%, albeit only in the oil-producing countries of the Gulf region.

Expected development of key economic indicators

	Source	2008	2009	2010E	2011E	2012E
GDP growth, world	EIU, Dec. 09	1.7%	-2.2%	2.8%	2.4%	2.8%
	IMF World Economic Outlook, Oct. 2009	1.8%	-2.1%	3.0%	3.4%	

5.2. Industry-specific developments in the aviation sector

Analysts concur that, in the medium term, growth in air traffic and in the demand for aircraft is likely to track the general economic trend, being both slow and varying from region to region. Forecasts by IATA in December 2009 and Airline Monitor in February 2010 see an increase of 4.5% and 3% respectively in passenger traffic in 2010, while freight traffic will do better in IATA's estimate, with a plus of 7%. Recovery in the U.S. and Europe, as well as on the trans-Atlantic routes, will be below the average, whereas the Asia-Pacific region will gather pace much faster and grow more strongly. Middle Eastern airlines look set to profit again from the upward swing in long-haul traffic.

Both IATA and Airline Monitor are predicting a 2% rise in aviation capacity for 2010, a figure below that for air traffic volume. The reason for this discrepancy is that airlines will likely ratchet up load factors for both passengers and freight in an effort to improve their profit margins. With annual aircraft production rates currently equivalent to 6% of the total fleet in service, more phase-outs are to be expected. Demand for engine maintenance and repair work (spare parts and overhaul) for older aircraft models with high fuel consumption therefore looks set to decline in 2010, though it should for the most part remain constant for modern aircraft.

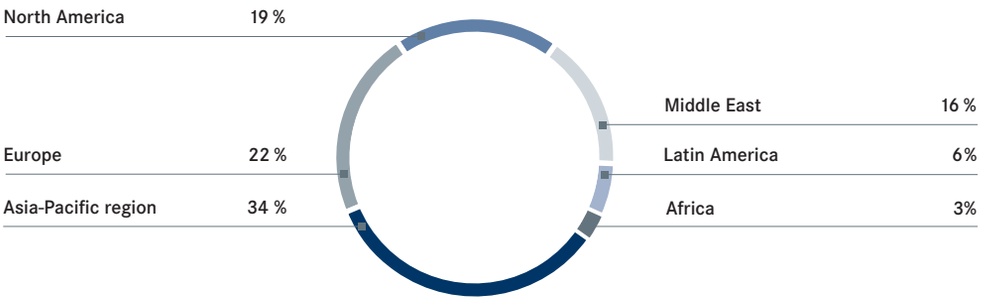
A recovery by the industry to levels seen in 2008 is not expected until 2011

Neither traffic volume nor airline profits are expected to reach the levels of 2008 again until 2011. For the aviation industry as a whole, IATA predicts revenues of U.S. $ 478 billion in 2010 – which would equate to an increase of 4.8% compared with 2009 – and a net loss of U.S. $ 5.6 billion.

Although the difficult financial situation of airlines will probably keep orders for new aircraft at low levels in 2010, aircraft deliveries have been hardly affected to date. Airbus and Boeing have decided to keep production of their short- and medium-haul aircraft (the A320 and 737 families) at the customary levels in 2010, the reason being the size of the order backlog, which is large enough to offset both cancellations and postponements. Production of long-haul airliners is likely to fall off slightly overall. While output of the Boeing 777 is expected to decline, higher production rates are expected for Airbus 380 and 330 aircraft.

Despite weak traffic figures, airlines' financial troubles and relatively high financing costs, two factors support the current delivery rates. Firstly, 50% of all orders have been placed by airlines from the Asia-Pacific belt or the Middle East, regions which are recovering faster and more robustly than the rest of the world's economies. Secondly, fuel prices are forecast to remain high, which will encourage the replacement of older aircraft with new, fuel-efficient models.

Order backlog for Airbus and Boeing series production by region (orders for 6,200 aircraft in total, source: Airclaims' CASE)



Since the dramatic slump in March 2009, the business jet sector has been steadily picking up, with UBS analysts assuming an improvement of 6 - 8% in 2010 compared with the previous year. The outlook for aircraft manufacturers has also brightened, given that the number of used aircraft being offered for sale has stopped growing. Taking these leading indicators into account, we can reasonably expect deliveries to continue falling in 2010 as surplus capacity is pared back. Production rates will probably not respond to the more positive environment until 2011.

The current economic crisis will not alter the long-term growth pattern however. The industry as a whole should find itself on the up and up again before too long, although not all regions will grow again at the same pace. North America and Europe may indeed have reached saturation point, but the current outlook for China and India is one of burgeoning growth. Overall, the next two decades should see average annual growth rates of around 4.7% p.a.

5.3. Opportunities for MTU

Opportunities presented by changes in the operating environment

Entrepreneurial activities in general, not least in view of the variety of business transactions involving partnerships and consortia especially in the U.S., give rise to risks and opportunities that can influence economic development. In order to identify major risks and opportunities in advance and successfully control them, MTU has a risk management system (RMS) in place. Risk management forms an integral part of all the group's decision-making and business processes, helping to ensure the company's sustainable success in the future.

Future-oriented investments strenthen MTU's leadership position in technology and innovation

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 MTU to expand its position within risk- and revenue-sharing partnerships and to participate in lucrative new engine programs.

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

Opportunities presented by the company's business performance
In the financial year 2009, the strength of the euro inhibited the growth of MTU's revenues. An improvement in the exchange rate parity between the euro and the U.S. dollar would lead to a modest improvement in MTU's earnings situation. If energy prices were to stabilize or even retreat to a lower level, and if commodity prices were to fall, this would have a positive effect on MTU's cost structure and hence on its future business results.

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

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

5.4. Future development of MTU

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

It is difficult to assess the possible effects of the global financial and economic crisis. The statements below are based on the knowledge available at the beginning of 2010 and possess a significantly higher degree of uncertainty than forecasts made in previous years.

EBIT adjusted and free cash flow constitute the financial indicators of corporate management

No change in controlling indicators
EBIT adjusted and free cash flow constitute the two tried-and-tested performance indicators by which MTU controls and measures its success as a corporation, both today and in future. These indicators direct MTU's focus towards growth and the generation of cash. The first of these performance indicators concentrates on growth, the goal being to generate sufficient revenues to ensure growth in profits. The primary indicator of the company's ability to transform higher revenues into higher profits is the adjusted EBIT margin, which is measured and reported for each operating segment. The company's targets in terms of these performance indicators are described in Section 5.4.1. (Outlook for 2010) and Section 5.4.2. (Outlook for 2011).

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 revenues in the decades to come. The company estimates the market volume of these programs to be worth a total of approximately € 25 billion over their entire projected lifetime.

The effects of the global financial and economic crisis in their myriad forms were what shaped the financial year 2009, and the MTU group's success in 2010 will hinge largely upon how quickly and lastingly the economy recovers and, as a result, how the economic situation of the airlines – our end customers in the commercial sector – improves.

In the coming financial years, the company will be looking to drive forward development of the geared turbofan for new engine programs and get volume production of the turbine center frame for the GEnx engine firmly established. At the present time it is not possible to assess how the company may be affected by any decisions taken regarding a re-engineering program for the Airbus A320.

5.4.1. Outlook for 2010

Targets

MTU's targets for the financial year 2010 are as follows:

Outlook 2010

in € million	Forecast 2010	Actual 2009
Revenues	stable	2,610.8
Earnings before interest and tax (EBIT adjusted)	stable	292.3
Earnings after tax (EAT)	stable	141.0
Free cash flow	~100	120.2

Business performance expected to remain stable in 2010

Although the U.S. dollar exchange rate could possibly be weaker this year, the company expects revenues to remain at levels similar to those in 2009. The company's outlook for the financial year 2011 is presented in Section 5.4.2. (Outlook for 2011). Both 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 revenue unchanged, 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 future sales markets in subsequent financial years. More details on this subject can be found in Section 1.1. (Business activities and markets) of this group management report, while more information on the geographical areas in which MTU operates is provided in the notes to the consolidated financial statements, in the part dealing with segment reporting.

Revenues by operating segment

The revenue forecasts for the commercial and military engine business (OEM) and the commercial maintenance business in the financial year 2010 are based on the following assumptions:

- Compared with the financial year 2009, MTU expects revenues from the volume production of commercial engines and from spare parts sales to remain stable. This assumption is underpinned by the rollout of the GEnx engine for the Boeing 787 and 747-8 aircraft, rising revenues from the GP7000 program for the Airbus A380, combined with declining revenues from older programs and in the business jet sector. Identified risks relate particularly to the possibility of further delays in the Boeing 787 and 747-8 aircraft programs and of more extensions to the delivery schedule for the Airbus A380.
- In 2010, the military side of the OEM business can again expect to generate revenues in the order of approximately € 500 million.
- Revenues in the commercial maintenance business are expected to remain stable in 2010. Demand for maintenance services can be expected to rise again slightly in the course of the year in the wake of economic recovery.

Operating profit

For 2010, MTU is expecting an operating profit (EBIT adjusted) at roughly the same level as in 2009. Compared with 2009, the 2010 result will be negatively impacted by a slight rise in development expenditure – especially in connection with the geared turbofan programs. This will be compensated by cost savings resulting from the Challenge 2010 improvement program. The prospecitive impact of Challenge 2010 is discussed in Section 1.3.1. (Strategy).

Earnings after tax (EAT)

Earnings after tax (EAT) for the financial year 2010 are similarly expected to remain close to the 2009 level. The main determining factors here, alongside the expected operating profit, are the high level of estimation uncertainty attached to the U.S. dollar exchange rate and the price of nickel at the balance sheet date, used to measure the fair value of the corresponding hedging instruments, and the effects of discount rates and interest-rate changes on contingent liabilities, which will affect the financial result.

Free cash flow

In the financial year 2010, the company expects a free cash flow in the order of € 100 million.

MTU adheres to its policy of continuity in dividend payments

Dividend payment

After maintaining the dividend for the financial year 2008 at the same level as in 2007 (€ 0.93 per share), the Board of Management will again propose an identical dividend to the Annual General Meeting for the financial year 2009, thus adhering to its policy of continuity in dividend payments. Investors can expect the MTU share to yield a substantial return, not only in 2010 but also in future years. Consequently, MTU intends to maintain its policy of stable dividends, depending on the net profit the company has available for distribution under the provisions of the German Commercial Code.

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

Dividend paid

	2010[1]	2009	2008	2007	2006
Dividend paid per share, in €	0.93	0.93	0.93	0.82	0.73

[1] Board of Management's proposal to the Annual General Meeting

Capital expenditure and funding resources

In addition to final investments in the new site in Poland, capital expenditure in the financial year 2010 is earmarked mainly for building up production capacity for the GEnx program as well as for special operating equipment required for the geared turbofan programs. The capitalized development costs for the GEnx and GE38 engine programs in the financial year 2010 are likely to be about the same as in 2009.

The structure of the company's funding resources should remain unchanged in 2010. 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. The explanatory comments in Section 3.2.1. (Financial analysis) of this group management report provide further information on these unutilized funding options.

MTU hedges against the risk of price changes for commodities and the U.S. dollar

Development of prices and costs

MTU is not expecting the prices and conditions prevailing in its procurement and sales markets to change substantially. In order to reduce the risk of price changes, MTU has concluded hedging agreements for commodities and U.S. dollar cash flows – described more fully in Section 6. (Risk report) and in Note 42. to the consolidated financial statements (Risk management and derivative financial instruments) – and made contractual agreements with suppliers.

Legal structure

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

Employees

MTU expects the size of its workforce in 2010 to remain much the same as in 2009.

5.4.2. Outlook for 2011

Revenues

For the financial year 2011, the company expects both the world economy and the aviation sector to return to their previous long-term growth rates. Based on IATA's medium-term forecasts, MTU's revenues would be expected to grow by around 5% from the level of 2010.

Operating profit

As an operating result level (EBIT), MTU continues to forecast a high level of development expense and growing series business volumes for the GEnx and GP7000 programs. The Group therefore expects business performance to remain stable in the financial year 2011, with an adjusted EBIT margin of over 10%. Additional programm participations could influence this figure.

5.5. Overall prognosis of future business developments in 2010 and 2011

Despite the present difficulties facing the economy as a whole, the Board of Management of MTU is 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. Stable earnings from military contracts and spare parts sales together with anticipated growth in the MRO segment will help to reinforce this positive trend. Consequently, MTU expects its free cash flow and operating profit (EBIT adjusted) to remain at the same level as in 2009, enabling the company to offer its shareholders an attractive dividend yield.

6. Risk report

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.

The Board of Management has set up an integrated opportunity and risk management system

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

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

Significant risk factors of 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 Board of Management and the company's senior managers have taken measures to create a suitable framework that is supportive of risk management issues.

The following are considered essential 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 MTU's mission statement, which describes this as a means of facilitating teamwork and promoting constructive behavioral attitudes. The logical consequence of striving for continuous improvement is the establishment of a CIP organization (Continuous Improvement Project), which aims to encourage employees to deal openly with weak points and create a culture that forms the basis of a functioning risk management system.

Integrity and ethical values play a significant role at MTU. This was laid down by the Board of Management in a group-wide code of conduct communicated to all employees and incorporated in the guiding principles. The importance of staff training and development is embodied in the mission statement under the heading of ‘cooperation and leadership’. Employees receive instruction in risk management within the framework of the MTU training program and risk management is an integral part of personnel development.

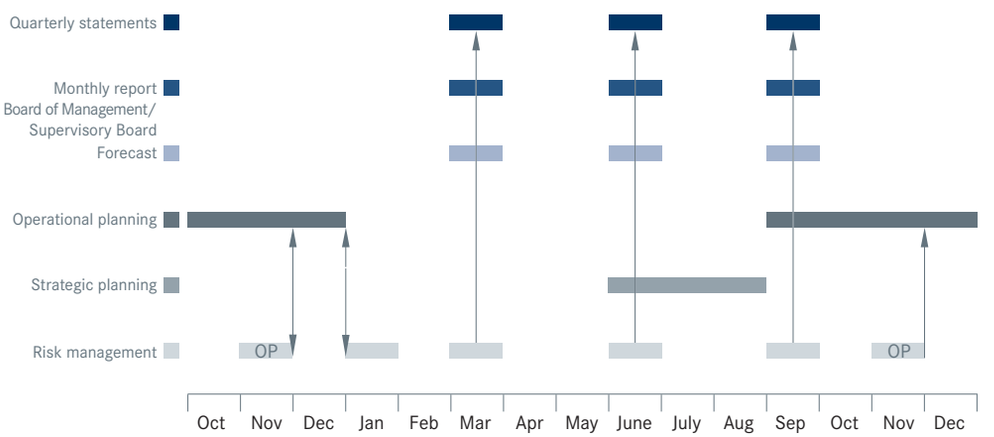
The risk management manual, which is valid throughout the group and which documents the risk management system in place at MTU Aero Engines Holding AG, Munich, is accessible to all employees as part of the organizational guidelines or via the intranet. The rules contained in the manual form the basis for the uniform and appropriate treatment of risks and for communicating them within the group.

Risk management objectives, risk strategy and value thresholds

The ultimate objective of MTU’s risk management system is to ward off risks to the substance of MTU, 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.

Integration of risk management in control processes



The Board of Management prescribes the strategy for dealing with risks in the form of a set of compulsory rules. These rules document the

- integration in the MTU management process,
- principles of the risk policy,
- risk management,
- value thresholds.

In line with the rules of the risk strategy, the net loss expectation should not exceed 50% for the first planning year and 30% of the planned EBIT in adjusted terms for the five-year period under consideration.

Identification, analysis and management of risks

DMTU 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 or risks which need to be assessed on a wider scale (projects, U.S. dollar, changes in commodity prices).

The risk inventory of the group, which encompasses all the business units and all the risk factors to which MTU is exposed, serves as a basis for risk identification. According to the COSO Framework, it is structured into governance and compliance, strategy and planning, operations and infrastructure, and reporting.

The central risk management department is informed of any risks exceeding an amount of € 1 million

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 three-monthly 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 (p)

- Almost Certain: $p >= 80\%$
- Likely : $50\% <= p < 80\%$
- Possible: $20\% <= p < 50\%$
- Unlikely: $p < 20\%$

and, as far as quantifiable, as a possible deviation of the performance indicators EBIT adjusted and cash flow at group level compared with the currently valid operational planning confirmed by the Supervisory Board. Risk officers use generally accepted commercial methods valid at MTU that are also applied at the planning stage. In particular, these methods comprise cost-benefit analyses, scenario analyses and qualified expert appraisals.

Risk officers have defined risk management measures (mitigation actions) for the top risks.

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

The members of the Risk Management Board, which is made up of managers from all functional departments and is headed by the Vice President of Controlling OEM & Corporate, meet once a quarter to examine and discuss the details of aggregated risks which could potentially raise or lower the performance indicators EBIT adjusted or free cash flow by at least € 5 million at group level; they then propose appropriate corrective action including any provisions that may need to be set up. The Risk Management Board furthermore examines risks with a potential impact on the whole group, which are difficult to assess at business unit level.

Risk reporting and communication

The Board of Management receives a risk report once a quarter and is informed of the group's current risk situation at board meetings each quarter. The so-called Top Risk Map (risks above € 5 million) includes:

- top gross risks for the current planning year and the five-year period under consideration,
- top net risks (assessed based on the probabilities of occurrence) for the current planning year and the five-year period under consideration,
- mitigation actions to manage the top risks,
- top gross opportunities for the current planning year and the five-year period under consideration,
- top opportunities (assessed based on the probabilities of occurrence) for the current planning year and the five-year period under consideration.

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

Monitoring

Monitoring the risk management process is of crucial importance

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

In addition to the classical 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 EFQM audits,
- process reviews by the Risk Management Board (self-assessment).

From an organizational point of view, MTU has put in place all the instruments required to manage risks on a proactive basis and communicate the necessary information to the group's decision-making and supervisory bodies.

With its end-to-end risk management system, the company has created the necessary transparency to deal with risks in a responsible manner. The group identifies high-risk developments and potential risks at an early stage and introduces targeted measures for dealing with and minimizing these risks. The MTU risk management process is integrated into the existing control systems and coordinated with them. This ensures that both risks and future opportunities are taken into account in planning activities and the controlling department can take timely countermeasures if there are signs of any planning deviations. The reflection of risks in the balance sheet in compliance with the underlying accounting standards is also part of this process.

Integrated management of opportunities

MTU has integrated opportunity management into the process of systematically recording, assessing, dealing with and monitoring risks. Besides taking account of strategic opportunities in the strategic planning, also entrepreneurial opportunities are identified, assessed and documented in a risk report and then communicated to the Board of Management and Supervisory Board once a quarter. The statements made concerning strategy and management in this connection apply analogously to the organization of opportunity management. This enables MTU to ensure an end-to-end, standardized opportunity and risk management process. The specific opportunities and forecasts for the future are presented in Section 5. (Forecasts).

6.2. Main features of the internal control system and risk management system related to the accounting process

Legal background and subject of the report

According to Sections 289 (5) and 315 (2) No. 5 of the German Commercial Code (HGB) introduced by the German Act to Modernize Accounting Law (BilMoG) which serve to transpose the requirements of an EU directive into national law, publicly traded companies are required to provide a description of the main features of their internal control system and risk management system relating to the (consolidated) accounting process in their (group) management report. By virtue of a corresponding transitional arrangement regarding these regulations, the information specified in Sections 289 (5) and 315 (2) No. 5 HGB must be incorporated into the (group) management report for the first financial year beginning after December 31, 2008.

Applying the explanatory memorandum to the BilMoG analogously, 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 comments given below apply both to MTU Aero Engines Holding AG, Munich and to all other group companies included in the consolidated financial statements.

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

Objectives and components of the internal control system and risk management system in relation to the accounting process

The Board of Management, Supervisory Board and Audit Committee of MTU attach the greatest importance to ensuring the regularity, accuracy and reliability of MTU's financial reporting for recipients of MTU's financial statements. The control and monitoring processes required for this 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 values for shareholders, customers, employees and the public. High-quality financial reporting to these and other 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, are part of a company-wide risk management system and internal monitoring system. This, in turn, consists of a company-wide internal control system, company-wide controlling and internal auditing. The interaction between these systems ensures that the high expectations placed on MTU's accounting are met.

The Board of Management and the senior managers are responsible for creating a supportive environment. Management style and philosophy, integrity and ethical values, and staff training and development are important pillars of this favorable monitoring environment. The important role that integrity and ethical values play at MTU is laid down by the Board of Management in a code of conduct that applies throughout the group and has been communicated to all employees in writing, is continuously practiced in training programs and is explicitly described in the guiding principles. The concept of learning from mistakes is embodied in MTU's mission statement, which describes this as a means of facilitating teamwork and promoting constructive behavioral attitudes. The striving towards continuous improvement is reinforced by the setting up of a CIP organization (Continuous Improvement Project), which is intended to help employees to deal openly with weak points and create a culture that forms the basis of a functioning risk management system.

The internal control and risk management system of MTU relating to the accounting process guarantees an efficient accounting process that avoids errors as far as possible but at least discovers them at an early stage.

MTU integrates risks entailed in financial reporting into the comprehensive risk management system at group level

- Against this backdrop, the accounting-related RMS is an integral part of the group's comprehensive company-wide risk management system that creates a basis for a uniform and appropriate response to risks and for communicating them within the group. The risks entailed in financial reporting at group level are, in turn, a part of the corporate risks to be monitored as a whole. Managers from all areas of company operations are represented on the Risk Management Board of MTU, such as the heads of the controlling, finance/accounting and internal auditing departments. The work of the Risk Management Board ensures that both risks and future opportunities are taken into account in planning activities to a reasonable extent and that countermeasures can be taken at an early stage if there are signs of any planning deviations. This process also integrates the inclusion of risks in the financial statements in compliance with the underlying accounting standards. The risk management system is examined by the internal auditing department and the management, whilst the system employed for the early recognition of risks is reviewed by the auditor during the audit of the consolidated financial accounts.

  The risk management system of MTU is based on the internationally recognized COSO II Enterprise Risk Management (ERM) Framework and on the recommendations concerning opportunity and risk management standards issued by COSO's German counterpart RMA (Risk Management Association e.V.).

- The arrangement of the accounting-related ICS at MTU meets the requirements of the German Act to Modernize Accounting Law 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). It also reflects the specific corporate and group realities at MTU. Based on these requirements, MTU understands an internal control system to be the principles, procedures and measures (regulations) introduced at the company by the company management that are aimed at the organizational implementation of the decisions of the company management to

  - safeguard the effectiveness and economic efficiency of business operations (this also includes protecting assets as well as preventing and exposing financial losses),
  - ensure the regularity and reliability of internal and external accounting and
  - comply with statutory regulations relevant for the company.

This requires a systematic control system based on the functioning of the following elements:

- control environment,
- risk assessment,
- control activities,
- information and communication and
- monitoring the ICS.

The ICS of the MTU group is primarily based on a functioning internal management system (directive controls) 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 (e.g. separation of functions, access restrictions in the area of IT, payment regulations). Checks integrated within processes reduce the probability of errors occurring (error risk) and help to bring to light any errors that have already occurred (e.g. when checking whether data received or forwarded are correct and complete or when checking manual actual/planned comparisons, programmed verification checks in the software).

- The internal auditing system (Corporate Audit), which is process-unrelated, plays an important role in checking the effectiveness of the accounting-related ICS and RMS and in improving them. 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 Institut der Internen Revision and the Institute for Internal Audit. The corporate audit department is also bound by the code of professional ethics. The administrative standards for internal auditing are available to all employees for perusal on MTU's intranet.

The Audit Committee provides advice on risk management and the auditing work of the corporate audit department.

- The Audit Committee of the Supervisory Board also provides advice on risk management and the auditing work of the corporate audit department. In future it will be explicitly involved in monitoring the effectiveness of the risk management system, the internal control systems, the internal audit systems, the accounting process and the auditing of the financial statements, in particular the independence of each of these systems, based on Section 107 (3) of the German Stock Corporation Act (AktG) as amended by the German Act to Modernize Accounting Law (BilMoG).

Main features of the internal control system and the risk management system related to the accounting process

The main features of the internal control system at MTU in terms of the (consolidated) accounting process can be described as follows:

- 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 functions of the main departments involved in the accounting process 'Finances/Accounting' and 'Controlling OEM Business & Corporate' are distinctly separate. Responsibilities have been clearly allocated in a distinct organizational structure depicted in organigrams, and are accessible to every employee via the intranet at all times.

- The integrity and responsibility of each employee, also in terms of finances and financial reporting, are ensured by each employee undertaking to observe the company's own 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 (e.g. German Commercial Code and national tax laws) and international accounting standards (IFRSs) are strictly observed in annual and consolidated financial statements.
- The IT systems used are protected by appropriate installations in the IT area against unauthorized access. As far as possible, standard software is used in the finance systems area. Within the framework of the comprehensive IT concept and the existing 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 also 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 and the condensed consolidated financial statements and interim group management report in the half-yearly financial report are reviewed.
- An adequate system of guidelines has been suitably 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 in quantitative and qualititative respects.
- 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

- 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-unrelated 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 compliant with IFRS.
- Due to the obligation of every subsidiary and joint venture to report its business figures compliant both with the local GAAP and with IFRS in a standardized reporting format to the group holding, any planned/actual deviations during the year are 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 joints ventures, such as special accounting issues etc., the group accounting department also acts at holding level as a central point of contact and controlling body for reporting. Special evaluations are also carried out during the year at the request of various management levels. If a need for support arises at short notice in connection with special, complex IFRS issues or company acquisitions requiring examination, this demand is met by qualified staff or by employing the services of external auditors.

With its end-to-end risk management system, MTU has created the necessary transparency, also in its financial reporting, to deal with risks in a responsible manner. The MTU risk management process is integrated into the existing control systems and coordinated with them. This ensures that opportunities and risks are appropriately taken into account in planning activities and that regular bookkeeping and monthly and quarterly financial statements take account of risks in the balance sheet in compliance with the underlying accounting standards.

6.3. Categories of risk (specific risks)

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

Risks inherent in the aerospace industry

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

MTU operates in various sectors of the market and in different thrust ranges, thus spreading risks in line with the market

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

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

6.3.2. Risks arising from corporate strategy

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

Significant investment decisions recently were
- the set-up of the location MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland and
- participation in the GEnx and GE38 engine programs

which, from today's point of view, do not entail any risks to the substance of MTU.

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

6.3.3. Operational risks

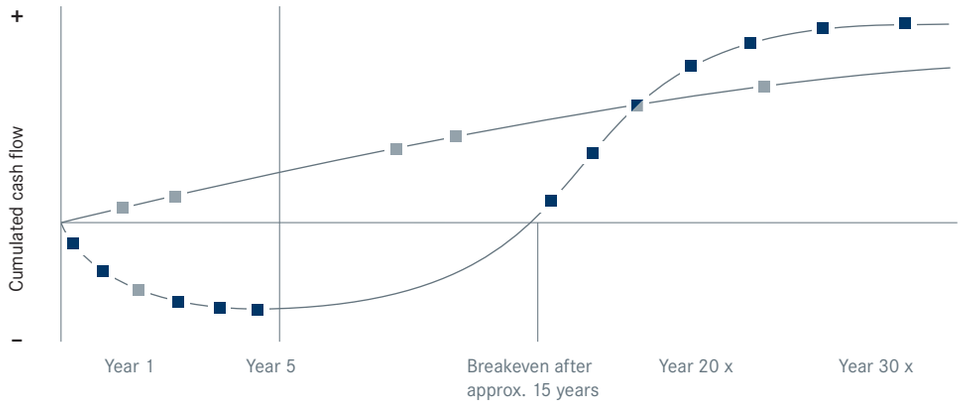
Market risk

The customers in the military engine business are national and multinational agencies whose budgets vary widely with the level of public spending. When they are faced with budgetary constraints, there is a risk that contracts might be rescheduled or canceled. In the military engine business, the company is firmly embedded in international cooperative ventures. This tends to have a limiting effect on risks because the partners work together to protect their common interests. Because government offices more and more frequently attempt to settle accounts for military engines on the basis of negotiated fixed prices, new military programs face an increasing risk that the technical, economic and market-related assumptions on which the contract is based may deviate from the actual conditions, thus also affecting the attainable return on investment. The terms of existing contracts in the military sector are generally defined to cover a prolonged period of time, thus effectively excluding the possibility of modifying prices.

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

The commercial engine market has an oligopolistic structure. MTU sells most of its products under risk- and revenue-sharing arrangements. The lead partners in the consortium determine the prices, conditions and concessions. MTU, as a consortium partner, is bound by these conditions. 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.

Risk diversification across programs MTU engine portfolio by life cycle (illustration)



Commercial engine programs

Military engine programs

Series production	No revenue	Initial/increasing orders	Stable order position	Decline in orders	Roll-out of a successor model	No revenue
Spare parts	No revenue	No revenue	Revenues generated from spare parts	High volume of spare parts	High volume of spare parts	Decline in volume of spare parts

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

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

Cooperative ties further collaboration as partners and effectively spreads risks

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 risk

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

MTU has taken precautions to a greater extent than previously due to the additional requirements which have arisen in recent months, in particular regarding the software, and the termination of the South Africa export contract. Thus, all previous expenses of the program and the provision for possible obligations have already been taken into account in the 2009 financial statements. It is not possible to take account of effects arising from potential changes to contracts.

6.3.4. Personnel risks

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

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

The commitment, motivation and skills of the company's employees are major contributory factors to its business performance. There is considerable rivalry in the recruitment market for the aerospace sector, as companies compete to find the best-qualified employees to work on the development, manufacture and maintenance of cutting-edge technical products. This is associated with a corresponding fluctuation risk. MTU minimizes the associated risks by means of fast-track professional training and development programs, performance-related compensation, mentoring schemes and early preparation for promotion. One of the main elements of succession planning is the Campus Potential & Succession personnel development process, in the course of which employees with potential in the long term are identified for filling key positions in the future and their potential deployments are regularly assessed and discussed by managers and the human resources department.

The new engine programs will require the requisite development capacity in the coming years. MTU is meeting this challenge by setting up new development centers in Munich and at its new site in Poland, and by collaborating with universities.

In contrast, the slight decline in business volume following the economic crisis is presenting MTU with the challenge of managing capacities appropriately. The company has responded by flexibly deploying and training employees in other business units; but MTU is also taking advantage of natural fluctuation rates and the flexible working hours by having employees reduce their flexitime credit.

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

6.3.5. IT risks

The loss of confidential data through espionage or system failures are the risks 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.

6.3.6. Financial risks

Currency risk, credit risk and hedging transactions

More than 80% of MTU's revenues are generated in U.S. dollars (USD) (translated amounting to approximately € 2,100 million in 2009). 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 (PLN), Chinese yuan renminbi (CYN) and Canadian dollars (CAD). Consequently, earnings are dependent on changes in the exchange rate parity between the U.S. dollar and the cited currencies from the order date to the delivery date, in the measure to which MTU does not make use of financial instruments to hedge against its current and future net exposure. In line with the corporate policy of generating profit solely on the basis of its operating activities and not through currency speculation, MTU makes use of hedging strategies for the exclusive purpose of controlling and minimizing the effect of U.S. dollar exchange rate volatility on EBIT.

The financial instruments employed by MTU cover the greater part of the net exposure to currency risk

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. The net risk is calculated by subtracting the part of the currency risk balanced by costs invoiced in U.S. dollars (the 'natural hedge') from the total currency risk (i.e. revenues denominated in U.S. dollars). The hedge portfolio accounts for the majority of the group's hedging transactions.

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

At December 31, 2009, MTU held forward foreign exchange contracts for a contractual period up to 2011 to sell a nominal volume of U.S. $ 700.0 million (which translates to € 485.9 million at the exchange rate prevailing at the balance sheet date) at futures rates for a total of € 491.6 million. Changes in the fair value of the forward foreign exchange contracts amounted to a gain of € 14.2 million in 2009 (2008: a loss of € 29.1 million). Further explanatory comments concerning financial instruments are provided in Note 42. to the consolidated financial statements (Risk management and derivative financial instruments).

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

Nonpayment risk

In the commercial engine business and commercial MRO, airlines are indirect and direct customers of MTU. These carriers may find themselves facing financial difficulties, with the result that they may plan or carry out restructuring measures or mergers, or apply to be placed under bankruptcy protection. Their situation affects the receivables management processes of MTU and its partners. The consortium leaders in the commercial engine and spare parts businesses have extensive receivables management systems in place. In the commercial MRO business, MTU tracks its open accounts receivable in short cycles in cooperation with the sales department. Before a deal is finalized, potential risks are assessed and any necessary precautions are taken. Wherever possible, the company takes advantage of export credit guarantees (Hermes coverage) to protect itself against political and credit risk. As a matter of principle, the group avoids signing contracts for which the parameters cannot be calculated. Hence MTU considers nonpayment risks to be transparent and manageable.

6.3.7. Other risks

Compliance risks

Compliance risks exist in all areas of the company. These are risks which, in essence, are if managers and employees of the company fail to observe valid laws and regulations or internal rules. Particularly critical areas are purchasing and the sales organization in the commercial MRO business. Employees deployed in areas where the protection of confidential documents and information plays a significant role are generally affected.

MTU has established a number of measures to minimize risks and to safeguard compliance

To minimize risks and to safeguard compliance, MTU has laid down 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 an appropriate point of contact if illegal action is suspected,
- setting up a Compliance Board,
- continual security checks of employees.

Generally, the occurrence of compliance-relevant circumstances can never be completely ruled out, whether this be due to the lack of knowledge on the part of individual employees or intentional criminal conduct.

Liability risk

In the aviation industry, accidents can never be completely ruled out despite strict compliance with manufacturing quality standards and utmost diligence in performing maintenance work. In the military engine business (excluding exports), MTU is largely exempt from product risk liability through government agency indemnification. The remaining liabilities, especially in the commercial engine business, are covered by comprehensive insurance policies; this includes aircraft liability insurance. Other risks that could threaten the continued existence of the company, such as fire and interruption of business operations, are covered as well. No insurance cover has been taken out for the risk of terrorist attacks because of the excessively high premiums. By limiting liability risks and taking out insurance cover, the risks are transparent and manageable.

Risks arising from general and tax legislation

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

01 A certified environmental management system minimizes relevant risks

Environmental risks

MTU's business activities are subject to numerous laws and regulations on the protection of the environment. Any tightening of the applicable environmental requirements may give rise to additional investment costs, particularly in connection with the use of chemicals in manufacturing and test rig emissions. Further information can be found in Section 1.5.3 (Environment). MTU requires special certification in order to operate certain production facilities such as test rigs and electroplating plants. The regulations must be strictly observed and all procedures fully documented. An environmental management system certified to DIN EN ISO 14001 minimizes the risks in this area.

Organizational risks

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

Dependence on joint ventures

In the commercial maintenance business, MTU's interests in the Asian market include a 50:50 joint venture, MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China. In jointly controlled entities where decisions have to be made jointly, there is always a risk of differences of opinion when the company's own interests do not coincide with those of its partners.

6.4. SWOT analysis

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

SWOT analysis of the MTU group

Corporate	Market
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, M&A activities, and a leading role in European tier-1 consolidation
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	Effects of financial crisis not yet foreseeable
Cyclic business	Low, volatile profitability on the part of end customers (airlines); possible spending cuts in the event of an economic downturn
Small company by comparison with OEMs	Inherent risk of advanced technology development with regard to estimated schedules and costs
	Competition from low-cost PMA parts
	Entry of newly industrializing nations into the aerospace industry
	Restrained public spending may lead to defense budget cuts
	Difficulty of obtaining licenses in the MRO business
	Negative changes in U.S. dollar exchange rate

6.5. Overall prognosis of MTU's risk exposure

There have been no substantial changes in MTU's risk exposure compared with December 31, 2008. The group is of the opinion that it would serve no purpose to aggregate the most important individual risks, on the grounds that it is improbable that hypothetical risks would arise simultaneously. The unsteady fluctuation in exchange rates and the global financial market crisis make it impossible at the present time to predict with any certainty how exchange rates and general economic trends are likely to develop in the near future.

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

7. Other disclosures

7.1. Declarations relating to corporate governance

7.1.1. 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, if necessary citing those recommendations that have not been or are not being applied. This declaration must be permanently accessible to the public.

The Board of Management and the Supervisory Board of MTU Aero Engines issued the following declaration in December 2009:

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

The Board of Management and the Supervisory Board of MTU Aero Engines Holding AG declare that the recommendations of the Government Commission on the German Corporate Governance Code, as published in the amended version of June 18, 2009 by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been and are being complied with. The Board of Management and Supervisory Board of MTU Aero Engines Holding AG also intend to follow these recommendations in the future. The only elements of the German Corporate Governance Code where MTU deviates from the recommendations are the following:

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

The members of the Supervisory Board do not receive performance-related compensation. It is our considered view that a fixed compensation arrangement is appropriate and that 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.

2. D&O deductible (Section 3.8, paragraph 2 of the Code)

At the time that the amended version of the German Corporate Governance Code of June 18, 2009 was made public, i.e. on August 5, 2009, the company had already taken out D&O insurance cover for the members of its Board of Management and Supervisory Board that contained an appropriate deductible and thus complied with the previously valid Section 3.8 of the German Corporate Governance Code. The D&O insurance cover must be amended to comply with the new provisions within a certain transitional period. The company will amend this insurance in early 2010, i. e. within the stated transitional period, in order to comply with the new Section 3.8 of the German Corporate Governance Code and will agree a new deductible amounting to at least 10 % of the loss and up to at least 150 % of the fixed portion of the annual compensation of each board member.

3. Compensation of board members (Sections 4.2.2 and 4.2.3 of the Code)

At the time that the amended version of the German Corporate Governance Code of June 18, 2009 was made public, i.e. on August 5, 2009, the compensation paid to members of the Board of Management complied with the then valid Sections 4.2.2 and 4.2.3 of the German Corporate Governance Code. Since it is not customary to make ulterior amendments to board members‘ employment contracts once they have been signed, the company will, at the next opportunity, adjust the compensation paid to members of the Board of Management in accordance with the provisions of the German Act on the Appropriateness of Management Board Compensation (VorstAG) so as to comply with the new Sections 4.2.2 and 4.2.3 of the German Corporate Governance Code.

There is a section devoted to Corporate Governance on the MTU website at www.mtu.de under Investor Relations.

7.1.2. Management practices extending beyond statutory requirements

Assuming responsibility

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. The company's commitments are described on the MTU website at www.mtu.de under The company -> Sustainability, where descriptive documents are also available to the public. Reference is also made to Section 1.5. (Corporate responsibility).

Code of conduct

MTU strives for an open and constant dialog with many different target groups – among them shareholders, employees and unions, customers and suppliers, local residents, environmental interest groups and the media. The company communicates via the internet and intranet, brochures, flyers and employee and customer magazines. It also communicates directly with its target groups at events such as trade shows, exhibitions, open days and discussion forums. In so doing, MTU aims to generate broad public acceptance. A document describing MTU's code of conduct can be downloaded from the company's website at www.mtu.de under The company -> Sustainability -> Employees.

MTU insists on the finest quality for its products and services

Quality spells safety

In aviation, where the smallest of mistakes may have catastrophic consequences, safety is a prime concern. MTU insists on the finest quality for its products and services. Quality spells safety, and safety is the first priority in the work of every MTU employee.

MTU strictly monitors compliance with its high quality standards at all times and across all levels of production and personnel. Its management system ensures the company observes all applicable legal and statutory regulations and clearly defines roles and responsibilities in the company. This enables MTU to promise its customers the same level of quality at any of the company's locations worldwide. Compliance with quality requirements is verified by government agencies and through internal and external audits. Information on quality approvals and certifications is available on the MTU website at www.mtu.de under The company -> Quality.

7.1.3. Description of the work performed by the Board of Management and the Supervisory Board

The organization of the Board of Management and its members' areas of responsibility are described in Section 1.2. (Group structure, locations and organization).

The Board of Management sets MTU's strategic direction, plans and establishes the company's budget, and monitors the individual business units. Its members are responsible for ensuring that an appropriate risk management and control system is in place. As a component of value-oriented corporate management, systematic risk management ensures that risks are identified at an early stage, analyzed and assessed, and that suitable measures are taken to minimize risk exposure. The Board of Management informs the Supervisory Board, in a timely manner and on a regular basis, of the company's current situation, existing risks and their development and related 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.

The Board of Management reports regularly to the Supervisory Board on compliance issues

The Board of Management reports regularly on compliance issues, i.e. on measures to comply with both legal requirements and internal company guidelines. Status reports 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 require the approval of the Supervisory Board, in particular concerning the budget. For further information on this topic, please refer to the Supervisory Board report on page 316.

The Board of Management's rules of procedure listing the transactions by MTU Aero Engines Holding AG, Munich, requiring Supervisory Board approval can be viewed on the website at www.mtu.de under Investor Relations -> Corporate Governance.

In line with statutory requirements, the Supervisory Board comprises six shareholder representatives – in addition to the chairman, Klaus Eberhardt, these are currently Professor Wilhelm Bender, Dr. Jürgen M. Geißinger, Dr. Joachim Rauhut, Udo Stark and Professor Klaus Steffens - and six employee representatives – in addition to the deputy chairman, Josef Hillreiner, these are currently Babette Fröhlich, Michael Behé, Thomas Dautl, Rudolf Domberger and Michael Leppek.

The Supervisory Board regularly advises the Board of Management on the running of the company, oversees its work, and continually follows business developments and the situation of MTU. The Supervisory Board is informed and consulted in a direct and timely manner regarding all decisions of consequence for the company.

The Supervisory Board has formed four committees, three of which equally represent 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, paragraph 3 of the German Co-Determination Act). The fourth is the Nomination Committee, which has the task of proposing candidates for election as shareholder representatives. Its two members are also shareholder representatives, currently Klaus Eberhardt and Dr. Jürgen M. Geißinger. The Personnel Committee consists of Klaus Eberhardt, Dr. Jürgen M. Geißinger and the two workforce representatives Josef Hillreiner and Michael Leppek. The members of the Audit Committee are Dr. Joachim Rauhut, Klaus Eberhardt, Babette Fröhlich and Josef Hillreiner. The members of the Mediation Committee are identical with those of the Personnel Committee.

The Audit Committee monitors the financial reporting process, the efficacy of the company's risk management system, its system of internal controls, and its internal auditing system, and also monitors the external auditor's independence. Moreover, the Supervisory Board oversees the Board of Management's compliance activities with the assistance of the Audit Committee.

The Personnel Committee prepares the ground for personnel decisions by the Supervisory Board, in particular the appointment and dismissal of members of the Board of Management and the nomination of its chairman, the company's CEO. It also takes decisions relating to the conclusion, amendment and termination of employment contracts and pension agreements with members of the Board of Management. This does not affect the right of the plenary meeting to define amounts of compensation. The Personnel Committee moreover represents the company in dealings with members of the Board of Management, approves transactions between the company and individual members of the Board of Management as well as certain extramural activities by members of the Board of Management, and performs the Supervisory Board's efficiency audit.

The Supervisory Board is briefed regularly on the work of its committees in its plenary meetings.

The Supervisory Board meets with the Board of Management to discuss strategy issues and all important projects. All transactions requiring the approval of the Supervisory Board according to statutory requirements, the company's articles of association of the Board of Management's rules of procedure are reviewed and discussed with the Board of Management prior to a decision.

The Supervisory Board's rules of procedure can be viewed on the MTU website at www.mtu.de under Investor Relations -> Corporate Governance.

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 individually 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, 2009 corresponded to less than 1 % (at December 31, 2008: less than 1 %).

The mandates of members of the Board of Management and Supervisory Board are included in the sections entitled 'The Board of Management' and 'The Supervisory Board' respectively. Information on related party transactions is provided in Note 45. to the consolidated financial statements (Relationships with related companies and persons).

7.4. Off-balance-sheet assets

The group has assets that are not included in the balance sheet. These mainly relate to certain leased or rented goods (under an operating lease). Further explanatory comments are provided in Note 43.4.1. to the consolidated financial statements (Obligations arising from operating lease arrangements). The most important intangible assets include the MTU brand, which has continually grown in strength in the year under review, and MTU's portfolio of intellectual property rights containing around 900 patent families and serving to protect the company's technology. More detailed information on MTU's patent portfolio is provided in Section 1.4.4. (Protecting technology). Significant value can also be attributed to the company's long-established and smoothly running relationships with partners in risk- and revenue-sharing partnerships with the world's leading engine manufacturers Pratt & Whitney, General Electric and Rolls-Royce, and with Avio, Snecma Moteurs and Volvo Aero. One of their advantages is that they stabilize business developments and reduce entrepreneurial risks.

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

7.5. Off-balance-sheet financial instruments

MTU does not make use of off-balance-sheet financial instruments.

7.6. Disclosures in connection with the takeover directive

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

Composition of subscribed capital

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

Restrictions concerning voting rights and the transfer of share ownership

At December 31, 2009, MTU held 3,078,192 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
MTU has no knowledge of any direct or indirect investments exceeding 10 % of the voting rights.

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

Method of controlling voting rights when employees own stock capital and do not exercise their control rights directly
Employees holding shares in MTU Aero Engines Holding AG exercise their control rights like any other shareholder, in strict compliance with statutory regulations and the company's articles of association.

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

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

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

Authorizations conferred on the Board of Management, especially concerning the issue and purchase of shares

Authorized capital
At December 31, 2009, MTU had available authorized capital amounting to € 24,75 million
At the Annual General Meeting on May 30, 2005, the Board of Management was authorized to increase the company's capital stock by issuing new registered shares in return for cash contributions, and/or in return for non-cash contributions in the case of Authorized Capital II. At December 31, 2009, MTU Aero Engines Holding AG had available authorized capital amounting to € 24,75 million, which will remain authorized until May 29, 2010.

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

Authorized capital II

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

Convertible bonds and bonds with warrants

At the Annual General Meeting on May 30, 2005 the Board of Management was authorized until May 29, 2010 to issue, with the prior approval of the Supervisory Board, registered or bearer convertible bonds, bonds with warrants, certificates of beneficial interest or income bonds, or any combination of these instruments (collectively referred to as 'securities'), with or without maturity date, with a total nominal value of up to € 750 million, and to grant the owners or creditors of convertible bonds and/or bonds with warrants the right or option to convert them into registered shares of the company representing a share of equity of up to € 19.25 million under the conditions established for the issue of convertible bonds or bonds with warrants. These securities may be issued in euros or – to an equivalent value – in any other legal currency, for instance that of an OECD country. They may also be issued by an affiliated company in which MTU Aero Engines Holding AG holds a direct or indirect interest. In such cases and subject to the prior approval of the Supervisory Board, the Board of Management is authorized to act as guarantor for the securities, and to grant the owners of the securities the right or option to convert them into new registered shares of MTU Aero Engines Holding AG.

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

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 May 26, 2009, a resolution was passed by a majority of votes representing 99.05% 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:

MTU is authorized to purchase, through a resolution passed at the Annual General Meeting, treasury shares with a par value of up to 10 percent of the company's capital stock

a) The company is authorized to purchase treasury shares with a par value of up to 10 percent of the company's capital stock, as applicable on the date of the resolution, during the period from May 27, 2009 through November 26, 2010, pursuant to Section 71 (1) item 8 of the German Stock Corporation Act (AktG). 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 percent above or below the quoted share price, without taking supplementary transaction charges into consideration. 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.

b) The Board of Management is authorized to sell the purchased treasury shares in another manner than through the stock exchange or by means of a public offering addressed to all shareholders, on condition that the shares are sold in return for cash contributions at a price that does not lie significantly below the market price of similarly entitled MTU shares at the time of sale.

c) The Board of Management is authorized, with the prior approval of the Supervisory Board, to sell the purchased treasury shares in another manner than through the stock exchange or by means of a public offering addressed to all shareholders if the treasury shares are sold to program participants in conjunction with the company's Matching Stock Program and those participants are, or were, employees or officers of the company or one of its associated companies. If shares are to be issued to active or former members of the MTU Board of Management under the terms of the company's Matching Stock Program, the Supervisory Board is authorized to transact this issue, which is not conducted through the stock exchange or by means of a public offering addressed to all shareholders. The subscription rights of existing shareholders in respect of these treasury shares are thereby effectively excluded.

1 Purchased treasury shares can be used as a form of payment in conjunction with business combinations or the acquisition of companies

d) The Board of Management is furthermore authorized to use the purchased treasury shares as partial or complete payment in conjunction with business combinations or the acquisition, whether direct or indirect, of business, parts of business or equity investments. The subscription rights of existing shareholders in respect of these treasury shares are thereby effectively excluded.

e) The Board of Management is also authorized, with the prior approval of the Supervisory Board, to use the purchased treasury shares to discharge obligations relating to convertible bonds, bonds with warrants, certificates of beneficial interest or income bonds (or combinations of such instruments) that the company has issued or intends to issue on the basis of the resolution passed by the Annual General Meeting on May 31, 2005. The subscription rights of existing shareholders in respect of these treasury shares are thereby effectively excluded.

f) The Board of Management is moreover authorized, with the prior approval of the Supervisory Board and without any requirement for a further resolution to be passed by the Annual General Meeting, to 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.

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

h) The authorization to purchase treasury shares granted to the company on April 30, 2008 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 April 30, 2008, 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 par 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:

Certain agreements are made to apply to convertible bonds in the event of a change of control

In the event of a change of control (as defined below), 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 collectively acting group of individuals 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.

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

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

or

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

or

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

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 demand takes the form of a repayment request, which must be received by the paying agency at least 20 days prior to the control record date.

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

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

From February 1, 2010 to January 31, 2011 (both dates inclusive)	5.2%
From February 1, 2011 to January 18, 2012 (both dates inclusive)	0.0%

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

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:

Certain agreements are made to apply to promissory notes in the event of a change of control

- Irrespective of 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 principle plus accumulated interest up to the date of repayment in the event that an individual or several individuals acting in consort, 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 (RCF)

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 or several 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 or several individuals should hold more than 50% of the share capital or corporate capital.

Other agreements

A change of control can impact risk-and revenue sharing agreements entered into by the group

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 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 their 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.

7.7. Disclaimer

In addition to information relating to past events, this report also contains forward-looking statements. Such passages can generally be identified through the use of such terms as 'expect', 'estimate', 'intend', 'plan', 'anticipate', 'predict', 'will', 'believe', 'is likely to', 'might' and similar phrases, or through the fact that they are presented in the context of a strategy. Forward-looking statements relate to future expectations, developments, trends, and business strategies, and are based on analyses or predictions of MTU's future business performance and estimates of figures that cannot be affirmed with any certainty at the present time. These forward-looking statements merely reflect MTU's current outlook at the time the statements were made, and MTU does not accept any responsibility for updating forward-looking statements except in cases where it is a statutory requirement. The forward-looking statements contained in this report involve known and unknown risks, uncertainties, and other factors that may result in an actual future outcome based on real events, developments and performances that deviates significantly from the content of the statements presented here. These factors include changes in the general economic climate and business environment, exchange rate fluctuations, in addition to the factors enumerated in Section 6 (Risk report) of this group management report.


EPI
VERICOR
MTR
EUROJET
TURBOUNION
MTU
AIR FRANCE
KLM
IAE
CFMI
snecma
SR Technics
ST AERO
MRO
OEM
MAINTENANCE
Rolls-Royce

Consolidated Financial Statements

Consolidated Financial Statements

Selected consolidated financial information and key figures at a glance

in € million (unless otherwise specified)	Change 2009 - 2008		2009	2008	2007
Revenues and earnings					
Revenues	-113.5	-4.2%	2,610.8	2,724.3	2,575.9
attributable to the commercial engine business[1]	-92.6	-8.1%	1,053.7	1,146.3	1,102.0
attributable to the military engine business[1]	35.4	7.1%	532.0	496.6	497.5
attributable to the commercial maintenance business[1]	-55.4	-5.0%	1,057.6	1,113.0	1,004.7
Gross profit	-24.9	-5.1%	458.6	483.5	446.4
Earnings before interest and tax (EBIT)	-1.4	-0.6%	246.9	248.3	243.3
Earnings after tax (EAT)	-38.7	-21.5%	141.0	179.7	154.1
Earnings (adjusted)					
Earnings before interest and tax (EBIT adjusted)	-38.7	-11.7%	292.3	331.0	312.6
EBIT margin (adjusted)			11.2	12.1	12.1
Balance sheet					
Total assets	-47.0	-1.5%	3,149.1	3,196.1	3,085.5
Equity	113.3	18.4%	730.7	617.4	562.0
Equity ratio in %			23.2	19.3	18.2
Net financial liabilities	-112.3	-44.1%	142.4	254.7	223.4
Cash flow					
Cash flow from operating activities	-153.1	-37.7%	252.7	405.8	236.2
Cash flow from investing activities	149.7	53.0%	-132.5	-282.2	-104.5
Free cash flow	-3.4	-2.8%	120.2	123.6	131.7
Cash flow from financing activities	58.5	45.9%	-68.9	-127.4	-165.8
Number of employees at year-end					
Commercial and military engine business (OEM)	-15	-0.3%	4,885	4,900	4,610
Commercial maintenance business (MRO)	143	5.4%	2,780	2,637	2,520
Share data					
Earnings per share in €					
Undiluted earnings per share	-0.75	-20.6%	2.89	3.64	2.95
Diluted earnings per share	-0.74	-20.9%	2.80	3.54	2.83
Dividend per share in €			0.93	0.93	0.93
Dividend yield in %			2.4	4.7	2.3
Total dividend (€ million)[2]	0.1	0.2%	45.5	45.4	47.2
Outstanding common stock at Dec.31 (million shares)	0.1	0.2%	48.9	48.8	50.7

[1] before consolidation

[2] Proposal presented at the Annual General Meeting / previous years: resolution by the Annual General Meeting for the financial year

Consolidated Income Statement

in € million	Note	2009	2008	2007
Revenues	**(6.)**	**2,610.8**	**2,724.3**	**2,575.9**
Cost of sales	(7.)	-2,152.2	-2,240.8	-2,129.5
Gross profit		**458.6**	**483.5**	**446.4**
Research and development expenses	(8.)	-105.6	-94.9	-84.5
Selling expenses	(9.)	-72.2	-100.2	-75.0
General administrative expenses	(10.)	-44.8	-44.2	-45.8
Other operating income and expenses	(11.)	10.9	4.1	2.2
Earnings before income and tax (EBIT)		**246.9**	**248.3**	**243.3**
Interest income		2.6	6.4	7.4
Interest expenses		-15.7	-17.2	-38.8
Interest result	(12.)	-13.1	-10.8	-31.4
Profit/loss of companies accounted for using the equity method	(13.)	-1.5	-1.0	-2.3
Financial result on other items	(14.)	-24.8	-38.7	-30.2
Financial result		**-39.4**	**-50.5**	**-63.9**
Earnings before tax (EBT)		**207.5**	**197.8**	**179.4**
Income taxes	(15.)	-66.5	-18.1	-25.3
Earnings after tax (EAT)		**141.0**	**179.7**	**154.1**
Earnings per share in €				
Undiluted (EPS)	(16.)	2.89	3.64	2.95
Diluted (DEPS)	(16.)	2.80	3.54	2.83

Consolidated Statement of Comprehensive Income

in € million	Note	2009	2008	2007
Earnings after tax (EAT)		**141.0**	**179.7**	**154.1**
Translation differences		-2.3	3.4	-3.6
Change in fair value of derivative financial instruments		21.1	-43.2	0.2
Income taxes recognized directly in equity		-6.9	14.1	1.9
Income and expenses recognized directly in equity	**(30.8.)**	**11.9**	**-25.7**	**-1.5**
Total comprehensive income for the period		**152.9**	**154.0**	**152.6**

Consolidated Balance Sheet

Assets in € million	Note	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Non-current assets				
Intangible assets	(19.)	1,248.2	1,274.9	1,135.0
Property, plant and equipment	(20.)	556.7	525.1	539.7
Financial assets	(21.)	14.9	12.6	12.4
Financial assets accounted for using the equity method	(21.)	2.1	3.6	4.6
Other assets	(25.)	6.1	4.0	3.9
Deferred tax assets	(28.)	16.9	1.4	0.7
Total non-current assets		**1,844.9**	**1,821.6**	**1,696.3**
Current assets				
Inventories	(22.)	648.7	661.4	587.8
Trade receivables	(23.)	391.2	460.4	499.2
Construction contract receivables	(24.)	98.4	138.9	171.1
Income tax claims	(27.)	1.2	1.0	2.7
Financial assets	(21.)	9.5	4.0	33.5
Other assets	(25.)	27.2	35.6	22.6
Cash and cash equivalents	(26.)	120.8	69.9	67.3
Prepayments	(29.)	7.2	3.3	5.0
Total current assets		**1,304.2**	**1,374.5**	**1,389.2**
Total assets		**3,149.1**	**3,196.1**	**3,085.5**

Consolidated Balance Sheet

Equity and liabilities in € million	Note	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Equity	**(30.)**			
Subscribed capital		52.0	52.0	55.0
Capital reserves		353.6	354.5	460.0
Revenue reserves		420.9	325.3	191.9
Treasury shares		-93.4	-100.1	-156.3
Other comprehensive income		-2.4	-14.3	11.4
Total equity		**730.7**	**617.4**	**562.0**
Non-current liabilities				
Pension provisions	(31.)	389.9	371.7	359.5
Other provisions	(33.)	159.1	224.0	255.3
Financial liabilities	(34.)	93.8	58.9	66.8
Other liabilities	(37.)	34.0	28.6	24.2
Deferred tax liabilities	(39.)	266.9	227.6	269.8
Total non-current liabilities		**943.7**	**910.8**	**975.6**
Current liabilities				
Pension provisions	(31.)	21.7	18.5	17.1
Income tax liabilities	(32.)	12.5	23.0	38.8
Other provisions	(33.)	262.0	255.4	243.2
Financial liabilities	(34.)	186.0	277.5	259.7
Trade payables	(35.)	320.9	495.7	462.9
Construction contract payables	(36.)	607.0	520.6	439.7
Other liabilities	(37.)	64.6	77.2	86.5
Total current liabilities		**1,474.7**	**1,667.9**	**1,547.9**
Total equity and liabilities		**3,149.1**	**3,196.1**	**3,085.5**

Consolidated Statement of Changes in Equity

in € million	Subscribed capital	Capital reserves	Revenue reserves	Treasury shares	Other comprehensive income	Group equity
Balance at Jan. 1, 2007	**55.0**	**455.7**	**81.4**	**-42.7**	**12.9**	**562.3**
Financial instruments (forward foreign currency contracts)					2.1	2.1
Translation differences					-3.6	-3.6
Income and expense items recognized directly in equity					**-1.5**	**-1.5**
Earnings after tax (EAT)			154.1			154.1
Total comprehensive income			**154.1**		**-1.5**	**152.6**
Equity component of convertible bond		11.9				11.9
Transaction costs (net of tax)		-0.2				-0.2
Total dividend payment			-43.6			-43.6
Purchase of treasury shares				-113.6		-113.6
Matching Stock Program (MSP)		-7.4				-7.4
Balance at Dec. 31, 2007 / Jan. 1, 2008	**55.0**	**460.0**	**191.9**	**-156.3**	**11.4**	**562.0**
Financial instruments (forward foreign currency contracts)					-29.1	-29.1
Translation differences					3.4	3.4
Income and expense items recognized directly in equity					**-25.7**	**-25.7**
Earnings after tax (EAT)			179.7			179.7
Total comprehensive income			**179.7**		**-25.7**	**154.0**
Equity component of convertible bond[1)]		-1.3				-1.3
Total dividend payment			-46.3			-46.3
Purchase of treasury shares				-56.4		-56.4
Capital reduction through retirement of treasury shares	-3.0	-101.4		104.4		
MAP employee stock option program		-3.3		8.2		4.9
Matching Stock Program (MSP)		0.5				0.5
Balance at Dec. 31, 2008 / Jan. 1, 2009	**52.0**	**354.5**	**325.3**	**-100.1**	**-14.3**	**617.4**
Financial instruments (forward foreign currency contracts)					14.2	14.2
Translation differences					-2.3	-2.3
Income and expense items recognized directly in equity					**11.9**	**11.9**
Earnings after tax (EAT)			141.0			141.0
Total comprehensive income			**141.0**		**11.9**	**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
Balance at Dec. 31, 2009	**52.0**	**353.6**	**420.9**	**-93.4**	**-2.4**	**730.7**

[1)] After partial repurchase in September and October 2008

Consolidated Cash Flow Statement

in € million	Note	2009	2008	2007
Earnings after tax (EAT)		**141.0**	**179.7**	**154.1**
Write-up/write-down of intangible assets and property, plant and equipment due to appreciation/depreciation, amortization and impairment loss		125.3	160.2	149.6
Profit/loss of companies accounted for at cost		-1.7	-1.5	-1.3
Profit/loss of companies accounted for using the equity method		1.5	1.0	2.3
Gains/losses on the disposal of assets		-2.6	-1.0	-0.4
Increase/decrease in pension provisions		21.4	13.6	-18.3
Increase/decrease in other provisions		-58.2	-19.2	15.5
Other non-cash items		-21.4	12.1	-3.8
Increase/decrease in working capital				
Change in inventories		12.7	-73.6	-58.8
Change in trade receivables		69.2	38.8	-99.2
Change in construction contract receivables and payables		126.9	113.1	-3.1
Change in other assets		7.4	-7.7	
Change in trade payables		-174.8	32.8	84.4
Change in other liabilities		-7.5	-4.9	2.1
Interest result		13.1	10.8	31.4
Interest paid		-11.4	-14.1	-34.3
Interest received		2.6	6.4	7.4
Dividend received		1.7	1.5	1.6
Income taxes		66.5	18.1	25.3
Income tax received/paid		-59.0	-60.3	-18.3
Cash flow from operating activities	**(44.)**	**252.7**	**405.8**	**236.2**
Capital expenditure on:				
Intangible assets		-24.6	-193.8	-14.3
Property, plant and equipment		-115.7	-99.9	-86.5
Financial assets		-3.0		-5.3
Proceeds from disposal/repayment of:				
Intangible assets				
Property, plant and equipment		10.8	11.5	1.5
Financial assets				0.1
Cash flow from investing activities	**(44.)**	**-132.5**	**-282.2**	**-104.5**
Free cash flow[1]		**120.2**	**123.6**	**131.7**
Proceeds from issue of convertible bond[2]				176.7
Repurchase of convertible bond			-21.9	
Repurchase of high yield bond				-165.0
Promissory notes raised[2]		64.6		
Increase in current financial liabilities		4.8	17.1	1.6
Repayment of current financial liabilities		-85.4	-9.8	
Repayment of non-current financial liabilities		-10.8	-15.0	-21.7
Total dividend payment		-45.4	-46.3	-43.6
Purchase of treasury shares			-56.4	-113.6
Sale of shares under the MAP employee stock option program		3.3	4.9	
Other				-0.2
Cash flow from financing activities	**(44.)**	**-68.9**	**-127.4**	**-165.8**
Effect of translation differences on cash and cash equivalents		-0.4	1.1	-0.8
Addition of cash and cash equivalents MTU Aero Engines Polska			5.3	
Other changes in cash and cash equivalents		**-0.4**	**6.4**	**-0.8**
Change in cash and cash equivalents		**50.9**	**2.6**	**-34.9**
Cash and cash equivalents at beginning of financial year		69.9	67.3	102.2
Cash and cash equivalents at end of financial year	(44.)	120.8	69.9	67.3

[1] Cash flow from operating activities less cash flow from investing activities
[2] After deduction of transaction costs

Segment reporting by business segment

Segment information	Commercial and military engine business			Commercial maintenance business		
in € million	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
External revenues	1,564.5	1,624.6	1,582.0	1,046.3	1,099.7	993.9
Intersegment revenues	21.2	18.3	17.5	11.3	13.3	10.8
Total revenues	**1,585.7**	**1,642.9**	**1,599.5**	**1,057.6**	**1,113.0**	**1,004.7**
Gross profit	**343.6**	**389.0**	**355.4**	**114.6**	**94.9**	**89.1**
Earnings before interest and tax (EBIT)	**188.5**	**202.1**	**204.1**	**60.6**	**49.7**	**39.9**
Write-down on assets resulting from PPA	40.7	42.6	46.9	4.7	4.9	7.7
Impairment losses		35.2				14.7
Adjusted earnings before interest and tax (EBIT adjusted)	**229.2**	**279.9**	**251.0**	**65.3**	**54.6**	**62.3**
Profit/loss of companies accounted for using the equity method				-1.5	-1.0	-2.3
Assets	**2,788.2**	**2,823.7**	**2,640.5**	**808.6**	**858.5**	**890.5**
Liabilities	**1,977.7**	**2,028.7**	**1,866.7**	**399.6**	**459.7**	**517.3**
Capital expenditure on:						
Intangible assets	18.0	186.4	9.7	6.6	7.4	4.6
Property, plant and equipment	83.7	74.1	53.7	32.0	25.8	32.8
Total capital expenditure on intangible assets and property, plant and equipment	**101.7**	**260.5**	**63.4**	**38.6**	**33.2**	**37.4**
Key segment data:						
EBIT in %	11.9	12.3	12.8	5.7	4.5	4.0
EBIT adjusted in %	14.5	17.0	15.7	6.2	4.9	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		
2009	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
						2,610.8	2,724.3	2,575.9
11.6	5.6	8.7	-44.1	-37.2	-37.0			
11.6	**5.6**	**8.7**	**-44.1**	**-37.2**	**-37.0**	**2,610.8**	**2,724.3**	**2,575.9**
11.6	**5.6**	**8.7**	**-11.2**	**-6.0**	**-6.8**	**458.6**	**483.5**	**446.4**
0.1	**-2.9**	**-1.1**	**-2.3**	**-0.6**	**0.4**	**246.9**	**248.3**	**243.3**
						45.4	47.5	54.6
							35.2	14.7
0.1	**-2.9**	**-1.1**	**-2.3**	**-0.6**	**0.4**	**292.3**	**331.0**	**312.6**
						-1.5	-1.0	-2.3
816.2	**720.7**	**722.4**	**-1,263.9**	**-1,206.8**	**-1,167.9**	**3,149.1**	**3,196.1**	**3,085.5**
241.9	**234.8**	**248.6**	**-200.8**	**-144.5**	**-109.1**	**2,418.4**	**2,578.7**	**2,523.5**
						24.6	193.8	14.3
						115.7	99.9	86.5
						140.3	**293.7**	**100.8**
0.9	-51.8	-12.6				9.5	9.1	9.4
0.9	-51.8	-12.6				11.2	12.1	12.1

Intersegment sales are always 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 KC10 tanker fleet. This contract is expected to generate revenues of U.S. $ 542 million over the next 6 years. An option also exists to extend the duration of the contract by a further 3 years. This major contract assures MTU Maintenance Canada Ltd., Richmond, Canada, of adequate future cash flows to manage its business successfully and profitably. 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, it was established that the recoverable amount exceeded the carrying amount, necessitating an impairment loss reversal amounting to € 1.1 million to increase the carrying amount accordingly. No impairment losses in respect of intangible assets, property, plant and equipment, or financial assets were recognized in the financial year 2009. The impairment testing of the operating segments to which goodwill has been attributed is dealt with in detail in Note 40. (Measurement of the recoverable amount of operating segments to which goodwill has been attributed).

Allocation of impairment loss reversals

	2009			2008			2007		
in € million	**OEM**	**MRO**	**Total**	**OEM**	**MRO**	**Total**	**OEM**	**MRO**	**Total**
Impairment losses were reversed for the following classes of assets and operating segments:									
Property, plant and equipment									
MTU Maintenance Canada Ltd.		1.1	1.1						

The impairment losses recognized in the financial year 2008, totaling € 35.2 million, comprise impairment losses relating to the carrying amount of old GE engine programs amounting to € 34.3 million and of old military engine programs amounting to € 0.9 million. In each case, the carrying amount was compared with the recoverable amount. The recoverable amount was found to be lower than the carrying amount of the program, and hence an impairment loss was recognized to reduce the carrying amount to the level of the recoverable amount.

The impairment loss on intangible assets in the financial year 2007 relates to the carrying amount of a license for CF34 repair techniques employed in commercial engine maintenance. Comparison of the license's carrying amount with its recoverable amount revealed that the latter was below the carrying amount. Hence an impairment loss of € 14.7 million, representing the full carrying amount of the CF34 license, was recognized in the income statement under cost of sales and attributed to the commercial maintenance business.

Allocation of impairment losses

	2009			2008			2007		
in € million	**OEM**	**MRO**	**Total**	**OEM**	**MRO**	**Total**	**OEM**	**MRO**	**Total**
Impairment losses were recognized for the following classes of assets and operating segments:									
Intangible assets									
Old GE engine programs				34.3		34.3			
Old military programs				0.9		0.9			
CF34 license								14.7	14.7
Total				**35.2**		**35.2**		**14.7**	**14.7**

Reconciliation of segment information with MTU group consolidated financial statements

in € million	2009	2008	2007
Total revenues			
Revenues of the reportable segments	2,654.9	2,761.5	2,612.9
Consolidation	-44.1	-37.2	-37.0
Group revenues	**2,610.8**	**2,724.3**	**2,575.9**
Adjusted earnings before interest and tax (EBIT adjusted)			
EBIT adjusted of the reportable segments	294.6	331.6	312.2
Write-down on assets resulting from PPA	-45.4	-47.5	-54.6
Impairment losses		-35.2	-14.7
Consolidation	-2.3	-0.6	0.4
Earnings before interest and tax (EBIT)	**246.9**	**248.3**	**243.3**
Interest income	2.6	6.4	7.4
Interest expenses	-15.7	-17.2	-38.8
Profit/loss of companies accounted for using the equity method	-1.5	-1.0	-2.3
Financial result on other items	-24.8	-38.7	-30.2
Earnings before tax (EBT)	**207.5**	**197.8**	**179.4**

in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Assets			
Assets of the reportable segments	4,413.0	4,402.9	4,253.4
Consolidation	-1,263.9	-1,206.8	-1,167.9
Group assets	**3,149.1**	**3,196.1**	**3,085.5**
Liabilities			
Liabilities of the reportable segments	2,619.2	2,723.2	2,632.6
Consolidation	-200.8	-144.5	-109.1
Group liabilities	**2,418.4**	**2,578.7**	**2,523.5**

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

Information on revenues derived from products and services

in € million	2009	2008	2007
Commercial engine business			
Manufacturing	997.3	1,090.4	1,050.8
Other products	56.4	55.9	51.2
Total commercial engine business	**1,053.7**	**1,146.3**	**1,102.0**
Military engine business			
Manufacturing	271.9	254.4	237.8
Other products	260.1	242.2	259.7
Total military engine business	**532.0**	**496.6**	**497.5**
Total commercial and military engine business (OEM)	**1,585.7**	**1,642.9**	**1,599.5**
Commercial maintenance business (MRO)			
Engine maintenance, repair and overhaul	948.2	998.2	908.8
Other products	109.4	114.8	95.9
Total commercial maintenance business (MRO)	**1,057.6**	**1,113.0**	**1,004.7**
Total other products of other entities	**11.6**	**5.6**	**8.7**
Consolidation	**-44.1**	**-37.2**	**-37.0**
Group revenues	**2,610.8**	**2,724.3**	**2,575.9**

Information on revenues from major customers

in € million	2009	2008	2007
Revenues from major customers	**1,585.6**	**1,639.0**	**1,496.8**
of which attributable to:			
Commercial engine business (OEM)	991.7	1,053.5	1,002.1
Military engine business (OEM)	460.3	434.6	422.5
Commercial maintenance business (MRO)	133.6	150.9	72.2

Given the structure of MTU's customer base, approximately 60 % of revenues (2008: approximately 60 %) are attributable to nine different customers (2008: nine customers).

Analysis by geographical area

Revenues according to customer's country of domicile

in € million	2009	2008	2007
Germany	535.8	506.9	495.7
Europe	289.2	314.0	267.3
North America	1,388.0	1,525.2	1,391.5
South America	109.2	87.7	69.2
Africa	1.3	7.3	10.1
Asia	265.6	259.8	316.8
Australia/Oceania	21.7	23.4	25.3
Total	**2,610.8**	**2,724.3**	**2,575.9**

Due to the multitude of business activities in which MTU is engaged with a variety of different customers in North America, this region accounts for approximately 53 % of group revenues (2008: North American customers accounted for 56 % of revenues).

Capital expenditure on intangible assets and property, plant and equipment

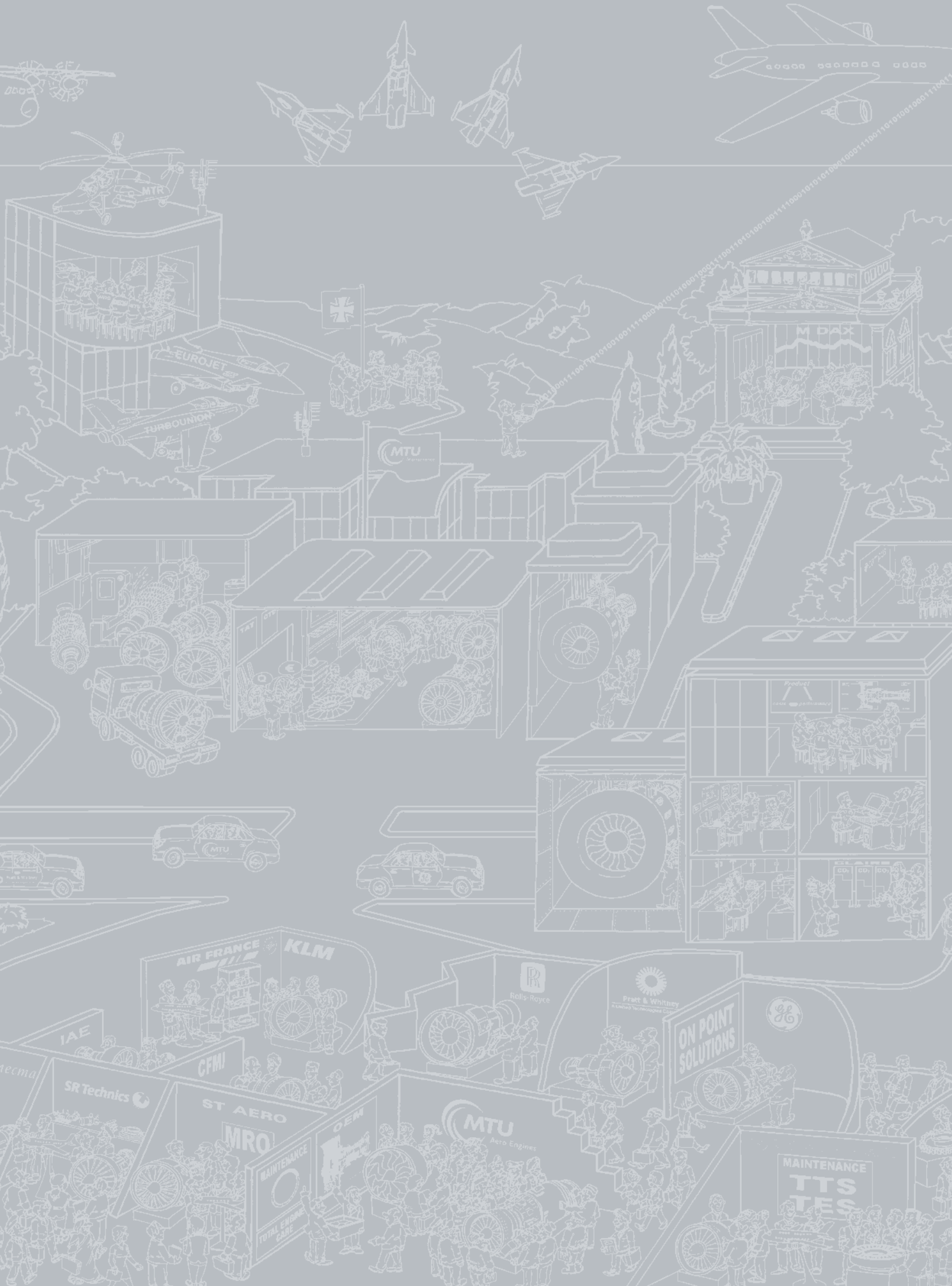
in € million	2009	2008	2007
Germany	113.7	268.4	98.2
Europe	23.5	22.7	
North America	1.9	2.1	2.1
South America			
Africa			
Asia	1.2	0.5	0.5
Australia/Oceania			
Total	**140.3**	**293.7**	**100.8**

Approximately 81 % (2008: approximately 91 %) 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	2009	2008	2007
Germany	1,732.5	1,745.5	1,643.9
Europe	53.0	20.4	
North America	25.1	19.2	17.8
South America			
Africa			
Asia	34.3	36.5	34.6
Australia/Oceania			
Total	**1,844.9**	**1,821.6**	**1,696.3**

The non-current assets comprise intangible assets, property, plant and equipment, financial assets, other assets, and non-current deferred tax assets.


MTR
EUROJET
TURBOUNION
MTU
MDAX
AIR FRANCE
KLM
Rolls-Royce
Pratt & Whitney
IAE
CFMI
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ST AERO
MRO
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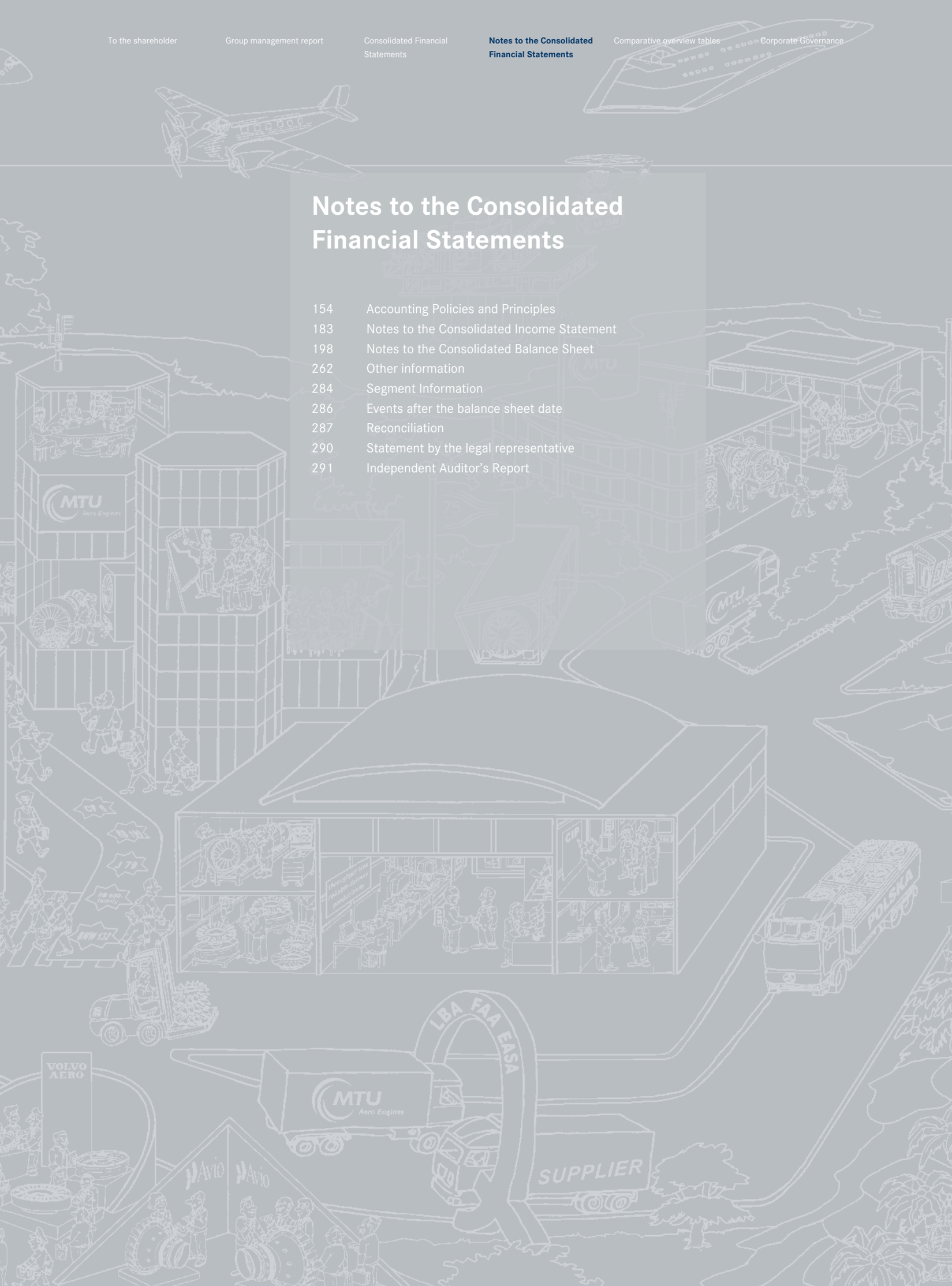
Notes to the Consolidated Financial Statements



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's activities focus on two segments: Commercial and military engine business (OEM business) and commercial maintenance business (MRO business).

MTU's commercial and military engine business covers the development and production of modules, components and spare parts for engine programs, including final assembly. MTU's military engine business additionally includes maintenance services for these engines. The commercial maintenance business 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 8, 2010.

1.1. Basic accounting principles

MTU's consolidated financial statements have been drawn up in accordance with International Financial Reporting Standards (IFRSs), such as these apply in the European Union (EU), and the supplementary requirements of Section 315a (1) of the German Commercial Code (HGB). All IFRSs issued by the International Accounting Standards Board (IASB) which were effective at the time these consolidated financial statements were drawn up and were applied by MTU have been endorsed by the European Commission for use in the EU. MTU's consolidated financial statements thus also comply with the IFRSs issued by the IASB. The term IFRS used in this document refers to both sets of standards.

The consolidated financial statements and group management report as at December 31, 2009 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 are disclosed for significant items in the consolidated financial statements not only for the previous year but also, voluntarily and as additional information, for two previous years.

The consolidated financial statements are drawn up on the basis of historical acquisition or construction costs, exception being made for available-for-sale financial assets, which are measured at fair value, and for financial assets and liabilities (include derivative financial instruments) that are measured at fair value with changes recognized in the income statement. In the presentation of the balance sheet, a distinction is made between non-current and current assets and liabilities. A more detailed presentation of certain of these items in terms of their timing is provided in the notes to the consolidated financial statements. The income statement is laid out according to the cost-of-sales accounting format, in which revenues are balanced against the expenses incurred in order to generate these revenues, and the expenses are recorded in the appropriate line items by function: production, development, selling and general administration. The consolidated financial statements have been drawn up in euros. All amounts are stated in millions of euros (€ million), unless otherwise specified.

The financial statements prepared by MTU Aero Engines Holding AG, 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 2009:

New and revised/amended standards and interpretations

Standard	Title	Date of issuance by the IASB	Effective date[1]	EU endorsement
New standards and interpretations				
IFRS 8	Operating Segments	Nov. 30, 2006	Jan. 1, 2009	Nov. 22, 2007
IFRIC 13	Customer Loyalty Programs	June 28, 2007	July 1, 2008	Dec. 17, 2008
IFRIC 15	Agreements for the Construction of Real Estate	July 3, 2008	Jan. 1, 2009	July 23, 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	July 3, 2008	Oct. 1, 2008	June 5, 2009
IFRIC 18	Transfers of Assets from Customers	Jan. 29, 2009	July 1, 2009[2]	Dec. 1, 2009
Revisions and amendments to standards and interpretations				
IAS 23	Borrowing Costs	Mar. 29, 2007	Jan. 1, 2009	Dec. 17, 2008
IAS 1	Presentation of Financial Statements	Sep. 6, 2007	Jan. 1, 2009	Dec. 18, 2008
IFRS 2	Share-based Payment (vesting conditions and cancellations)	Jan. 17, 2008	Jan. 1, 2009	Dec. 17, 2008
IAS 32	Financial Instruments: Presentation (puttable financial instruments)	Feb. 14, 2008	Jan. 1, 2009	Jan. 22, 2009
Various	Improvements to IFRSs (annual improvements projects 2006 – 2008)	May 22, 2008	Jan. 1, 2009	Jan. 24, 2009
IFRS 1 IAS 27	Cost of investments in subsidiaries, jointly controlled entities, and associates	May 22, 2008	Jan. 1, 2009	Jan. 24, 2009
IFRS 7	Financial Instruments: Disclosures	Mar. 5, 2009	Jan. 1, 2009	Dec. 1, 2009
IAS 39 / IFRIC 9	Financial Instruments: Recognition and Measurement / Reassessment of Embedded Derivatives	Mar. 12, 2009	June 30, 2009[3]	Dec. 1, 2009
Various	Improvements to IFRSs (annual improvements projects 2007 – 2009)	Apr. 16, 2009	various[4]	expected Q1 2010

[1] for annual periods beginning on or after this date
[2] for transfers received by an entity on or after this date
[3] for annual periods ending on or after this date
[4] earliest adoption for annual periods beginning on or after Jan. 1, 2009

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 accounting, measurement or reporting used by MTU or the disclosures included in the consolidated financial statements as at December 31, 2009, or which will possibly or 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 2009 in compliance with the respective effective dates and recommendations for early adoption. Unless another form of presentation is explicitly required by individual standards or interpretations, their application is retrospective, i.e. the statements are presented as if the new accounting and measurement methods had always been applied in this way. Amounts stated in respect of previous periods are adjusted accordingly.

IFRS 8 'Operating Segments'
IFRS 8 was issued by the IASB in November 2006. This standard replaces IAS 14 and, in particular, prescribes the application of a 'management approach' when reporting on the business performance of segments. An operating segment is a component of an entity whose operating results are reviewed regularly by a chief decision-maker to serve as a basis for decisions concerning the allocation of resources to the segment, and for which discrete financial information is available. An explanation of how this actually affects MTU's financial reporting can be found in Part V. (Segment Information).

Revisions to IAS 23 'Borrowing Costs'
The main change in this standard is the removal of the option that permitted borrowing costs directly attributable to the acquisition, construction or production of a qualified asset to be immediately recognized as an expense. Entities are now required to capitalize borrowing costs that form part of the cost of the qualified asset. In this context, a qualified asset is defined as an asset that takes a substantial period of time to get ready for sale or its intended use. The revised standard does not require the borrowing costs to be capitalized for assets measured at fair value, or for inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale. The revised version of IAS 23 applies to borrowing costs relating to qualified assets for which the commencement date for capitalization is on or after January 1, 2009.

The first-time adoption of the revised standard had no effect on MTU's consolidated financial statements for the financial year 2009, because the group did not possess any qualified assets for which the commencement date for capitalization was on or after January 1, 2009. However, in subsequent years, the revised standard will have an impact on MTU in respect of the measurement of contract costs for construction contracts in accordance with IAS 11.18. The effect of including borrowing costs in the contract costs, as now required, will be to increase the contract costs and contract revenues of construction contracts accounted for using the zero-profit method and to improve the financial result. EBIT will thereby remain unchanged and earnings after tax will improve by the amount of the improvement in the financial result. In the case of construction contracts accounted for using the percentage-of-completion method, the financial result will be improved and EBIT reduced by an equivalent amount, resulting in unchanged earnings after tax. In view of MTU's good financing structure and hence the secondary importance of borrowing costs in general, the company believes that the capitalization of borrowing costs will have an insignificant overall impact.

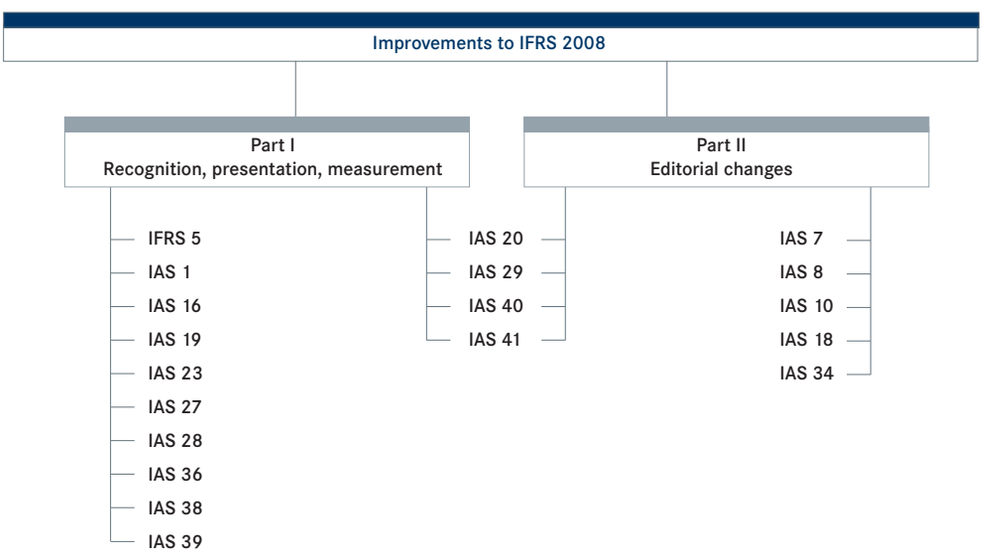
Revisions to IAS 1 'Presentation of Financial Statements'

One of the changes brought about by the revised IAS 1 is the introduction of a 'statement of comprehensive income' to replace or supplement the income statement in IFRS financial statements. The aim of this statement, which recognizes income and expenses directly in equity, is to enable readers to distinguish between changes in the company's equity resulting from transactions with owners and non-owner changes. Companies are given the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals or in two separate statements. MTU has elected to employ the socalled 'two-statement approach' and present both an income statement and a statement of comprehensive income. Moreover, in certain cases, the revised IAS 1 requires the presentation of a balance sheet as at the beginning of the earliest comparative period. MTU has not changed the titles of the constituent parts of its financial statements.

Improvements to IFRSs – a collection of amendments to various different International Financial Reporting Standards resulting from the annual improvements projects 2006 – 2008

These amendments are the result of the IASB's first annual improvements process (AIP) project. The AIP project is divided into two parts:

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



In view of MTU's business model and on the basis of the currently available knowledge of business transactions within the MTU group, the amendments concerning the following standards may have an impact on the consolidated financial statements in the future:

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

Amendment to IAS 19 – Curtailments
A change has been introduced in the accounting treatment of defined benefit plans with respect to past service costs. The amendment clarifies the point that, in cases where changes to a plan result in a reduction in benefits, only the effect of the reduction for future services should be treated as a curtailment according to IAS 19. All other effects are to be treated as (negative) past service cost, because they are related to the benefits for past service. This distinction has an impact on financial statements, because curtailments are recognized immediately in the income statement whereas past service cost is spread over the period up to the date on which it becomes non-forfeitable.

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

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

Amendment to IAS 39 – Reclassification of financial instruments

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

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

The amendment to IFRS 5 concerning non-current assets held for sale and discontinued operations relates to situations in which a company is committed to a planned sale of part of its interest in a subsidiary involving a loss of control while retaining a non-controlling interest. IFRS 5 now clearly states that, in such situations, all assets and liabilities of the subsidiary must be classified as 'held for sale' if the planned sale meets the criteria set out in IFRS 5. The amendment is founded on the circumstance that the company will no longer have a controlling interest in the company after the planned sale. If, on the other hand, the planned sale does not involve a loss of control, the requirements of IFRS 5 do not apply. In this case, the assets and liabilities of the subsidiary representing the part of the company's interest that it intends to sell should be recognized and measured in accordance with the relevant existing IFRSs. The amendments to IFRS 5 are effective for annual periods beginning on or after July 1, 2009.

Amendments to IFRS 7

In March 2009, the IASB issued amendments to IFRS 7 'Financial Instruments: Disclosures' under the title 'Improving Disclosures about Financial Instruments'. The amendments call for additional disclosures about the fair value measurement of financial instruments and the associated liquidity risk. The amended standard is effective for annual periods beginning on or after January 1, 2009. Comparative disclosures are not required in the first year of application. The amended standard's first-time adoption by MTU will not entail any major additional disclosures in the notes.

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

The following IASB accounting standards, which have been issued but were not yet effective for the financial year 2009, have not been applied in advance of their effective date:

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

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
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	expected Q2 2010
Revisions and amendments to standards and interpretations				
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
various	Improvements to IFRSs (annual improvements projects 2007 – 2009)	Apr. 16, 2009	various[2]	expected Q1 2010
IFRS 2	Share-based payment (group-cash-settled share-based payment transactions)	June 18, 2009	Jan 1, 2010	expected Q1 2010
IFRS 1	Additional exemptions for first-time adopters	July 23, 2009	Jan 1, 2010	expected Q2 2010
IAS 32	Financial Instruments: Presentation (classification of rights issues)	Oct. 8, 2009	Feb. 1, 2010	expected Q4 2009
IAS 24	Related Party Disclosures	Nov. 4, 2009	Jan. 1, 2011	expected Q2 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	expected Q2 2010

[1] for annual periods beginning on or after this date

[2] earliest adoption for annual periods beginning on or after Jan. 1, 2009

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 accounting, measurement or reporting used and the disclosures included in the consolidated financial statements in future reporting periods.

IFRS 9 'Financial Instruments'
IFRS 9 is intended to replace the existing standard IAS 39 in three phases up to the end of 2010. Work on the project to completely revise IAS 39 was launched in 2005 as a joint initiative with the Financial Accounting Standards Board (FASB), the U.S. counterpart to the IASB. The aim of the long-term joint project was to improve the accounting and disclosure of financial instruments according to IFRS and US-GAAP requirements, and to reduce complexity. After the publication of the exposure draft in July 2009, the finalized standard IFRS 9 was issued in November 2009, containing revised requirements for the classification and measurement of financial instruments. Given the complexity of the subject matter, it is not yet possible to make any reliable detailed statements regarding the impact of the new standard. From today's standpoint, it is unlikely that the standard will become applicable any earlier than the financial year 2013.

Revisions to IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements'
On January 10, 2008, the IASB concluded the second phase of its long-running, much-debated 'Business Combinations' project and published two revised standards:

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

The revised standards contain substantial amendments concerning the accounting treatment of business combinations, transactions with companies in which the entity holds a non-controlling interest, and loss of control of a subsidiary. IFRS 3 (rev. 2008) is a particularly lengthy document, which deals with many complex accounting issues. Since no transactions with other companies were planned at the reporting date, it is not yet possible to assess the possible impact of the revisions to IFRS 3 and IAS 27 in future reporting periods.

Improvements to IFRSs – a collection of amendments to various different International Financial Reporting Standards resulting from the annual improvements projects 2007 – 2009
The IASB issued a new set of 'Improvements to IFRSs' on April 16, 2009. This is the second time that such amendments have been issued as a result of the annual improvements process (AIP) project. The latest Improvements to IFRSs contain 15 separate amendments to twelve existing IFRSs. As at December 31, 2009, these amendments had not yet been endorsed by the European Union for promulgation as European law. The purpose of the AIP project is to deal with minor, non-urgent but necessary changes to existing standards, which are not covered by another, larger project. Unless otherwise specified, the amendments are effective for annual periods beginning on or after January 1, 2010, with earlier adoption permitted.

The amendments to individual standards have repercussions on the classification of the convertible bond. If the new requirements of IAS 1.69 (d) had been applied – assuming the amendment is endorsed by the EU – it would have been possible to recognize the convertible bond under non-current assets as of December 31, 2009.

The simplification of IFRS 8.23, which no longer requires 'total assets' to be included in the segment information, is an option that MTU will probably also make use of, since this item does not form part of the internal reporting to the chief operating decision-maker (CODM).

Moreover, MTU is currently examining the consequences of the amendments to IAS 17, although to our knowledge this would not result in any changes to the present classification of lease arrangements.

On present knowledge, MTU does not expect any of the amendments to other standards in the improvements project to impact the group's accounting, measurement or reporting methods.

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

MTU Aero Engines GmbH, Munich, which is a consolidated affiliated company of MTU Aero Engines Holding AG, Munich, and for which the consolidated financial statements of MTU Aero Engines Holding AG, Munich, constitute the exempting consolidated financial statements, has invoked the provision of Section 264 (3) of the German Commercial Code (HGB) exempting the company from the obligation to prepare disclosure notes and a management report. The official notice of the company's invocation of the exemption was published in the electronic version of the Federal Gazette (Bundesanzeiger) in the name of MTU Aero Engines GmbH, Munich, on November 23, 2009.

1.3. Shareholder structure

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

Shareholder structure

	Dec. 31, 2009		Dec. 31, 2008		Dec. 31, 2007	
	Shares	in %	Shares	in %	Shares	in %
Free float	48,921,808	94.08	48,770,945	93.79	50,729,590	92.24
Treasury shares	3,078,192	5.92	3,229,055	6.21	4,270,410	7.76
Total	**52,000,000**	**100.00**	**52,000,000**	**100.00**	**55,000,000**	**100.00**

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

The item 'Construction contract receivables' mainly relates to the manufacture of military engines and will continue to be presented in the balance sheet under current assets. Depending on the engine program, the manufacturing phase can extend over a protracted period. This nevertheless represents the usual operating cycle in the military engine business. The item 'Construction contract payables', which consists of prepayments received, has until now been presented under both current and non-current liabilities. To match the presentation of assets, the total amount of construction contract payables, which came to € 607.0 million in 2009 (comparative figure at December 31, 2008: € 520.6 million) is now presented under current liabilities. This restatement has no impact on the group's actual net assets, financial position or results of operations.

Any adjustments or modifications applied in the financial year 2009 have been applied similarly to the comparative data for previous years.

2. Group reporting entity

At December 31, 2009, the MTU group including MTU Aero Engines Holding AG, Munich, held equity investments in 24 companies. MTU Versicherungsvermittlungs- und Wirtschaftsdienst GmbH, Munich, is not fully consolidated, on grounds of immateriality. Its equity capital at December 31, 2009 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	Inter-national	Total
Shareholdings at January 1, 2008	**12**	**11**	**23**
Acquisitions 2008			
Disposals 2008			
Shareholdings at December 31, 2008	**12**	**11**	**23**
Acquisitions 2009		1	1
Disposals 2009		-1	-1
Shareholdings at December 31, 2009	**12**	**11**	**23**

MTU's capital share in these companies is shown in the table in Note 45.1.2. (Major shareholdings).

Equity investments in four joint ventures, five associated companies and two other entities are included in the consolidated financial statements. Of these, the joint venture Pratt & Whitney Canada Customer Service Center Europe GmbH, Ludwigsfelde, is accounted for using the equity method and the group's interest in the joint venture MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China, is proportionately consolidated at 50%. The equity investments in the remaining joint ventures and associated companies and the two other entities are recognized at amortized cost owing to their insignificant value to the group, as are the equity investments in two subsidiaries. A full list of major shareholdings is provided in Note 45.1.2. (Major shareholdings).

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 addition to the group's assets is recognized under 'Financial assets'.

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 disposal of assets and liabilities attributable to MTU Aero Engines North America, Inc., Newington, USA, and the acquisition of a 19.3% stake in MEPC, Riyadh, Saudi Arabia, did not materially affect the composition of the group reporting entity in respect to previous comparative periods. The methods of consolidation applied in 2009 did not deviate from those in previous periods. No reconciliation of results was necessary.

MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland, which was created with effect of July 20, 2007, was included as a fully consolidated company in the financial statements for the first time in 2008. It had not been included previously on grounds of immateriality.

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.

Subsidiaries

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

Associated companies

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

Joint ventures

Joint ventures are companies over which MTU exercises joint control together with another entity. Holdings in joint ventures with a significant impact on the group financial statements are either consolidated proportionately or accounted for using the equity method in these statements. MTU's holding in the joint venture MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China, is proportionately consolidated at 50%. The group's investment in Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde, is accounted for using the equity method and included in the consolidated financial statements. Equity investments in all other joint ventures are recognized at cost on grounds of immateriality.

Non-significant investments

Non-significant investments are shares in companies and stakes in engine programs whose overall impact on the group's net assets, financial situation and operating results is not material. These equity investments are accounted for at cost in the consolidated financial statements.

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 2009	50% share 2008	50% share 2007
Disclosures relevant to the income statement			
Income	136.8	143.1	97.7
Expenses	-122.2	-131.9	-92.0
Balance of income and expenses	**14.6**	**11.2**	**5.7**
Disclosures relevant to the balance sheet			
Non-current assets	34.3	36.5	34.6
Current assets	61.5	58.0	49.4
Total assets	**95.8**	**94.5**	**84.0**
Equity	66.5	54.1	37.5
Non-current liabilities	0.2	10.8	18.0
Current liabilities	29.1	29.6	28.5
Total equity and liabilities	**95.8**	**94.5**	**84.0**

At December 31, 2009, MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China, had a total of 551 employees (2008: 487).

3. Consolidation principles

All business combinations are accounted for using the acquisition method as defined in IFRS 3. Under the acquisition method, the acquired identifiable assets, liabilities, and contingent liabilities are measured initially by the acquirer at their fair values at the acquisition date and recognized separately. In accordance with IAS 36, goodwill is tested for impairment at least annually, or at shorter intervals if there is an indication that the asset might be impaired. If the group's interest in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, that excess (negative goodwill) is immediately recognized in the income statement – after remeasurement as required by IFRS 3.56.

The effects of intragroup transactions are eliminated. Accounts receivable and accounts payable as well as expenses and income between the consolidated companies are netted. Internal sales are recorded on the basis of market prices and intragroup profits and losses are eliminated.

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

Investments in joint ventures – with the exception of MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China – are accounted for using the equity method from the date of acquisition and are recognized initially at cost. Any difference arising at the acquisition date between the acquisition cost and fair values of the identified assets, liabilities and contingent liabilities is recognized as goodwill. 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 equity and do not have any impact on the net profit/loss for the year.

5. Accounting policies

The financial statements of MTU Aero Engines Holding AG, Munich, and of its German and foreign subsidiaries are drawn up using uniform accounting policies in accordance with IAS 27.

5.1. Revenues

Revenues from the sale of goods are recognized when goods are delivered to the customer and accepted by the latter, in other words when the significant risks and rewards of ownership of the goods have been transferred by the seller. Further recognition criteria are the probability that economic benefits associated with the transaction will flow to the seller and the revenues and costs can be measured reliably. The company's customers are trading partners from risk- and revenue-sharing programs, original equipment manufacturers (OEMs), cooperation entities, public-sector contractors, airlines and other third parties.

Revenues from contractual maintenance (time and material, Fly-by-Hour, Power-by-the-Hour contracts) in the commercial MRO business are recognized when the maintenance service has been performed and the criteria for recognizing revenues on overhauled engines have been met. In the case of long-term commercial maintenance agreements and military development and 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 36. Construction contract liabilities). Further explanation of the measurement of percentage of completion is given in connection with work in progress (Note 5.11. Inventories).

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

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

5.2. Cost of sales

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

5.3. Research and development expenses

Expenditure in connection with **research activities** (research costs) is charged to expense in the period in which it is incurred.

In the case of development costs, a distinction is drawn between purchased ('externally acquired') development assets and self-created ('internally generated') development assets. Project costs attributable to externally acquired development assets are generally allocated to 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.

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

5.4. Intangible assets

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

Intangible assets with a **finite useful life** are carried at cost and amortized on a straight-line basis over their useful lives.

With the exception of goodwill, technology assets, customer relations and capitalized program assets, intangible assets are generally amortized over a period of 3 years. Program assets are amortized over their useful lives of up to 30 years, technology assets over 10 years, and customer relations over periods of between 4 and 26 years.

Engine programs that had reached the production and spare-parts phase at the date of January 1, 2004, when the company was acquired by Kohlberg Kravis Roberts & Co. (KKR) from the then DaimlerChrysler AG, were recognized at their fair value as part of the identification of assets and the subsequent purchase price allocation. Program assets are amortized on a scheduled basis over the expected product life cycle (maximum of 30 years).

The excess of the purchase price of an acquired entity over the group's interest in the acquired entity's net assets and liabilities is recognized as goodwill. Goodwill arising from an acquisition is recognized as an intangible asset. 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 (Accounting for Government Grants and Disclosure of Government Assistance) only if there is reasonable assurance that the conditions attached to them will be complied with and that the grants will be received. Grants are recognized as income over the periods necessary to match them with the related costs 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 as income using reduced depreciation/amortization amounts over the lifetime of the depreciable asset.

5.6. Property, plant and equipment

Property, plant and equipment are subject to wear and tear and are carried at their acquisition or construction cost less accumulated depreciation charges and cumulative impairment losses. The temporal method of remeasurement is not applied. Depreciation on property, plant and equipment is calculated using the linear method according to the useful life of the asset.

Scheduled depreciation is based on the following scheduled useful lives:

Useful lives of assets (in years)

Buildings	25-50
Lightweight structures	10
Property facilities	10-20
Technical equipment, plant and machinery	5-10
Operational and office equipment	3-15

The depreciation of machines used in multi-shift operation is accelerated by using a higher shift coefficient to take account of additional usage.

The 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 costs directly attributable to the production process and an appropriate proportion of production-related overheads, including depreciation and pro rata administrative and social security costs. Borrowing costs are not recognized as a component of acquisition or construction cost, up until the end of the financial year 2008. Nor were any borrowing costs capitalized in the financial year 2009 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 sublet property amounted to €0.9 million in the financial year 2009.

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 incidental to the ownership of that asset. If the lessor retains the substantial risks and rewards (**operating lease**), the leased asset is recognized in the lessor's balance sheet, and is measured according to the accounting requirements applicable to that asset. The lessee in an operating lease arrangement recognizes lease payments as an expense throughout the duration of the lease arrangement.

If the substantial risks and rewards incidental to the ownership of the leased asset are transferred to the lessee (**finance lease**), the leased asset is recognized in the lessee's balance sheet. The leased object is 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 depreciation expense is recognized in the income statement. The lessee immediately recognizes a finance lease liability corresponding to the carrying amount of the leased asset. The effective interest rate method is employed to reduce and amortize the lease liability.

5.8. Impairment losses on intangible assets and on property, plant and equipment

At each balance sheet date, an assessment is carried out to reveal any indications that the value of intangible assets or items 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 recognized at amortized cost, but instead tested for impairment at least once each year.

The impairment loss on intangible assets and on 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 ultimately responsible for the asset. If the reasons for impairment losses recognized in a prior period no longer exist, the impairment on these assets is reversed, except in the case of goodwill.

The recoverable amount is the higher amount of the asset's fair value less costs to sell and its value in use.

The recoverable amount of the 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. Available-for-sale financial assets and discontinued operations

Available-for-sale financial assets are classified as such if their carrying amount can only be realized by sale and not through continued use. Assets corresponding to this description are measured at the lower of their carrying amount or their fair value less costs to sell, and are classified as available-for-sale financial assets. Alternatively, an impairment loss may be recognized for this class of asset if the fair value less costs to sell is lower than the carrying amount.

A **discontinued operation** is an area of business that is either classified as available for sale or has already been disposed of, and can be treated as a discrete entity for the purposes of financial reporting and whose activities can be clearly delimited from those of other areas of business.

If planned measures or selling activities in connection with non-current assets or discontinued operations are introduced after the balance sheet date but before the financial statements are published, disclosures relating to the available-for-sale financial assets are included in the notes to the financial statements. The assets are not classified as available-for-sale in the consolidated financial statements for the financial year in question, and their scheduled depreciation/amortization is continued.

5.10. Financial assets

5.10.1. Investments in non-consolidated subsidiaries and associated companies, equity investments in joint ventures, and other equity investments

Investments in non-consolidated subsidiaries and associated companies, equity investments in joint ventures, and other equity investments whose overall qualitative and quantitative impact on the MTU group's net assets, financial situation and operating results is not material, are systematically classified as available-for-sale financial assets. Since in most cases it is not possible to reliably measure their fair value because an active market is not available, 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 of profits or losses of joint venture companies accounted for using the equity method are allocated on a pro rate basis to profit/loss and the corresponding carrying amount of the investment. This profit/loss is reported in the financial result on a separate line item for 'profit/loss of companies accounted for using the equity method'.

5.10.2. Asset-based loans

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

5.11. Inventories

Raw materials and supplies

Raw materials and supplies are measured at the lower of average acquisition cost and net realizable value. Trade discounts and concessions and customer loyalty awards are taken into account when determining acquisition costs. Advance payments for inventories are capitalized. Acquisition cost comprises all direct costs of purchasing and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price generated in the ordinary course of business for the finished product in question, less estimated costs necessary to make the sale (costs to complete and selling costs).

Work in progress

Work in progress is 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 individual cost items directly attributable to the production process, these include an appropriate share of the cost of essential materials and production overheads, together with the depreciation/amortization of assets utilized directly in connection with the production process. Such expenses are derived principally from the costs incurred by defined cost centers in the production sector. Administrative expenses are also included to the extent that they can be attributed to production operations. Borrowing costs are not capitalized because inventories (which include work in progress) are not regarded as a qualified asset according to IAS 23.

Construction contracts

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 determined using the PoC method, taking profit sharing into account where relevant, are recognized as future contract receivables in the balance sheet and as revenues arising from 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.

5.12. Financial instruments

A **financial instrument** is a contract that simultaneously gives rise to a financial asset in one company and to a financial liability or equity instrument in another company. Financial assets include, in particular, cash and cash equivalents, trade receivables, loans and other receivables, financial investments held to maturity, and non-derivative and derivative financial assets held for trading. Financial liabilities often entitle the holder to return the instrument to the issuer in return for cash or another financial asset. These include, in particular, bonds and other debts evidenced by certificates, trade payables, liabilities to banks, finance lease liabilities, borrowers' note loans and derivative financial liabilities. Financial instruments are always recognized as soon as MTU becomes a party to the contractual provisions of the instrument. In the case of regular way purchases or sales (purchases or sales under contractual terms that provide for delivery of the asset within a certain period, which is normally determined by regulations or conventions in the respective market), however, the trade date – the date on which the asset is delivered to or by MTU – is of importance to the asset's initial recognition and derecognition.

Financial assets are measured in accordance with their classification according to IAS 39. MTU makes a distinction between these financial assets on the basis of their intended purpose as follows: 'fair value through profit or loss', 'held to maturity', 'loans and receivables' and 'available for sale'. The assignment of an asset to a category, which moreover has implications for measurement subsequent to initial recognition, is performed at the time of acquisition and is primarily determined by the purpose for which the financial asset is held. No financial assets were reclassified in the financial year 2009, or in prior reporting periods.

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

Fair value through profit or loss (FVtPL)

FVtPL financial instruments are measured at fair value through profit or loss. This category has two subcategories: 'held for trading' and 'designated at fair value through profit or loss'. To date, MTU has not made any use of the option allowing financial instruments to be designated at fair value through profit or loss. The subcategory 'held for trading' primarily includes derivative financial instruments that do not form part of an effective hedging relationship as defined in IAS 39 and which hence are required to be classified as 'held for trading'. Any profit or loss resulting from remeasurement is recognized in the income statement. The measured value of FVtPL financial instruments at the balance sheet date may lie above the original acquisition costs. Changes in fair value are recognized in the income statement for the current reporting period. This also applies to interest and dividends paid on the asset.

Held to maturity (HtM)

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

Loans and receivables (LaR)

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

When determining the expected future cash flows for a portfolio in this context, past experience with credit losses is taken into account along with the contractually agreed payment flow. Impairment loss on trade receivables is sometimes accounted for by means of valuation allowances. The decision whether to account for credit risk by means of an allowance account or by directly recording an impairment loss on receivables depends on the degree of certainty with which the risk situation can be assessed.

Available for sale (AfS)

Other non-derivative financial assets are classified as **'available for sale'**. These are always measured at fair value. Gains or losses resulting from the measurement of fair value are recognized directly in equity. The cumulative gain or loss that was recognized in equity in connection with the measurement of fair value is not recognized in profit or loss in the income statement until the financial asset is derecognized. This does not apply in the case of significant or long-lasting impairment to the fair value of an equity instrument carried at below its acquisition cost, or in the case of fair value changes in debt instruments due to foreign exchange gains or losses. These impairments are recognized in the income statement prior to the disposal of the financial asset. 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 on the part of a debtor, a high probability that insolvency proceedings will be brought against the debtor, the closure of an active market for the financial asset, significant negative changes in technological, economic, legal or market conditions affecting the issuer, or a persistent decline in the fair value of the financial asset below its amortized cost. The amount of the impairment loss, which is indicated if its fair value is lower than its carrying amount, is recognized in the income statement. 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 appropriate amount of the previously recognized impairment loss is reversed through profit and loss. Impairment losses affecting available-for-sale equity instruments (or equity instruments not quoted in an active market that are accounted for at cost) are not allowed to be reversed through profit and 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. Cash and cash equivalents

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

5.14. Financial liabilities

Initial measurement of 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.

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

Measurement of financial liabilities subsequent to initial recognition

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

5.15. 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 can be positive or negative, and 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. If the fair value is negative, they are recognized under financial liabilities **('financial liabilities held for trading; FLHfT')**.

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

MTU applies the requirements relating to hedging instruments in accordance with IAS 39 **(cash flow hedge accounting)** to hedge future payment cash flows. This reduces volatility in cash flows that could affect profit and loss. In doing so, MTU complies with the strict requirements of IAS 39 concerning hedge accounting. When a hedge is undertaken, the relationship between the financial instrument designated as the hedging instrument and the underlying transaction is documented, as are the risk management objective and strategy for undertaking the hedge. This includes assigning specific hedging instruments to the corresponding future transactions and assessing the effectiveness of the designated hedging instrument. Existing cash flow hedges are monitored for effectiveness on a regular basis.

Cash flow hedges are used to hedge the exposure of future cash flows arising from underlying transactions to fluctuations in foreign currency exchange rates. When a cash flow hedge is in place, the effective portion of the change in value of the hedging instrument is recognized directly in equity under 'other comprehensive income', together with attributable deferred taxes, until such time as the outcome of the hedged transaction is recognized.

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

5.16. 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 and their carrying amount in the consolidated balance sheet ('balance sheet liability method'). Similarly, where appropriate, deferred tax assets are established on tax losses, interest expense and tax credits available for carry-forward. Deferred tax assets are recognized to the extent of the probability that taxable income will be available against which the deductible temporary difference can be applied together with losses that are permitted to be carried forward for tax purposes and tax refunds. Deferred tax assets and liabilities are measured on the basis of the tax rates expected to be applicable on the date when the temporary differences are reversed. The taxation rules in force or substantively enacted at the balance sheet date are applied when measuring deferred tax assets and liabilities. Deferred tax assets and liabilities are offset, insofar as this meets the requirements of IAS 12.74.

5.17. Pension provisions

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 in preference to the alternative SORIE method. If the SORIE method had been applied, the unrecognized actuarial losses amounting to € 37.6 million (2008: € 20.8 million) would have increased pension obligations while at the same time reducing equity – net of deferred tax assets.

By contrast, when using the corridor method, cumulative actuarial gains and losses are not recognized unless they exceed 10% of present value of the defined benefit obligation or 10% of the fair value of the relevant plan assets, whichever is higher. When actuarial gains or losses exceed the 10% corridor, the excess is divided by the expected average remaining working lives of the employees covered by the relevant pension plan, and recognized from the beginning of the following financial year as income or expense, as an additional component of the pension costs. The expense attributable to unwinding the interest on pension obligations and the expected return on plan assets are reported separately in the financial result. All other expenses attributable to pension obligations are allocated to the appropriate income statement line items by function.

Provisions for part-time early retirement working arrangements and long-service awards are measured on the basis of actuarial reports prepared in accordance with IAS 19.

5.18. 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 fulfill the obligation, and it is possible to reliably estimate the amount of the obligation. Non-current provisions due in more than one year are measured on the basis of their settlement amount, discounted to the balance sheet date. The company measures provisions for pending losses on onerous contracts at the lower of the expected costs on settlement of the contract and the expected costs on termination of the contract.

5.19. Contingent liabilities and contingent assets

Contingencies (contingent liabilities and assets) are potential obligations or assets arising from past events whose existence depends on the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of MTU.

Contingent liabilities are also present obligations resulting from past events for which there is unlikely to be an outflow of economic resources, or where the amount of the obligation cannot be reliably estimated. Obligations arising from contingent liabilities assumed and identified in connection with an acquisition are recognized if it is possible to reliably 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.

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

5.20. Share-based payment transactions

Share options (share-based payment transactions settled by the issuance of equity instruments) are measured at fair value at the grant date. The fair value of the obligation is recognized during the vesting period as a personnel expense and in equity. Exercise conditions that are not tied to market conditions are included in the assumptions concerning the number of options that are expected to be exercised. 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. Actual amounts may deviate from those estimated. The estimations and corresponding assumptions detailed below are crucial to an understanding of the underlying risks of financial reporting and the effects that these estimations, assumptions and uncertainties might have on the consolidated financial statements. Actual values may occasionally deviate from the assumed and estimated values. Adjustments may be made to carrying amounts at the time that better knowledge comes to light. 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 2009, the contingent liabilities for individual engine programs identified and measured in connection with the purchase price allocation were affected particularly by delays in the delivery of engines and by changes in the discount rate. If the discount rate at December 31, 2009 had been 100 basis points higher or lower, the sensitivity analysis based on this assumption would not have led to any change in the carrying amounts recognized under 'other provisions', because the contingent liabilities have to be measured at the initially recognized amount less the cumulative amortization amounts recognized in accordance with IAS 18. Further explanatory comments may be found in Note 33 (Other provisions) to the consolidated financial statements.

- The basic premises underlying the measurement of construction contract receivables for the TP400-D6 military engine program for the A400M military transporter had to be entirely reviewed due to uncertainties arising from delayed deliveries and the uncertain technical status on the one hand, and the general uncertainty surrounding the future of the program. As the result of the reassessment of the time schedule undertaken by MTU at the end of the year, taking into account all recalculated premises, the carrying amount of construction contract receivables for the TP400-D6 was written down and an impairment loss recognized in the income statement. Moreover, a provision of € 45.3 million over and above the carrying amount of the construction contract receivables was allocated. When determining the amount of the impairment and the necessary allocation of provisions for the engine program, MTU made the assumption that the program will be continued. The contract would have to be completely recalculated if the engine program were to be cancelled. The measurement of the impairment and allocated provision at December 31, 2009 also includes a proportional share of contract penalties that, according to MTU's current estimates, the company would be required to pay.

Due to the prolonged product life cycle implicit in the assumption that the engine program will be continued, changes in the applied interest rates also have a significant impact on the measurement of the impairment and allocated provision.

If it is assumed that the discount rate at December 31, 2009 had been 100 basis points higher or lower, the sensitivity analysis based on this assumption produces the following hypothetical effects on the carrying amount of the provision:

Carrying amount of provision for the TP400-D6 in the event of changes in the discount rate

in € million		
Interest rate sensitivity in PVBP[1)]	+100	-100
Carrying amount of provision for the TP400-D6 in the event of changes in the discount rate	**-63.6**	**-22.3**

[1)] PVBP = present value of a basis point

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).

- **Financial assets** have to be classified in one of the categories ‘held-to-maturity investments’, ‘loans and receivables’, ‘available-for-sale financial assets’ or ‘financial assets at fair value through profit or loss’.
- When measuring **pension provisions and similar obligations**, different methods can be applied to determine actuarial gains and losses. The method used by MTU is the so-called corridor method (applying a corridor of 10 %).
- Certain **contractual obligations** require that a decision be made to classify them as contingent liabilities, provisions or other liabilities.
- The measurement of **property, plant and equipment, intangible assets and financial assets** comprising a carrying amount at the end of the financial year of € 1,814.8 million (2008: € 1,808.4 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 present competitive situation, expectations concerning the growth of aviation and the aircraft industry, changes in the cost of capital, changes in the future availability of financing funds, aging and obsolescence of technologies, the suspension of services, present replacement costs, purchase prices paid in comparable transactions, and other general changes providing evidence of impairment.

  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 fair values of new engine programs in both the commercial and military engine business are based depends on the assumption that it will be possible to raise funds on a continuous basis, but also that it will be necessary to make continuous investments in order to generate sustainable growth. The discounted-cashflow-method was used to determine the recoverable amount. 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. One of the key sets of assumptions on which management bases its estimation of the recoverable amount thus concerns the cash flows of the cash-generating units.

These estimations, including the method used to obtain them, may have a significant impact on the determined recoverable amount and ultimately on the amount of the impairment loss recognized on goodwill. Reference is made to Note 40. (Measurement of the recoverable amount of operating segments to which goodwill has been attributed) 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 in order to account for estimated losses arising from the insolvency of customers. Management bases its judgment of the appropriateness of allowances for doubtful accounts on the repayment structure of the balance of settlements and past experience with the writing-off of debts, the customer's credit standing, and changes in the conditions of payment. At December 31, 2009, valuation allowances on trade receivables amounted to € 7.9 million (2008: € 10.4 million). If the customer's financial situation should deteriorate, the volume of the allowances that actually have to be created may exceed the expected volume.

- **Revenues** in the military engine business and in the commercial maintenance business are recognized in progressive stages as the work advances, using the percentage-of-completion method, 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. This information provides an adequately reliable basis on which to estimate the corresponding 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 € 16.9 million (2008: € 1.4 million) were recognized at December 31, 2009. The utilization of deferred tax assets depends on the possibility of generating sufficient taxable income in a particular tax category and tax jurisdiction, taking into account where appropriate any statutory restrictions relating to the maximum periods over which losses may be carried forward. A variety of factors are used to assess the probability that it will be possible to utilize deferred tax assets, including past operating results, operating business plans, the period over which losses can be carried forward, and tax planning strategies. If the actual results deviate from these estimations, or if these estimations have to be adjusted in a future period, this may have detrimental effects on the group's net asset position, financial situation and operating results. If there is a change in the value assessment of deferred tax assets, the recognized deferred tax assets must be written down.

- The discount rate is an important factor when determining what **provisions** must be allocated **for pensions and similar obligations.** An increase or decrease of one percentage point in the discount rate can lower or raise the amount of pension obligations by approximately € 36 million (2008: approximately € 40 million). Given that actuarial gains and losses are only recognized if they exceed the higher of the amount of total obligations or the fair value of plan assets by 10%, changes in the discount rate usually have no impact, or only an insignificant impact, on the recognized expense or carrying amount of the provisions for the following year in respect of the retirement benefit plans in place within the MTU group.

Pension obligations for employee benefits that are classified and accounted for as defined benefit plans are not covered by any other plan assets except for the plan assets of MTU Maintenance Canada Ltd., Richmond, Canada and MTU München Unterstützungskasse GmbH, Munich. The existing plan assets are offset against the pension obligations. If the respective plan assets should exceed the corresponding pension obligations, the surplus amount of the plan assets is capitalized according to IAS 19.58A.

The total value of pension obligations and therefore the expenses in connection with employees' retirement benefits are determined using actuarial methods based on assumptions concerning interest rates and life expectancy. If it should become necessary to modify these assumptions, this could have a significant effect on the future amount of pension provisions or the expense from pension obligations.

Changes to assumptions used to estimate adjustments to contributions to the pension guarantee fund for 2009 led to the recognition of an amount of € 3.4 million under personnel expenses in the appropriate income statement line items by function. The adjustment to annual contributions is based on new estimates by the pension guarantee fund due to the increased number of companies invoking insolvency proceedings as a result of the financial crisis.

- The recognition and measurement of **other provisions** amounting to € 421.1 million (2008: € 479.4 million) and contingent liabilities amounting to € 144.5 million (2008: € 140.3 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 fulfil 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:** In the financial year 2008, MTU repurchased units of its own convertible bond with a total nominal volume of € 27.2 million. The repurchase expense was split into an equity component and a liability component. The split between these two components was based on substantial discretionary scope given that, in MTU's estimation, credit spreads had risen to exceptionally high levels at the time of acquisition as a result of the financial market crisis, and these did not adequately reflect MTU's continuing good credit ratings. If the scope for discretionary decision-making when dividing the repurchase expense into an equity component and a liability component had been applied at the upper or lower end of the range of parameters observed on the market, the expense for the repurchase exercise in September 2008 might justifiably have been € 0.4 million higher or € 0.5 million lower, and the expense for the repurchase exercise in October 2008 might justifiably have been € 1.4 million higher or € 1.4 million lower.

- There was no requirement to classify or recognize non-current assets or disposal groups as 'held for trading', 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 11. (Other operating income and expenses).

Further to the above, there were no other changes to estimates or forecasts with a significant effect on the results of the reporting period. Nor were there any errors of judgement in prior reporting periods requiring disclosure in 2009.

All assumptions and estimates are based on the prevailing conditions and judgements made at the balance sheet date. Estimations of future business developments also take into account the economic environment of the industry and the regions in which MTU is active, such as are deemed realistic at that time. In order to obtain new information, MTU mainly relies on the services of internal experts and external consultants such as actuaries and legal counsels. Changes to the estimations of these obligations can have a significant impact on future operating results.

II. Notes to the Consolidated Income Statement

6. Revenues

Revenues have developed as follows:

Revenues

in € million	2009	2008	2007
Commercial engine business (OEM)			
Manufacturing revenues	997.3	1,090.4	1,050.8
Other revenues	56.4	55.9	51.2
Total commercial engine business	**1,053.7**	**1,146.3**	**1,102.0**
Military engine business (OEM)			
Manufacturing revenues	271.9	254.4	237.8
Other revenues	260.1	242.2	259.7
Total military engine business	**532.0**	**496.6**	**497.5**
Total commercial and military engine business (OEM)	**1,585.7**	**1,642.9**	**1,599.5**
Commercial maintenance business (MRO)	**1,057.6**	**1,113.0**	**1,004.7**
Other entities/consolidation	-32.5	-31.6	-28.3
Total revenues	**2,610.8**	**2,724.3**	**2,575.9**

In 2009, group revenues decreased year on year by € 113.5 million to € 2,610.8 million, reflecting the negative impact of lower revenues in the commercial engine and in the commercial maintenance business. Additional information can be found in Section 3.1.2. (Operating segments) of the group management report. 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’.

7. Cost of sales

Cost of sales includes an increase of € 11.5 million (2008: a reduction of € 1.3 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).

Cost of sales

in € million	2009	2008	2007
Cost of materials	-1,684.5	-1,695.9	-1,629.7
Personnel expenses	-369.4	-373.1	-350.2
Depreciation and amortization	-113.3	-146.4	-137.1
Other cost of sales[1)]	15.0	-25.4	-12.5
Total Cost of sales	**-2,152.2**	**-2,240.8**	**-2,129.5**

[1)] mainly comprises changes in inventories for work in progress, the effect of translation differences, and changes in provisions

8. Research and development expenses

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

Research and development expenses

in € million	2009	2008	2007
Cost of materials	-56.2	-36.9	-37.0
Personnel expenses	-60.1	-56.1	-45.9
Depreciation and amortization	-6.7	-8.1	-5.9
Research and development expenses	**-123.0**	**-101.1**	**-88.8**
of which the following amounts were capitalized:			
Development costs (OEM)	12.6	2.8	
Development costs (MRO)	4.8	3.4	4.3
Capitalized development costs	**17.4**	**6.2**	**4.3**
Expensed research and development costs	**-105.6**	**-94.9**	**-84.5**

Development costs for the GE38 engine program for the CH-53K heavy-lift transport helicopter amounting to € 8.3 million, incurred in connection with the risk- and revenue-sharing agreement with the General Electric Company (GE), were capitalized. Development costs for the GEnx engine program amounting to € 4.3 million were also recognized as intangible assets.

Development costs for special repair techniques for use in engine maintenance, amounting to € 4.8 million, were also capitalized (2008: € 3.4 million), given that they met the recognition criteria for intangible assets according to IAS 38. The research costs were not capitalized.

Thus, out of the total € 123.0 million (2008: € 101.1 million) company-funded research and development expenditure generated internally, a total of € 17.4 million (2008: € 6.2 million) was recognized as self-created intangible assets. These assets will be amortized over the useful economic life of the corresponding engine program or technology from the time at which it becomes ready for sale or use.

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

9. Selling expenses

Recognized selling expenses comprise expenses for advertising and marketing, expenses in connection with trade shows and exhibitions including notably the company's presence at the Paris Air Show in Le Bourget, media relations expenses, and valuation allowances and write-downs on trade receivables.

Selling expenses

in € million	2009	2008	2007
Cost of materials	-10.1	-10.1	-14.1
Personnel expenses	-44.4	-45.1	-42.5
Depreciation and amortization	-3.8	-3.0	-3.7
Other selling expenses	-13.9	-42.0	-14.7
Total Selling expenses	**-72.2**	**-100.2**	**-75.0**

Selling expenses decreased year on year by € 28.0 million. In 2008, under the terms of the risk- and revenue-sharing agreement with the General Electric Company (GE), MTU acquired sales and supply rights amounting to € 27.6 million in respect of the GE38 engine program. However, this expenditure does not yet meet the recognition criteria for intangible assets.

10. General administrative expenses

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

General administrative expenses

in € million	2009	2008	2007
Cost of materials	-6.3	-5.2	-8.2
Personnel expenses	-32.3	-27.1	-26.4
Depreciation and amortization	-2.6	-2.7	-2.9
Other administrative expenses	-3.6	-9.2	-8.3
Total General administrative expenses	**-44.8**	**-44.2**	**-45.8**

General administrative expenses remained virtually unchanged at € 44.8 million (2008: € 44.2 million). The conclusion of new pension agreements with the members of the MTU Board of Management created a vested benefit obligation, which is recognized in the income statement. More detailed information on defined benefit plans is provided in Note 31. (Pension provisions) and in the management compensation report in the Corporate Governance section of this Annual Report. By contrast, other administrative expenses decreased by € 5.6 million (2008: increased by € 0.9 million) as the result of the higher proportion of overhead costs transferred to companies outside the group.

11. Other operating income and expenses

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). 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 acquiree of the group of assets is included in cash flow from investing activities.

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 sublet property owned by MTU amounted to € 0.9 million in the financial year 2009. Additionally, in 2009 MTU itself rented parts of buildings from third parties, for which the company incurred expenses for rental payments amounting to € 0.7 million. This rented property was sublet to external companies, generating rental income of approximately € 0.8 million.

In 2009, as in the previous year, other operating income did not include any government grants.

Other operating income and expenses

in € million	2009	2008	2007
Income			
Gains from the disposal of property, plant and equipment	4.6	4.3	0.8
Reimbursement of insurance claims	6.4	2.9	2.8
Rental income			
Sublet property owned by MTU	0.9		
Sublet property owned by third parties	0.8		
Sundry other operating income	9.3	4.5	2.9
Total Other operating income	**22.0**	**11.7**	**6.5**
Expenses			
Losses from the disposal of property, plant and equipment	-0.7	-3.3	-0.4
Rental payments for sublet property	-0.7		
Expenses associated with insurance claims	-4.8	-2.7	-2.7
Sundry other operating expenses	-4.9	-1.6	-1.2
Total Other operating expenses	**-11.1**	**-7.6**	**-4.3**
Result	**10.9**	**4.1**	**2.2**

12. Interest result

The lower interest result in 2009, which decreased by a total of € 2.3 million compared with the previous year, is mainly attributable to a decrease in interest income, despite greater liquidity. This was caused by the steep drop in interest rates. The 3-month Euribor rate, which serves as the reference for short-term investments, fell by 210 basis points from 2.8% at the beginning of the year to 0.7% at the end of the financial year.

Interest income

in € million	2009	2008	2007
Interest income	**2.6**	**6.4**	**7.4**
Promissory notes	-7.7	-8.6	-7.9
Expense resulting from early repayment of high yield bond			-19.1
Bank interest	-4.6	-4.7	-4.8
Loan interest			-2.1
Finance lease interest expense	-1.7	-2.2	-2.5
Interest expense attributable to non-consolidated companies	-0.1	-0.6	-0.3
Other interest expenses	-1.6	-1.1	-2.1
Interest expenses	**-15.7**	**-17.2**	**-38.8**
Interest result (balance of income and expenses)	**-13.1**	**-10.8**	**-31.4**
Thereof: on financial instruments classified according to IAS 39 as:			
Loans and receivables (LaR)	2.4	3.6	2.3
Available-for-sale financial assets (AfS)			0.1
Financial liabilities measured at amortized cost (FLAC)[1]	-15.7	-15.0	-35.3
Financial instruments not within the scope of IFRS 7 or IAS 39	0.8	0.9	4.4

[1] Interest expense calculated using the effective interest method

Interest income on financial instruments which are not covered by either IFRS 7 or IAS 39 amounted to € 0.8 million (2008: € 0.9 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. The operating loss of € 1.5 million (2008: € 1.0 million) was a result of the continuing difficult market conditions which were negatively affected by the exchange rate parity between the U.S. dollar and the euro.

Profit/loss of companies accounted for using the equity method

in € million	2009	2008	2007
Profit/loss of companies accounted for using the equity method	-1.5	-1.0	-2.3

14. Financial result on other items

The financial result on other items improved in the financial year 2009. The net expense decreased by € 13.9 million to € -24.8 million (2008: € -38.7 million). This was above all attributable to fair value gains on forward commodity sales contracts for nickel and on other derivatives totaling € 7.5 million (2008: fair value losses of € 13.0 million), and to negative effects of currency translation amounting to a loss of € -11.3 million (2008: € -4.4 million). Further explanatory comments on derivative financial instruments are provided in Note 42. (Risk management and financial derivatives).

Financial result on other items

in € million	2009	2008	2007
Profit/loss of companies accounted for at cost			
Military program coordination and management companies	0.2	0.4	0.4
Other related companies	1.5	1.1	0.9
Total	**1.7**	**1.5**	**1.3**
Effects of currency translation			
Exchange rate gains/losses on currency holdings	-11.7	-4.8	-14.8
Exchange rate gains/losses on financing transactions	0.1	1.7	1.7
Exchange rate gains/losses on finance leases	0.3	-1.3	2.0
Fair value gains/losses on derivatives			
Currency and interest rate derivatives	2.9	-1.3	8.2
Forward commodity sales contracts for nickel	4.6	-11.7	-9.7
Interest portion included in measurement of assets and liabilities			
Pension provisions	-24.5	-21.7	-19.8
Contingent liabilities	8.2		
Receivables, other provisions, plan assets, liabilities and advance payments from customers	-6.5	-7.6	2.1
Result on other financial instruments	0.1	6.5	-1.2
Total	**-26.5**	**-40.2**	**-31.5**
Financial result on other items	**-24.8**	**-38.7**	**-30.2**
Thereof: on financial instruments classified in accordance with IAS 39 as:			
Financial assets at fair value through profit or loss - held for trading (FAHfT)	29.9	40.1	17.8
Financial liabilities at fair value through profit or loss - held for trading (FLHfT)	-22.3	-51.7	-20.5

Financial result on other items groups together the profit/loss of related companies accounted for at cost, totaling € 1.7 million (2008: € 1.5 million) with all other income and expense items, including interest income and expenses on financial instruments classified as 'held for trading' in accordance with IAS 39. Interest rate gains or losses from derivative financial instruments (interest rate swaps) accrued with respect to subsequent accounting years are balanced against the corresponding expenses per contract and the net amount is recognized as income or expense. The net interest expense is classified on the basis of the type of underlying transaction.

Effects of currency translation

Exchange rate losses on currency holdings in 2009 amounted to € -11.7 million (2008: € -4.8 million) and are attributable to the unfavorable exchange rate parity between the U.S. dollar and the euro at the end of the year.

Fair value gains/losses on derivatives

Fair value gains on derivative financial instruments amounting to € 2.9 million (2008: fair value losses of € -1.3 million) combined with fair value gains on forward commodity sales contracts for nickel amounting to € 4.6 million (2008: fair value losses of € -11.7 million) transformed the previous year's total fair value loss of € -11.5 million on derivatives into a total fair value gain of € 20.5 million.

At December 31, 2009, MTU held contractual obligations arising from one interest-rate swap with a nominal value of € 10 million and a maturity date of June 5, 2012, and 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.

To minimize exposure to rising commodity prices for nickel, at December 31, 2009 MTU had taken out forward commodity sales contracts for nickel with banks for a total of 800 metric tons of this essential raw material, covering the period from 2010 to 2012. These transactions have no designated hedging relationship for accounting purposes. The financial result on other items includes a fair value gain of € 4.6 million (2008: a fair value loss of € 11.7 million) on these forward commodity sales contracts.

Result on other financial instruments

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

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

The reversal of the discount on pension obligations amounting to € 24.5 million in 2009 exceeds the comparative amount for 2008 by € 2.8 million, due to the forecast discount rate changes. Due to this reversal, and the effect of changes in the discount rate for contingent liabilities arising from business combinations, income was recognized to the amount of € 8.2 million. A total expense of € 6.5 million (2008: € 7.6 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.

The amounts of German and foreign income taxes are presented below:

Analysis of current and deferred tax expense by tax jurisdiction

in € million	2009	2008	2007
Germany	-48.0	-45.4	-63.6
Other countries	-1.6	-0.9	-2.2
Current tax expense	**-49.6**	**-46.3**	**-65.8**
Germany	-32.1	27.2	41.5
Other countries	15.2	1.0	-1.0
Deferred tax expense / (income)	**-16.9**	**28.2**	**40.5**
Tax expense reported in the income statement	**-66.5**	**-18.1**	**-25.3**

The current tax expense amounting to € 49.6 million (2008: € 46.3 million) includes the tax expense arising from the present tax pooling arrangement, the tax expense of MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde, and that of the other group companies. The origin of the deferred tax expense recognized in the income statement, amounting to € 16.9 million (2008: deferred tax income of € 28.2 million), and the assets and liabilities to which it relates, are presented in the table in Note 39. (Deferred taxes).

The current tax expense comprises the following:

Analysis of current tax expense by period

in € million	2009	2008	2007
Tax expense incurred in current period	-48.6	-56.3	-65.8
Tax expense / (income) incurred in prior periods	-1.0	10.0	
Total current tax expense	**-49.6**	**-46.3**	**-65.8**

The tax expense incurred in prior periods amounting to € 1.0 million (2008: tax income of € 10.0 million) relates 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.

The deferred tax expense comprises the following:

Analysis of deferred tax expense by origin

in € million	2009	2008	2007
Deferred tax expense (-) / income resulting from temporary differences	-29.7	30.2	40.1
Deferred tax income resulting from tax credits	8.9		
Deferred tax expense (-) / income resulting from tax losses available for carry-forward	3.9	-2.0	0.4
Total deferred tax expense (-) / income	**-16.9**	**28.2**	**40.5**

A more detailed presentation of the deferred tax expense amount of € -29.7 million (2008: deferred tax income of € 30.2 million) is provided in Note 39. (Deferred taxes). The deferred tax income resulting from tax credits, amounting to € 8.9 million, relates mainly to the new production site of MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland. Based on the available knowledge at the present time, MTU assumes that the tax credits available due to the fact that the production site is located in a free trade zone will be utilized. 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 KC10 tanker fleet. This major contract assures MTU Maintenance Canada Ltd., Richmond, Canada, of adequate future cash flows to manage its business successfully and profitably. Consequently, the previously applied valuation allowance on deferred taxes was adjusted, resulting in deferred tax income of € 3.9 million.

Reference is made to Note 39. (Deferred taxes) for changes in deferred tax assets and liabilities, changes in deferred tax assets including valuation allowances, and changes in deferred tax credits and losses available for carry-forward.

Tax reconciliation

For the financial year 2009, 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%, comprising corporation tax at a rate of 15% 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 2008, the combined income tax rate was also 32.6%. For the financial year 2007, the year before the business tax reform, the combined income tax rate was 40.4%. Deferred taxes arise on temporary differences between the tax bases of assets and liabilities of the individual group companies and their carrying amounts in the consolidated balance sheet in accordance with the liability method. Based on the good past earnings of MTU Aero Engines Holding AG, Munich, and the group‘s positive earnings forecasts, it is probable that future taxable profits of MTU Aero Engines Holding AG, Munich, and other group companies will be sufficient to recover recognized deferred tax assets. Reference is made to Note 39. (Deferred taxes) for changes in deferred tax assets and liabilities.

The reported tax expense for 2009 amounting to € -66.5 million (2008: € -18.1 million) is derived as follows from the expected tax expense that would have resulted from the application of the statutory income tax rate for the parent company, MTU Aero Engines Holding AG, Munich, on the group’s earnings before tax:

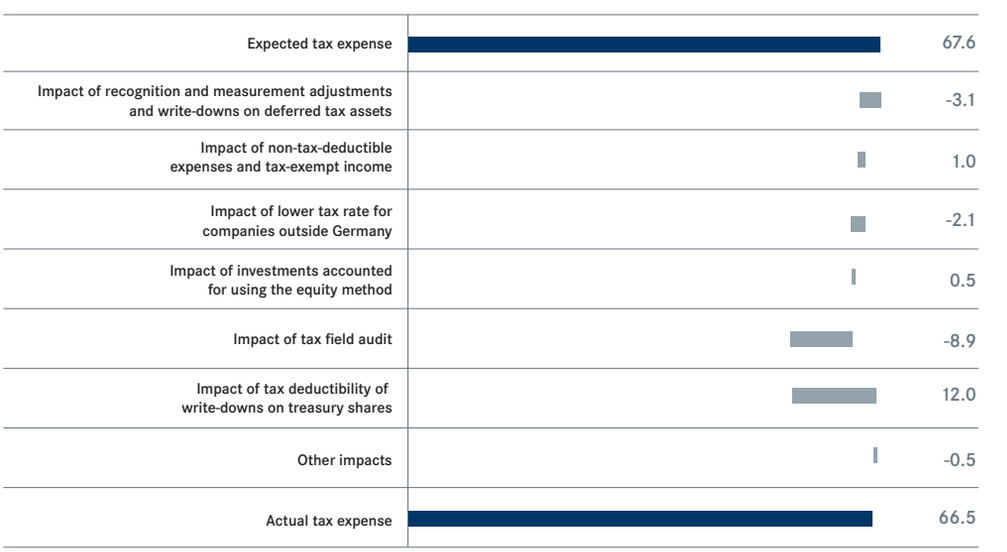
The reported tax expense in the financial year 2009 amounted to € 66.5 million (2008: € 18.1 million). This was € 1.1 million lower than the expected tax expense of € 67.6 million (2008: € 64.5 million) that would have arisen if the combined income tax rate for MTU Aero Engines Holding AG, Munich, had been applied. Overall, the effective group tax rate for the financial year 2009 was 32.0%, compared with a rate of 9.2% for the previous year. Adjusted to eliminate the impact of a tax field audit and excluding the impact of tax-effective write-downs on treasury shares, the effective group tax rate for the financial year 2008 would have been 31.9% instead of 9.2% as reported. A more detailed description of the nonrecurring events with an impact on tax expense in the financial year 2008 is provided under the subheading ‘Prior-year tax effects’ later in Note 15. (Income taxes).

Reconciliation of expected tax expense to reported tax expense:

Tax reconciliation

in € million	2009	2008	2007
Earnings before tax (EBT)	207.5	197.8	179.4
Income tax rate (including municipal trade tax)	32.6%	32.6%	40.4%
Expected tax expense	**-67.6**	**-64.5**	**-72.5**
Impact of recognition and measurement adjustments and write-downs on deferred tax assets	3.1	-1.9	0.3
Impact of non-tax-deductible expenses and tax-exempt income	-1.0	-0.9	-1.8
Impact of lower tax rate for companies outside Germany	2.1	3.1	2.3
Impact of investments accounted for using the equity method	-0.5	-0.3	-0.9
Impact of tax field audit		33.0	
Tax credits available for carry-forward	8.9		
Impact of tax-effective write-downs / reversal of write-downs on treasury shares	-12.0	12.0	
Impact of business tax reform 2008 in Germany on deferred tax assets and liabilities			46.8
Other impacts	0.5	1.4	0.5
Tax expense reported in the consolidated income statement	**-66.5**	**-18.1**	**-25.3**
Effective tax rate (in %)	32.0	9.2	14.1

Reconciliation of reported tax expense 2009 in € million



Prior-year tax effects

Impact of tax field audit

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

Impact of tax-effective write-downs on treasury shares

Unlike for IFRS accounting purposes, treasury shares acquired by MTU Aero Engines Holding AG, Munich, up to December 31, 2008 are required to be presented for German accounting (HGB) and tax purposes within current assets measured at their average acquisition cost. In accordance with German accounting practice, these assets were written down to the lower of their fair value (for HGB purposes) and their 'Teilwert' (for tax purposes) at the balance sheet date of December 31, 2008. This write-down reduced taxable profit by € 36.9 million. At December 31, 2009, the quoted share price exceeded the average acquisition cost, thus requiring the reversal of the previous year's write-down. Reference is made to Note 30.6. for further information on the average acquisition cost of treasury shares (Treasury shares).

The impact of the tax-effective write-down on treasury shares in the financial year 2008 decreased the tax expense by € 12.0 million, while the reversal of this write-down in the financial year 2009 increased the tax expense by € 12.0 million.

16. Earnings per share

In the financial year 2009, the potential issue of common stock in connection with the convertible bond issued in 2007 and the potential issue of common stock under the Matching Stock Program (MSP) launched on June 6, 2005 both had a dilutive effect on earnings per share. A description of the exercise conditions for the Matching Stock Program is provided in Note 30.4 (Capital reserves).

The computation of diluted earnings per share involves adding the maximum number of common shares that could be issued through the exercise of conversion rights to the average weighted number of outstanding shares. At the same time, group earnings are adjusted in respect of the interest expense (net of taxes) on the convertible bond.

In 2008 MTU repurchased units of its own convertible bond from the market with a total nominal volume of € 27.2 million (approximately 15.1 % of the original nominal volume of € 180.0 million) prior to their final maturity. The total repurchase price amounted to € 21.9 million (including transaction costs but excluding interest at the coupon rate), which corresponds to an average of 80.7% of the bond units' nominal value. This reduced the number of common shares entering into the calculation of undiluted earnings per share to 3,086,869. The interest expense in the financial year 2009 amounted to € 7.7 million (2008: € 8.6 million). More information on the repurchase of the convertible bond and its accounting treatment is provided in Note 34 (Financial liabilities).

The table below shows earnings per share together with the dilutive effect of the potential issue of common stock in connection with the convertible bond and the Matching Stock Program.

Undiluted and diluted earnings per share 2009

	Jan. 1 to Dec. 31, 2009				Jan. 1 to Dec. 31, 2009
	Undiluted earnings per share	Reconciliation of financial instruments			Diluted earnings per share
		Interest expense convertible bond/shares	Current and deferred taxes	Matching Stock Program/ shares	
Earnings after tax (EAT) in € million	141.0	7.7	-2.5		146.2
Weighted average number of outstanding shares (shares)	48,858,948	3,086,869		180,540	52,126,357
Earnings per share in €	**2.89**				**2.80**

Undiluted and diluted earnings per share 2008

	Jan, 1 to Dec, 31, 2008				Jan, 1 to Dec, 31, 2008
	Undiluted earnings per share	Reconciliation of financial instruments			Diluted earnings per share
		Interest expense convertible bond/shares	Current and deferred taxes	Matching Stock Program/ shares	
Earnings after tax (EAT) in € million	179.7	8.6	-2.8		185.5
Weighted average number of outstanding shares (shares)	49,353,648	3,086,869		n.a.	52,440,517
Earnings per share in €	**3.64**				**3.54**

Undiluted and diluted earnings per share 2007

	Jan. 1 to Dec. 31, 2007				Jan. 1 to Dec. 31, 2007
	Undiluted earnings per share	Reconciliation of financial instruments			Diluted earnings per share
		Interest expense convertible bond/shares	Current and deferred taxes	Matching Stock Program/ shares	
Earnings after tax (EAT) in € million	154.1	7.9	-3.2		158.8
Weighted average number of outstanding shares (shares)	52,295,450	3,636,364		106,826	56,038,640
Earnings per share in €	**2.95**				**2.83**

17. Additional disclosures relating to the consolidated income statement

17.1. Reconciliation of EBIT to EBIT adjusted

After adjustments to eliminate the effect of purchase price allocation in connection with the acquisition of the group companies and non-recurring items, and the addition of scheduled depreciation/amortization and impairment losses, the following intermediate results are obtained:

Reconciliation of EBIT to EBIT adjusted, depreciation/amortization expense, and nonrecurring items

in € million	2009	2008	2007
Earnings before interest and tax (EBIT)	**246.9**	**248.3**	**243.3**
Depreciation/amortization due to purchase price allocation (PPA) of:			
Intangible assets	40.1	40.1	42.5
Property, plant and equipment	5.3	7.4	12.1
Total acquisition-related depreciation/amortization expense	**45.4**	**47.5**	**54.6**
Impairment loss on:			
Intangible assets		35.2	14.7
Total impairment loss		**35.2**	**14.7**
EBIT adjusted[1)]	**292.3**	**331.0**	**312.6**

1) Adjusted earnings before interest and tax

17.2. Personnel expenses

Costs by function include the following personnel expenses items:

Personnel expenses

in € million	2009	2008	2007
Wages and salaries	405.8	408.9	400.1
Social security, pension and other benefit expenses	110.2	94.3	70.8
Total personnel expenses	**516.0**	**503.2**	**470.9**

Pension benefits account for € 40.4 million (2008: € 27.9 million) of these expenses. The employer's share of social security contributions, which is recognized as an expense, amounted to € 69.8 million (2008: € 66.4 million).

The interest portion of the expense attributable to pension expenses and income arising from the plan assets are recognized under 'Financial result on other items'.

17.3. Disclosures relating to the average number of employees

The average number of persons employed during the financial year 2009, broken down into groups, is as follows:

Average number of employees

number	2009	2008	2007
Industrial staff	3,288	3,227	3,148
Administrative staff	3,467	3,205	3,165
Employees on temporary contracts	354	349	335
Trainees	308	281	254
Students on work experience projects	201	201	190
Total average number of employees	**7,618**	**7,263**	**7,092**

17.4. Cost of materials

Costs by function include the following cost of materials items:

Cost of materials

in € million	2009	2008	2007
Cost of raw materials and supplies	825.2	918.3	892.7
Cost of purchased services	906.3	847.7	799.0
Total cost of materials	**1,731.5**	**1,766.0**	**1,691.7**

17.5. Fees paid to the auditor

The expense attributable to fees paid in the financial year 2009 to the accounting firm Deloitte & Touche GmbH, Wirtschaftsprüfungsgesellschaft for the auditing of the consolidated financial statements pursuant to Section 314 (1) no. 9 of the German Commercial Code (HGB) amounted to € 1.0 million (2008: € 1.1 million).

Fees paid to the auditor

in € million	2009	2008	2007
Financial statement auditing services	0.6	0.6	0.7
Tax consulting services	0.3	0.4	0.3
Other independent auditing services	0.1	0.1	
Total fees paid to the auditor	**1.0**	**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 MTU Aero Engines Holding AG, Munich, the consolidated financial statements, and the financial statements drawn up by the relevant group subsidiaries.

III. Notes to the Consolidated Balance Sheet

18. 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	Transfers	Disposals	Changes in group reporting entity	Balance at Dec. 31, 2009
Program assets	836.8		1.8				838.6
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	**1,571.6**	**-1.0**	**24.6**	**3.7**	**-8.7**		**1,590.2**
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	**2,554.8**	**0.7**	**143.3**		**-40.8**		**2,658.0**

[1] Insofar as they are accounted for using the equity method or at cost

Depreciation/amortisation 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	164.1		26.9				191.0	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	**296.7**	**-0.1**	**49.6**		**0.3**	**-4.5**	**342.0**	**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	**746.4**	**-0.3**	**126.4**	**-1.1**		**-28.2**	**843.2**	**1,814.8**

[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 2008

Cost of acquisition and construction 2008

in € million	Balance at Jan. 1, 2008	Translation differences	Additions	Transfers	Disposals	Changes in group reporting entity	Balance at Dec. 31, 2008
Program assets	710.7		126.1				836.8
Program-independent technologies	124.7						124.7
Customer relations	65.7	1.2					66.9
Rights and licenses	62.3	0.3	1.3	27.0	-11.6		79.3
Goodwill	391.5	1.7	15.0				408.2
Development costs	4.3		51.4				55.7
Intangible assets	**1,359.2**	**3.2**	**193.8**	**27.0**	**-11.6**		**1,571.6**
Land, leasehold rights and buildings, including buildings on non-owned land	329.0	1.3	2.6	1.4	-0.2		334.1
Technical equipment, plant and machinery	311.8	1.0	14.7	17.5	-4.4		340.6
Other equipment, operational and office equipment	209.2	0.7	22.8	7.0	-14.9		224.8
Advance payments and construction in progress	70.5	-2.1	59.8	-52.9			75.3
Property, plant and equipment	**920.5**	**0.9**	**99.9**	**-27.0**	**-19.5**		**974.8**
Investments in subsidiaries	5.3					-5.3	
Investments in associated companies	0.4						0.4
Equity investments in joint ventures	8.9				-1.0		7.9
Other equity investments	0.1						0.1
Other loans							
Financial assets[1)]	**14.7**				**-1.0**	**-5.3**	**8.4**
Total assets	**2,294.4**	**4.1**	**293.7**		**-32.1**	**-5.3**	**2,554.8**

[1)] Insofar as they are accounted for using the equity method or at cost

Depreciation/amortisation and carrying amount 2008

in € million	Balance at Jan. 1, 2008	Translation differences	Depreciation/ amortization	Impairment losses	Transfers	Disposals	Balance at Dec. 31, 2008	Carrying amount Dec. 31, 2008
Program assets	101.8		27.1	35.2			164.1	672.7
Program-independent technologies	49.9		12.4				62.3	62.4
Customer relations	20.2	0.2	2.8				23.2	43.7
Rights and licenses	52.3		6.3			-11.6	47.0	32.3
Goodwill								408.2
Development costs			0.1				0.1	55.6
Intangible assets	**224.2**	**0.2**	**48.7**	**35.2**		**-11.6**	**296.7**	**1,274.9**
Land, leasehold rights and buildings, including buildings on non-owned land	39.2	0.2	9.7				49.1	285.0
Technical equipment, plant and machinery	205.7	0.8	36.6		0.1	-2.6	240.6	100.0
Other equipment, operational and office equipment	135.6	0.6	30.0		0.2	-6.4	160.0	64.8
Advance payments and construction in progress	0.3				-0.3			75.3
Property, plant and equipment	**380.8**	**1.6**	**76.3**			**-9.0**	**449.7**	**525.1**
Investments in subsidiaries								
Investments in associated companies								0.4
Equity investments in joint ventures								7.9
Other equity investments								0.1
Other loans								
Financial assets[1]								**8.4**
Total assets	**605.0**	**1.8**	**125.0**	**35.2**		**-20.6**	**746.4**	**1,808.4**

[1] Insofar as they are accounted for using the equity method or at cost

Analysis of changes in intangible assets, property, plant and equipment, and financial assets 2007

Cost of acquisition and construction 2007

in € million	Balance at Jan. 1, 2007	Translation differences	Additions	Transfers	Disposals	Balance at Dec. 31, 2007
Program assets	701.6		9.1			710.7
Program-independent technologies	124.7					124.7
Customer relations	66.1	-0.4				65.7
Rights and licenses	64.4	-1.0	0.9	0.2	-2.2	62.3
Goodwill	392.5	-1.0				391.5
Development costs			4.3			4.3
Intangible assets	**1,349.3**	**-2.4**	**14.3**	**0.2**	**-2.2**	**1,359.2**
Land, leasehold rights and buildings, including buildings on non-owned land	325.8	-0.6	1.2	3.5	-0.9	329.0
Technical equipment, plant and machinery	293.9	-0.6	10.0	11.2	-2.7	311.8
Other equipment, operational and office equipment	181.5	-0.4	25.7	5.3	-2.9	209.2
Advance payments and construction in progress	41.2	-0.1	49.6	-20.2		70.5
Property, plant and equipment	**842.4**	**-1.7**	**86.5**	**-0.2**	**-6.5**	**920.5**
Investments in subsidiaries	0.1		5.3		-0.1	5.3
Investments in associated companies	0.4					0.4
Equity investments in joint ventures	11.5				-2.6	8.9
Other equity investments	0.1					0.1
Other loans	0.1				-0.1	
Financial assets[1]	**12.2**		**5.3**		**-2.8**	**14.7**
Total assets	**2,203.9**	**-4.1**	**106.1**		**-11.5**	**2,294.4**

[1] Insofar as they are accounted for using the equity method or at cost

Depreciation/amortisation and carrying amount 2007

in € million	Balance at Jan. 1, 2007	Translation differences	Depreciation/ amortization	Impairment losses	Transfers	Disposals	Balance at Dec. 31, 2007	Carrying amount Dec. 31, 2007
Program assets	75.3		26.5				101.8	608.9
Program-independent technologies	37.4		12.5				49.9	74.8
Customer relations	15.1		5.1				20.2	45.5
Rights and licenses	32.0	-0.3	8.1	14.7		-2.2	52.3	10.0
Goodwill								391.5
Development costs								4.3
Intangible assets	**159.8**	**-0.3**	**52.2**	**14.7**		**-2.2**	**224.2**	**1,135.0**
Land, leasehold rights and buildings, including buildings on non-owned land	29.7	-0.1	9.8		0.4	-0.6	39.2	289.8
Technical equipment, plant and machinery	169.0	-0.5	39.4		0.1	-2.3	205.7	106.1
Other equipment, operational and office equipment	105.0	-0.3	33.5			-2.6	135.6	73.6
Advance payments and construction in progress	0.9	-0.1			-0.5		0.3	70.2
Property, plant and equipment	**304.6**	**-1.0**	**82.7**			**-5.5**	**380.8**	**539.7**
Investments in subsidiaries								5.3
Investments in associated companies								0.4
Equity investments in joint ventures								8.9
Other equity investments								0.1
Other loans								
Financial assets[1)]								**14.7**
Total assets	**464.4**	**-1.3**	**134.9**	**14.7**		**-7.7**	**605.0**	**1,689.4**

[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 (to which impairment losses were added in 2008) is included in the presentation of the following line items: cost of sales € 44.0 million (2008: € 76.5 million), research and development expenses € 2.5 million (2008: € 4.2 million), selling expenses € 1.7 million (2008: € 1.7 million), and general administrative expenses € 1.4 million (2008: € 1.5 million).

Program assets

The addition to program assets amounting to € 1.8 million relates to the renewal of licensing rights pertaining to the maintenance, repair and overhaul of J79 engines for the F-4 Phantom.

Goodwill

Goodwill represents the amount by which the cost of the acquired entity exceeded the fair value of the group's identifiable net assets at the date of acquisition. 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 formed an operation of a cash-generating unit (the OEM segment). Consequently, the share of goodwill attributed to the discontinued operation, amounting to € 1.3 million, was recycled from assets to the income statement, where it was recognized as an expense. Additional explanatory comments concerning the sale of the disposal group are provided in Note 11. (Other operating income and expenses). Following the € 15.0 million addition to goodwill recognized in 2008 as a result of the retrospective purchase price adjustment in favor of Daimler AG, an amount of € 12.1 million was paid to the beneficiary in the financial year 2009 on completion of the tax field audit and evaluation of its findings. This payment settles all outstanding claims on the part of both parties. The difference amounting to € 2.9 million was recognized directly in equity and removed from goodwill and financial liabilities. The segments were tested for impairment in 2008. There were no indications of any impairment. Explanatory comments on the measurement of the amounts used in the impairment test are provided in Note 40 (Measurement of the recoverable amount of operating segments to which goodwill has been attributed).

Development costs

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 (General Electric next generation) engine program for the Boeing 787 and 747-8. In the financial year 2008, the investment in this new engine program amounting to € 126.1 million was recognized under program assets. In the financial year 2009, internally generated development costs amounting to € 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. Following the addition to intangible assets amounting to € 45.2 in 2008 in connection with MTU's acquisition of a stake in this program, further internally generated development costs amounting to € 8.3 million (2008: € 2.8 million) were capitalized in the financial year 2009 for the first application of this engine, the Sikorsky CH-53K heavy-lift transport helicopter.

Finally, the commercial maintenance business has developed special repair processes capable of increasing the efficiency of engine maintenance. The recognition criteria for these new technologies were met, allowing intangible assets totaling € 4.8 million (2008: € 3.4 million) to be recognized.

A detailed presentation of changes in intangible assets is provided in Note 18. (Analysis of changes in intangible assets, property, plant and equipment, and financial assets).

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 € 69.2 million (2008: € 70.0 million), research and development expenses € 4.2 million (2008: € 3.9 million), selling expenses € 2.0 million (2008: € 1.3 million) and general administrative expenses € 1.4 million (2008: € 1.1 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 (owned by the LHI leasing company) have been capitalized because an attractive purchase option has been granted to the company at the end of the leasing period.

The greater part of the capital expenditure amounting to € 12.3 million relates to the final stage of construction work on the production hall at the Polish location and the construction of an office extension adjoining the facilities at the Berlin-Brandenburg location.

Technical equipment, plant and machinery
The capital expenditure on technical equipment, plant and machinery totaling € 21.9 million (2008: € 14.7 million) relates mainly to the purchase of CNC lathes and milling machines, vacuum furnaces, and one used engine.

One leased engine owned by the group is furthermore recognized in property, plant and equipment; four engines and one gas turbine were disposed of in the financial year 2009. For the remaining engine, the company may be required to recognize an additional expense at the end of the leasing period if the proceeds from the disposal of the lease asset are lower than the carrying amount. The liabilities arising from all lease assets are recognized at the present value of the minimum lease payments and amortized on a yearly basis.

Advance payments and construction in progress
Additions to this item in the financial year 2009, totaling € 46.4 million (2008: €59,8 million) relate to work in progress on technical equipment, plant and machinery for new engine programs at the German sites.

A detailed presentation of changes in property, plant and equipment is provided in Note 18. (Analysis of changes in intangible assets, property, plant and equipment, and financial assets).

Capitalized assets under finance lease agreements are based on the following components:

Minimum lease payments for finance lease properties

in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Total future minimum lease payments			
due within one year	1.4	8.7	9.3
due between one and five years	10.3	10.1	18.0
due later than five years	18.3	20.5	22.3
	30.0	**39.3**	**49.6**
Interest portion of future minimum lease payments			
due within one year	0.2	0.4	1.0
due between one and five years	1.8	1.8	2.4
due later than five years	2.2	3.1	4.5
	4.2	**5.3**	**7.9**
Present value of future minimum lease payments			
due within one year	1.2	8.3	8.3
due between one and five years	8.5	8.3	15.6
due later than five years	16.1	17.4	17.8
	25.8	**34.0**	**41.7**

The following carrying amounts resulted from the capitalized assets under finance lease agreements at the balance sheet. No agreements were renewed and no purchase options were exercised.

Carrying amounts

in € million	Carrying amount Dec. 31, 2009	Carrying amount Dec. 31, 2008	Carrying amount Dec. 31, 2007
Land and buildings	25.0	26.0	26.9
Technical equipment, machines and other plant Operational and office equipment	2.4	6.1	10.9
Total carrying amounts	**27.4**	**32.1**	**37.8**

21. Financial assets

The table below presents the carrying amounts of financial assets included in the consolidated financial statements:

Composition of financial assets

in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Financial assets accounted for using the equity method	2.1	3.6	4.6
Joint ventures accounted for at cost	4.3	4.3	4.3
Financial assets accounted for at cost	3.5	0.5	5.8
Subtotal	**9.9**	**8.4**	**14.7**
Financial assets measured at fair value	16.6	11.8	35.8
Total	**26.5**	**20.2**	**50.5**

The financial assets measured at fair value relate to derivative financial instruments utilized as cash flow hedges, and comprise the following items:

Financial assets, measured at fair value

	Total			Non-current			Current		
in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Fair value of derivatives									
Forward foreign exchange contracts	9.9	4.2	26.4	5.1	2.9	2.1	4.8	1.3	24.3
Interest rate derivatives		0.5	0.2			0.2		0.5	
Forward commodity sales contracts	1.5	0.1		1.0	0.1		0.5		
Currency options	5.2	7.0	9.2	1.0	4.8		4.2	2.2	9.2
Total	**16.6**	**11.8**	**35.8**	**7.1**	**7.8**	**2.3**	**9.5**	**4.0**	**33.5**

The fair value of derivatives includes forward foreign exchange contracts used to hedge cash flows. The currency options item mainly consists of premiums for currency option transactions. This type of transaction enables MTU to sell a defined quantity of U.S. dollars at agreed euro exchange rates on a range of different dates. Further explanatory comments on derivative financial instruments are provided in Note 42. (Risk management and derivative financial instruments).

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 addition to the group's assets is recognized under 'Financial assets accounted for at cost'.

The financial asset accounted for using the equity method is the joint venture Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde. The joint ventures and other financial assets accounted for at cost mainly comprise non-significant investments in non-consolidated subsidiaries, non-consolidated equity investments in associated companies, and other non-consolidated equity investments in joint ventures. MTU defines non-consolidated subsidiaries as companies that have no significant impact on the group's net assets, financial situation or operating results.

The following amounts have been recognized in respect of the assets, debt, income and expenses of 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 2009[1]	Associated companies 2009[2]	Joint Ventures 2008[1]	Associated companies 2008[2]	Joint Ventures 2007[1]	Associated companies 2007[2]
Disclosures relating to the income statement						
Income	130.4	1,111.6	131.1	895.5	163.8	918.4
Expenses	-133.6	-1,110.2	-132.6	-894.1	-168.8	-916.9
Result	**-3.2**	**1.4**	**-1.5**	**1.4**	**-5.0**	**1.5**
Disclosures relating to the balance sheet						
Non-current assets	17.8	3.0	19.5	2.7	15.5	2.4
Current assets	52.5	166.4	47.9	183.5	31.6	195.0
Total	**70.3**	**169.4**	**67.4**	**186.2**	**47.1**	**197.4**
Equity	3.4	3.0	6.1	2.9	7.4	2.9
Non-current debt	9.0	1.0	8.2	11.9	3.6	3.2
Current debt	57.9	165.4	53.1	171.4	36.1	191.3
Total	**70.3**	**169.4**	**67.4**	**186.2**	**47.1**	**197.4**

[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

The recognized amount for inventories comprises the following components:

Inventories

in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Raw materials and supplies	308.8	311.5	263.9
Work in progress	306.0	322.2	314.5
Advance payments	33.9	27.7	9.4
Total inventories	**648.7**	**661.4**	**587.8**

Inventories are recognized at the lower of cost or net realizable value. Acquisition costs of inventories comprise the purchase price, customs charges and other taxes, transportation and administrative costs, and other miscellaneous costs directly attributable to the purchase of finished products, materials and services.

Construction costs of work in progress comprise direct costs of raw materials and supplies, wages for industrial staff, as well as fixed and variable overheads (based on normal utilization of production capacity). Acquisition and construction costs do not include any borrowing costs because inventories do not constitute qualified assets. Acquisition costs are net of trade discounts and concessions and customer loyalty awards.

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	2009	2008	2007
Balance at January 1	37.8	39.1	32.0
Allocated/utilized (-)	11.5	-1.3	7.1
Balance at December 31	**49.3**	**37.8**	**39.1**

The recognized inventories amounting to € 648.7 million at December 31, 2009 (2008: € 661.4 million) are measured at their net realizable value after write-downs on raw materials and supplies and work in progress. The write-down method represents the best possible means of estimating the net realizable value of inventories held by MTU, in view of the group's business model.

23. Trade receivables

Trade receivables comprise the following items:

Trade receivables

in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Third parties	344.6	415.3	439.5
Related companies			
Associated companies, joint ventures and other equity investments	46.6	45.1	59.7
Total	**391.2**	**460.4**	**499.2**

Transactions with related companies are presented in more detail in Note 45.1.1. (Business with related companies).

The valuation allowances on trade receivables changed as follows:

Valuation allowances

in € million	2009	2008	2007
Allowances at January 1	**10.4**	**8.4**	**7.6**
Translation differences	0.1		
Additions (expense for allowances)			
Specific allowances	2.8	2.3	2.6
General allowances		0.6	0.9
Utilized	-3.5	-0.7	-2.5
Reversed	-1.9	-0.2	-0.2
Allowances at December 31	**7.9**	**10.4**	**8.4**

In the following table, the expense for bad debts on trade receivables written off as uncollectible is offset against the income from bad debts recovered:

Expense for bad debts written off as uncollectible

in € million	2009	2008	2007
Expense for bad debts written off as uncollectible	-2.3	-0.6	-0.3

All expense and income amounts arising from valuation allowances and the write-off of uncollectible bad debts on trade receivables are recognized as selling expenses.

24. Construction contract receivables

These receivables relate principally to construction contracts with specific customers in respect of specific engine programs. Interest-free advance payments received for construction contracts directly attributable to an engine project are offset against the corresponding accounts receivable. If the amount of the directly attributable advance payments received exceeds the amount of the accounts receivable, the balance is recognized under construction contract payables.

Construction contract receivables

in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Accounts receivable for construction contracts	339.0	386.2	367.5
offset against:			
Advance payments received	-240.6	-247.3	-196.4
Total	**98.4**	**138.9**	**171.1**

In the financial year, revenues totaling € 59.9 million were generated by construction contract (2008: € 18.3 million). Contract-related costs to be offset against these revenues amounted to € 64.8 million (2008: € 12.2 million). The amount of € 339.0 million for construction contract receivables at December 31, 2009 (2008: € 386.2 million) includes advance payments received amounting to € 240.6 million (2008: € 247.3 million). Retained amounts for partial settlement of construction contract receivables did not arise.

The basic premises underlying the measurement of construction contract receivables for the TP400-D6 engine program had to be entirely reviewed in the financial year 2009 due to uncertainties arising from delayed deliveries and the uncertain technical status on the one hand, and the general uncertainty surrounding the future of the program. As the result of the reassessment of the time schedule undertaken by MTU at the end of the year, taking into account all recalculated premises, the amount of construction contract receivables for the TP400-D6 in excess of prepayments, namely € 51.9 million, was written down and an impairment loss recognized in the income statement. More detailed explanatory comments concerning the remeasurement of the engine program are provided in Note 5.22. (Discretionary scope, measurement uncertainties and sensitivity) and in Note 33. (Other provisions).

For disclosures relating to construction contract receivables that have been offset against directly attributable advance payments received, please refer to Note 36. (Construction contract liabilities).

The table below shows the carrying amounts of trade and construction contract receivables at the balance sheet date together with a breakdown of these amounts according to the impairment status of not-yet-overdue trade and construction contract receivables and the time windows within which they will become overdue:

Impairment status and due dates of trade and construction contract receivables

in € million	Carrying amount	Thereof: neither impaired nor overdue at the balance sheet date		Thereof: not impaired at the balance sheet date and overdue in the following time windows				**Total:** not impaired but overdue	
			in %	Less than 90 days	Between 90 and 180 days	Between 181 and 360 days	More than 360 days		in %
	Dec. 31, 2009								
Trade and construction contract receivables	**730.2**	546.3	74.8	96.7	26.4	18.3	4.5	**145.9**	20.0
	Dec. 31, 2008								
Trade and construction contract receivables	**846.6**	708.7	83.7	96.5	14.1	16.7	2.5	**129.8**	15.3
	Dec. 31, 2007								
Trade and construction contract receivables	**866.7**	716.4	82.7	110.5	22.6	17.2	2.0	**152.3**	17.6

25. Other assets

Other assets comprise the following items:

Other assets

in € million	Total			Non-current			Current		
	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Other taxes	14.8	26.6	14.3				14.8	26.6	14.3
Receivable from employees	1.0	0.5	1.1				1.0	0.5	1.1
Receivable from suppliers	3.3	4.3	3.2				3.3	4.3	3.2
Sundry other assets	14.2	8.2	7.9	6.1	4.0	3.9	8.1	4.2	4.0
Total	**33.3**	**39.6**	**26.5**	**6.1**	**4.0**	**3.9**	**27.2**	**35.6**	**22.6**

The item ‘Other taxes’ amounting to € 14.8 million (2008: € 26.6 million) comprises an amount of € 14.4 million (2008: € 23.3 million) relating to input taxes and an amount of € 0.4 million (2008: € 3.3 million).

The item ‘Sundry other assets’ amounting to € 14.2 million (2008: € 8.2 million) groups together a variety of different assets. These include the surplus plan assets of MTU Maintenance Canada Ltd., Richmond, Canada, amounting to € 2.4 million (2008: € 1.9 million). Please refer to Note 31. (Pension provisions) for further information on the calculation of the surplus plan assets.

The table below shows the carrying amounts of other assets at the balance sheet date together with a breakdown of these amounts according to the impairment status of not-yet-overdue other assets and the time windows within which they will become overdue:

Impairment status and due dates of other assets

in € million	**Carrying amount**	Thereof: neither impaired nor overdue at the balance sheet date		Thereof: not impaired at the balance sheet date and overdue in the following time windows				**Total:** not impaired but overdue	
			in %	Less than 90 days	Between 90 and 180 days	Between 181 and 360 days	More than 360 days		in %
	Dec. 31, 2009								
Due within 1 year									
Loans and receivables (LaR)	**12.4**	12.4	100.0						
Due in more than 1 year									
Loans and receivables (LaR)	**6.1**	6.1	100.0						
	Dec. 31, 2008								
Due within 1 year									
Loans and receivables (LaR)	**9.0**	8.3	92.2		0.7			**0.7**	7.8
Due in more than 1 year									
Loans and receivables (LaR)	**4.0**	4.0	100.0						
	Dec. 31, 2007								
Due within 1 year									
Loans and receivables (LaR)	**8.3**	7.3	88.0	1.0				**1.0**	12.0
Due in more than 1 year									
Loans and receivables (LaR)	**3.9**	3.9	100.0						

26. Cash and cash equivalents

A year-by-year comparison of cash and cash equivalents is presented below:

Cash and cash equivalents

in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Balance on current accounts, cash in hand	85.4	36.6	-1.1[1]
Fixed-term and overnight deposits	35.4	8.3	50.8
Securities		25.0	17.6
Total cash and cash equivalents	**120.8**	**69.9**	**67.3**

[1] temporary current-account overdraft

The cash and cash equivalents of € 120.8 million (2008: € 69.9 million) comprise checks, cash in hand, and bank deposits with an original maturity of three months or less. At the balance sheet date, this item also included foreign currency holdings translated at an amount of € 52.4 million (2008: € 37.3 million).

27. Income tax claims

Income tax claims amounting to € 1.2 million relate to claimed reimbursements of corporation tax. Income tax claims in 2008 amounting to € 1.0 million relate to corporation and municipal trade tax arising from past tax pooling arrangements.

28. Deferred taxes

Please refer to Note 39. for explanatory comments concerning income tax assets and liabilities (Deferred taxes).

29. Prepayments

The prepayments of € 7.2 million (2008: € 3.3 million) consist primarily of prepayments for insurance premiums and rents. The increase compared with the previous year is mainly attributable to modified terms of contractual agreements with Microsoft for using software and the accrual of transaction fees in connection with new credit agreements with banks.

30. Equity

Changes in group equity are set out in the consolidated statement of changes in equity.

30.1. Subscribed capital

In 2009, the company's capital stock amounted to € 52.0 million, divided into 52.0 million registered non-par shares, as in the previous year.

30.2. Authorized capital

Authorized capital I

The Board of Management is authorized until May 29, 2010 to increase the company's capital stock, with the prior approval of the Supervisory Board, by up to € 5.5 million by issuing, either in a single step or in several steps, new registered shares in return for cash contributions, whereby the subscription rights of existing shareholders may be excluded (Authorized Capital I 2005).

Authorized capital II

The Board of Management is also authorized until May 29, 2010 to increase the company's capital stock, with the prior approval of the Supervisory Board, by up to € 19.25 million by issuing, either in a single step or in several steps, new registered shares in return for cash and/or non-cash contributions, whereby the subscription rights of existing shareholders may be excluded (Authorized Capital II 2005).

30.3. Conditional capital increase

The company's capital stock may be increased by up to € 19.25 million through the issue of up to 19.25 million new registered shares. The purpose of this conditional capital increase is to issue shares to owners or creditors of convertible bonds and/or bonds with warrants in accordance with the authorization granted to the company's Board of Management under a resolution passed by the Annual General Meeting on May 30, 2005.

Shares may be issued at a conversion price or warrant exercise price determined on the basis of the conditions laid down in the relevant authorization. Use was made of this authorization for a conditional capital increase on January 23, 2007 to issue a convertible bond with a total volume of € 180.0 million (see Note 34. Financial liabilities). The conditional capital increase is implemented only to the extent that owners or creditors of conversion rights or warrants attached to convertible bonds and/or bonds with warrants issued between May 30, 2005 and May 29, 2010 by the company or one of its direct or indirect affiliates make use of their conversion rights or warrants on the basis of a resolution passed by an extraordinary shareholders' meeting, or that owners or creditors of conversion obligations attached to convertible bonds issued by the company or one of its direct or indirect affiliates between May 30, 2005 and May 29, 2010 satisfy their conversion obligation on the basis of a resolution passed by an extraordinary shareholders' meeting, and to the extent that treasury shares are not used for this purpose. Shares issued under these conditions are entitled to participate in the distribution of profits starting in the financial year in which the conversion rights or warrants were exercised or the conversion obligations were satisfied.

30.4. Capital reserves

Capital reserves include premiums from the issue of shares, the equity component (net of taxes) and proportional transaction costs of the issued convertible bond, the fair value of shares granted under the Matching Stock Program (MSP) and an amount of € 2.3 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 34. (Financial liabilities). The following section provides disclosures relating to the Matching Stock Program (MSP) and the MAP employee stock option program, including information on measurement and effects.

Matching Stock Program (MSP)

To strengthen the motivation to meet business targets, the group has set up an incentive and risk-sharing instrument allowing management-level employees to participate in its share capital as part of a Matching Stock Program (MSP), which authorizes the subscription of phantom stocks. On the date of subscription to the MSP, participants must have an existing employment contract with MTU Aero Engines Holding AG, 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 equity instruments (phantom stock) to the participants for the duration of five years, for allocation in equal tranches over this period. In order to be granted phantom stock, it was a condition at the start of the program that MSP participants should hold their own investment in the company's share capital. Each MSP share acquired from the program authorizes the holder to subscribe for six phantom stocks per allocated tranche. As a rule, MSP shares are not subject to any restraints on disposal. MSP shares entitle the holder to participate in dividend and subscription rights.

Each tranche of allocated phantom stock is subject to a vesting period of 2 years and can be converted to taxable compensation upon achievement of the average exercise price. It is a mandatory condition that this compensation must be used to purchase shares in MTU Aero Engines Holding AG, Munich. The shares are purchased at the market price on the strike date (exercise date). They must be held for 2 years after the strike date.

Exercise conditions
A tranche of phantom stock allocated under the Matching Stock Program can be exercised when the average, non-weighted closing price of the shares in XETRA trading on the Frankfurt Stock Exchange exceeds the basis price by 10% for a period of 60 trading days prior to the exercise date of the phantom stocks.

Accounting policy (measurement)
The fair value of the phantom stock is carried as a personnel expense on a pro rata basis and simultaneously recognized in equity (capital reserves) up to the stock's exercise date.

After adjustment, the following program duration assumptions were applied:

Program duration assumptions

	2009	2008	2007[1)]
Stock price change p.a.	10.0%	10.0%	10.0%
Expected dividend increase p.a.	5.0%	5.0%	5.0%
Expected volatility	23.0%	23.0%	23.0%
Duration of each tranche	2 years	2 years	2 years
Risk-free interest rate per tranche	4.0 -4.4%	4.0 -4.4%	4.0 -4.4%
Fluctuation rate	4.0%	4.0%	4.0%

[1)] amended contractual terms in force (repricing 2007)

When the program was launched in June 2005, the expected volatility was determined from the average volatility of shares in comparable listed 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 fluctuation 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, which is reviewed at each balance sheet date through to the end of the respective exercise period for each allocated tranche. 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.

Changes in phantom stock

The third tranche of phantom stock granted in 2007 was unable to be exercised in the financial year 2009 and lapsed because the average basis price of € 46.14 per share of phantom stock was not reached during the exercise period. The actual exercise price on the exercise date for the phantom stock was € 22.38. The second tranche of phantom stock allocated in 2006 similarly lapsed because the required exercise threshold was not reached. With effect of June 8, 2009, the fifth and final tranche was allocated to MSP subscribers with a vesting period extending to June 5, 2011. The corridors delimiting the exercise thresholds for potential share issues in connection with the not-yet-exercisable fourth and fifth tranches are dealt with later on in this note.

The table below shows the changes in granted equity instruments and the number of phantom stocks that were not exercisable at December 31, 2009 because the vesting period had not yet expired.

Phantom Stocks

	Dec. 31, 2009		Dec. 31, 2008		Dec. 31, 2007	
	Number of phantom stocks	Fair value in €[1]	Number of phantom stocks	Fair value in €[1]	Number of phantom stocks	Fair value in €[1]
At the beginning of the year						
Phantom stocks granted	1,154,208		1,483,488		2,094,690	
Change during the year						
Phantom stocks granted			194,220		71,424	
Phantom stocks forfeited	-27,900		-117,120		-260,952	
Phantom stocks exercised					-421,674	
Phantom stocks lapsed	-354,276		-406,380			
At the end of the year: Phantom stocks not yet exercisable	**772,032**	**3.43**	**1,154,208**	**3.30**	**1,483,488**	**3.40**

[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 1);
- The number of phantom stocks lapsed relates to phantom stocks that failed to reach the exercise threshold (tranches 2 and 3).

The 772,032 phantom stocks not yet exercisable at the end of the financial year 2009 (2008: 1,154,208 phantom stocks) relate to the fourth and fifth (final) tranches of the Matching Stock Program that were allocated in 2008 and 2009 respectively. The Matching Stock Program is designed in such a way that there are no remaining, outstanding options at the end of any reporting period.

In 2009, the average fair value of a granted equity instrument, after application of the new rules for determining the exercise price that were introduced in 2007, was € 3.43 (2008: € 3.30) and was calculated for the remaining duration of the program using the Black-Scholes pricing method.

At December 31, 2009, the weighted average remaining duration of contracts under the Matching Stock Program was 0.9 years (December 31, 2008: 1.5 years).

Expected range of future exercise prices

The average exercise price for the fourth tranche allocated in 2008 is expected to lie in the region of € 28.28, depending on the amount of the dividend payment for the financial year 2009. Assuming that the dividend payments for the financial years 2009 and 2010 remain at approximately the same level, the range of future exercise prices for the fifth tranche allocated in 2009 is expected to lie between € 22.76 and € 22.69. Deviations from the forecast corridors of exercise prices for the fourth and fifth tranches are nevertheless possible, given that a tranche has a duration of two years and that a dividend payment has had to be estimated for each year of this period on the basis of previous years' results.

The total expense for share-based payments under the Matching Stock Program (MSP) in the financial year 2009 was € 1.4 million (2008: € 0.5 million).

MAP employee stock option program

In the financial year 2008, the Board of Management of MTU Aero Engines Holding AG, Munich, launched the MAP employee stock option program for group employees, intended to run for two years until June 2010. In the financial year 2009, MTU subsequently invited employees to subscribe to a second tranche of this stock option program, with a duration of two years to June 2011. In both cases, staff of all categories (paid under collective bargaining agreements and freely negotiated contracts) who are employed, paid and deployed by the group in Germany are eligible to join the program. Under the MAP employee stock option program, MTU offers to 'match' each participant's investment at the end of a two-year vesting period. In other words, at the end of the program, each MAP participant will receive a taxable cash payment of an amount corresponding to 50 % of the amount he or she invested in MTU shares at the beginning of the program. Instead of receiving the net matching payment in cash, MAP participants have the option of converting it into MTU shares. In this case, the purchase price is based on the closing price of the MTU share in XETRA trading on the first trading day after the two-year vesting period.

The purchase price for the second tranche of shares of MTU Aero Engines Holding AG, Munich, distributed in the financial year 2009, was based on the lowest share price on April 17, 2009 (purchase date) and amounted to € 21.80 per share. The purchase price for the first tranche of shares of MTU Aero Engines Holding AG, Munich, distributed in the financial year 2008, was based on the lowest share price on April 18, 2008 (purchase date) and amounted to € 25.19 per share.

Shares were issued to group employees under the terms of the MAP employee stock option program as follows:

Issue date	Number of shares issued	Average acquisition cost € million	Selling price per share €	Total proceeds of sale € million
June 2009	150,863	6.7	21.80	3.3
June 2008	192,959	8.2	25.19	4.9

The average acquisition cost of shares sold to group employees under the MAP program amounted to € 6.7 million for the second tranche of shares sold in the financial year 2009 and € 8.2 million for the first tranche of shares sold in the financial year 2008. 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 € 3.4 million (2008: € 3.3 million) and was deducted from capital reserves.

The total expense for the 'matching' exercise in connection with the MAP employee stock option program in the financial year 2009 amounted to € 2.0 million (2008: € 0.8 million) and was recognized in the income statement on a pro rata basis over the duration of the respective tranche. At December 31, 2009, the liability amounted to € 2.8 million (2008: € 0.8 million).

30.5. Revenue reserves

Revenue reserves comprise the post-acquisition and non-distributed earnings of consolidated group companies. Revenue reserves increased during the year by 29.4% to € 420.9 million (2008: € 325.3 million). They were increased in 2009 by the amount of earnings after tax (EAT) of € 141.0 million (2008: € 179.7 million) and were reduced by the payment of the dividend for the financial year 2008 amounting to € 45.4 million (financial year 2007: € 46.3 million).

30.6. Treasury shares

Purchase of treasury shares in accordance with authorizations granted by the Annual General Meeting

The Board of Management of MTU Aero Engines Holding AG, Munich, is authorized to buy back shares in accordance with the authorizations mentioned below. These shares may be purchased on the stock market or by means of a public offering addressed to all shareholders. The purchase price paid in consideration of these shares must not exceed or undercut the market value by more than 10%, net of any supplementary transaction fees.

Share buyback in accordance with authorization granted on May 26, 2009

At the MTU Annual General Meeting on May 26, 2009, the Board of Management was authorized to purchase treasury shares with a par value of up to 10% of the company's capital stock, as applicable on the date of the resolution, during the period from May 27, 2009 through November 26, 2010, pursuant to Section 71 (1) item 8 of the German Stock Corporation Act (AktG).

Share buyback in accordance with authorizations granted in prior periods

At the MTU Annual General Meetings on April 30, 2008 and April 27, 2007, the Board of Management was authorized to purchase treasury shares with a par value of up to 10% of the company's capital stock, as applicable on the date of the resolution, pursuant to Section 71 (1) item 8 of the German Stock Corporation Act (AktG). In the period up to March 18, 2008, MTU exercised the authorization granted on April 27, 2007 to purchase a total of 5,369,663 shares (9.8% of the company's capital stock prior to the capital reduction on March 18, 2008). Furthermore, after the capital reduction in which 3,000,000 shares were retired, the Board of Management exercised the authorization granted on April 30, 2008 to buy back an additional 1,164,963 shares during the period from May 2, 2008 to December 31, 2008.

Change in holding of treasury shares and subscribed capital

Purchase of treasury shares

Exercising the authorizations it had been granted to purchase and use treasury shares pursuant to Section 71 (1) item 8 of the German Stock Corporation Act (AktG), the Board of Management bought back a total of 6,534,626 shares on the stock exchange for a total price of € 217.8 million up to December 31, 2009. Averaged over the total quantity of shares purchased from the time the buyback exercise started in the financial year 2006 up to the end of the financial year 2009, the average acquisition cost amounted to € 33.33 per share.

The total amount of each year's expenditure on the purchase of treasure shares is recognized directly in equity in the item 'Treasury shares' in the respective year of purchase. More information on the balance of treasury shares at December 31, 2009, and on changes in treasury shares and subscribed capital, is provided elsewhere in this Note.

In 2009, the company purchased zero shares (2008: 2,151,604 shares for a total price of € 56.4 million). The average acquisition cost for the shares purchased in 2008 was € 26.19 per share.

The shares were purchased in order to meet contractual obligations attached to the convertible bond issue and in order to issue shares to group employees under the Matching Stock Program (MSP) and the MAP employee stock option program.

Issue of shares to employees under employee stock option schemes

Out of the total volume of purchased treasury shares, 112,612 shares were issued to members of the Board of Management and other executive managers in connection with the first tranche of the Matching Stock Program in the financial year 2007. The second and third tranches lapsed because their respective exercise thresholds were not reached. Reference is made to the earlier section headed 'Changes in phantom stock' for more details concerning these unattained exercise thresholds.

A total of 150,863 shares were sold to group employees in June 2009 under the MAP employee stock option program, following the sale of 192,959 shares in June 2008.

Capital reduction through retirement of treasury shares

By a resolution of the Board of Management and the Supervisory Board with effect of March 18, 2008, the decision was taken to reduce the company's capital stock by retiring 3,000,000 shares. This reduced the capital stock by € 3.0 million.

As a result of this resolution, MTU's holding of treasury shares was reduced to 3,229,055 treasury shares at December 31, 2008. The amount presented in the 'Treasury shares' line of the consolidated statement of changes in equity reflects the reduction attributable to the acquisition cost of the purchased treasury shares. The transaction costs incurred in connection with the purchase of treasury shares – net of the associated income tax benefits – were deducted from equity. In 2008, recognition of the acquisition cost of the withdrawn shares led to an increase of € 104.4 million in the item 'Treasury shares' in the consolidated statement of changes in equity.

The table below shows the change in the share buyback volume, the number of shares issued to employees under the employee stock option programs, the holding of treasury shares and the amount of subscribed capital:

Change in holding of treasury shares and subscribed capital

in number of shares	Share buyback	Issue of shares to employees	Holding of treasury shares	Amount of subscribed capital in €
Subscribed capital				**55,000,000**
Financial year 2006	-1,650,883		-1,650,883	
Financial year 2007				
Share buyback	-2,732,139		-2,732,139	
Matching Stock Program (MSP) / June 2007		112,612	112,612	
Financial year 2008 (January 1 to March 18)	-986,641		-986,641	
Status prior to capital reduction	**-5,369,663**	**112,612**	**-5,257,051**	
Capital reduction through retirement of treasury shares on March 18, 2008			3,000,000	-3,000,000
Status after capital reduction (March 18, 2008)	**-5,369,663**	**112,612**	**-2,257,051**	**52,000,000**
Financial year 2008 (March 19 to December 31)				
Share buyback (between May 2 and December 31, 2008)	-1,164,963		-1,164,963	
MAP employee stock option program / June 2008		192,959	192,959	
Financial year 2009				
MAP employee stock option program / June 2009		150,863	150,863	
Share buyback / Shares issued to employees Treasury shares and subscribed capital	**-6,534,626**	**456,434**	**-3,078,192**	**52,000,000**

Reconciliation of average weighted number of outstanding shares

At December 31, 2009, MTU's holding of treasury shares – after the issue of shares in connection with Matching Stock Program (MSP), the sale of treasury shares in connection with the MAP employee stock option program, and the retirement of shares in connection with the capital reduction – amounted to 3,078,192 shares (2008: 3,229,055 shares). This represents 5.9 % of the company's capital stock (2008: 6.2 % of the capital stock).

As a result of the share buyback exercise, the average weighted number of outstanding shares in 2009 amounted to 48,858,948 shares (2008: 49,353,648 shares). At December 31, 2009, a total of 48,921,808 shares MTU Aero Engines Holding AG, Munich, (2008: 48,770,945 shares), each with a par value of one euro, were in issue and entitled to receive a dividend.

The table below shows the change in the number of repurchased and retired shares, the number of shares issued or allocated to group employees under the MAP and MSP employee stock option programs, the balance at the beginning and end of each month, and the average number of outstanding shares:

Reconciliation of average weighted number of outstanding shares

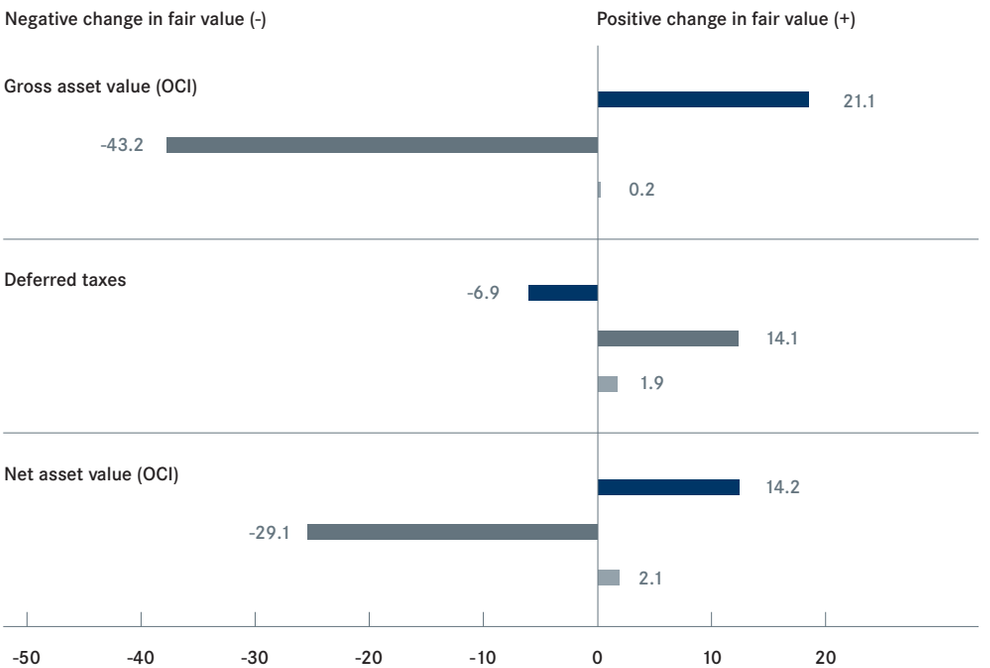
	2009			2008			2007		
	Buyback / sale MAP			Buyback / retirement / sale MAP			Buyback / issue MSP		
Number of shares	**Beginning of month**	**Change**	**End of month**	**Beginning of month**	**Change**	**End of month**	**Beginning of month**	**Change**	**End of month**
Balance at January 1	**48,770,945**	**-3,229,055**		**50,729,590**	**-4,270,410**		**53,349,117**	**-1,650,883**	
Purchase and issue of shares									
January	48,770,945		48,770,945	50,729,590	-337,168	50,392,422	53,349,117		53,349,117
February	48,770,945		48,770,945	50,392,422	-237,796	50,154,626	53,349,117	-73,020	53,276,097
March	48,770,945		48,770,945	50,154,626	-411,677	49,742,949	53,276,097	-101,258	53,174,839
April	48,770,945		48,770,945	49,742,949		49,742,949	53,174,839		53,174,839
May	48,770,945		48,770,945	49,742,949	-227,303	49,515,646	53,174,839	-78,000	53,096,839
June	48,770,945		48,770,945	49,515,646	-322,211	49,193,435	53,096,839	-216,477	52,880,362
June (exercise of MSP / MAP)[1]	48,770,945	150,863	48,921,808	49,193,435	192,959	49,386,394	52,880,362	112,612	52,992,974
July	48,921,808		48,921,808	49,386,394	-327,333	49,059,061	52,992,974	-347,246	52,645,728
August	48,921,808		48,921,808	49,059,061	-38,116	49,020,945	52,645,728	-916,992	51,728,736
September	48,921,808		48,921,808	49,020,945	-105,000	48,915,945	51,728,736	-250,460	51,478,276
October	48,921,808		48,921,808	48,915,945	-145,000	48,770,945	51,478,276	-314,504	51,163,772
November	48,921,808		48,921,808	48,770,945		48,770,945	51,163,772	-429,182	50,734,590
December	48,921,808		48,921,808	48,770,945		48,770,945	50,734,590	-5,000	50,729,590
Buyback / issue MSP [1] / MAP [1]		**-3,078,192**			**-6,229,055**			**-4,270,410**	
Shares retired					3,000,000				
Balance of treasury shares at Dec. 31		**-3,078,192**			**-3,229,055**			**-4,270,410**	
Weighted average at Dec. 31			**48,858,948**			**49,353,648**			**52,295,450**

[1] issue of 112,612 shares to employees under the Matching Stock Program (MSP) in June 2007 and sale of 192,959 shares in June 2008 and 150,863 shares in June 2009 to group employees under the MAP employee stock option program

30.7. Other comprehensive income (OCI)

In 2009, other comprehensive increased overall by € 11,9 Mio. to a negative balance of € 2.4 million (2008: a negative balance of € 14.3 million), principally as a result of fair value gains on derivative financial instruments.

Negative and positive change in fair value in € million



30.8. Items recognized directly in equity in the statement of comprehensive income

The table below shows income and expenses from translation differences and fair value changes, which are recognized directly in equity, together with the associated tax expenses:

Items recognized directly in equity in the statement of comprehensive income

	2009			2008			2007		
		Income taxes			Income taxes			Income taxes	
in € million	Before		After	Before		After	Before		After
Translation differences	-2.3		-2.3	3.4		3.4	-3.6		-3.6
Change in fair value of derivative financial instruments	21.1	-6.9	14.2	-43.2	14.1	-29.1	0.2	1.9	2.1
Income and expenses recognized directly in equity	**18.8**	**-6.9**	**11.9**	**-39.8**	**14.1**	**-25.7**	**-3.4**	**1.9**	**-1.5**

30.9. Disclosures relating to capital management

MTU strives to maintain a strong financial profile in the interests of carrying out the company's business within a flexible financing framework and in order to generate confidence on the part of its shareholders.

One of the goals pursued by MTU in connection with capital management is to improve the company's credit rating with the institutional rating agencies. In addition to a range of non-financial factors, credit ratings are based on a variety of performance indicators including equity ratio, profitability, liquidity and relative indebtedness.

MTU makes every effort to keep its corporate credit rating within a desirable band. At present, MTU's long-term credit rating with Standard & Poor's is BB+ with outlook stable (2008: BB+ with outlook stable) and Ba1 with outlook positive with Moody's (2008: Ba1 outlook stable).

Consequently, the group's capital management activities are focused on optimizing the ratio between EBIT adjusted and gross financial liabilities (financial liabilities plus pension obligations), the ratio between equity and net financial liabilities (gross financial liabilities less pension obligations, derivative financial receivables, cash and cash equivalents) and improving the equity ratio.

The figures for gross interest-bearing financial liabilities, net financial liabilities, and equity at December 31, 2009 are presented in the following table:

Capital management

in € million	Change 2009- 2008	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Financial liabilities	**-56.6**	**279.8**	**336.4**	**326.5**
Carrying amount of pension obligations	21.4	411.6	390.2	376.6
Gross financial liabilities	**-35.2**	**691.4**	**726.6**	**703.1**
Carrying amount of pension obligations	-21.4	-411.6	-390.2	-376.6
Cash and cash equivalents	-50.9	-120.8	-69.9	-67.3
Derivative financial receivables	-4.8	-16.6	-11.8	-35.8
Net financial liabilities	**-112.3**	**142.4**	**254.7**	**223.4**
Ratio of gross financial liabilities to EBIT adjusted	0.2	2.4	2.2	2.2
Equity	**113.3**	**730.7**	**617.4**	**562.0**
Equity ratio in %	3.9	23.2	19.3	18.2
Gearing (ratio of net financial liabilities to equity) in %	**-21.8**	**19.5**	**41.3**	**39.8**
EBIT adjusted	**-38.7**	**292.3**	**331.0**	**312.6**
Balance-sheet total	**-47.0**	**3,149.1**	**3,196.1**	**3,085.5**

The ratio of gross interest-bearing financial liabilities to EBIT adjusted has remained virtually unchanged. Financial liabilities (before the addition of pension obligations) principally comprised liabilities in connection with the convertible bond issue amounting to € 148.9 million (2008: € 145.4 million) and liabilities to banks amounting to € 80.0 million (2008: € 82.5 million). The components of financial liabilities are presented in greater detail in Note 34. The convertible bond issued in 2007 has a maturity of five years with a fixed interest rate of 2.75% per annum. The effective interest rate on the liability component of the convertible bond is 5.425% per annum. The quantity of shares required to meet contractual obligations in respect of conversion rights for the convertible bond had to a large extent already been repurchased on the market at the end of 2009 (see Note 30.6 Treasury shares).

Equity increased by € 113.3 million (18.4%) to € 730.7 million. The equity ratio increased by 3.9 percentage points to 23.2% (2008 19.3%). Gearing improved as a result of the reduction in net financial liabilities to 19.5% (2008: 41.3%).

31. Pension provisions

Defined benefit and defined contribution plans are in place for MTU employees. In the case of **defined contribution plans,** the company has no further obligations beyond the payment of fixed contributions to the plan. In the case of **defined benefit plans,** the company has an obligation to 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' pursuant to Section 1 (1) sentence 3 of the German Law on Retirement Pensions (BetrAVG). Technically therefore, it could be agreed that these forms of pension plans always represent defined benefit plans. For financial reporting purposes, however, the term 'defined benefit plans' is required to be interpreted on the basis of the underlying economic substance of the arrangements. 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.

31.1. 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 2009 totaled € 33.1 million (2008: € 32.0 million). In addition, contributions of € 0.1 million (2008: € 0.6 million) were made to the company-sponsored external fund.

31.2. Defined benefit plans

The pension obligations of MTU are measured using the project 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, 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.

Cumulative actuarial gains and losses are not recognized unless they exceed 10% of the present value of the defined benefit obligation or 10% of the fair value of relevant plan assets, whichever is higher. Actuarial gains or losses that exceed the 10% corridor are recognized from the beginning of the following financial year as income or expense over the expected average remaining working lives of the employees in the relevant pension plan.

MTU's defined benefit pension obligations to its employees result from the following: the employer-financed ‘Versorgungsordnung V097’ pension plan (in place until December 31, 2005), the ‘MTU kapitalPlus 2006 (Basiskonto)’ pension plan introduced with effect from January 1, 2006 and the ‘Pension Capital (Basiskonto)’ pension plan.

In addition to the basic pension, MTU employees also have the option to accumulate their own individual employee-funded capital account (the ‘Pension Capital Aufbaukonto’). As part of the reorganization of the pension system, the voluntary scheme ‘Versorgungskapital zur Wahl’ self-financed by employees was replaced with effect from January 1, 2008 by the new ‘MTU kapitalPlus 2006 Aufbaukonto’ without any impact on profit or loss. The obligation to finance the pension entitlements remains with MTU. For this reason, pension plans involving the accumulation of funds in capital accounts are treated as defined benefit plans.

The funding status of defined benefit pension provisions is as follows:

Present value and funding status of the defined benefit obligation

in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Germany				
Provision-financed pension obligations	431.6	396.5	383.3	447.7
Loan-financed pension obligations	23.1	22.0	20.4	n.a.
	454.7	**418.5**	**403.7**	**447.7**
Other countries				
Fund-financed pension obligations	18.6	15.7	20.2	19.5
Total	**473.3**	**434.2**	**423.9**	**467.2**

In the financial year 2009, the DBO increased as a result of a reduction of 0.5 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 in pension trends and by experience adjustments. In the financial year 2008, the DBO increased due to the increase in salary and pension trends. These negative effects were partially compensated by the increase in the discount rate and by experience adjustments.

Of the total amount of the defined benefit obligation (DBO) for pension and similar plans of € 473.3 million (2008: € 434.2 million), an amount of € 454.7 million (2008: € 418.5 million) relates to group companies in Germany; this represents 96.1% (2008: 96.4%) 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, 2009	Dec. 31, 2008	Dec. 31, 2007
Interest rate for accounting purposes	5.25	5.75	5.25
Expected return on plan assets[1)]	n/a	n/a	n/a
Salary trend	3.0	3.0	2.5
Pension trend	2.0	2.1	1.75

[1)] relates to one variable-interest loan subject to the three-month Euribor rate plus 50 basispoints per year (see text headed 'Loan-financed plan assets')

Actuarial assumptions: Other countries

in %	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Interest rate for accounting purposes	5.75	6.25	5.25
Expected return on plan assets	7.25	7.25	7.25
Salary trend	3.0	3.0	3.0
Pension trend	2.5	2.5	2.5

The market yields on high-quality corporate bonds have fallen compared to the previous year. For this reason, obligations for pensions and long-service awards were discounted at December 31, 2009 using a discount rate of 5.25% (2008: 5.75%). The biometric tables issued by 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 annually depending on inflation and the period of service of employees within the group.

The fluctuation probabilities, mortality rates and disablements applied were estimated on the basis of age and gender. For the effects of the experience adjustments, reference is made to the funding status and the experience adjustments at the end of the financial year presented later in 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 the current financial year:

Analysis of pension obligation sensitivity

	At Dec. 31, 2009	Interest rate sensitivity in PVBP[1] at December 31, 2009	
in € million	**5.25 %**	**+25**	**-25**
Pension obligation (DBO)	473.3	462.1	485.0
Unrecognized actuarial losses	-37.6	-26.4	-49.3

[1] PVBP = present value of a basis point

In the following table, the defined benefit obligation and plan assets are reconciled to the recognized pension provision:

Reconciliation of defined benefit obligation and plan assets to recognized pension provision

in € million	**Dec. 31, 2009**	**Dec. 31, 2008**	**Dec. 31, 2007**
Total amount of the defined benefit obligation	**473.3**	**434.2**	**423.9**
Fair value of plan assets	-26.5	-25.1	-29.8
Cumulative unrecognized actuarial losses	-37.6	-20.8	-18.5
Net obligation	**409.2**	**388.3**	**375.6**
Capitalized surplus of plan assets	2.4	1.9	1.0
Pension provisions recognized in the balance sheet	**411.6**	**390.2**	**376.6**

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 € 26.5 million (2008: € 25.1 million). On account of the more favorable exchange rate parities between the euro and the Canadian dollar at December 31, 2009 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 increased by a total of € 1.4 million (2008: decreased by € 4.7 million).

Cumulative unrecognized actuarial losses

At December 31, 2009, cumulative actuarial losses, which were not recognized in the income statement in accordance with IAS 19.92, increased to € 37.6 million primarily as a result of the reduction of 0.5 percentage points in interest rates in addition to experience adjustments and effects from changes in estimates. An actuarial gain of € 1.0 million (2008: loss of € 3.5 million) resulted for the plan assets in the financial year 2009. The actuarial losses of pension obligations amounted to € 17.8 million in the financial year.

The defined benefit obligation developed as follows:

Calculation of the defined benefit obligation

in € million	2009	2008	2007
DBO at January 1	**434.2**	**423.9**	**467.2**
Current service cost	12.6	12.0	13.1
Interest expense	24.5	21.7	19.8
Past service cost	1.4		-24.0
Actuarial gains (-) / losses (+)	17.8	-1.8	-36.6
Pension payments	-18.5	-18.5	-16.2
Transfers / Translation differences	1.3	-3.1	0.6
DBO at December 31	**473.3**	**434.2**	**423.9**

By a resolution of the Supervisory Board's Personnel Committee dated March 10, 2009, new pension arrangements were concluded with the members of the MTU Board of Management. The new agreements replaced the existing agreements with effect of June 1, 2009. When the new pension agreements were drafted, it was ensured that the respective benefits have a uniform structure. This impacted the pension provision in different ways, depending on the arrangements of the former pension agreement. Due to the conclusion of the new pension agreements with MTU's Board of Management, vested benefits arose which were recognized as a past service cost at an amount of € 1.4 million.

The fair value of plan assets developed as follows:

Calculation of the fair value of plan assets

in € million	2009	2008	2007
Fair value at January 1	**25.1**	**29.8**	**18.0**
Allocation to plan assets			10.6
Expected return on plan assets	1.7	1.8	1.6
Actuarial gains / losses (-) from:			
Fund-financed plan assets	1.5	-3.6	-2.0
Loan-financed plan assets	-0.5	0.1	
Transfers / Translation differences	0.5	-2.9	0.9
Employer contributions	0.8	1.0	1.7
Employee contributions to plan		0.1	0.1
Pension payments	-2.6	-1.2	-1.1
Fair value at December 31	**26.5**	**25.1**	**29.8**

In the financial year 2009, retirement benefit payments totaling € 2.6 million (2008: € 1.2 million) were granted out of the plan assets. Payments of € 1.3 million were made by MTU München Unterstützungskasse GmbH, Munich, and € 1.3 million by MTU Maintenance Canada Ltd., Richmond, Canada. The actual return on plan assets totaled € 2.7 million in the financial year 2009 (2008: a loss of € 1.7 million).

The expense from defined benefit plans and similar obligations for the ongoing concern includes the following components:

Expense from defined benefit pension plan and similar obligations

in € million	2009	2008	2007
Current service cost	12.6	12.0	13.1
Interest expense	24.5	21.7	19.8
Expected return on fund-financed plan assets	-1.1	-1.2	-1.4
Expected return on loan-financed plan assets	-0.6	-0.6	-0.2
Amortization of actuarial gains (-) / losses	0.3	1.8	0.2
Positive / negative (-) past service cost	1.4		-24.0
Total expense	**37.1**	**33.7**	**7.5**

Fund-financed plan assets

The fund-financed plan assets relate to MTU Maintenance Canada Ltd., Richmond, Canada and do not include any securities pertaining to MTU group entities nor any assets used by the MTU group. During the financial year 2009, there was a very small shift in the composition of plan assets away from cash and cash equivalents towards stocks and fixed-income securities.

The composition of plan assets to cover pension obligations and to cover other pension entitlements is as follows at the respective balance sheet date:

Composition of fund-financed plan assets

in %	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Stocks	63.3	58.4	59.8
Fixed-income securities	34.3	32.8	31.7
Cash and cash equivalents and other assets	2.4	8.8	8.5
Composition of fund-financed plan assets	**100.0**	**100.0**	**100.0**
Expected return on plan assets	**7.25**	**7.25**	**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. Overall, an expected return of 7.25% (2008: 7.25%) was applied to measure the fair value of fund-financed plan assets. A return of 7.0% is assumed for the financial year 2010.

Loan-financed plan assets

Loan-financed plan assets relate to a loan receivable by MTU München Unterstützungskasse, Munich, from MTU Aero Engines München GmbH, Munich, totaling € 9.0 million at December 31, 2009 (2008: € 11.4 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, disablements and fluctuation develop differently to forecasts. On the other hand, changes to actuarial assumptions also have an effect, for example the change of 0.5 percentage points in the interest rate for discounting pension obligations and the reduction of 0.1 percentage points in pension trends for the future.

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.

Actuarial gains and losses not recognized in the income statement relating to pension obligations and plan assets are as follows:

Funding status and experience adjustments at the end of the financial year

in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Defined benefit obligation	473.3	434.2	423.9	467.2
Fair value of plan assets	-26.5	-25.1	-29.8	-18.0
Net obligation	**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)[1)]	3.3	-11.9	-8.4	-9.7
Experience adjustments relative to plan assets	1.0	-3.5	-2.0	0.9

[1)] Experience adjustments in the financial year 2007 do not include effects of the switch from the VO97 to the MTU kapitalPlus 2006 plan.

Pension payments expected in the future
In addition to the employer's contributions to plan assets, the company is expecting the following pension payments in the coming years:

Expected distribution of pension payments over annual periods

in € million	2010	2011	2012
Expected amount of pension payments	22.9	23.6	28.9

Employer's contributions to fund-financed plan assets for the financial years 2010 - 2012 are expected to amount to between € 0.8 million and € 1.0 million.

Due to the conversion of the former 'Versorgungsordnung V097' pension plan, which was valid until December 31, 2005, to the new 'MTU kapitalPlus 2006' in place since the financial year 2006, a lifelong 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. Under the new pension plan, the group assumes that an immediate cash payment will be made from the age at financing expiration based on the assumptions regarding the expected disbursement periods of pension benefits. This will lead to an increase in pension payments in the coming financial years, however the burden on cash outflows will lessen in the long term.

Other disclosures
Reference is made to the comments under Note 39. (Deferred taxes) on the deferred tax assets recognized due to the differences in the measurement of tax assets and liabilities for accounting purposes and for taxation purposes. No consolidation-related deferred taxes arose from the measurement of pension obligations.

32. Income tax payable

The income tax payable amounting to € 12.5 million (2008: € 23.0 million) comprises corporation tax amounting to € 12.4 million (2008: € 22.8 million) and taxes on the income of foreign group companies amounting to € 0.1 million (2008: € 0.2 million).

Income tax payable developed as follows in the financial year 2009:

Income tax payable

in € million	2009	2008	2007
Balance Jan. 1	23.0	38.8	1.2
Translation differences			-0.2
Utilized	-23.0	-11.5	-1.1
Reversed		-10.1	
Allocated	12.5	5.8	38.9
Balance Dec. 31	**12.5**	**23.0**	**38.8**

The income tax liabilities are due for payment within one year.

33. Other provisions

At the balance sheet date, other provisions comprised the following items:

Other provisions

in € million	Total at Dec. 31, 2009	Total at Dec. 31, 2008	Total at Dec. 31, 2007	Non-current at Dec. 31, 2009	Non-current at Dec. 31, 2008	Non-current at Dec. 31, 2007	Current at Dec. 31, 2009	Current at Dec. 31, 2008	Current at Dec. 31, 2007
Warranty obligations and risks from pending losses on onerous contracts	32.6	24.5	23.2		9.6	13.4	32.6	14.9	9.8
Personnel obligations	45.1	57.3	62.3	5.5	5.7	5.7	39.6	51.6	56.6
Contingent liabilities arising from business combinations	153.6	208.7	236.2	153.6	208.7	236.2			
Losses arising from the settlement of accounts	75.4	79.1	63.1				75.4	79.1	63.1
Risks and uncertainties linked to the TP400-D6 engine program	45.3	44.4	44.4				45.3	44.4	44.4
Other obligations	68.7	65.0	68.5				68.7	65.0	68.5
Other tax obligations	0.4	0.4	0.8				0.4	0.4	0.8
Total other provisions	**421.1**	**479.4**	**498.5**	**159.1**	**224.0**	**255.3**	**262.0**	**255.4**	**243.2**

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. Provisions were estimated as accurately as possible on the basis of past experience data, taking account of the conditions prevailing at the balance sheet date, as well as any necessary price escalations.

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 the financial year 2009 or they were already recognized in previous financial years.

Personnel obligations

The personnel obligations comprise provisions allocated for profit-sharing and performance-related bonuses amounting to € 28.3 million (2008: € 32.2 million), provisions for part-time early retirement working arrangements amounting to € 1.2 million (2008: € 1.7 million), provisions for long-service awards amount to € 5.8 million (2008: € 5.6 million) and provisions for restructuring measures following the introduction of single-status pay agreements (ERA) amounting to € 8.6 million (2008: €15.5 million). Provisions for long-service awards and for part-time early retirement working arrangements are discounted and recognized under provisions at their present value.

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. (KKR) from the then DaimlerChrysler AG. The contingent liabilities are measured according to IFRS 3.48.

In particular, delays in the delivery of engines had an impact on the measurement of contingent liabilities for certain engine programs in the financial year 2009. Due to the significant change in the schedule of payments, income of € 70.5 million was recognized in the income statement for the engine programs in question in the financial year 2009. Effects of price escalations were taken into account when measuring contingent liabilities due to the delay in engine production corresponding to the increases in output stipulated each year by the engine consortium. Furthermore, the change in the interest rate applied to discount non-current obligations, which was recognized in the financial result, had an impact on related earnings. 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. A more detailed presentation of changes in contingent liabilities is provided later on in this note.

Losses arising from the settlement of accounts

MTU supplies engine components and spare parts to the consortium leaders in risk- and revenue-sharing partnerships (RRSPs) based on agreed long-term delivery volumes. Losses arising from the settlement of accounts relate to retrospective price adjustments, special conditions agreed subsequently 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. Furthermore, losses arising from the settlement of accounts include potential reimbursement claims asserted by public-sector customers.

Risks and uncertainties linked to the TP400-D6 engine program

The Airbus A400M transport aircraft is a high-speed turboprop specifically designed to meet the joint requirements of European NATO nations and the requirements of international air forces. MTU is a member of a consortium comprising four European companies selected to develop and supply the propulsion system – the TP400-D6 engine – for the A400M.

On account of uncertainties arising from delivery delays and the uncertain technical status on the one hand, and the general uncertainty surrounding the future of the program, all basic premises underlying the measurement the TP400-D6 engine program had to be reassessed in the financial year 2009. As a result, a provision of € 45.3 million over and above the carrying amount of the construction contract receivables was recognized in the income statement.

When establishing the impairment loss and provisions for the engine program, MTU is currently proceeding on the assumption that the program will continue. The discontinuation of the engine program would result in a complete recalculation of the contract. The measurement of impairment loss and provisions at December 31, 2009 also takes account of prorated contractual penalties that might be imposed on MTU according to present estimations. At the same time, given the technical complexity of the TP400-D6 engine program and the uncertainty about the outcome of the current technical development of the engine program and the airframe, it is implicitly possible that other financial risks might also arise, e.g. additional significant delays in the delivery schedule, additional contract execution costs or the ultimate amount to be paid for contractual penalties.

Other obligations

Provisions for other obligations cover a multitude of identifiable individual risks and contingent liabilities. The amounts recognized for these provisions represent the best possible estimate of future cash outflows required to settle the current obligation. There was no cause to set up provisions for environmental protection.

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 2009 and previous financial years.

The following tables show the changes in current provisions and non-current provisions (presented separately) in 2009.

Non-current other provisions developed as follows:

Change in non-current other provisions 2009

in € million	Balance Jan. 1, 2009	Transferred	Utilized	Reversed	Allocated	Discount reversed	Effect of change in discount rate	Balance Dec. 31, 2009
Warranty obligations and risk of losses on onerous contracts	9.6		-9.6					
Personnel obligations	5.7	0.1	-0.9		0.2	0.4		5.5
Contingent liabilities arising from business combinations[1)]	208.7	51.2	-27.6	-70.5		29.1	-37.3	153.6
Total non-current other provisions	**224.0**	**51.3**	**-38.1**	**-70.5**	**0.2**	**29.5**	**-37.3**	**159.1**

[1)] Previously stated as 'Obligations from contingent liabilities'; restated in the interests of a more transparent presentation of changes.

The following cash outflows are expected from the carrying amounts of non-current other provisions:

Expected cash outflow from non-current provisions

in € million	Carrying amount Dec. 31, 2009	Probable cash outflow / financial year 2010	2011
Personnel obligations	5.5		1.3
Contingent liabilities arising from business combinations[1)]	153.6	45.5	64.9
Total other provisions	**159.1**	**45.5**	**66.2**

[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 2009

in € million	Balance Jan. 1, 2009	Transferred	Utilized	Reversed	Allocated	Translation differences	Balance Dec. 31, 2009
Warranty obligations and risk of losses on onerous contracts	14.9		-5.5	-0.2	23.4		32.6
Personnel obligations	51.6	-0.1	-40.2	-1.2	29.5		39.6
Losses arising from settlement of accounts	79.1		-12.6	-15.1	24.0		75.4
Risks and uncertainties linked to the TP400-D6 engine program	44.4	-44.4			45.3		45.3
Other obligations	65.0		-30.3	-0.5	34.4	0.1	68.7
Other tax obligations	0.4		-0.3		0.3		0.4
Total	**255.4**	**-44.5**	**-88.9**	**-17.0**	**156.9**	**0.1**	**262.0**

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 with the exception of the provisions for risks and uncertainties arising from the TP400-D6 engine program. Contrary to the expected due dates for the cash outflows, the provision for the TP400-D6 engine program is classified as a current provision because the debt is settled within the normal business cycle of this engine program.

34. Financial liabilities

All liabilities arising from derivative and non-derivative financial instruments held by MTU Aero Engines Holding AG, Munich and its affiliated companies, existing at the balance sheet date, are recognized under financial liabilities. They consist of the following components:

Financial liabilities

	Total			Non-current			Current		
in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Bonds									
Convertible bond[1)]	145.0	141.5	162.8				145.0	141.5	162.8
Interest liability on convertible bond	3.9	3.9	4.5				3.9	3.9	4.5
Liabilities to banks									
Promissory notes	65.4			64.6			0.8		
Revolving credit facility (RCF)		61.2	69.6					61.2	69.6
Other liabilities to banks	14.6	21.3	26.5		9.7	17.0	14.6	11.6	9.5
Other financial liabilities									
Finance lease liabilities	25.8	34.0	41.7	24.6	25.7	33.4	1.2	8.3	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	12.5			12.5	12.9	11.1	
Derivative financial liabilities	12.2	48.4	8.9	4.6	23.5	3.9	7.6	24.9	5.0
Total financial liabilities	**279.8**	**336.4**	**326.5**	**93.8**	**58.9**	**66.8**	**186.0**	**277.5**	**259.7**

[1)] Matures in 2012. Recognized under current liabilities because conversion option can be exercised at any time. For possible effects of amendments to IAS 1, please refer to Note 1.1. (Basic accounting principles) (Amendments to IFRSs resulting from the Annual Improvement Project 2007-2009).

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 (not including any possible dilution of the share capital resulting from a capital increase due to conversion of capital reserves or revenue reserves, the splitting or grouping of shares, the reduction of capital or a change of control). The coupon rate is 2.75% p.a., payable yearly on February 1 starting on February 1, 2008. Depending on changes in the share price, the bond features authorize MTU Aero Engines Holding AG, Munich, to proceed with the early repayment of the convertible bond on or after February 15, 2010 – after giving the appropriate notice – at par value plus interest accrued up to the repayment date.

MTU Aero Engines Holding AG, Munich, is furthermore authorized to call all remaining outstanding units of the convertible bond for early repayment at par value plus interest accrued up to the repayment date in the event that the total par value of the outstanding 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 company's capital stock may be increased by up to € 19.25 million through the issue of up to 19.25 million new registered shares. The purpose of this conditional capital increase is to issue shares to owners or creditors of convertible bonds and/or bonds with warrants in accordance with the authorization granted to the company's Board of Management under a resolution passed by the Annual General Meeting on May 30, 2005.

The convertible bond was split according to its substance into liability and equity components for the purpose of initial recognition, in accordance with the definitions of IAS 32.11. The liability component was measured at fair value, whereby transaction costs directly attributable to the bond issue were included in the calculation. The present value of all future cash flows arising from the contractual obligation (convertible bonds underwriting agreement dated January 23, 2007) was determined by applying a discount at the market interest rate of 5.425% p.a., which corresponds to the rate that MTU would have had to pay at the bond issue date for a non-convertible bond.

In subsequent periods, the liability component was measured at amortized cost using the effective interest method, so that the expense over the life of the convertible bond agreement represents the reversal of the discounting at the applied rate.

The original equity component of the convertible bond issue, amounting to € 17.6 million, was recognized directly in equity, taking deferred taxes into account. The proportionate amount of transaction costs allocated to the equity component, less the corresponding income tax reductions, was deducted from the equity component.

Repurchase of convertible bond prior to maturity in 2008

In the period from September 17 to October 31, 2008, MTU repurchased units of its own convertible bond on the market with a total nominal volume of € 27.2 million (approximately 15.1 % of the original nominal volume of € 180.0 million at the issue date) prior to their final maturity. The total price paid for these securities amounted to € 21.9 million (including transaction costs but excluding interest at the coupon rate), which corresponds to an average of 80.7% of the bond units' nominal value.

The repurchase expense was split into an equity component and a liability component according to IAS 32.AG 33, applying the same allocation method as that applied when the bond was issued, according to the requirements of IAS 32.28-32. By way of simplification, and in order to account for the materiality of the exercise, costs were aggregated for the bond units repurchased in September 2008 and October 2008 respectively and the resulting sum in each case was split into an equity component and a liability component, instead of doing so for each repurchase transaction individually. The average repurchase price paid for the bond units repurchased in September 2008, which had a nominal value of € 7.0 million, corresponded to 81.9 % of their nominal value. For the bond units repurchased in October 2008, which had a nominal value of € 20.2 million, the average repurchase price corresponded to 80.3 % of their nominal value.

The separation of the costs of the repurchase exercise into an equity and a liability component is a matter of judgement, given that, in MTU's estimation, credit spreads have considerable widened as a result of the financial market crisis, to the extent that they no longer adequately reflect MTU's continuing good creditworthiness. The costs arising from the bond repurchase exercise in September 2008 amounted to an effective total of € 5.7 million, of which € 5.2 million was allocated to liabilities and € 0.5 million to equity. The difference between the fair value of the liability component and its amortized cost, amounting to € 1.2 million, was recognized in the income statement in the financial result, according to IAS 32.AG34 (a). The equity component (net of taxes), determined according to IAS 32. AG34 (b), was recognized directly in equity as a deduction from capital reserves. The costs arising from the bond repurchase exercise in October 2008 amounted to an effective total of € 16.2 million, of which € 14.8 million was allocated to liabilities and € 1.4 million to equity. The difference between the fair value of the liability component and its amortized cost, amounting to € 3.8 million, was recognized in the income statement in the financial result, according to IAS 32.AG34 (a). The equity component (net of taxes), determined according to IAS 32.AG34 (b), was recognized directly in equity as a deduction from capital reserves.

Following the repurchase, prior to final maturity, of units of the convertible bond with a total nominal volume of € 27.2 million, the associated conversion rights theoretically corresponded at the end of the financial year 2009 to approximately 3.1 million (2008: 3.1 million) non par value shares of conditional capital. If these conversion rights had been exercised in the financial year 2008, earnings per share would have been reduced to € 0.08 (2008: € 0.10). More detailed explanatory comments concerning the conditional capital increase are provided in Note 30.3. (Conditional capital increase). 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).

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	Note amount (nominal) in € million	Type of interest
June 5, 2012	1.5	fixed
June 5, 2014	11.5	fixed
June 5, 2012	27.0	variable[1)]
June 5, 2014	25.0	variable[1)]
	65.0	

[1)] 6-month Euribor rate plus margin

The cash inflow from the promissory notes was used to reimburse existing liabilities to banks in connection with the revolving credit facility (old RCF). 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.

Liabilities to banks

Revolving credit facility (RCF)

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.

Of this new line of credit amounting to € 100.0 million, a total of € 27.7 million had been drawn down as bank guarantees in favor of third parties at December 31, 2009 (Dec. 31, 2008: € 16.9 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 modest loan commitment fee.

Financial covenants

Promissory notes
MTU has undertaken the obligation to ensure that certain financial indicators remain within defined boundaries throughout the contractual period of the promissory notes (up to June 5, 2014 at the latest) and until all final amounts payable in connection with the respective promissory notes have been settled in full, 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 relevant financial indicators are calculated according to the following formulae:

- **Times interest earned ratio =** EBITDA adjusted/consolidated net interest expense
- **Debt-equity ratio =** Debt-equity ratio = Consolidated net financial liabilities/ 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 drawn up in accordance with the requirements of the International Financial Reporting Standards (IFRSs). The annual consolidated financial statements are audited and attested. The half-yearly financial statements for each financial year are examined by the auditor.

Revolving credit facility (RCF)
MTU has undertaken the obligation to ensure that certain financial indicators remain within defined boundaries throughout the contractual period of the revolving credit facility, as follows: at the end of each annual period, the group's debt-equity ratio shall not exceed 2.5 and the times interest earned ratio shall not lie below 4.0.

As at December 31, 2009, MTU and its affiliates had met all loan repayment and other obligations (covenants) arising from financing agreements.

Change-of-control clauses
Information on significant agreements relating to change of control subsequent to a takeover bid (change-of-control clauses) is provided in Section 7. (Other disclosures) of the group management report.

Other liabilities to banks
The other liabilities to banks amounting to € 14.6 million (2008: € 21.3 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. For information on the accounting treatment of lease assets and a summary of capitalized lease assets, please refer to Note 20. (Property, plant and equipment).

The liabilities arising from the retrospective purchase price adjustment in favor of Daimler AG, amounting to € 15.0 million included in the 2008 financial statements, were settled through payment of € 12.1 million to the beneficiary after completion and evaluation of the tax field audit for the period 2001 to 2003. The amount of the payment is recognized in the cash flow from financing activities. All claims by either party arising from the sale of MTU by Daimler AG are thereby settled.

The loan from the province of British Columbia to MTU Maintenance Canada Ltd., Richmond, Canada, is recognized at amortized cost. The change compared with 2008 is mainly attributable to movements in the exchange rate parity between the euro (€) and the Canadian dollar (CAD).

Derivative financial liabilities

Derivative financial liabilities amounting to € 12.2 million (2008: € 48.4 million) relate principally to changes in the fair value of forward foreign exchange contracts used to hedge cash flows and of forward commodity sales contracts for nickel.

35. Trade payables

The total amount of trade payables is due within one year. Refer to Note 45.1.1. (Business with related companies) for details of trade accounts payable to associated companies.

Trade payables

in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Trade accounts payable to:			
Third parties	251.3	434.1	359.5
Related companies			
Associated companies, joint ventures, other equity investments	60.6	51.4	92.6
Non-consolidated subsidiaries	9.0	10.2	10.8
Total trade payables	**320.9**	**495.7**	**462.9**

36. Construction contract liabilities

Construction contracts

Liabilities arising from construction contracts primarily concern advance payments for construction contracts for specific engine programs.

Liabilities arising from construction contracts

in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Construction contracts			
Advance payments received for construction contract	847.6	767.9	636.1
offset against:			
Accounts receivable for construction contract	-240.6	-247.3	-196.4
Total liabilities arising from construction contracts	**607.0**	**520.6**	**439.7**

Advance payments received for construction contracts and accounts receivable for construction contracts can be attributed to specific engine programs.

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.

37. Other liabilities

Other liabilities are broken down into the following categories:

Other liabilities

in € million	Total			Non-current			Current		
	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Taxes	8.4	16.5	11.2				8.4	16.5	11.2
Social security	2.0	1.8	2.1				2.0	1.8	2.1
Employees	40.5	44.4	53.9	3.3	3.8	1.3	37.2	40.6	52.6
Accrued interest expense	21.4	14.7	10.1	21.4	14.7	10.1			
Outstanding maintenance work on returned operate-lease engines	8.1	8.0	10.3	8.1	8.0	10.3			
Sundry other liabilities	18.2	20.4	23.1	1.2	2.1	2.5	17.0	18.3	20.6
Total other liabilities	**98.6**	**105.8**	**110.7**	**34.0**	**28.6**	**24.2**	**64.6**	**77.2**	**86.5**

Other taxes and social security

The tax liabilities amounting to € 8.4 million (2008: € 16.5 million) concern payable wage and church taxes, solidarity surcharges and transactional taxes. Amounts due for social security principally comprise contributions to social insurance against occupational accidents amounting to € 1.5 million (2008: € 1.3 million) and amounts due to health insurers totaling € 0.5 million (2008: € 0.5 million).

Employees

Liabilities towards employees are composed of unclaimed vacation entitlements, flexitime credits, obligations arising from part-time early retirement working arrangements and obligations arising from efficiency-improvement programs in prior periods. Liabilities arising from employee profit-sharing plans and management bonuses, a portion of the payments under part-time early retirement arrangements and for long-service awards, as well as organizational measures related to the introduction of the single-status pay agreement (ERA) are recognized in other provisions, as further described in Note 33. (Other provisions). This item also includes liabilities to group employees under the MAP employee stock option program amounting to € 2.8 million (2008: € 0.8 million). Additional information concerning the MAP employee stock option program is provided in Note 30.4. (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 construction contract, amounting to € 16.6 million (2008: € 11.5 million) as well as to prepayments of € 4.8 million (2008: € 3.2 million) received for long-term engine programs in the commercial engine business. Further explanations are given in Note 5.11. (Inventories) under the subheading ‘Construction contract’.

Outstanding maintenance work on returned operate-lease engines

These non-current liabilities relate to outstanding maintenance work on the present fleet of 14 operate-lease engines, which are made available by MTU to airlines during the period for which their own engines are undergoing maintenance so as to enable them to continue flight operations.

Sundry other liabilities

Sundry other liabilities cover a multitude of minor individual obligations.

The following tables list the contractually agreed (undiscounted) payments of interest and principle on the original financial liabilities and derivative financial instruments measured at fair value through profit or loss to MTU:

Maturity dates of financial liabilities 2009

		Cash flows 2010			Cash flows 2011			Cash flows 2012			Cash flows 2013 ff.		
		Interest			Interest			Interest			Interest		
in € million	Carrying amount Dec. 31, 2009	fixed	variable	Principle	fixed	variable	Principle	fixed	variable	Principle	fixed	variable	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

Maturity dates of financial liabilities 2008

in € million	Carrying amount Dec. 31, 2008	Cash flows 2009 Interest fixed	Cash flows 2009 Interest variable	Cash flows 2009 Principle	Cash flows 2010 Interest fixed	Cash flows 2010 Interest variable	Cash flows 2010 Principle	Cash flows 2011 Interest fixed	Cash flows 2011 Interest variable	Cash flows 2011 Principle	Cash flows 2012 ff. Interest fixed	Cash flows 2012 ff. Interest variable	Cash flows 2012 ff. Principle
Trade payables	495.7			495.7									
Bonds	145.4	4.2			4.2			4.2			4.2		152.8
Liabilities to banks	82.5		0.5	72.8		0.4	9.7						
Other interest-bearing liabilities	16.8						3.2						13.6
Other interest-free liabilities	60.6			52.6			8.0						
Derivative financial liabilities													
Derivatives without hedging relationship	27.0			11.9			14.2			0.9			
Derivatives with hedging relationship	21.4			13.0			8.4						
Other disclosures													
Contingent liabilities under risk- and revenue-sharing partnerships	57.2			57.2[1)]									
Guarantees	85.0			85.0									
Finance lease liabilities	34.0	0.4		8.3	0.4		1.2	0.4		3.8	4.1		20.7
Other financial liabilities not within the scope of either IFRS 7 or IAS 39	490.2			113.6			18.9			19.9			342.5

[1)] Relates to delay-related contingent liabilities arising from RRSP contracts

Maturity dates of financial liabilities 2007

in € million	Carrying amount Dec. 31, 2007	Cash flows 2008 Interest fixed	Cash flows 2008 Interest variable	Cash flows 2008 Principle	Cash flows 2009 Interest fixed	Cash flows 2009 Interest variable	Cash flows 2009 Principle	Cash flows 2010 Interest fixed	Cash flows 2010 Interest variable	Cash flows 2010 Principle	Cash flows 2011 ff. Interest fixed	Cash flows 2011 ff. Interest variable	Cash flows 2011 ff. Principle
Trade payables	462.9			462.9									
Bonds	167.3	4.9			4.9			4.9			10.0		180.0
Liabilities to banks	96.1		1.2	79.1		0.8	7.8		0.3	9.2			
Other interest-bearing liabilities	12.6												12.6
Other interest-free liabilities	52.0			29.1			22.9						
Derivative financial liabilities													
Derivatives without hedging relationship	8.7			5.4			3.3						
Derivatives with hedging relationship	0.2			0.2									
Other disclosures													
Contingent liabilities under risk- and revenue-sharing partnerships	73.1			73.1[1]									
Guarantees	41.5			41.5									
Finance lease liabilities	41.7	1.0		8.3	0.4		8.1	0.4		1.4	6.1		23.9
Other financial liabilities not within the scope of either IFRS 7 or IAS 39	498.9			138.2			17.2		0.1	20.6		0.3	328.1

[1] Relates to delay-related contingent liabilities arising from RRSP contracts

The statement includes all instruments in the portfolio at December 31, 2009 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, 2009. Financial liabilities with no fixed repayment date and contingent liabilities (contingent liabilities arising from RRSPs and guarantees) are always assigned to cash flows on the basis of the earliest likely repayment dates. For further information concerning the stated carrying amounts, please refer to Note 43.1. (Contingent liabilities arising from risk- and revenue-sharing partnerships).

38. Additional disclosures relating to financial instruments

Carrying amounts, measurement/recognition methods and fair values aggregated by category

In the following tables, the carrying amounts of financial instruments are aggregated by category, regardless of how they are recognized and irrespective of whether or not the instruments fall within the scope of IFRS 7 or IAS39. The presented information also includes separate amounts for each category as a function of the measurement/recognition method applied. Finally, the carrying amounts are set opposite the fair values for comparison. Note 5.9. (Available-for-sale financial assets and discontinued operations) and Note 5.12. (Financial instruments) provide explanatory material on the categories of financial instruments as defined in the International Financial Reporting Standards and the accounting policies applied.

Disclosures concerning financial instruments

Carrying amounts, measurement/recognition methods and fair values aggregated by category 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	
Receivables from construction contracts	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 liability 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		501.0	

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
					501.0	501.0	535.1

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 years 2008 and 2007.

Disclosures concerning financial instruments
Carrying amounts, measurement/recognition methods and fair values aggregated by category 2008

in € million	Category as defined in IAS 39 / Other category	Carrying amount Dec. 31, 2008	Cash reserve Nominal value
ASSETS			
Other assets			
Loans and receivables	LaR	13.0	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AfS	4.8	
Financial assets held for trading	FAHfT		
Trade receivables	LaR	460.4	
Receivables from construction contracts	LaR	386.2	
Derivative financial assets			
Derivatives without hedging relationship	FAHfT	7.6	
Derivatives with hedging relationship	n/a	4.2	
Cash and cash equivalents	Cash reserve	69.9	69.9
EQUITY AND LIABILITIES			
Trade payables	FLAC	495.7	
Bonds	FLAC	145.4	
Liabilities to banks	FLAC	82.5	
Other interest-bearing liabilities	FLAC	16.8	
Other interest-free liabilities	FLAC/n/a	60.6	
Derivative financial liabilities			
Derivatives without hedging relationship	FLHfT	27.0	
Derivatives with hedging relationship	n/a	21.4	
Other disclosures			
Contingent liability under risk-and revenue-sharing partnerships	Financial guarantees	57.2	
Guarantees	Financial guarantees	85.0	
Thereof aggregated by category as defined in IAS 39			
Loans and receivables	LaR	859.6	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AfS	4.8	
Financial assets held for trading	FAHfT	7.6	
Financial liabilities measured at amortized cost	FLAC	801.0	
Financial liabilities held for trading	FLHfT	27.0	
Finance lease liabilities	n/a	34.0	
Financial instruments not within the scope of either IFRS 7 (IFRS 7 B2b) or IAS 39		493.7	

Amount carried in balance sheet in accordance with IAS 39				Amount carried in balance sheet IAS 17	Financial instruments not within the scope of IAS 39 or IFRS 7	Total	Fair value Dec. 31, 2008
Measured at amortized cost	Measured at cost	Fair value recognized in equity	Fair value recognized in income statement				
13.0						13.0	13.0
	4.8					4.8	4.8
460.4						460.4	460.4
386.2						386.2	386.2
			7.6			7.6	7.6
		4.2				4.2	4.2
						69.9	69.9
495.7						495.7	495.7
145.4						145.4	118.5
82.5						82.5	82.5
16.8						16.8	16.8
52.6				8.0		60.6	60.6
			27.0			27.0	27.0
		21.4				21.4	21.4
						57.2	57.2
						85.0	85.0
859.6						859.6	859.6
	4.8					4.8	4.8
			7.6			7.6	7.6
793.0				8.0		801.0	774.1
			27.0			27.0	27.0
				34.0		34.0	34.0
					493.7	493.7	521.7

Disclosures concerning financial instruments

Carrying amounts, measurement/recognition methods and fair values aggregated by category 2007

in € million	Category as defined in IAS 39 / Other category	Carrying amount Dec. 31, 2007	Cash reserve Nominal value
ASSETS			
Other assets			
Loans and receivables	LaR	12.2	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AfS	10.1	
Financial assets held for trading	FAHfT		
Trade receivables	LaR	499.2	
Receivables from construction contracts	LaR	367.5	
Derivative financial assets			
Derivatives without hedging relationship	FAHfT	9.5	
Derivatives with hedging relationship	n/a	26.3	
Cash and cash equivalents	Cash reserve	67.3	49.7
EQUITY AND LIABILITIES			
Trade payables	FLAC	462.9	
Bonds	FLAC	167.3	
Liabilities to banks	FLAC	96.1	
Other interest-bearing liabilities	FLAC	12.6	
Other interest-free liabilities	FLAC/n/a	52.0	
Derivative financial liabilities			
Derivatives without hedging relationship	FLHfT	8.7	
Derivatives with hedging relationship	n/a	0.2	
Other disclosures			
Contingent liability under risk-and revenue-sharing partnerships	Financial guarantees	73.1	
Guarantees	Financial guarantees	41.5	
Thereof aggregated by category as defined in IAS 39			
Loans and receivables	LaR	878.9	
Held-to-maturity investments	HtM		
Available-for-sale financial assets	AfS	10.1	
Financial assets held for trading	FAHfT	9.5	
Financial liabilities measured at amortized cost	FLAC	790.9	
Financial liabilities held for trading	FLHfT	8.7	
Finance lease liabilities	n/a	41.7	
Financial instruments not within the scope of either IFRS 7 (IFRS 7 B2b) or IAS 39		503.4	

Amount carried in balance sheet in accordance with IAS 39				Amount carried in balance sheet IAS 17	Financial instruments not within the scope of IAS 39 or IFRS 7	Total	Fair value Dec. 31, 2007
Measured at amortized cost	Measured at cost	Fair value recognized in equity	Fair value recognized in income statement				
12.2						12.2	12.2
	10.1					10.1	10.1
499.2						499.2	499.2
367.5						367.5	367.5
			9.5			9.5	9.5
		26.3				26.3	26.3
			17.6			67.3	67.3
462.9						462.9	462.9
167.3						167.3	164.0
96.1						96.1	96.1
12.6						12.6	12.6
41.7				10.3		52.0	52.0
			8.7			8.7	8.7
		0.2				0.2	0.2
						73.1	73.1
						41.5	41.5
878.9						878.9	878.9
	10.1	.				10.1	10.1
			9.5			9.5	9.5
780.6				10.3		790.9	787.6
			8.7			8.7	8.7
				41.7		41.7	41.7
					503.4	503.4	513.8

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 € 155.4 million (2008: € 128.4 million), is obtained by multiplying the par value of exercisable convertible bonds, totaling € 152.8 million (2008: € 152,8 million), by the factor of 101.73% (2007: 84%), 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 € 6.67 (2008: € 4.46) was calculated per exercised conversion option.

The equity component of the convertible bond amounts to € 20.6 million (2008: € 13.8 million), based on a total of 3,086,869 (2008: 3,086,869) exercisable conversion options.

Accordingly, the fair value of the equity component amounted to € 134.8 million (2008: € 114.6 million) at the balance sheet date. Taking into account the separately recognized interest of € 3.9 million (2008: € 3.9 million) accrued over the 11 months up to December 31, 2009, the fair value inclusive of interest amounts to € 138.7 million (2008: € 118.5 million). The carrying amount inclusive of accrued interest over 11 months amounts to € 148.9 million (2008: € 145.4 million).

Classification of fair value measurements of financial assets and liabilities according to the fair value hierarchy

In order to evaluate the significance of the factors used as input when measuring financial assets and liabilities at their fair value, MTU assigns these assets and liabilities to three levels of a fair value hierarchy.

The three levels of the fair value hierarchy are described below, together with their utilization when measuring financial assets and liabilities:

Level 1: Quoted prices in active markets for identical assets or liabilities (unadjusted input)

Level 2: Directly observable market inputs other than Level 1 inputs, i.e. input factors that can be related directly (price) or indirectly (derived from price) to the financial assets or liabilities

Level 3: Input factors used to measure assets and liabilities that are not based on observable market data (unobservable input factors)

In the following table, financial assets and liabilities measured at fair value are allocated to the three levels of the fair value hierarchy:

Classification of fair value measurements of financial assets and liabilities according to the fair value hierarchy for the financial year 2009

in € million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivate financial instruments		16.6		16.6
Total financial assets		**16.6**		**16.6**
Financial liabilities measured at fair value				
Derivate financial instruments		12.2		12.2
Total financial liabilities		**12.2**		**12.2**

The result of applying the fair value hierarchy to the fair value measurement of financial assets and liabilities in prior periods 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 2008

in € million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial instruments		11.8		11.8
Total financial assets		**11.8**		**11.8**
Financial liabilities measured at fair value				
Derivative financial instruments		48.4		48.4
Total financial liabilities		**48.4**		**48.4**

Classification of fair value measurements of financial assets and liabilities according to the fair value hierarchy for the financial year 2007

in € million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial instruments		35.8		35.8
Total financial assets		**35.8**		**35.8**
Financial liabilities measured at fair value				
Derivative financial instruments		8.9		8.9
Total financial liabilities		**8.9**		**8.9**

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 2009

Aggregated by category as defined in IAS 39	from interest	from investments	from remeasurement			from disposal	Net gain/loss
			at fair value	currency translation	valuation allowances		2009
in € million							
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 amortized 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 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**

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 € 1.5 million (2008: € 1.0 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 € 15.7 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

Gains from the currency translation of financial instruments classified as loans and receivables amounting to € 0.5 million are mainly attributable to exchange rate gains and losses arising from the measurement of trade payables.

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 2008

Aggregated by category as defined in IAS 39	from interest	from investments	from remeasurement			from disposal	Net gain/loss
			at fair value	currency translation	valuation allowances		2008
in € million							
Loans and receivables (LaR)	3.6			-1.1	-2.8		-0.3
Held-to-maturity investments (HtM)							
Available-for-sale financial assets (AfS)		1.7					1.7
Financial assets held for trading (FAHfT)			39.0			1.1	40.1
Financial liabilities measured at amortized cost (FLAC)	-15.0		-9.4	6.7			-17.7
Financial liabilities held for trading (FLHfT)			-51.7				-51.7
Financial instruments not within the scope of IFRS 7 or IAS 39	0.9	-1.0		-6.1			-6.2
Total	**-10.5**	**0.7**	**-22.1**	**-0.5**	**-2.8**	**1.1**	**-34.1**

Net gain/loss on financial instruments by category 2007

Aggregated by category as defined in IAS 39	from interest	from investments	from remeasurement			from disposal	Net gain/loss 2007
			at fair value	currency translation	valuation allowances		
in € million							
Loans and receivables (LaR)	2.3			-9.7	-1.0		-8.4
Held-to-maturity investments (HtM)							
Available-for-sale financial assets (AfS)	0.1	1.3					1.4
Financial assets held for trading (FAHfT)			17.6			0.2	17.8
Financial liabilities measured at amortized cost (FLAC)	-35.3		-1.7	1.7			-35.3
Financial liabilities held for trading (FLHfT)			-14.1			-6.4	-20.5
Financial instruments not within the scope of IFRS 7 or IAS 39	4.4	-2.3		-12.8			-10.7
Total	**-28.5**	**-1.0**	**1.8**	**-20.8**	**-1.0**	**-6.2**	**-55.7**

Expense relating to the early repayment of the high yield bond is included in the interest result for the financial year 2007.

39. 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 and on special tax reserves. Income tax assets were also recognized for tax credits and losses available for carry-forward.

The following table shows changes in deferred tax assets and liabilities:

Changes in deferred tax assets and liabilities

	Dec. 31, 2009		Dec. 31, 2009		2009	Dec. 31, 2008		Dec. 31, 2007	
in € million	Deferred tax assets recognized in balance sheet	Deferred tax liabilities recognized in balance sheet	Deferred tax assets recognized in equity	Deferred tax liabilities recognized in equity	Tax income /expense (-) recognized in income statement[1]	Deferred tax assets recognized in balance sheet	Deferred tax liabilities recognized in balance sheet	Deferred tax assets recognized in balance sheet	Deferred tax liabilities recognized in balance sheet
Assets									
Intangible assets	0.7	207.5			8.5	0.7	215.5	0.7	235.3
Property, plant and equipment	2.6	78.3			6.7	4.1	83.6	3.9	99.9
Financial assets	3.2				0.7	2.5		1.9	
Inventories	2.0	16.3			6.5	1.1	21.8	1.0	21.5
Receivables and other assets	4.7	21.3			-7.8	6.3	14.7	6.3	17.4
Equity									
Convertible bond[2]		5.1		5.1			5.1		5.7
Derivative financial instruments[3]		1.3		1.3		5.6			8.5
Special taxed reserves		4.2					4.2		4.2
Liabilities									
Pension provisions	11.8				1.7	10.7	2.0	14.6	2.0
Other provisions	36.5	0.2			-58.6	96.3	0.6	98.9	0.8
Liabilities	16.5	5.0			12.6	6.5	7.6	7.2	5.9
Deferred tax on assets and liabilities	**78.0**	**339.2**		**6.4**	**-29.7**	**133.8**	**355.1**	**134.5**	**401.2**
Tax credits and losses available for carry-forward									
Tax credits carried forward[4]	21.5				8.9	10.5			
Tax losses carried forward[5]	20.9				3.9	17.8		18.4	
Valuation allowances and unrecognized recoverable tax payments									
Valuation allowance on tax credits	-12.6					-10.5			
Valuation allowance on tax losses carried forward	-17.0					-17.8		-16.4	
Temporary differences for which no deferred tax assets were recognized	-1.6					-4.9		-4.4	
Tax credits and losses carried forward	**11.2**				**12.8**	**-4.9**		**-2.4**	
Deferred tax assets/liabilities before offset	**89.2**	**339.2**		**6.4**	**-16.9**	**128.9**	**355.1**	**132.1**	**401.2**
Offset	-72.3	-72.3				-127.5	-127.5	-131.4	-131.4
Net deferred tax assets/liabilities	**16.9**	**266.9**		**6.4**	**-16.9**	**1.4**	**227.6**	**0.7**	**269.8**

[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

The valuation allowance on deferred tax assets is based on management's assessment of the degree of future recoverability. The current assessment of the recoverability of temporary differences, unused tax losses and tax losses available for carry-forward may change as a result of the future earnings of group entities, thus making it necessary to increase or decrease the valuation allowance.

Reference is made to Note 15. (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 developed as follows:

Change in deferred tax assets

in € million	2009	2008	2007
Balance at Jan. 1	1.4	0.7	1.4
Deferred tax income / expense (-) recognized in the income statement	15.5	0.7	-0.7
Balance at Dec. 31	**16.9**	**1.4**	**0.7**

Deferred tax assets were recognized for the following deferred tax losses/credits available for carry-forward:

Deferred tax assets on tax losses/credits available for carry-forward at Dec. 31

in € million	Germany	U.S.A.	Canada	Poland	2009	2008	2007
Unused tax losses		37.6	22.6		60.2	49.4	51.9
Tax credits available for carry-forward		0.3		21.2	21.5	10.5	
Potential tax impact of tax losses/credits available for carry-forward		**15.0**	**6.2**	**21.2**	**42.4**	**28.3**	**18.4**
Valuation allowances		-14.8	-2.3	-12.5	-29.6	-28.3	-16.4
Balance-sheet effect of deferred tax assets on tax losses/credits available for carry-forward		**0.2**	**3.9**	**8.7**	**12.8**		**2.0**

The tax credits of € 8.7 million relate to the new production site of MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland. These credits are available to the Polish company to promote business investments due to the fact that the production site is located in a free trade zone. The actual utilization of the tax credits depends on the level of investment and actual taxable profits through to the financial year 2017.

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 Germany, tax losses can be carried forward without time restriction. The tax losses of group companies in Germany were fully utilized by the end of the financial year 2008.

No deferred taxes were recognized on the following temporary differences.

Temporary differences at Dec. 31 for which no deferred taxes were recognized

in € million	2009	2008	2007
Temporary differences relating to group companies outside Germany	3.5	12.3	11.6
Deferred taxes, not recognized	**1.6**	**4.9**	**4.4**

Temporary differences for which no deferred tax assets were recognized totaled € 3.5 million (2008: € 12.3 million) at the end of the reporting period and related to MTU Aero Engines North America Inc., Newington, USA. The resulting potential tax impact of € 1.6 million (2008: € 4.9 million) was therefore not taken into account in the computation of income tax expense.

Deferred taxes recognized directly in equity comprise the following:

Balance of deferred taxes recognized directly in equity at Dec. 31

in € million	2009	2008	2007
Equity component of convertible bond	-5.1	-5.1	-5.7
Cash flow hedges	-1.3	5.6	-8.5
Tax effect	**-6.4**	**0.5**	**-14.2**

Applying the same accounting treatment of deferred taxes as when the convertible bond was issued, the deferred tax liabilities of € 5.1 million (2008: € 5.1 million) relating to the equity component of the convertible bond are presented in capital reserves. Deferred taxes on cash flow hedges are presented in other comprehensive income.

Reference is made to the comments on other comprehensive income provided in Note 30.7. (Other comprehensive income (OCI)) regarding the deferred tax liabilities of € 5.1 million on the equity component of the convertible bond (2008: € 5.1 million) and the deferred tax liabilities € 1.3 million on cash flow hedges (2008: deferred tax assets of € 5.6 million).

An analysis of current and deferred tax expense by tax jurisdiction (German and foreign tax), an analysis of tax expense incurred in the current and prior periods, and an analysis of deferred tax expense/income by origin (temporary differences, carry-forward) is provided in Note 15. (Income taxes).

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 € 205.9 million that arose in connection with investments in subsidiaries and joint ventures (so-called outside basis differences). If these differences were to lead to the creation of deferred tax liabilities, they would result in a tax liability amounting to € 3.4 million, based on the current provisions of Section 8b of the German Corporate Income Tax Act (KStG).

IV. Other information

40. Measurement of the recoverable amount of operating segments to which goodwill has been attributed

The group tests goodwill for impairment annually. The value in use of each of the two cash generating units or operating segments – commercial and military engine business (OEM) and commercial maintenance business (MRO) – at June 30, 2009, 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:

- These calculations are based on the planned EBIT for each of the two operating segments.
- The future free cash flows are then derived from the planned cash flows (cash in-flows and outflows are planned without reference to financing activities or taxation)
- An analysis of possible changes to the planned cash flows, in respect of both the amount and the timing
- The variables that enter into the calculation of weighted average cost of capital (WACC) before tax are:
  - risk-free base interest rate;
  - entrepreneurial risk (market risk premium multiplied by a beta coefficient based on peer group analysis);
  - perpetuity divided by discount rate less growth rate;
  - costs of debt capital and
  - the group's capital structure

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

Designation of CGU	OEM			MRO		
Segment	Commercial and military engine business			Commercial maintenance business		
	2009	2008	2007	2009	2008	2007
Carrying amount of CGU in € million	1,088	911	958	535	582	518
Impairment	n/a	n/a	n/a	n/a	n/a	n/a
Carrying amount of goodwill of operating segment	304.4	308.0	296.3	99.0	100.2	95.2
Projected annual revenue growth rate for the planning period	4.3- 7.7%	2.7- 6.9%	-0.7-7.7%	6.9-7.7%	8.3-9.8%	8.4-11.4%
Projected EBITDA margin for the planning period	15.3-16.8%	18.6-20.1%	15.3-16.4%	8.8-10.8%	8.7-10.5%	6.2-13.8%
Projected reinvestment ratio for the planning period	4.4-7.1%	7.0-12.7%	4.6-6.1%	1.9-2.2%	2.2-6.1%	2.8-3.5%
Length of planning period	3 years	3 years	3 years	3 years	3 years	3 years
Annual growth premium applied for the period beyond the planning horizon (perpetuity)	1%	1%	1%	1%	1%	1%
Discount rate (before tax)	11.2%	13.5%	13.8%	11.2%	13.0%	13.5%

The WACC is measured as a function of the cost of capital, averaged to account for both debt capital and equity capital. The cost of equity capital is first calculated after taxes. For this purpose MTU in 2009 used a risk-free base interest rate of 4.3%, a market risk premium of 5% and a beta coefficient of 1.03 based on peer group analysis. The cost of debt capital was 3.8% after taxes. The tax rate applied to determine the result before taxes was set at 32.6%. The relationship of equity capital to debt capital was 66% to 34% (2008: 78% to 22%). The increase in the proportion of debt capital is partly a result of the low market capitalization on the valuation date, but above all due to the explicit inclusion of pension provisions in debt capital for the purposes of determining the capital structure. A growth rate of 1% was subtracted from the above discount rate to determine the present value of the perpetuity.

The detailed forecasting period for the projected EBIT and cash flow figures to determine the value in use covers the three-year period from 2010 to 2012 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 us to the conclusion that an impairment loss on goodwill for either of the operating segments is necessary.

41. Sensitivity analysis of goodwill

The group makes estimations and assumptions relating to future events and conditions. These estimations and assumptions, which imply a significant risk in the form of possible major adjustments to the carrying amounts of assets and liabilities during the next financial year, are discussed in the following sections.

Sensitivity analyses were carried out to determine the possible impact that a sustainable reduction in planned earnings before interest and tax (EBIT) might have on the goodwill amounts allocated to each of the two segments. This analysis included sensitivity factors affecting the calculation of the weighted average cost of capital.

Assuming a weighted average cost of capital (WACC) of an unchanged cost of capital, the sensitivity analyses concluded that this would not result in any necessity to recognize an impairment loss on goodwill for the respective operating segment, even in the event of a long-term reduction in EBIT ranging to 30% below the earnings forecast established by management for the OEM segment and for the MRO segment.

The goodwill sensitivity factors for the two operating segments are presented in the following tables.

Goodwill sensitivity factors 2009

Calculated impairment loss in € million for EBIT planning variance of x%	WACC	EBIT planning variance in % (plan = 0 %)		
		-30 %	-20 %	-10 %
Operating segments				
Commercial and military engine business (OEM)	11.2 %	none	none	none
Commercial maintenance business (MRO)	11.2 %	none	none	none

Goodwill sensitivity factors 2008

Calculated impairment loss in € million for EBIT planning variance of x%	WACC	EBIT planning variance in % (plan = 0 %)		
		-30 %	-20 %	-10 %
Operating segments				
Commercial and military engine business (OEM)	13.5 %	€ -156 mio.	none	none
Commercial maintenance business (MRO)	13.0 %	€ -132 mio.	€ -20 mio	none

Goodwill sensitivity factors 2007

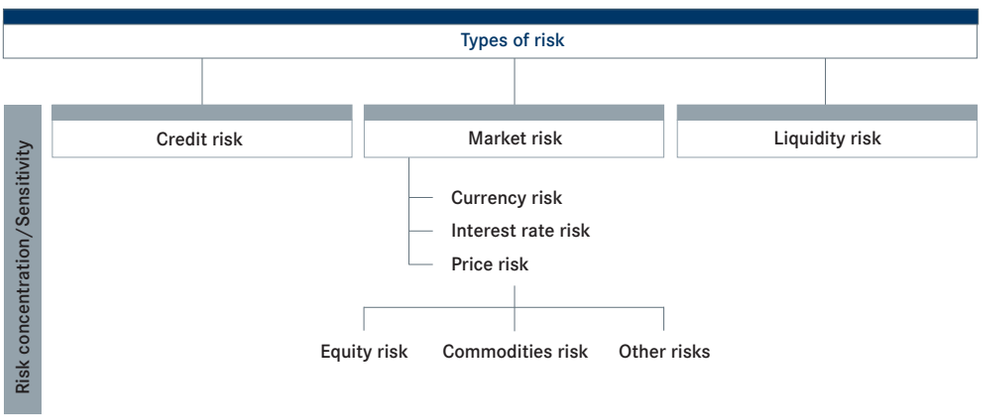
Calculated impairment loss in € million for EBIT planning variance of x%	WACC	EBIT planning variance in % (plan = 0 %)		
		-30 %	-20 %	-10 %
Operating segments				
Commercial and military engine business (OEM)	13.8 %	€ -188 mio.	none	none
Commercial maintenance business (MRO)	13.5 %	none	none	none

42. Risk management and derivative financial instruments

Principles of risk management

MTU is exposed to credit risks, market risks, and liquidity risks with respect to its assets, liabilities and forecast transactions. The objective of financial risk management is to minimize these risks by means of current financing related activities. This involves the use of selected hedging instruments, depending on the estimated degree of risk exposure. Hedging is principally used to ward off risks affecting the group's cash flow. Hedging transactions to minimize credit risk are concluded exclusively with banking institutions possessing a credit rating of investment grade (IG) or better.

The group's basic financial policy guidelines are defined at annual intervals by the Board of Management and monitored by the Supervisory Board. The responsibility for implementing the agreed financial policy and performing ongoing risk management lies with the group's Treasury Board. Certain transactions require the prior approval of the Board of Management, whose members are kept regularly informed of the extent and amount of current risk exposure.



In order to evaluate the significance of the factors used as input when measuring financial assets and liabilities at their fair value, these assets and liabilities are assigned to three levels of a fair value hierarchy. The classification of financial assets and liabilities measured at fair value is explained in more detail in Note 38. (Additional disclosures) relating to financial instruments.

42.1. Credit risk

MTU is exposed to a number of credit risks arising from its operating and financing activities. Outstanding payments in connection with operating activities are constantly monitored on a decentralized basis, i.e. by the operating segments. Credit risk is accounted for by means of specific and general allowances. The consortium leaders in the commercial engine and spare parts businesses have extensive receivables management systems in place.

In the commercial MRO business, the responsible MTU departments track open accounts receivable in short cycles. Before a deal is finalized, potential risks are assessed and any necessary precautions are taken.

In the case of derivative financial instruments, the group is also exposed to a credit risk which arises as a result of contract partners not fulfilling contractual agreements. In the context of financing activities, this credit risk is diminished by ensuring that business is conducted only with partners with a credit rating of 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 (including derivative financial instruments with a positive fair value). In this case, there are no material agreements existing at the balance sheet date which could reduce the maximum credit risk (for instance, an offset agreement). On the other hand, MTU is exposed to a liability risk and hence potential credit risk as a result of obligations assumed in connection with risk- and revenue-sharing partnerships and the associated contingent liability. At the balance sheet date, proportionate shares of contingent liability under risk- and revenue-sharing partnerships totaled a nominal amount of € 62.1 million (2008: € 57.2 million). In addition to these contingent liabilities, the group also held guarantees issued for group companies amounting to € 82.4 million (2008: € 85.0 million).

Commercial engine business
Transactions in the commercial engine business with key customers in the framework of risk- and revenue-sharing partnerships are subject to special creditworthiness monitoring, because transactions with these partner companies represent a substantial part of the total risk exposure. After volume production of an engine has ceased, there is a risk that expected spare parts sales might not be realized.

Military engine business
A number of different European countries award engine development and construction contracts to MTU via the consortia of which it is a member. Here there is a possibility that unit volumes may be reduced or entire production batches of an engine may be cancelled. MTU is additionally exposed to the risk of loss of sustainable spare parts sales.

Commercial maintenance business
Accounts receivable, especially those from airlines, are secured by a supplementary credit insurance covering approximately 30 % of the outstanding amount on each contract. Any excess receivable amount over and above that covered by the credit insurance thus represents a credit risk.

42.2. Market risks

42.2.1. Currency risk

More than 80% of MTU's revenues are generated in U.S. dollars. Approximately half of this currency risk is offset in the normal course of business by costs incurred likewise in U.S. dollars. Most other costs are incurred in euros (€) and in Chinese yuan renminbi (CYN), and to a lesser extent in Canadian dollars (CAD) and Polish zloty (PLN). Consequently, earnings are dependent on changes in the exchange rate parity between the U.S. dollar and the cited currencies from the order date to the delivery date, in the measure to which MTU does not make use of financial instruments to hedge against its current and future net exposure. In line with MTU's policy of generating profit solely on the basis of its operating activities and not through currency speculation, MTU makes use of hedging strategies for the exclusive purpose of controlling and minimizing the effect of U.S. dollar exchange rate volatility on EBIT.

Since MTU employs financial instruments merely to cover net exposure, the portion of the group's U.S. dollar income that is not hedged by means of financial instruments is exposed to exchange rate fluctuations. The unhedged part of that U.S. dollar income is affected by changes in the spot rate up to the time of payment.

Translation differences resulting from the translation of annual financial statements into the group's functional currency are not included.

Hedging strategy

For accounting purposes, MTU designates future cash flows (forecast transactions) as hedged items to reduce the expected net currency risk exposure. As a result, postponements or cancellations of business transactions and the associated cash inflows do not affect the hedging relationship as long as the actual gross inflow of a foreign currency (per month) exceeds the hedged amount.

To minimize currency risk, MTU principally employs forward foreign exchange contracts forming part of an effective cash flow hedging relationship, as defined by IAS 39, to hedge exposure to variability in cash flows due to exchange rate fluctuations. In doing so, MTU complies with the strict requirements of IAS 39 concerning hedge accounting. Changes in the exchange rate of the currency in which the effectively hedged transactions are denominated have an impact on the fair value of these transactions and hence on the hedge reserve recognized in equity. The ineffective portion of the change in value of the hedging instrument is recognized in the income statement under 'financial result on other items'. If, contrary to standard practice at MTU, an instrument does not qualify for hedge accounting, then the change in fair value of the hedging transaction is also recognized in the income statement. A certain residual currency risk remains open to exposure, however, since the group's internal policy guidelines only prescribe the hedging of the most significant, individually identified cash flows.

At December 31, 2009, MTU held forward foreign exchange contracts for a contractual period up to December 2011 to sell a nominal volume of U.S. $ 700.0 million (which translates to € 485.9 million at the exchange rate prevailing at the balance sheet date) at futures rates for a total of € 491.6 million. In total, in the financial year 2009, changes in the fair value of the forward foreign exchange contracts amounted to a gain of € 14.2 million (2008: a loss of € 29.1 million). At December 31, 2008, MTU had hedged cash flows amounting to € 880.0 million for the financial years 2009 – 2011.

A loss of € 3.1 million (2008: a gain of € 22.4 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 2009 was recognized in the financial result as a loss of € 0.1 million (2008: a gain of € 0.4 million). At December 31, 2009, net of deferred taxes, fair value gains on forward foreign exchange contracts amounting to € 2.7 million (2008: fair value losses of € 11.5 million) were recognized directly in equity (see consolidated statement of changes in equity).

The following graph shows the changing balance of the U.S. dollar hedge reserve based on forward foreign currency transactions together with its planned utilization as a hedge against currency risk for forecast cash inflows over the next few years.

On the basis of the increases and decreases in the hedge reserve in 2009, the graph illustrates how changes in the fair value of the effective portion of open financial instruments (forward foreign exchange contracts) are recognized directly in equity, while changes in the fair value of the ineffective portion of the financial instruments are recognized in the income statement under 'financial result on other items'. When the contracts become due, the effective portion of the financial instruments is recognized in revenues, while the ineffective portion is recognized under 'financial result on other items'.

Forward foreign exchange contracts

Change in US-$ hedge reserve based on forward foreign currency transactions at December 31, 2009 with comparative table for previous years

	Hedge reserve[2] in U.S. $ million				Effect on 2009 balance sheet / income statement in € million		
					Balance sheet[1]	Income statement	
	2007	2008	2009		Equity	Revenues	Financial result on other items
Balance Jan. 1	720.0	305.0	880.0		-11.5		
Increase	85.0	970.0	300.0	Change in fair value of effective portion of financial instruments (potential gains/losses)[1]	14.2		
				Ineffective portion of financial instruments (potential gains/losses)			
Decrease	-500.0	-395.0	-480.0	Recognition of ineffective portion of financial instruments (retrospective gains)			0.1
				Recognition of ineffective portion of financial instruments (retrospective losses)			-0.2
				Reclassification of effective portion of financial instruments (retrospective gains)		4.7	
				Reclassification of effective portion of financial instruments (retrospective losses)		-7.8	
Balance Dec. 31	305.0	880.0	700.0		2.7	-3.1	-0.1

Year	Allocation[3]		
2008	275.0		
2009	30.0	480.0	
2010		340.0	410.0
2011		60.0	290.0
2012			
Total	305.0	880.0	700.0

[1] Amounts shown net of deferred taxes
[2] Transactions completed in US-$
[3] Amount of hedge reserve allocated for use in subsequent years, in US-$ million

There are no forecast transactions for which cash flow hedges were recognized in prior periods that are not expected to occur.

As a further element of its risk management strategy, MTU employs the following derivative financial instruments which do not form part of a hedging relationship as defined by IAS 39.

Currency option transactions
This type of transaction (commonly referred to as 'plain vanilla options') enables MTU to sell a defined quantity of U.S. dollars at agreed euro exchange rates on a range of different dates. The risk of loss from these transactions is limited to the premiums that have already been paid.

In addition to plain vanilla options, the group also holds structured products as a currency hedge that allow a minimum quantity of U.S. dollars to be sold at fixed exchange rates. These products present the risk that if the value of the euro should fall against the U.S. dollar the group will be obliged to sell a greater quantity of U.S. dollars at the previously agreed exchange rate.

Currency swaps
A currency holding of a fixed amount of U.S. dollars was sold during the financial year 2008 at the daily rate. The same U.S. dollar amount was repurchased after an agreed period at a previously agreed, fixed exchange rate that differed only marginally from the earlier selling rate. This swap is not material to MTU from the point of view of risk. There is no further currency risk beyond that of the currency holding.

Currency risks that do not affect the group's cash flows (risks arising from the currency translation of the assets and liabilities of foreign group entities) are not hedged, because the risk involved is insignificant.

Sensitivity analysis
As part of the disclosures about market risk, IFRS 7 requires a sensitivity analysis showing the effects of hypothetical changes in relevant risk variables on earnings after tax (EAT) and equity. The periodic effects are determined by applying the hypothetical changes in the risk variables to the financial instruments held at the balance sheet date. This implies the assumption that the holding at the balance sheet date is representative of the whole year.

A large proportion of the non-derivative financial instruments (trade receivables and payables, finance lease liabilities) are invoiced in U.S. dollars and therefore have an impact on 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, 2009 or any previous 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

in € million	2009		2008		2007	
Exchange rate sensitivity € / US-$	**- 10%**	**+ 10%**	**- 10%**	**+ 10%**	**- 10%**	**+ 10%**
Closing exchange rate Dec. 31, 2009: 1.4406 (Dec. 31, 2008: 1.3917, Dec. 31, 2007: 1.4721)	1.30	1.58	1.25	1.53	1.32	1.62
Earnings after tax (EAT)[1)]	**-0.4**	**2.1**	**-18.4**	**14.1**	**-12.0**	**7.6**
Equity[1)]	**-20.7**	**16.9**	**-38.1**	**31.2**	**-19.0**	**15.3**
of which: hedge reserve (fair value)[1)]	-36.3	29.7	-47.2	38.6	-15.8	12.7

[1)] net of taxes

42.2.2. Interest rate risk

MTU is exposed to interest rate risk principally in the euro zone, and to a lesser extent in Canada, China, Poland and the United States. To minimize the effects of interest rate fluctuations in these regions, MTU manages interest rate risk separately for net financial liabilities denominated in euros (€), Canadian dollars (CAD), Chinese yuan (CNY), Polish zloty (PLN) and U.S. dollars (USD).

Reference is made to the subsection of Note 34. (Financial liabilities) dealing with liabilities to banks for more information on the interest rate risks arising from MTU's credit facilities.

U.S. dollar interest rate swaps / U.S. dollar caps / cross-currency swaps (CCS)

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, 2009, MTU held contractual obligations pertaining to one interest-rate swap for a nominal amount of U.S. $ 10 million with a maturity date of June 5, 2012.

In the financial year 2009, the company also contracted one interest-rate cap with a nominal value of € 10 million and a maturity date of June 5, 2014, which fixes a ceiling of 4% on floating-rate loans on which interest is payable at the 6-month Euribor rate plus an additional margin.

Furthermore, in the financial year 2009, MTU held one cross-currency swap for a nominal amount of U.S. $ 40 million with a maturity date of September 22, 2009 and one interest rate swap for a nominal amount of U.S. $ 10 million with a maturity date of April 17, 2013, both of which have been fully redeemed. The impact of their redemption on the group's net assets, financial situation and results of operations was immaterial.

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:

Change 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 (EAT) 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 (EAT) and equity that must be accounted for. There may be a possible effect on earnings after tax (EAT) in the event of early repayment or maturity, resulting from the difference between carrying amounts and fair values, which is disclosed in the notes (see also the explanatory comments relating to the convertible bond). The repurchase of units of the convertible bond with a total nominal value of € 27.2 million in September and October 2008 resulted in the recognition of income amounting to € 5.0 million in the financial result on other items for the financial year 2008 (see Note 14. Financial result on other items).

Changes in the market interest rate of financial instruments that have been designated as hedging instruments for the purposes of a cash flow hedge to reduce exposure to variations in payment due to interest rates have an impact on the hedge reserve in equity and are therefore included in the sensitivity analysis. Consequently, financial instruments that do not form part of a hedging relationship as defined by IAS 39 can have an effect on the 'financial result on other items' (adjustment of fair value of derivative instruments). These effects are therefore also taken into account in the relevant sensitivity analysis.

The currency derivatives used by the group are only subject to an insignificant interest rate risk, and are therefore not included in the sensitivity analysis.

Interest rate sensitivity

In the financial year 2009, an average of 66% (2008: 55%) 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, 2009 had been 100 base points higher or lower, the sensitivity analysis based on this assumption produces the following hypothetical effects on earnings after tax (EAT) for the year:

Interest rate sensitivity

in € million	2009		2008		2007	
Interest rate sensitivity in PVBP[1)]	+100	-100	+ 100	- 100	+ 100	- 100
Earnings after tax (EAT)	**-2.6**	**2.9**	**-0.3**	**0.4**	**-4.5**	**5.2**

[1)] PVBP = present value of a basis point

42.2.3. Price risk

In connection with the presentation of market risk, IFRS 7 also requires disclosure of the effects that hypothetical changes in risk variables relating to prices and the fair value of financial instruments might have on earnings after tax (EAT) for the year and equity. The risk variables of most relevance in this context are the quoted MTU share price, as a factor influencing the conversion option threshold for the convertible bond (see explanatory comments below) and forward commodity sales contracts for nickel alloys.

Convertible bond

In the financial year 2007, MTU Aero Engines Holding AG issued a convertible bond with a par value of € 180.0 million. The convertible bond carries a par value of € 100,000 and has a term to maturity of five years. The bond is convertible into registered non-par value common shares of the company corresponding to a proportionate amount (€ 1 per share) of the company's total share capital and possessing full dividend rights. At a conversion price of € 49.50, the conversion ratio at issue date was 2,020.20. The coupon rate is fixed at 2.75%, payable yearly on February 1. The present value of future cash flows arising from the contractual obligation was calculated by applying a discount rate equivalent to the 5.425% market interest rate that the company would have had to pay if it had issued a non-convertible bond.

The expense over the convertible bond's term to maturity consists of the present value calculated as above, discounted at the applied market interest (measured at amortized cost using the effective interest method). As a result of changes in the yield curve, the fixed coupon rate of the convertible bond may present an interest rate risk, which ultimately represents a market-related fair value risk, out of which differences might arise between the carrying amount and the fair value of the liability portion of the convertible bond at the balance sheet date.

The repurchase of units of the convertible bond with a total nominal value of € 27.2 million in September and October 2008 resulted in the recognition of income amounting to € 5.0 million in the financial result on other items for the financial year 2008 (see Note 14. Financial result on other items).

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 € 148.9 million (2008: € 145.4 million) and the fair value of € 138.7 million (2008: € 118.5 million). The increase in the fair value of the liability component in 2009 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. In MTU's estimation, however, this still does not accurately reflect MTU's credit standing. Details of these ratings and the outlook issued by leading rating agencies are provided in Section 3. (Financial situation) of the group management report.

Forward commodity sales contracts

To minimize the risk of increasing commodity prices for the necessary quantity of nickel, MTU has concluded 30 forward commodity sales contracts with banking institutions for a total of 800 tons of nickel over the period 2010 to 2012. The contracted fixed prices for nickel range between U.S. $ 10.9 and 30.8 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 designated for these transactions. The fair value gains amounting to € 4.6 million (2008: fair value losses of € 11.7 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).

Price sensitivity

If it is assumed that the market price of forward commodity sales contracts for nickel had been 10% higher or lower, the sensitivity analysis based on this assumption produces the following hypothetical effects on earnings after tax (EAT) for the year:

Price sensitivity

in € million	2009		2008		2007	
Market price sensitivity	+ 10%	- 10%	+ 10%	- 10%	+ 10%	- 10%
Earnings after tax (EAT)	**0.7**	**- 0.7**	**0.7**	**- 0.7**	**1.7**	**-1.7**

42.3. Liquidity risk

Liquidity risk management is the responsibility of the Treasury Board. The controlling process is based on an analysis of all future cash flows according to business units, product, currency and location. The process includes the monitoring and limitation of aggregated cash outflow and cash borrowing. Observed parameters include diversification effects and customer concentration. To guarantee MTU's solvency and financial flexibility at all times, a liquidity reserve consisting of lines of credit and, where necessary, cash and cash equivalents, is kept available. Transactions in connection with financing activities are conducted exclusively with partners who have an excellent credit rating and whose creditworthiness is continually monitored. Outstanding payments in connection with operating activities are monitored on an ongoing basis. General and specific allowances are used to account for the risk of non-payment (see Note 23. Trade receivables).

The group's lines of credit consist of a revolving credit facility for an amount of € 100.0 million made available by a consortium of banks in conjunction with agreements that run to August 3, 2012. The funds raised through these lines of credit are generally intended to finance investment in production facilities and are not covered by collateral. At December 31, 2009 the group had not drawn down any funds (2008: € 61.2 million) through these lines of credit. Of the remaining € 100.0 million (2008: € 188.8 million) available at the balance sheet date, € 27.7 million (2008: € 6.9 million) had been drawn down as bank guarantees in favor of third parties. As of December 31, 2009, MTU and its affiliates had met all loan repayment and other obligations (covenants) arising from financing agreements.

The maximum default risk is represented by the carrying amounts of the financial assets recognized in the balance sheet (including derivative financial instruments with a positive fair value). Irrespective of existing collateral, the amount stated for the financial assets specifies the maximum default risk pertaining to the case in which a customer, risk- and revenue-sharing partner, consortium, or similar entity is unable to meet its contractual payment obligations. In order to minimize default risk, depending on the form of payment and amount being serviced, payment arrangements underlying the original financial instrument are secured by collateral as required, credit rating information is obtained, or historical data from the existing business relationship (and in particular payment patterns) are used to avoid payment defaults.

MTU is also exposed to default risk through contingent liabilities and other financial obligations (see Note 43. Contingent liabilities and other financial obligations).

43. Contingent liabilities and other financial obligations

No provisions were allocated for the following net contingent liabilities, as the risk of their being invoked is considered very unlikely:

Contingent liabilities 2009

	Dec. 31, 2009		
in € million	Provisions	Gross	Net
I. Contingent liability under risk- and revenue-sharing partnerships with:			
IAE International Aero Engines AG		39.1	39.1
Pratt & Whitney Aircraft Company		19.9	19.9
General Electric Company		3.1	3.1
Total contingencies		**62.1**	**62.1**
II. Guarantees and other contingent liabilities		81.1	81.1
Total contingent liabilities		**143.2**	**143.2**

43.1. Contingent liabilities under risk- and revenue-sharing partnerships

When MTU enters into risk- and revenue-sharing agreements, the company assumes obligations with respect to the sales financing of engines for selected airlines. The means of providing sales financing are generally secured through access rights granted by the consortium leader in an engine program. MTU additionally benefits from safe-guarding clauses drawn up by the leader of the engine consortium, which take the imputed risks and legislative framework into consideration. MTU is of the view that the estimated market value of the financed engines is sufficient to offset potential losses arising from financing transactions. Contingent liabilities arising from sales financing under existing risk- and revenue-sharing agreements amount to a total of € 62.1 million (2008: € 57.2 million).

43.2. Guarantees and other contingent liabilities

Guarantees and other contingent liabilities relate primarily to service agreements for gas turbine maintenance and guarantee obligations arising from maintenance agreements amounting to € 16.3 million (2008: € 19.8 million), investment grants amounting to € 20.6 million (2008: € 20.9 million), and contingent liabilities estimated at between € 40 million and € 45 million for a government grant for an engine program that is repayable under certain conditions and where it is considered possible that these conditions could arise, given the circumstances at the balance sheet date.

The following tables provide comparative data on contingent liabilities for the financial years 2008 and 2007:

Contingent liabilities 2008

	Dec. 31, 2008		
in € million	**Provisions**	**Gross**	**Net**
I. Contingent liability under risk- and revenue-sharing partnerships with:			
IAE International Aero Engines AG	1.6	28.6	27.0
Pratt & Whitney Aircraft Company	0.2	21.6	21.4
General Electric Company	0.1	7.0	6.9
Total contingencies	**1.9**	**57.2**	**55.3**
II. Guarantees and other contingent liabilities		83.7	83.7
Total contingent liabilities	**1.9**	**140.9**	**139.0**

Contingent liabilities 2007

	Dec. 31, 2007		
in € million	**Provisions**	**Gross**	**Net**
I. Contingent liability under risk- and revenue-sharing partnerships with:			
IAE International Aero Engines AG	1.5	28.0	26.5
Pratt & Whitney Aircraft Company	0.3	26.3	26.0
General Electric Company	0.2	18.8	18.6
Total contingencies	**2.0**	**73.1**	**71.1**
II. Guarantees and other contingent liabilities		40.3	40.3
Total contingent liabilities	**2.0**	**113.4**	**111.4**

43.3. Contingent liabilities arising from joint ventures

The contingent liabilities arising from equity investments in joint ventures are as follows:

Contingent liabilities arising from joint ventures

in € million	**2009**	**2008**	**2007**
Capital obligations and guarantees	1.3	1.3	1.2

The capital obligations and guarantees relate to accorded loans and are recognized in proportion to the interest in the joint venture. MTU does not have any capital obligations towards the partner company itself.

43.4. Other financial obligations

43.4.1. Obligations arising from operating lease arrangements

Apart from liabilities, provisions and contingent liabilities, the company has additional other financial obligations, particularly pertaining to rental and lease contracts for buildings, machines, tools, office and other equipment.

The contracts have terms of one to eighteen years and in certain cases contain extension and purchase options and/or price adjustment clauses. With regard to rental and lease agreements, payments of € 17.5 million (2008: € 21.2 million) were expensed in 2009.

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, 2009	Dec. 31, 2008	Dec. 31, 2007
Due in less than one year	12.2	9.8	11.3
Due in more than one and less than five years	22.6	22.7	14.2
Due in more than five years	2.5	2.6	4.1
Total future minimum lease payments	**37.3**	**35.1**	**29.6**

The increase in the nominal total of future minimum lease payments from € 35.1 million in 2008 to € 37.3 million at December 31, 2009 is mainly attributable to contracts for leased engines in the commercial maintenance business. The lease agreements on 14 engines expired in 2009, and the engines were returned to the lessor. In parallel, new lease agreements were taken out on 14 engines, some of these being leased for significantly longer periods and thus carrying a higher total obligation. These engines are made available to customers as replacements while their own engines are undergoing repairs.

In addition to engine leasing in commercial MRO with a total volume of € 15.0 million (2008: € 15.6 million), other major individual obligations, totaling € 14.5 million (2008: € 16.0 million), comprise the future lease payments for an office building at MTU Munich, payments for the building at the air base in Erding in connection with the cooperative model, and for the lease of floor conveyor vehicles.

At December 31, 2009, 93% of the leasing contracts, in arithmetical terms, are due to expire within 5 years. 7% are valid for more than 5 years, while a small number of leasing contracts have no definite expiration date.

Payments relating to rental agreements for sublet property that were expensed in the period under review are presented in Note 11. (Other operating income and expenses).

43.4.2. Obligations arising from future minimum payments on rental agreements for sublet property

The total future minimum payments on rental agreements for sublet property comprise the following:

Nominal total of future minimum payments arising from rental agreements for sublet property

in € million	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Total future minimum receivable rental income from property subletting agreements	2.3	3.4	4.1
Total future minimum rental payments under property subletting agreements	-2.2	-3.2	-3.9
Surplus amount	**0.1**	**0.2**	**0.2**

43.4.3. Order commitments for financial obligations

At December 31, 2009, other financial obligations comprised order commitments for the purchase of intangible assets, totaling € 0.4 million (2008: € 5.7 million), and financial obligations for the purchase of property, plant and equipment, totaling € 30.0 million (2008: € 41.4 million). These financial obligations were thus within normal limits.

44. Explanatory comments relating to the consolidated cash flow statement

The statement details how cash and cash equivalents have changed during the year under review. In accordance with IAS 7 (Statement of Cash Flows), a distinction is made between cash flow from operating activities, cash flow from investing activities, and cash flow from financing activities (see Section ‘consolidated cash flow statement’).

The cash and cash equivalents presented in the cash flow statement comprise the recognized amounts of cash in hand, checks, and credit balances held at banks with a term to maturity not exceeding three months.

The cash flows from **investing and financing activities** are established directly on the basis of payment.

Cash flow from **operating activities,** on the other hand, is inferred indirectly on the basis of earnings after tax (EAT). As part of the indirect calculation process, changes to balance sheet items taken into consideration in connection with operating activities are adjusted by the effects generated by changes in the composition of the group reporting entity. Accordingly, the changes in the affected balance sheet items cannot be reconciled with the corresponding figures on which the published consolidated balance sheet is based.

45. Relationships with related companies and persons

MTU Aero Engines Holding AG, Munich is required by IAS 24 to disclose for the 2009 financial year, as in prior periods, its business relationships with subsidiaries, associated companies, joint ventures, and members of the Board of Management and the Supervisory Board.

MTU maintains normal business relationships with non-consolidated, related subsidiaries. The transactions with these related companies form part of their normal dealings. Transactions between group companies and joint ventures or associated companies were, without exception, conducted in the context of their normal business activities and made on terms equivalent to those that prevail in arm's length transactions.

45.1. Related companies

Business transactions between companies included in the consolidated financial statements were eliminated in the course of consolidation and are therefore not subject to any further separate disclosure in these notes.

45.1.1. Business with related companies

During the course of the business year, companies within the group conducted transactions amongst themselves (intragroup sales). The following business transactions were carried out with non-consolidated related companies in the financial year 2009 and the two prior periods:

Receivables due from related companies

	Outstanding balances Receivables			Value of business transactions Revenues/income/sales			Value of business transactions Expenses/purchases		
in € million	**Dec. 31, 2009**	**Dec. 31, 2008**	**Dec. 31, 2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Current accounts receivable									
Eurojet Turbo GmbH, Munich[1)]	31.6	31.0	32.3	218.3	227.0	154.5	-1.9	-0.6	-0.8
MTU Turbomeca Rolls-Royce GmbH, Hallbergmoos[1)]	2.3	2.5	6.7	10.7	23.5	29.5	-0.1	-0.6	-0.8
MTU Turbomeca Rolls-Royce ITP GmbH, Hallbergmoos[1)]	0.6	0.5		3.9	4.2		-0.6	-0.5	
Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde	3.3	1.1	3.4	35.9	42.7	51.2	-0.1	-0.1	-1.0
Pratt & Whitney Canada CSC (Africa) (PTY.) Ltd., Lanseria, South Africa					0.2				
Ceramic Coating Center S.A.S., Paris, France	0.3	0.1	0.1				-2.5	-2.4	-0.7
Turbo Union Ltd., Bristol, England[1)]	6.7	7.5	15.5	84.5	80.8	85.5			
Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia	1.6	1.8	0.4	0.2	0.8	0.6	-4.3	-4.6	-0.1
Middle East Propulsion Company Ltd., Riyadh, Saudi-Arabia	0.2			0.2					
PMTU Maintenance Zhuhai Co. Ltd., Zhuhai, China		0.6	1.3	1.4	2.3	2.3			
Gesellschaft zur Entsorgung von Sondermüll in Bayern GmbH, Munich							-0.1	-0.2	-0.2
Total	**46.6**	**45.1**	**59.7**	**355.1**	**381.5**	**323.6**	**-9.6**	**-9.0**	**-3.6**

[1)] Associated companies

Liabilities due to related companies

	Outstanding balances Liabilities			Value of business transactions Revenues/income/sales			Value of business transactions Expenses/purchases		
in € million	**Dec. 31, 2009**	**Dec. 31, 2008**	**Dec. 31, 2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Current liabilities									
MTU Turbomeca Rolls-Royce ITP GmbH, Hallbergmoos[1)]			0.1			9.1			-0.6
IAE International Aero Engines AG, Zurich, Switzerland	44.3	41.6	81.6	477.1	442.1	357.9	-478.5	-485.1	-491.5
MTU Versicherungsvermittlungs- und Wirtschafts-dienst GmbH, Munich							-8.3	-7.7	-9.5
EPI Europrop International GmbH, Munich[1)]	14.1	7.2	6.7	1.8	2.2	2.1	-1.3		-1.6
MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China	2.2	2.6	4.2				-26.3	-30.3	-24.8
MTU München Unterstützungskasse GmbH, Munich	9.0	10.2	10.8				-0.1	-0.6	-0.2
Total	**69.6**	**61.6**	**103.4**	**478.9**	**444.3**	**369.1**	**-514.5**	**-523.7**	**-528.2**

[1)] Associated companies

45.1.2. Major shareholdings

The list of major shareholdings shows MTU's capital share in each company together with the equity that this represents at December 31, 2009 and the profit or loss generated by each company in the financial year 2009:

Major shareholdings

Name and registered office of entity	Consolidation method[10]	Shareholding in % Dec. 31, 2009	Equity in € 000 Dec. 31, 2009	Profit/loss in € 000 2009
I. Investments in subsidiaries				
MTU Aero Engines Finance B.V., Amsterdam, Netherlands	full	100.00	1,783	-3,779
MTU Aero Engines GmbH, Munich	full	100.00	861,982	1,217[2]
MTU Maintenance Hannover GmbH, Langenhagen	full	100.00	115,668	-3,107[2]
MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde	full	100.00	130,887	3,091
MTU Aero Engines North America Inc., Newington, U.S.A.	full	100.00	3,131[3]	-2,128[7]
MTU Maintenance Canada Ltd., Richmond, Canada	full	100.00	-4,859[3]	2,553[7]
Vericor Power Systems LLC., Atlanta, U.S.A.	full	100.00	22,423[3]	-1,159[7]
RSZ Beteiligungs- und Verwaltungs GmbH, Munich	full	100.00	13,432	-1
MTU Aero Engines Polska Sp. z o.o., Rzeszów, Poland	full	100.00	53,738[3]	2,854[7]
MTU Versicherungsvermittlungs- und Wirtschaftsdienst GmbH, Munich	at cost	100.00	26[4]	[2/4]
MTU München Unterstützungskasse GmbH, Munich	[11]	100.00	9,034[4]	[4]
II. Investments in associated companies				
Turbo Union Ltd., Bristol, England	at cost	39.98	322[1]	12[1]
EUROJET Turbo GmbH, Hallbergmoos	at cost	33.00	1,899[1/4]	755[1/4]
EPI Europrop International GmbH, Munich	at cost	28.00	552[1/4]	487[1/4]
MTU Turbomeca Rolls-Royce GmbH, Hallbergmoos	at cost	33.33	110[1/4]	72[1/4]
MTU Turbomeca Rolls-Royce ITP GmbH, Hallbergmoos	at cost	25.00	135[1/4]	107[1/4]
III. Equity investments in joint ventures				
MTU Maintenance Zhuhai Co. Ltd., Zhuhai, China	proportionate	50.00	132,941[3]	29,255[7]
Pratt & Whitney Canada Customer Service Centre Europe GmbH, Ludwigsfelde	at equity	50.00	4,247	-2,979
Ceramic Coating Center S.A.S., Paris, France	at cost	50.00	2,555[1]	996[1]
Airfoil Services Sdn. Bhd., Kota Damansara, Malaysia	at cost	50.00	2,554[1/6]	193[1/8]
IV. Other equity investments				
IAE International Aero Engines AG, Zurich, Switzerland	at cost	12.10	35,758[1/6]	630[1/8]
Middle East Propulsion Company Ltd., Riyadh, Saudi Arabia	at cost	19.30	20,885[3/9]	3,117[7/9]

[1] Previous year's figures; current figures not available
[2] Profit/loss for German GAAP purposes (HGB) transferred under profit and loss transfer agreement 2008
[3] Translated at closing exchange rate, Dec. 31, 2009
[4] HGB amount; no IFRS financial statements drawn up
[5] Translated at annual average rate for 2009
[6] Translated at closing exchange rate, Dec. 31, 2008
[7] Translated at monthly closing exchange rates 2009
[8] Translated at annual average rate for 2008
[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 IAS19

45.2. Related persons

No group company has conducted any business subject to disclosure requirements with members of the group's Board of Management or Supervisory Board or with any other individuals holding key management positions, or with companies in which these persons hold a seat on the managing or supervisory board, with the exception of the transactions presented in Note 45.2.4. (Other related party transactions). This is also applicable for close family members of this group of persons. For information concerning the purchase of shares, share options and convertible bond units by members of the Board of Management and the Supervisory Board, please refer to Note 45.2.4. (Other related party transactions).

45.2.1. Members of the Board of Management

At December 31, 2009, 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

45.2.2. Board of Management compensation

The disclosures required by IAS 24 in respect of the compensation received by key group management personnel comprise the compensation received by active members of the Board of Management and the Supervisory Board.

The active members of the Board of Management received the following compensation:

Compensation for active members of the Board of Management

in € million	2009	2008	2007
Short-term employee benefits	5.5	5.4	5.9
Pension contributions	2.2	0.5	0.4
Share-based compensation	0.2	0.4	0.5
Total	**7.9**	**6.3**	**6.8**

Pension contributions are represented by the service cost, including past service cost, resulting from the pension provisions for active members of the Board of Management. By a resolution of the Supervisory Board's Personnel Committee, new pension arrangements were concluded with the members of the Board of Management. The conclusion of the new pension agreements creates a vested benefit obligation, which is recognized as past service cost. For further explanatory comments concerning the new pension arrangements concluded with the members of the MTU Board of Management, please refer to the management compensation report in the Corporate Governance section of this Annual Report.

The disclosed share-based compensation corresponds to the fair value of phantom stocks issued under the Matching Stock Program (MSP) at the date on which they were granted. For further explanatory comments concerning share-based payment under the MSP, including the calculation and measurement of the fair value of the phantom stocks, please see Note 30.4. (Capital reserves) and the management compensation report in the Corporate Governance section of this Annual Report.

At December 31, 2009, 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.

45.2.3. Members of the Supervisory Board

At December 31, 2009, the MTU Supervisory Board comprised the following members:

Members of the Supervisory Board

Klaus Eberhardt (Chairman) CEO of Rheinmetall AG, Düsseldorf	Düsseldorf
Josef Hillreiner[1] (Deputy Chairman) Chairman of the Works Council of MTU Aero Engines GmbH, Munich Chairman of the Group Works Council of MTU Aero Engines GmbH, Munich	Ried
Michael Behé[1] Chairman of the Works Council of MTU Maintenance Hannover GmbH, Langenhagen Member of the Group Works Council of MTU Aero Engines GmbH, Munich	Wedemark
Prof. Dr. Wilhelm Bender Former chairman of the Executive Board of Fraport AG, Frankfurt / Main (1993 - 2009)	Frankfurt
Thomas Dautl[1] Director for Manufacturing Engineering, MTU Aero Engines GmbH, Munich	Weichs
Rudolf Domberger[1] Full-time member of the Works Council of MTU Aero Engines GmbH, Munich	Ilmmünster
Babette Fröhlich[1] Departmental head within the IG Metall Executive Committee, Frankfurt	Frankfurt
Dr.-Ing. Jürgen M. Geißinger President and CEO of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach	Herzogenaurach
Prof. Dr. Walter Kröll (until May 26, 2009) Former President of the Helmholtz Association of German Research Centres, Bonn	Marburg
Michael Leppek[1] Second Authorized Representative, IG Metall, Munich	Munich
Dr. Joachim Rauhut (since May 26, 2009) CEO of Wacker Chemie AG, Munich	Munich
Udo Stark Former CEO of MTU Aero Engines Holding AG, Munich	Munich
Prof. Dr.-Ing. Klaus Steffens Former President and CEO of MTU Aero Engines GmbH, Munich	Bernried

[1] Employee representative

The members of the Supervisory Board of MTU Aero Engines Holding AG, Munich received the following compensation:

Compensation for active members of the Supervisory Board

in € million	2009	2008	2007
Short-term employee benefits	0.7	0.7	0.7
Compensation for active members of the Supervisory Board	**0.7**	**0.7**	**0.7**

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.

At December 31, 2009, 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 Board of Management and the Supervisory Board, and other related information, please refer to the audited management compensation report in the Corporate Governance section of this Annual Report.

45.2.4. Other related party transactions

IAS 24 requires other transactions to be disclosed if they are with a related party. Members of the Board of Management and the Supervisory Board have purchased units of the convertible bond issued by MTU Aero Engines Finance B.V., Amsterdam, Netherlands:

Other disclosures

	Date	Bonds	Nominal value € million 2009	Purchase price in % 2009	Nominal value € million 2008	Purchase price in % 2008	Nominal value € million 2007	Purchase price in % 2007
Members of the Board of Management								
Reiner Winkler	Oct. 14, 2008	7			0.7	81.65		
Dr. Rainer Martens	Nov. 26, 2008	1			0.1	82.00		
Member of the Supervisory Board								
Udo Stark	Oct. 7, 2008	10			1.0	82.39		
Total		**18**			**1.8**			

The bond units were purchased by the members of the Board of Management and the Supervisory Board on the open market. Detailed explanatory comments concerning the convertible bond are provided in Note 34. (Financial liabilities).

MTU shares and options bought or sold by members of the Board of Management and the Supervisory Board in the financial year 2009, as in the previous year, were bought and sold under normal market conditions. These transactions were published in the commercial registry and posted on the MTU website at www.mtu.de/Investor Relations /Corporate Governance/Directors Dealings.

V. Segment Information

46. Applicability of segment reporting

As of this financial year, MTU has applied the requirements of IFRS 8 'Operating Segments' and adapted the figures for prior years accordingly. IFRS 8 replaces IAS 14 'Segment Reporting' and prescribes a 'management approach' to segment reporting. This requires that information about the operating segments should be presented based on the internal organizational and management structure. The defining factor for an operating segment is internal reporting to the chief operating decision-maker, who in the case of MTU is represented by the Board of Management. 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 commercial aircraft engines. Activities encompass full engine maintenance and repair, and the complete overhaul of engine modules and special repairs. In addition to aircraft engines, group companies in this operating sector also repair and overhaul industrial gas turbines.

Explanatory comments relating to segment reporting

Accounting policy and measurement methods
The accounting policy and measurement methods applied in MTU's segment reporting and based on the IAS/IFRS standards used in the consolidated financial statements. One of the indicators used by MTU to assess the performance of its segments is adjusted earnings before interest and tax (EBIT adjusted). Inter-segment revenues and inter-segment sales of materials and services are priced on terms equivalent to those that prevail in arm's length transactions.

Explanatory comments relating to the segment information
Segment earnings before interest and tax (EBIT) are adjusted to eliminate effects of the purchase price allocation in previous years arising from the acquisition of the company by Kohlberg Kravis Roberts & Co. (KKR) from Daimler AG and – where material – non-recurring effects. This produces the indicator 'adjusted earnings before interest and tax' (EBIT adjusted).

Commercial and military engine business (OEM)

EBIT (adjusted) and EBIT margin
EBIT adjusted for the OEM business amounted to € 229.2 million (2008: € 279.9 million). The adjusted EBIT margin decreased in the financial year 2009 to 14.5% (2008: 17.0%). The reconciliation of EBIT to adjusted EBIT is given in Note 17.1. (Reconciliation of EBIT to EBIT adjusted, depreciation/amortization expense and non-recurring items).

No impairment losses were recognized in respect of the commercial and military engine business in the financial year 2009. The impairment losses on intangible assets recognized in 2008, totaling € 35.2 million, comprised impairment losses on the carrying amount of old GE engine programs amounting to € 34.3 million and on old military engine programs amounting to € 0.9 million. For a more detailed description and for information on the allocation of impairment losses on assets to the operating segments, please refer to the segment reporting section at the beginning of the notes to the consolidated financial statements.

Commercial maintenance business (MRO)

EBIT and EBIT margin
Earnings before interest and tax (EBIT) increased by € 10.7 million to € 65.3 million. The reconciliation of EBIT to EBIT adjusted, depreciation/amortization expense, and non-recurring items is presented in Note 17.1 (Reconciliation of EBIT to EBIT adjusted, depreciation/amortization expense, and non-recurring items). As a result of the successful bid by MTU Maintenance Canada Ltd., Richmond, Canada, for a major U.S. Air Force contract for maintenance of its KC10 tanker fleet, an impairment loss reversal on property, plant and equipment amounting to € 1.1 million was recognized.

In the financial years 2008 and 2009, there was no impairment loss recognized in respect of the commercial maintenance business. The impairment loss on intangible assets in the financial year 2007 amounting to € 14.7 million related to the carrying amount of a license for CF34 repair techniques, which was compared with its recoverable amount, resulting in an impairment loss.

For a more detailed description and for information on the allocation of impairment losses on assets to the operating segments, please refer to the 'segment reporting' section at the beginning of the notes to the consolidated financial statements.

Profit/loss of companies accounted for using the equity method
If companies accounted for using the equity method that are included in the consolidated financial statements can be directly allocated to a segment, their share of profit or loss and their carrying amount are presented in the consolidated financial statements.

Segment assets
Segment assets and liabilities comprise all assets and liabilities that can be allocated to operating activities and whose positive or negative operating results have an imact on earnings after interest and tax (EBIT/EBIT adjusted). Segment assets principally comprise intangible assets, property, plant and equipment, trade receivables, construction contract receivables (less directly associated advance payments from customers where appropriate), other assets and inventories. Assets are allocated to the operating segment in which they are used to generate business. The positive consolidation/reconciliation amount of € 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
Segment liabilities principally comprise trade payables, construction contract payables (including advance payments received from customers), other liabilities, and provisions. Liabilities are allocated to the operating segment that bears the legal obligation for their settlement. In the segment information, the liabilities amount of € 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, 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. Europe (excluding Germany) covers the entire territory of the European Union and other European states. 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) of MTU Aero Engines Holding AG, Munich

Unlike the consolidated financial statements, which are based on the IASB's IFRS standards, the annual financial statements of MTU Aero Engines Holding AG, Munich, are prepared in accordance with German Commercial Code (HGB) and German Stock Cooperation Act (AktG). The IFRS rules are also applied in the separate income statements where it is permissible and fitting to do so. In numerous cases, the accounting policies applied in the annual financial statements of MTU Aero Engines Holding AG, Munich, and those of the German subsidiaries whose profit/loss is transferred to MTU Aero Engines Holding AG, Munich (and whose financial statements are also prepared in accordance with the German Commercial Code), differ from the accounting policies applied in the consolidated financial statements.

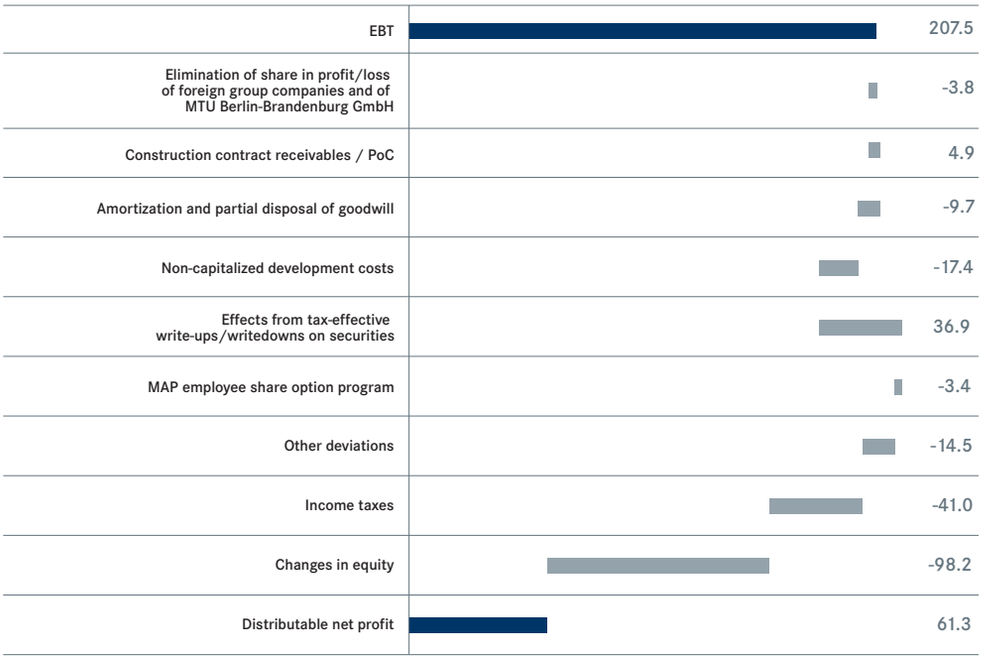
The following reconciliation table therefore contains the major differences between group earnings after tax (EAT) and the net profit available for distribution by MTU Aero Engines Holding AG, Munich:

Reconciliation

in € million	2009	2008	2007
Earnings after tax (EAT) (IFRS)	141.0	179.7	154.1
Income tax	66.5	18.1	25.3
Earnings before tax (EBT)	**207.5**	**197.8**	**179.4**
Elimination of share in profit/loss of group companies outside Germany	0.6	2.0	-9.3
Elimination of share in profit/loss of MTU Maintenance Berlin-Brandenburg GmbH	-4.4	-17.6	-0.7
+/- Deviations from German Commercial Code (HGB)			
Construction contract receivables / PoC	4.9	-6.1	-15.5
Amortization and partial disposal of goodwill	-9.7	-9.8	-9.8
Non-capitalized development costs	-17.4	-6.2	-4.3
Transaction costs for convertible bond issue			-3.3
Effects from tax-effective writeups/writedowns on securities	36.9	-36.9	
MAP employee stock option program	-3.4	-3.3	
Other deviations	-14.5	-10.5	-6.7
Earnings before tax of MTU Aero Engines Holding AG (HGB)	**200.5**	**109.4**	**129.8**
Income taxes	-41.0	-40.4	-64.4
Net profit of MTU Aero Engines Holding AG (HGB)	**159.5**	**69.0**	**65.4**
Appropriation of net income			
Transfers from capital reserves		47.4	113.6
Transfers from revenue reserves			
from reserve for treasury shares	6.7	112.6	
from other reserves		6.0	
Allocation to revenue reserves			
to reserve for treasury shares	-36.9	-56.4	-113.6
to other reserves	-68.0	-31.8	-18.2
Expense for the retirement of treasury shares		-104.4	
Earnings from reduction of stock capital		3.0	
Distributable net profit of MTU Aero Engines Holding AG (HGB)	**61.3**	**45.4**	**47.2**
Allocation to revenue reserves[1)]	-15.8		
Amount distributed to MTU shareholders	45.5	45.4	47.2

[1)] proposal by the Board of Management and Supervisory Board to the Annual General Meeting

Reconciliation



Disclosures relating to key items in the reconciliation table of group earnings after tax (EAT) to the net profit available for distribution of MTU Aero Engines Holding AG, Munich

Profit/loss of MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde

In the reconciliation between IFRS and HGB statements, an adjustment is applied to group earnings after tax (EAT) which include the profit and loss of the subsidiary, corresponding to the annual results of MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde, since a profit and loss transfer agreement between MTU Aero Engines GmbH, Munich and MTU Maintenance Berlin-Brandenburg GmbH, Ludwigsfelde, was terminated in 2006.

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, whereby revenue and profits arising from a construction contract are recognized in proportion to the stage of completion of the project. MTU satisfies the requirements for recognizing a proportion of the profits from certain of its engine projects, which must consequently be eliminated in the reconciliation between IFRS and HGB statements. Further information on the relevant accounting policies is provided in Note 5.12. (Inventories) and Note 24. (Construction contract receivables).

Amortization and partial disposal of goodwill
The goodwill arising from the merger reported in the HGB balance sheet is subject to scheduled amortization over 15 years in accordance with Section 255 (4) of the German Commercial Code. In the reconciliation between IFRS and HGB statements, an adjustment is made to group earnings before tax (EBT), which does not include any impairment of goodwill (IAS 36), corresponding to the goodwill amortization expense in the HGB annual results.

Non-capitalized development costs
The commercial MRO business has developed special repair processes capable of reducing the cost and increasing the efficiency of engine maintenance. The associated development costs, as well as those relating to development work on the GEnx and GE38 engines in the commercial and military engine business, meet the criteria for recognition of intangible assets laid down in the international financial reporting standards. By contrast, the German Commercial Code treats these as services for the company's own account which are to be recognized as an expense.

Effects from tax-effective write-ups/write-downs on securities (treasury shares)
Unlike for IFRS accounting purposes, treasury shares acquired by MTU Aero Engines Holding AG, Munich, are required to be presented for German accounting (HGB) and tax purposes within current assets measured at their average acquisition cost. Such assets are required to be written down to their 'fair value' (for HGB purposes) or their 'Teilwert' (for tax purposes) if lower at the end of the reporting period. MTU Aero Engines Holding AG, Munich is classified for tax purposes as a finance company. In the financial year 2008, the fall in the MTU share price as a result of the financial and banking crisis made it necessary to write down the group's holding of treasury shares by an amount of €36.9 million. 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. Reference is made to Note 30.6 (Treasury shares) for the calculation of the average purchase price of treasury shares.

MAP employee stock option program
In 2009 employees purchased a total of 50,863 shares (2008: 192,959 shares at a total price of € 3.3 million (2008: € 4.9 million) and a price per share of € 21.80 (2008: € 25.19) from MTU under the terms of the employee stock option program. The average purchase price of the shares sold to group employees originally amounted to € 6.7 million (2008: € 8.2 million). The loss arising from the difference between the proceeds of the sale and the original acquisition cost, amounting to € 3.4 million (2008: € 3.3 million), was recognized in accordance with the applicable commercial laws and tax regulations.

Appropriation of net profit
The annual net profit of MTU Aero Engines Holding AG, Munich, as reported in the annual financial statements drawn up in accordance with the German Commercial Code (HGB), amounts € 159.5 million (2008: € 69.0 million).

Capital reserves
There has been no change in capital reserves compared with the previous year.

Transfers from and allocation to revenue reserves

Reserve for treasury shares
The reserve for treasury shares contains the reversal of the write-down on treasury shares amounting to € 36.9 million (2008: write-down of € 36.9 million). An amount of € 6.7 million (2008: € 8.2 million) was transferred from the reserve for treasury shares in connection with the sale of treasury shares under the MAP employee stock option program.

Other revenue reserves

In accordance with Section 58 of the German Stock Corporation Act (AktG), half of the net profit after deduction of the reversed write-down on treasury shares amounting to € 36.9 million, namely an amount of € 159.5 million (2008: € 69.0 million) was transferred to other revenue reserves. The amount of € 6.7 million (2008: € 8.2 million) transferred from the reserve for treasury shares in connection with the sale of treasury shares under the MAP employee stock option program was added to other revenue reserves. The total increase in other revenue reserves amounted to € 68.0 million (2008: balance of additions and removals € 30.4 million).

Recommendation for the distribution of net profit

At the Annual General Meeting on April 22, 2010, the Board of Management and the Supervisory Board of MTU Aero Engines Holding AG, Munich, will recommend that a dividend of € 0.93 (2008: € 0.93) per share be distributed for the financial year 2009 after transfers to other revenue reserves. For the 48.921.808 shares entitled to a dividend, on condition that this proposal is accepted by the Annual General Meeting, the dividend payment amounts to € 45.5 million. Based on the quoted share price at the close of 2009, this is equivalent to a dividend yield of 2.4% (2008: 4.7%).

Pending approval by the Annual General Meeting, the dividend is to be paid on April 23, 2010.

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 2009 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 8, 2010

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 1 January to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB, are the responsibility of the company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, that accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

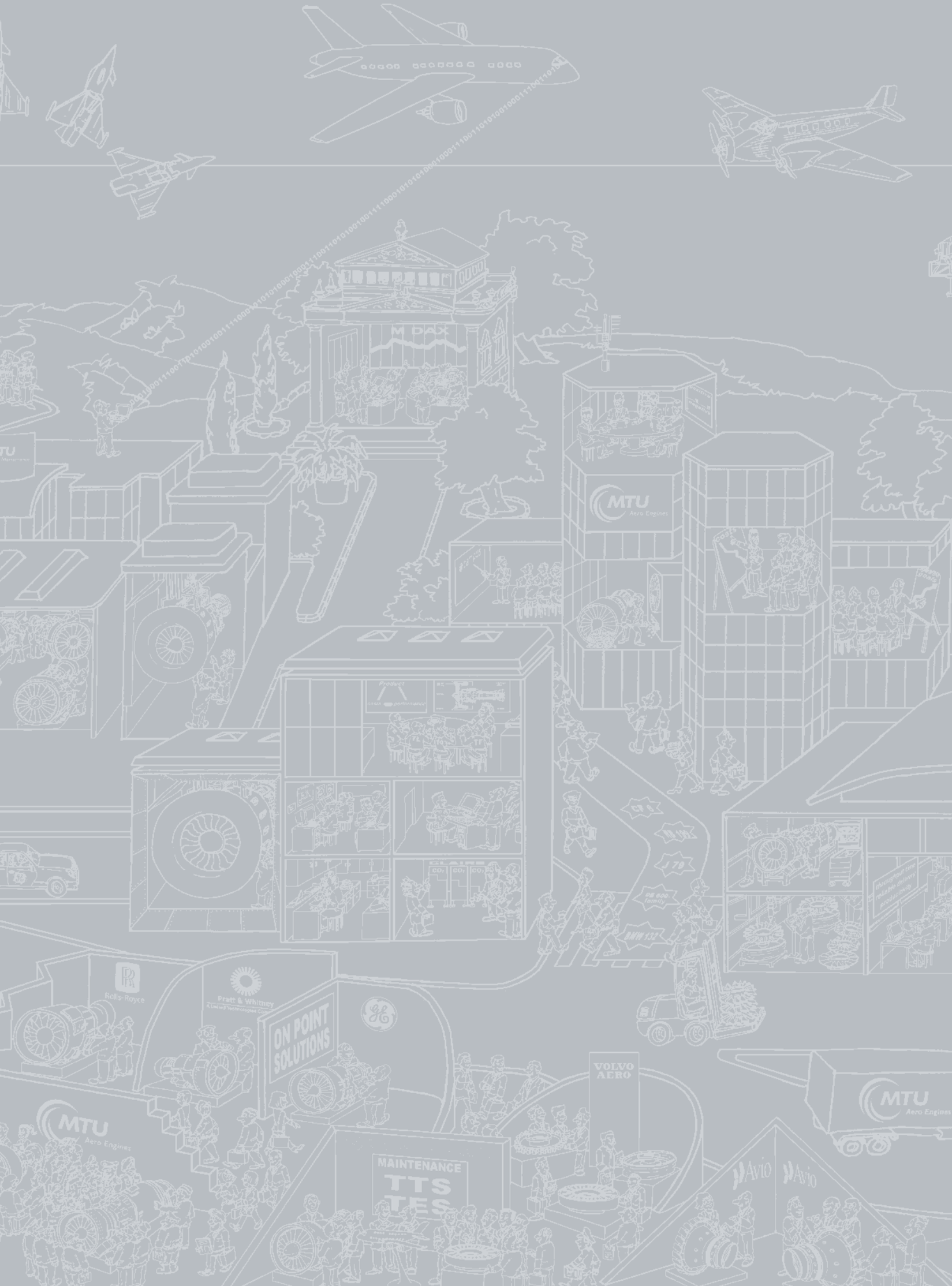
In our opinion, based on the findings of our audit, the consolidated financial statements of MTU Aero Engines Holding AG, Munich, comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, February 26, 2010

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Plendl
German Public Auditor

Dr. Reitmayr
German Public Auditor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Aero Engines
Rolls-Royce
Pratt & Whitney
ON POINT SOLUTIONS
VOLVO AERO
MAINTENANCE
TTS
TES
AVIO

Comparative overview tables

Comparative overview tables

MTU Aero Engines Holding AG, Munich, was created in 2004, as a result of MTU Aero Engines Erste Holding GmbH's transformation into a joint stock company, shortly before the IPO. Prior to the IPO, the company was owned by funds managed by one of the world's leading private equity firms, Kohlberg Kravis Roberts & Co. (KKR). The funds had acquired the company at the end of 2003. Until that time, it had been a wholly owned subsidiary of the then DaimlerChrysler AG. Because the long-established MTU only became an independently controlled company again as from the 2004 financial year, the comparative presentations in this Annual Report are limited to the period from 2005, the year of the IPO, to the financial year 2009.

Summary of group information

in € million	Change 2009 - 2008 in %	2009	2008	2007	2006	2005
Revenues	**-4.2**	**2,610.8**	**2,724.3**	**2,575.9**	**2,416.2**	**2,182.7**
Commercial engine business	-8.1	1,053.7	1,146.3	1,102.0	993.5	943.4
Military engine business	7.1	532.0	496.6	497.5	489.6	491.4
Commercial maintenance business	-5.0	1,057.6	1,113.0	1,004.7	954.7	766.9
Gross profit	**-5.1**	**458.6**	**483.5**	**446.4**	**352.7**	**288.0**
Research and development expenses	-11.3	-105.6	-94.9	-84.5	-64.5	-45.7
Selling expenses	27.9	-72.2	-100.2	-75.0	-71.2	-69.4
General administrative expenses	-1.4	-44.8	-44.2	-45.8	-45.4	-46.4
Other operating income and expenses	165.9	10.9	4.1	2.2	12.2	4.7
Financial result	22.0	-39.4	-50.5	-63.9	-33.3	-72.6
Earnings before tax (EBT)	**4.9**	**207.5**	**197.8**	**179.4**	**150.5**	**58.6**
Earnings after tax (EAT)	**-21.5**	**141.0**	**179.7**	**154.1**	**89.1**	**32.8**
Non-current assets	**1.3**	**1,844.9**	**1,821.6**	**1,696.3**	**1,752.7**	**1,797.1**
Intangible assets	-2.1	1,248.2	1,274.9	1,135.0	1,189.5	1,211.8
Property, plant and equipment	6.0	556.7	525.1	539.7	537.8	568.8
Financial assets	4.9	17.0	16.2	17.0	19.9	14.8
Other assets + deferred tax assets	325.9	23.0	5.4	4.6	5.5	1.7
Current assets	**-5.1**	**1,304.2**	**1,374.5**	**1,389.2**	**1,233.3**	**1,011.1**
Inventories	-1.9	648.7	661.4	587.8	529.0	528.9
Trade receivables	-15.0	391.2	460.4	499.2	400.0	315.4
Construction contract receivables	-29.2	98.4	138.9	171.1	139.8	106.0
Financial assets + Other assets + Prepayments + Income tax claims	2.7	45.1	43.9	63.8	62.3	38.8
Cash and cash equivalents	72.8	120.8	69.9	67.3	102.2	22.0
Equity	**18.4**	**730.7**	**617.4**	**562.0**	**562.3**	**528.0**
Subscribed capital		52.0	52.0	55.0	55.0	55.0
Capital reserves	-0.3	353.6	354.5	460.0	455.7	454.5
Revenue reserves	29.4	420.9	325.3	191.9	81.4	32.5
Treasury shares	6.7	-93.4	-100.1	-156.3	-42.7	
Other comprehensive income	83.2	-2.4	-14.3	11.4	12.9	-14.0
Current and non-current liabilities	**-6.2**	**2,418.4**	**2,578.7**	**2,523.5**	**2,423.7**	**2,280.2**
Pension provisions	5.5	411.6	390.2	376.6	394.9	377.8
Income tax liabilities	-45.7	12.5	23.0	38.8	1.2	40.8
Other provisions	-12.2	421.1	479.4	498.5	483.0	446.7
Financial liabilities	-16.8	279.8	336.4	326.5	338.8	326.7
Trade payables	-35.3	320.9	495.7	462.9	378.5	358.4
Construction contract payables	16.6	607.0	520.6	439.7	411.5	388.5
Other liabilities	-6.8	98.6	105.8	110.7	108.6	90.7
Deferred tax liabilities	17.3	266.9	227.6	269.8	307.2	250.6
Total assets/total equity and liabilities	**-1.5**	**3,149.1**	**3,196.1**	**3,085.5**	**2,986.0**	**2,808.2**
Employees (annual average)	4.9	7,618	7,263	7,092	7,003	7,070
thereof: engaged in R&D (annual average)	10.3	845	766	715	737	736
Employees (Dec. 31)	1.7	7,665	7,537	7,130	7,077	6,930
Trainees (annual average)	9.6	308	281	254	270	286

Key income statement data

	Change 2009 - 2008 in %	2009	2008	2007	2006	2005
EBIT in € million	**-0.6**	**246.9**	**248.3**	**243.3**	**183.8**	**131.2**
EBIT margin in %	4.4	9.5	9.1	9.4	7.6	6.0
EBT in € million	**4.9**	**207.5**	**197.8**	**179.4**	**150.5**	**58.6**
Earnings after tax (EAT) in € million	**-21.5**	**141.0**	**179.7**	**154.1**	**89.1**	**32.8**
Adjusted earnings indicators						
EBIT adjusted in € million	**-11.7**	**292.3**	**331.0**	**312.6**	**237.7**	**161.7**
EBIT margin (adjusted) in %	-7.4	11.2	12.1	12.1	9.8	7.4
EBT adjusted in € million	**-9.8**	**252.9**	**280.5**	**248.7**	**204.4**	**89.1**
Other performance indicators						
Revenues per employee = Revenues / average number of employees (excl. trainees) in € 000	-8.5	357.2	390.2	376.7	358.9	321.7
EBIT per employee = EBIT / average number of employees (excl. trainees) in € 000	-5.1	33.8	35.6	35.6	27.3	19.3
Value added in € million	2.9	739.2	718.2	689.1	722.6	635.5
Value added per employee = Value added / average number of employees in € 000	-1.9	97.0	98.9	97.2	103.2	89.9
Tax rate = Income taxes / earnings before tax in %	247.8	32.0	9.2	14.1	40.8	44.0
R&D as a percentage of revenues = Research and development expenses / revenues in %	31.3	8.8	6.7	6.8	7.0	7.9
R&D capitalization ratio = Capitalized development costs / company-funded development expenses in %	131.1	14.1	6.1	4.8	n/a	n/a
Depreciation/amortization rate = Scheduled depreciation and amortization / revenues in %	4.3	4.8	4.6	5.2	6.0	7.4
Productivity indicators						
Materials intensity = Cost of materials / revenues in %	2.3	66.3	64.8	65.7	64.7	64.1
Labor intensity = Personnel expenses / revenues in %	7.0	19.8	18.5	18.3	21.7	23.2

Balance sheet data

	Change 2009 - 2008 in %	2009	2008	2007	2006	2005
Investment intensity of non-current assets = Non-current assets / total assets in %	2.8	58.6	57.0	55.0	58.7	64.0
Operational intensity of current assets = Current assets / total assets in %	-3.7	41.4	43.0	45.0	41.3	36.0
Equity ratio = Equity / total capital in %	20.2	23.2	19.3	18.2	18.8	18.8
Debt ratio = Debt capital (liabilities) / total capital in %	-4.8	76.8	80.7	81.8	81.2	81.2
Debt to equity ratio = Debt capital (liabilities) / equity in %	-20.8	331.0	417.7	449.0	431.0	431.9
Structure of assets = Non-current assets / current assets in %	6.8	141.5	132.5	122.1	142.1	177.7
Capital structure = Equity / debt capital (liabilities) in %	26.4	30.2	23.9	22.3	23.2	23.2
Level of reserves = Capital reserves + revenue reserves less treasury shares / total capital in %	19.3	21.6	18.1	16.1	16.6	17.3
Level of provisions = Provisions / total capital in %	-3.9	26.8	27.9	29.6	29.4	30.8
Gross financial liabilities = Financial liabilities + carrying amount of pension obligations in € million	-4.8	691.4	726.6	703.1	733.7	704.5
Net financial liabilities = Gross financial liabilities - carrying amount of pension obligations - cash and cash equivalents - derivative financial receivables in € million	-44.1	142.4	254.7	223.4	210.2	304.7

Cash flow data

	Change 2009 - 2008 in %	2009	2008	2007	2006	2005
Cash flow from operating activities in € million	**-37.7**	**252.7**	**405.8**	**236.2**	**209.8**	**273.3**
Cash flow from investing activities in € million	**-53.0**	**-132.5**	**-282.2**	**-104.5**	**-94.1**	**-83.9**
thereof: capital expenditure on intangible assets in € million	-87.3	-24.6	-193.8	-14.3	-37.1	-5.7
thereof: capital expenditure on property, plant and equipment in € million	15.8	-115.7	-99.9	-86.5	-77.0	-80.0
thereof: proceeds from disposal/repayment[1] in € million	-6.1	10.8	11.5	1.6	20.0	2.3
thereof: investments in financial assets in € million		-3.0		-5.3		-0.5
Free Cashflow = Cash flow from operating activities - cash flow from investing activities in € million	**-2.8**	**120.2**	**123.6**	**131.7**	**115.7**	**189.4**
Cash flow from financing activities in € million	**-45.9**	**-68.9**	**-127.4**	**-165.8**	**-37.7**	**-207.5**
Change in cash and cash equivalents in € million		**50.9**	**2.6**	**-34.9**	**80.2**	**-6.5**
Capex to depreciation ratio = Capital expenditure on intangible assets and property, plant and equipment / depreciation and amortization in %	-39.4	111.0	183.3	67.4	75.2	52.2

[1] In full: Proceeds from disposal/repayment of intangible assets, property, plant and equipment and financial assets

Liquidity data

	Change 2009 - 2008 in %	2009	2008	2007	2006	2005
First-degree liquidity ratio (cash ratio) = Cash and cash equivalents /trade payables in %	166.7	37.6	14.1	14.5	27.0	6.1
Second-degree liquidity ratio (quick ratio) = Cash and cash equivalents + trade receivables / trade payables in %	49.2	159.6	107.0	122.4	132.7	94.1
Third-degree liquidity ratio (current ratio) = (cash and cash equivalents + trade receivables (incl. construction contract receivables) + inventories) / trade payables (incl. construction contract payables) in %	3.7	135.7	130.9	146.8	148.2	130.2
Liabilities-to-earnings ratio / = Gross financial liabilities /EBIT adjusted (factor)		2.4	2.2	2.2	3.1	4.4
Gearing = Net financial liabilities / equity in %	-52.8	19.5	41.3	39.8	37.4	57.7
Relative indebtedness = Net financial liabilities / EBIT adjusted in %	-36.7	48.7	76.9	71.5	88.4	188.4

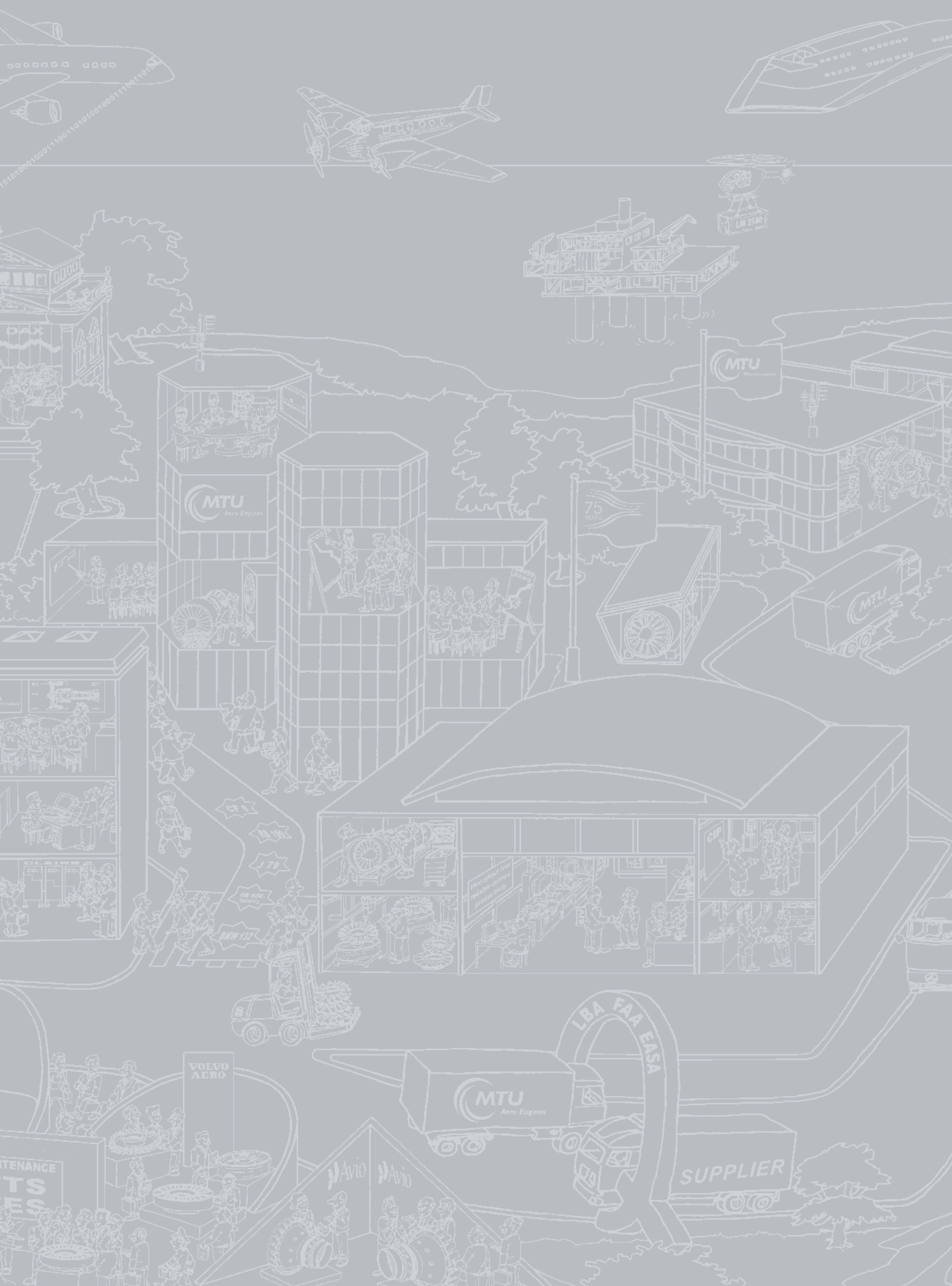
Share data and enterprise value

	Change 2009 - 2008 in %	2009	2008	2007	2006	2005
Earnings per share (undiluted) = Earnings after tax (EAT) / outstanding shares[1] in €	-20.6	2.89	3.64	2.95	1.64	0.60
Earnings per share (diluted) = Earnings after tax (EAT) + interest expense for convertible bond (net of taxes) / outstanding shares[3] in €	-20.9	2.80	3.54	2.83	1.64	0.60
Price-earnings ratio (PER) = Current share price / earnings per share (diluted)	147.3	13.6	5.5	14.1	21.6	43.8
EBIT per share = EBIT / outstanding shares[1] in €	0.4	5.05	5.03	4.65	3.39	2.39
Cash flow per share = Cash flow from operating activities / outstanding shares[1] in €	-37.1	5.17	8.22	4.52	3.87	4.97
Market capitalization = Number of common shares x price per share (balance sheet date) in € million	95.0	1,985.9	1,018.2	2,200.0	1,950.3	1,445.4
Enterprise value = Market capitalization + financial liabilities + pension provisions- cash and cash equivalents in € million	52.6	2,556.5	1,674.9	2,835.8	2,581.8	2,127.9
Ratio of enterprise value to EBIT = Enterprise value / EBIT	55.2	10.4	6.7	11.7	14.0	16.2
Ratio of enterprise value to revenues = Enterprise value / revenues	66.7	1.0	0.6	1.1	1.1	1.0
Annual dividend payout rate = Total dividend[2] / unappropriated profit available for distribution x 100 in %	-56.7	28.5	65.8	72.2	64.0	86.8
Dividend per share = Total dividend / outstanding shares[1] in €		0.93	0.93	0.93	0.82	0.73
Dividend yield = Dividend per share / current share price in %	-48.9	2.4	4.7	2.3	2.3	2.8

[1] In full: Average weighted number of outstanding shares
[2] According to resolution by the Annual General Meeting
[3] Relates here to average weighted number of outstanding shares plus potential shares from the convertible bond and MSP

Profitability data

	Change 2009 - 2008 in %	2009	2008	2007	2006	2005
Return on sales (earnings after tax, EAT) = Net profit / revenues	-18.2	5.4	6.6	6.0	3.7	1.5
Return on sales (EBIT) = EBIT / revenues in %	4.4	9.5	9.1	9.4	7.6	6.0
Return on sales (EBT) = EBT / revenues in %	8.2	7.9	7.3	7.0	6.2	2.7
Gross profit margin = Gross profit / revenues in %	-0.6	17.6	17.7	17.3	14.6	13.2
Return on equity = Earnings after tax (EAT) / average equity in %	-31.4	20.9	30.5	27.4	16.3	8.8
Return on total capital = (EBT + interest expenses) / average total capital in %	2.9	7.0	6.8	7.2	6.8	4.6
Return on investment (ROI) = Earnings after tax (EAT) / revenues x revenues / total capital in %	-19.6	4.5	5.6	5.0	3.0	1.2
Return on capital employed (ROCE) = EBIT / capital employed in %	-18.9	30.5	37.6	38.9	31.4	n/a
Ratio of working capital to revenues = Working capital / revenues in %	-25.9	6.3	8.5	9.4	7.3	9.4
Inventory turnover = Revenues / average inventories	-9.1	4.0	4.4	4.6	4.6	4.5
Receivables turnover = Average trade receivables / revenues x 365	-6.7	60.8	65.2	66.8	55.4	58.2
Payables turnover = Average trade payables / cost of materials x 365	-13.1	86.1	99.1	90.8	86.1	84.5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Corporate Governance

Corporate Governance Report

Responsible corporate management

Corporate governance refers to the practice of administering and controlling a company according to strict rules of accountability and principles of responsibility. At MTU Aero Engines Holding AG, corporate governance has been held in high regard for many years. Two central elements are of overriding importance: promoting the trust of investors, customers, employees and business partners in the company's executive and controlling bodies, and increasing the value of the company in a sustainable manner. It is MTU's intention to implement good corporate governance in all areas of the company, since it firmly believes that corporate governance is a cornerstone of corporate success.

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 both national and international standards. In Germany, home of the company's headquarters, the relevant requirements are laid down principally in the Stock Corporation Act (AktG), in the Co-Determination Act (MitbG) and in the German Corporate Governance Code (the 'Code').

The Code, which first came into effect in 2002, makes clear the obligation of both the Board of Management and the Supervisory Board to act in compliance with the principles of the social market economy so as to ensure the continued existence of the company and its ability to create sustainable value. In the amended version of June 18, 2009, it describes the nationally and internationally recognized standards of responsible corporate management together with the statutory regulations for the management and supervision of German listed companies. MTU's Board of Management and Supervisory Board have actively worked towards ensuring that the recommendations of the Code are met, in particular the amendments to the Code of June 18, 2009, made by the Government Commission on the German Corporate Governance Code. Their declaration of conformity can be found on page 307.

The following contains a report by the MTU Board of Management, also on behalf of the Supervisory Board, as stipulated in Section 3.10 of the Code, on corporate governance at the company in the 2009 financial year.

Cooperation based on trust

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

The company is managed by the Board of Management, whose members work together as a team. Members complement each other with a variety of qualifications and professional experience. The Board of Management sets MTU's strategic direction, plans and establishes the company's budget, and monitors the individual business units. In managing the company, its 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 of the company's current situation, potential risks and risk management activities, strategic decisions and their implementation, in a timely manner and on a regular basis. The Board of Management also reports on the issue of compliance, i.e. on measures to comply with both laws and regulations and company guidelines. Important Board of Management decisions require the approval of the Supervisory Board, in particular concerning the budget. For further information on this topic, please refer to the Supervisory Board report on page 316.

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 recommendations 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 also entrusted with verifying the independence of its own members and, for this purpose, has established assessment principles that tie in closely with the requirements of the Code. Based on these principles, the majority of the current 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 317 to 318.

In 2009, 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 have arisen. In the financial year 2009, directors' and officers' liability insurance with an appropriate deductible was in effect for the MTU Board of Management and Supervisory Board members.

Compensation for the members of the Board of Management and Supervisory Board is established according to clear, transparent criteria, which are fully described in the management compensation report on pages 308 to 315.

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

At MTU, responsible management of risks is given high priority. The Board of Management is responsible for ensuring that an appropriate risk management and control system is in place. Against the backdrop of the financial and economic crisis, financial risks must be accorded special attention. As a component of value-oriented corporate management, systematic risk management ensures that risks are identified at an early stage, analyzed and assessed, and that suitable measures are taken to minimize risk exposure. The Board of Management reports regularly to the Supervisory Board on existing risks and how they are developing.

The Audit Committee of the Supervisory Board deliberates on risk management and on the findings of internal auditing. Pursuant to Section 107 (3) of the German Stock Corporation Act (AktG), as amended by the German Accounting Law Reform Act (BilMoG), the Audit Committee will in future be explicitly responsible also for monitoring the effectiveness of the risk management system, the internal systems of control, the internal auditing systems, the financial reporting process and the audit of the financial statements, and, in particular, assessing their independence.

Compliance

The corporate culture at MTU places great store on the values of trust and mutual respect. Nevertheless, the risk can never be entirely excluded that the unauthorized behavior of isolated individuals might lead to contravention 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 applied preventive measures include awareness training and regular scheduled inspections of all business units by the internal auditing teams.

The observance of judicial and ethical rules and principles plays a central role in this respect. These include observance of the law and the upholding of professional values in dealings with customers, suppliers, competitors, public authorities, holders of public office, and members of the general public, both in Germany and abroad, and the strict separation of professional and personal affairs in order to avoid conflicts of interest. All of these aspects of compliance are documented in a code of conduct drawn up and introduced by the MTU Board of Management and the Group Works Council, which also deals with responsible use of insider information. It embodies MTU's corporate culture and reflects its resolve to strictly comply with the stipulations of the relevant public laws and internal regulations. The code of conduct is intended as a company-wide guide to ethical business relations and as a public statement of MTU's commitment to corporate social responsibility and environmental protection.

Compliance is an important aspect of all management functions at MTU. All managers are expected to verify that each and every member of their staff has read and understood the code of conduct and is abiding by its rules. These activities are supplemented by internal training courses designed to raise employees' awareness of compliance risks and to reinforce and augment their knowledge of the relevant requirements. Corruption is one of the major topics dealt with during these training courses

MTU has set up a Compliance Board, which reports directly to the Board of Management and offers its advice on relevant issues. The members of the Compliance Board, which consists of the heads of the legal, auditing and security departments, meet ordinarily once a quarter. The board's duties include identifying and evaluating legal and reputational risks. If the Compliance Board recognizes a need to introduce additional compliance rules, it makes appropriate recommendations to the Board of Management. Above and beyond this, the Compliance Board is charged with dealing appropriately with the suspected cases of non-compliance reported to it.

As a result of an agreement with the Works Council, the company has created an internal contact office for unethical conduct. It allows employees, customers and suppliers to report suspected cases of non-compliant behavior.

The Supervisory Board oversees the Board of Management's compliance activities with the assistance of the Audit Committee. In the year under review, it was briefed on the awareness training courses, the meetings of the Compliance Board, and the information submitted to the contact office charged with dealing with suspected cases of illegal or unethical conduct. Other issues dealt with by the supervisory bodies included updates to the compliance guidelines, the audits carried out by the Compliance Board and the training measures planned for 2010.

A comprehensive information service

In keeping with the principles of good corporate governance, MTU issues a regular flow of comprehensive, timely information on the company's activities and any major changes in its business situation to shareholders, shareholder associations, financial analysts, the media and other interested parties. The company publishes a full range of informative documentation, press releases and a financial calendar on the MTU website at www.mtu.de. MTU also publishes quarterly reviews of its business activities. Through these interim reports and related publications, the Board of Management keeps investors, analysts and the media up to date on the company's quarterly and yearly business results. Any new developments likely to have a significant impact on the MTU share price are disclosed in accordance with statutory requirements in the form of ad hoc releases.

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

Declaration of conformity

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

The Board of Management and the Supervisory Board of MTU Aero Engines Holding AG declare that the recommendations of the Government Commission on the German Corporate Governance Code, as published in the amended version of June 18, 2009, by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been and are being complied with. The Board of Management and the Supervisory Board of MTU Aero Engines Holding AG also intend to follow these recommendations in the future. The only recommendations of the German Corporate Governance Code that have not been and will not be applied are the following:

1. Form and details of Supervisory Board compensation

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

The members of the Supervisory Board do not receive performance-related compensation. It is our considered view that a fixed compensation arrangement is appropriate and that 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.

2. D&O deductible

D&O deductible (Section 3.8, paragraph 2 of the Code)

At the time that the amended version of the German Corporate Governance Code of June 18, 2009, was made public, i.e. on August 5, 2009, the company had already taken out D&O insurance cover for the members of its Board of Management and Supervisory Board that contained an appropriate deductible and thus complied with the previously valid Section 3.8 of the German Corporate Governance Code. The D&O insurance cover must be amended to comply with the new provisions within a certain transitional period. The company will amend this insurance in early 2010, i.e. within the stated transitional period, in order to comply with the new Section 3.8 of the German Corporate Governance Code and will agree a new deductible amounting to at least 10% of the loss and up to at least 150% of the fixed portion of the annual compensation of each board member.

3. Compensation of board members

Compensation of board members (Sections 4.2.2 and 4.2.3 of the Code)

At the time that the amended version of the German Corporate Governance Code of June 18, 2009, was made public, i.e. on August 5, 2009, the compensation paid to members of the Board of Management complied with the then valid Sections 4.2.2 and 4.2.3 of the German Corporate Governance Code. Since it is not customary to make ulterior amendments to board members' employment contracts once they have been signed, the company will, at the next opportunity, adjust the compensation paid to members of the Board of Management in accordance with the provisions of the German Act on the Appropriateness of Management Board Compensation (VorstAG) so as to comply with the new Sections 4.2.2 and 4.2.3 of the German Corporate Governance Code.

Munich, December 2009

For the Board of Management

Egon Behle
Chairman

For the Supervisory Board

Klaus Eberhardt
Chairman

Management Compensation Report

The management compensation report summarizes the principles applied when establishing the compensation to be awarded to members of the Board of Management of MTU Aero Engines Holding AG for service during the period under review, and explains how benefits earned by members of the Board of Management in the financial year 2009 were calculated and structured. This report furthermore describes the schedule of fees paid to members of the Supervisory Board.

The management compensation report is based on the recommendations of the German Corporate Governance Code and contains statements which, pursuant to the requirements of the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRSs), form part of the notes to the financial statements or the management report. It is therefore an integral part of the attested consolidated financial statements. Consequently information presented in the management compensation report will not be repeated in the notes or management report.

Board of Management compensation

The overall structure and level of Board of Management compensation is decided upon by the Supervisory Board of MTU Aero Engines Holding AG and reviewed at regular intervals.

The compensation awarded to members of the Board of Management of MTU Aero Engines Holding AG takes into account the size of the company, the global reach of its activities, its business and financial situation, and the level and structure of management compensation paid out by comparable companies in Germany and abroad. It furthermore takes into account the duties of each member of the Board of Management and their respective contributions to the company's overall performance, and the length of time for which they have served on the board. Compensation levels are calculated in such a way as to match the competitive standards of the international recruitment market for highly qualified business executives, and so as to represent an adequate incentive to achieve results.

The compensation received by members of the Board of Management is based on a performance-related remuneration scheme. In the financial year 2009, it was made up of the following four components:

(1) a fixed basic sum, paid on a monthly basis,

(2) a variable bonus, which is dependent on achieving specific business targets and is contractually limited to a sum ranging between 83% and 100% of the fixed portion of the compensation,

(3) share-based compensation under the Matching Stock Program (MSP) which was established for a wide section of the company's executive management in the financial year 2005 (with subsequent amendments) to cover the period 2005 – 2009. Under this scheme, shares of phantom stock are allocated to subscribers in equal tranches each year for a period of five years. The allocation of these phantom stocks is subject to the condition that subscribers hold their own long-term investment in the company's shares. At the end of the respective vesting period, which runs for two years after allocation of each tranche, and on condition that the minimum exercise thresholds have been exceeded, the share-based compensation can be redeemed in exchange for the exercise of the phantom stock rights (a more detailed description of the MSP, including information on the amendments to the terms of issue introduced during the financial year 2007, is provided in Note 30.4 (Capital reserves) to the consolidated financial statements.

(4) pension commitments under a defined benefit pension plan for members of the Board of Management. By a resolution of the Supervisory Board's Personnel Committee dated March 10, 2009, new pension arrangements were concluded with the members of the Board of Management. The new pension plan contracts replaced the existing agreements with effect of June 1, 2009. Under the new pension plan, all pension commitments will be based on the same, uniform structure. In the past, differences between the various individual contracts meant that pension provisions had to be accounted for differently in each case. The conclusion of new pension plan contracts with the members of the MTU Board of Management creates a vested benefit obligation, which is recognized

at the present value of the benefit obligation for service in prior periods. Pension provisions for defined benefit plans are dealt with in more detail under Note 31 (Pension provisions) to the consolidated financial statements.

Pension commitments to members of the Board of Management principally comprise an entitlement to retirement and survivors' pensions.

Retirement pension can be claimed when the beneficiary reaches the age of 60, or earlier in the event of permanent incapacity to work. The annual retirement pension amounts to 25% of the last basic salary drawn by the beneficiary prior to the insured event. Retirement and survivors' benefits are automatically increased by 1% each year subsequent to the year in which they become payable.

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

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

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

Compensation payments in 2009:

In the financial year 2009, the cumulative expense for Board of Management compensation came to a total of € 7.9 million (2008: € 6.3 million). Total cash benefits amounted to € 5.5 million (2008: € 5.4 million). Of this sum, € 2.9 million concerned non-performance-related payments (2008: € 2.9 million) and € 2.6 million was performance-related (2008: € 2.5 million).

Details of the compensation entitlement of the individual members of the Board of Management for the financial year 2009 are presented below:

Overview

Active board members (figures in €)	Cash benefits	Other benefits	Pension contributions[1]	Cash-equivalent value of share-based compensation[2] (long-term incentive)	Total
Egon Behle	2,166,148.23	0.00	773,887.00	151,615.00	3,091,650.23
Dr. Rainer Martens	1,088,390.77	0.00	869,445.00	11,712.00	1,969,547.77
Dr. Stefan Weingartner	995,063.83	0.00	383,439.00	51,505.00	1,430,007.83
Reiner Winkler	1,236,807.10	0.00	166,388.00	51,285.00	1,454,480.10
Total	**5,486,409.93**	**0.00**	**2,193,159.00**	**266,117.00**	**7,945,685.93**
Total 2008	5,406,463.54	38,538.69[3]	538,597.00	349,915.00	6,333,514.23

[1] Relates to the pension contributions (allocation to provisions) paid on behalf of the individual board members, including past service cost arising as a result of changed obligations under the new, unified plan arrangements for the Board of Management of MTU Aero Engines Holding AG.

[2] The values shown in this table for share-based compensation refer to phantom stock that was granted under the Matching Stock Program for the fourth and fifth tranche, taking into account the modified terms of issue introduced in the financial year 2007 (see Note 30.4 (Capital reserves) to the consolidated financial statements).

[3] Other benefits in 2008 relates to double household expenses amounting to € 38,538.69.

Under the terms of an agreement between MTU and Dr. Rainer Martens' former employer EADS, the retirement benefits accrued on the basis of both employer's and employee's contributions during his previous employment were transferred to MTU in accordance with Section 4, paragraph 2(2) of the German Company Pension Act (BetrAVG). When the new pension plan contracts were negotiated, it was agreed that Dr. Martens' previous years of service with EADS dating back to September 1, 1991 (entry date at EADS), would be taken into account in the event of premature termination of his employment contract. As a result of this commitment, a total defined benefit obligation of € 0.9 million (2008: € 0.1 million) was allocated to pension provisions on his behalf in the financial year 2009. The increase in pension contributions on behalf of Egon Behle is largely attributable to the new pension plan contract.

The cash benefits awarded in respect of the financial year 2009 are shown below, broken down into their non-performance-related and performance-related components:

Cash benefits

Active board members (figures in €)	**Salary** (non-performance-related)	**Other benefits**[1] (non-performance-related)	**Annual bonus** (performance-related)	**Total**
Egon Behle	1,100,004.00	21,144.23	1,045,000.00	2,166,148.23
Dr. Rainer Martens	600,000.00	13,390.77	475,000.00	1,088,390.77
Dr. Stefan Weingartner	500,004.00	20,059.83	475,000.00	995,063.83
Reiner Winkler	650,004.00	16,803.10	570,000.00	1,236,807.10
Total	**2,850,012.00**	**71,397.93**	**2,565,000.00**	**5,486,409.93**
Total 2008	2,786,866.00	69,597.54	2,550,000.00	5,406,463.54

[1] Other benefits comprises charges to taxable income covering personal use of company vehicles amounting to € 62,759.35 (2008: € 62,999.93) and premiums for accident insurance policies taken out on behalf of members of the Board of Management amounting to €8,638.58 (2008: € 6,597.61).

Defined benefit obligation of pension provisions accorded to members of the Board of Management

The defined benefit obligation (DBO) of all pension provisions accorded to members of the Board of Management at December 31, 2009, amounted to € 4.5 million in total (2008: € 1.9 million), as stated in Note 31 (Pension provisions) to the financial statements. The increase in the present value of defined benefit obligations is due, on the one hand, to the introduction of the new, uniform pension plan contracts and, on the other hand, to the application of a lower discount at the current market rate of 5.25% for 2009, compared with a rate of 5.75% for 2008.

Share-based compensation

The table below lists the number and cash-equivalent value of phantom stock granted and allocated to members of the Board of Management under the Matching Stock Program (MSP) as the share-based component of their compensation. The cash-equivalent value of this stock has been calculated using the Black-Scholes pricing model. The expense relating to phantom stock granted to members of the Board of Management under the MSP is reported in the balance sheet on the basis of the fair value estimated at the time of its allocation, making allowance for the specific conditions relating to the exercise of the phantom stock rights. It should be noted that the terms under which equity instruments are issued have been amended (for a more detailed explanation of the exercise conditions and the subsequent amendment as a result of the modification to the terms of issue that became effective in financial year 2007, please refer to Note 30.4 (Capital reserves) to the consolidated financial statements).

At December 31, 2009 the number of shares of phantom stock from the Matching Stock Program granted to the Board of Management amounted to 411,456. In June 2009, 144,936 shares of phantom stock (2008: 144,936) were transferred to the Board of Management when the fifth and final tranche of the Matching Stock Program was allocated.

The total number of shares of phantom stock allocated to the Board of Management at December 31, 2009, thus amounted to 411,456 (2008: 266,520). Of these, 289,872 phantom stocks (2008: 332,808) were not yet exercisable at the end of financial year 2009 and will remain so for the remaining term of the Matching Stock Program. The average weighted exercise price for phantom stocks that were not yet exercisable at December 31, 2009, was € 25.52 per phantom stock (2008: € 34.98).

Active board members	Granted phantom stock[1]			Allocated phantom stock		
(number of shares or value in €)	At Jan. 1, 2009 shares	Acquired in 2009 shares	At Dec. 31, 2009 shares	At Jan. 1, 2009 shares	Acquired in 2009 shares	At Dec. 31, 2009 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**	**72,000**	**72,000**	**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**	**21,672**	**7,224**	**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**	**30,000**	**30,000**	**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**	**142,848**	**35,712**	**178,560**
Cumulative total	**411,456**		**411,456**	**266,520**	**144,936**	**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 June 6, 2011 under the conditions defined in the Matching Stock Program. This case arose for the first time in 2007, being applicable to the first tranche allocated in 2005. The second and third tranches, allocated in 2006 and 2007, both lapsed after failing to reach their respective exercise prices (for more details, see Note 30.4 (Capital reserves) to the consolidated financial statements).

	Exercised phantom stock	Forfeited phantom stock	Lapsed phantom stock	Phantom stock not yet exercisable at Dec. 31, 2009		Cash-equivalent value[2]	
(number of shares or value in €)	Phantom Stock 2009 shares	Phantom Stock 2009 shares	Phantom Stock 2009 shares	At Dec. 31, 2009 shares	At Dec. 31, 2009 months	Fair value €	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	6		28.28
Phantom Stock Tranche 5 on 6.6.2009				72,000	18		22.76
Total				**144,000**		**151,615**	**25.52**
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	6		28.28
Phantom Stock Tranche 5 on 6.6.2009				7,224	18		22.76
Total			**-14,448**	**14,448**		**11,712**	**25.52**
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	6		28.28
Phantom Stock Tranche 5 on 6.6.2009				30,000	18		22.76
Total				**60,000**		**51,505**	**25.52**
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	6		28.28
Phantom Stock Tranche 5 on 6.6.2009				35,712	18		22.76
Total	**-35.712**		**-71,424**	**71,424**		**51,285**	**25.52**
Cumulative total	**-35.712**		**-85,872**	**289,872**		**266,117**	**25.52**

[2] After modification to the terms of issue that became effective in financial year 2007 (repricing is dealt with in Note 30.4 (Capital reserves) to the consolidated financial statements). 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.

Other

No loan facilities have been granted by the company to 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 projected pension obligations to former members of the Board of Management

Former board members (figures in €)	Provisions established to cover current and projected pension obligations	
	At Dec. 31, 2009	At Dec. 31, 2008
Total	**3,388,501.00**	**3,200,371.00**

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 chairman of the Supervisory Board, and multiplied by one-and-a-half in the case of the deputy chairman. The chairs of the Audit and Personnel Committees respectively receive a further fixed payment of € 10,000, and the other members of these committees each receive a fixed payment of € 5,000. Members of the Supervisory Board receive an attendance fee of € 3,000 for each meeting of the Supervisory Board and its committees, subject to an upper limit of € 3,000 per day. Expenses incurred in connection with the exercise of their office are reimbursed, as is the value-added tax payable on the fees.

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

Supervisory Board Compensation

Supervisory Board members (figures in €)	**Compensation 2009[1)]**	**Compensation 2008[1)]**
Klaus Eberhardt (Supervisory Board and Personnel Committee chairman since Jan. 1, 2008)[3)]	126,000.00	126,000.00
Josef Hillreiner (deputy chairman)[2) 3)]	76,000.00	76,000.00
Dr. Joachim Rauhut (Audit Committee chairman since May 26, 2009)	35,666.67	
Prof. Dr. Walter Kröll (Audit Committee chairman until May 26, 2009)	28,666.67	52,500.00
Babette Fröhlich[3)]	53,000.00	53,000.00
Dr.-Ing. Jürgen M. Geißinger[2)]	47,000.00	47,000.00
Michael Leppek (since Apr. 30, 2008)[2)]	53,000.00	38,250.00
Prof. Dr.-Ing. Klaus Steffens	45,000.00	45,000.00
Udo Stark (since Feb. 1, 2008)	45,000.00	42,500.00
Thomas Dautl (since Apr. 30, 2008)	45,000.00	34,500.00
Rudolf Domberger (since Apr. 30, 2008)	45,000.00	34,500.00
Michael Behé (since Apr. 30, 2008)	45,000.00	34,500.00
Dr. Wilhelm Bender (since Apr. 30, 2008)	45,000.00	31,500.00
Josef Mailer (until Apr. 30, 2008)	28,500.00	16,000.00
Louis R. Hughes (Audit Committee chairman until Apr. 30, 2008)		25,333.33
Harald Flassbeck (until Apr. 30, 2008)[2)]		17,666.67
Michael Keller (until Apr. 30, 2008)		16,000.00
Günter Sroka (until Mar. 31, 2008)		10,500.00
Johannes Huth (until Jan. 31, 2008)		2,500.00
Total	**689,333.34**	**703.250,00**

[1)] Figures do not include foreign tax or value added tax
[2)] Personnel Committee member
[3)] Audit Committee member

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

Report of the Supervisory Board for the financial year 2009

Klaus Eberhardt
Chairman of the
Supervisory Board

Dear shareholders,

The global recession and the slump in the international aviation market presented MTU Aero Engines Holding AG with considerable challenges in the past financial year. However, thanks to the extraordinary commitment of its employees and the Board of Management, the company was successful in meeting these challenges, as the Annual Report 2009 clearly documents.

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 regarding all decisions of consequence for the company. The Board of Management briefed the Supervisory Board in a regular, timely and comprehensive manner on the situation of the company and important business transactions. The Supervisory Board further received monthly written reports on the company's earnings, financial situation, and net asset position. Any deviations from the planned business performance were discussed in detail with the Supervisory Board.

In strategy meetings with the Board of Management, the Supervisory Board discussed all relevant planning issues and, after careful deliberation and examination, endorsed the outlined strategic orientation of the company. All business activities requiring the approval of the Supervisory Board under the provisions of the law, the company's articles of association, or the Board of Management's rules of procedure were closely examined, discussed with the Board of Management and endorsed.

In 2009, the Supervisory Board devoted special attention to MTU's system of internal controls, in particular to the company's risk management system, its auditing practices and the conformity of its corporate governance 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 status report on compliance was presented to the full Supervisory Board at its regular meetings in July and December. The internal auditing team presented its findings to the Audit Committee at the latter's March and September meetings, at which the team also reported on the latest developments in the field of compliance.

Meetings of the Supervisory Board

During the financial year 2009, the Supervisory Board convened five ordinary meetings, in the course of which resolutions were adopted. On average, 96.7% of the members of the Supervisory Board were present at these meetings. Between official meetings, the chairman of the Supervisory Board was regularly briefed on the company's current situation, significant business transactions and important pending decisions.

At its meetings with the Board of Management, the Supervisory Board discussed the business performance of MTU and all its affiliated companies. The situation on the commercial and military engine markets was analyzed, as was MTU's market position compared with its competitors. In view of the international economic crisis, special attention was paid to the company's earnings, including its risk situation and risk management activities. Above and beyond this, other topics of note included both the progress made in the development of the TP400-D6 engine program for the new Airbus A400M military transporter and MTU's industrial property rights portfolio. In addition, the Supervisory Board examined in detail the Challenge 2010 cost-reduction program, long-running MRO contracts at the Ludwigsfelde, Hannover and Vancouver locations, and the sale of the production operations of the U.S. subsidiary MTU Aero Engines North America (AENA). Further topics discussed by the Supervisory Board included the company's negotiation of a promissory note loan and the renewal of its revolving credit facility. The Supervisory Board also closely addressed the German Act on the Appropriateness of Management Board Compensation (VorstAG) and the corresponding amendments to the German Corporate Governance Code.

Corporate governance

It is the firm belief of the Supervisory Board that good corporate governance is of fundamental importance to the company's business success. For this reason, in 2009 the Supervisory Board again closely studied the recommendations of the relevant corporate governance standards and the way in which they are being implemented. In doing so, it also reviewed the efficiency of its own activities. In particular, the Supervisory Board addressed the amendments to the German Corporate Governance Code made by the Government Commission on the Code at its meeting of June 18, 2009. Further, the Supervisory Board ascertained that, in its own estimation, it has an adequate number of independent members within its ranks.

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

In a joint declaration with the Board of Management dated December 10, 2009, 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 three exceptions only. The company's declaration of conformity is reproduced on page 307 of this Annual Report together with a more detailed description of the company's corporate governance; the declaration has also been posted on the company's website.

Committee meetings

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

In addition, a Nomination Committee was created in 2007 pursuant to the recommendations of the German Corporate Governance Code. 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. The Nomination Committee convened once during the financial year 2009.

The Personnel Committee consists of Klaus Eberhardt, Dr. Jürgen M. Geißinger and the two workforce representatives Josef Hillreiner and Michael Leppek. The Personnel Committee met twice in 2009 to discuss matters including the results of the Supervisory Board's efficiency audit, the renewal of the contract with Board of Management member Dr. Stefan Weingartner, and the composition and appropriateness of compensation for members of the Board of Management as well as proposals for revision of the long-term component of that compensation.

The Mediation Committee, whose members are identical with those of the Personnel Committee, did not have to convene in 2009.

The members of the Audit Committee are Prof. Dr. Walter Kröll (until May 26, 2009), Dr. Joachim Rauhut (since May 26, 2009), Klaus Eberhardt, Babette Fröhlich and Josef Hillreiner. In 2009, the Audit Committee met three times in person and once via conference call. The committee was primarily concerned with reviewing the annual financial statements of MTU Aero Engines Holding AG, the MTU consolidated financial statements and group management report, the financial situation of MTU, and the quarterly reports.

The committee also specified the key areas for audit in the 2009 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.

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, 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.

As well as reviewing the compliance system of the company in detail, the Audit Committee was briefed by the Board of Management on the company's negotiation of a promissory note loan and the renewal of its revolving credit facility. The committee also took a closer look at the group's patented technologies and the TP400-D6 engine program.

Adoption of the annual financial statements, the approved consolidated financial statements, the management report and the group management report

MTU Aero Engines Holding AG's annual financial statements, consolidated financial statements, management report and group management report for the financial year 2009 were audited and fully certified by the accounting firm Deloitte & Touche, Munich, whose engagement 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 2009 and the Board of Management's profit distribution proposal on the basis of the preliminary audit by the Audit Committee, on which the chair of the Audit Committee had presented a full report to the Supervisory Board. The auditor attended the meeting of the Audit Committee of MTU Aero Engines Holding AG on March 2, 2010, and the balance sheet meeting of the Supervisory Board on March 10, 2010, and presented the main findings of the audit. The Supervisory Board reviewed the annual financial statements, consolidated financial statements, management report, group management report and the Board of Management's profit distribution proposal, and raised no objections. The annual financial statements and consolidated financial statements for the financial year 2009 as submitted by the Board of Management were approved at the Supervisory Board meeting on March 10, 2010. 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 on March 10, 2010, the Supervisory Board took note that MTU Aero Engines Holding AG had not entered into any change-of-control agreements. This excludes the indirect consequences of any agreements contracted by associated companies containing change-of-control clauses that might affect MTU Aero Engines Holding AG. More detailed notes on this subject can be found in the group management report on page 133 ff.

Boardroom changes

On May 26, 2009, the Annual General Meeting appointed Dr. Joachim Rauhut to the Supervisory Board. Dr. Rauhut is a member of the Executive Board (CFO) of Wacker Chemie AG in Munich. He replaced Prof. Dr. Walter Kröll, who took leave as a member of the Supervisory Board on attaining the age limit stipulated in the articles of association, which state that members of the Supervisory Board must relinquish their seats after the Annual General Meeting that follows their 70th birthday.

The Supervisory Board expresses its gratitude to Prof. Dr. Kröll for his long years of dedicated, professional work. The Supervisory Board also wishes to thank all MTU employees and the Board of Management for their successful work and the great commitment shown in 2009. Thanks are also extended to the works council for its constructive cooperation and, last but not least, to all the shareholders who have placed their trust in MTU over the past business year.

Munich, March 10, 2010

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

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
Member of the Group Works Council of MTU Aero Engines GmbH, Munich

MTU Maintenance Hannover GmbH

Prof. Dr. Wilhelm Bender

CEO of Fraport AG, Frankfurt/Main 1993 - 2009

Deutscher Ring Krankenversicherungsverein a.G.
FrankfurtRheinMain GmbH International Marketing of the Region
Live Holding AG
Lufthansa Cargo AG
MTU Aero Engines GmbH
SIGNAL IDUNA Allgemeine Versicherung AG
ThyssenKrupp Services AG (until 9/2009)

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

Departmental head within the IG Metall Executive Committee, Frankfurt

Volkswagen AG

Dr.-Ing. Jürgen M. Geißinger

President and CEO of INA-Holding Schaeffler GmbH & Co. KG, Herzogenaurach

Continental AG
MTU Aero Engines GmbH

Prof. Dr. Walter Kröll
(until May 26, 2009)

Former President of the Helmholtz Association of German Research Centres, Bonn

MTU Aero Engines GmbH

Michael Leppek

Second Authorized Representative, IG Metall, Munich

EPCOS AG
MTU Aero Engines GmbH
Nokia Siemens Management GmbH

Dr. Joachim Rauhut
(since May 26, 2009)

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
Cognis GmbH
MTU Aero Engines GmbH
Prysmian S.p.A.

Prof. Dr.-Ing. Klaus Steffens

Former President and CEO of MTU Aero Engines GmbH, Munich

CompuGroup Holding 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 *(since May 26, 2009)*
Prof. Dr. Walter Kröll, Chairman *(until May 26, 2009)*
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

Glossary of engine terms

Afterburner Military jet engines, in particular those designed for supersonic fighter aircraft, are equipped with an afterburner located downstream of the turbine. The afterburner can make almost double the amount of thrust available for takeoff, ascent or supersonic flight.

Claire Clean Air Engine (Claire) is a technology program jointly developed by MTU and Bauhaus Luftfahrt which aims to drastically reduce the carbon dioxide output of aircraft engines while at the same time substantially cutting noise levels. The goal is to achieve a 30-percent reduction in CO_2 emissions by 2035. All key components of the Claire program have already been tested or demonstrated proof of principle, and fulfill all expectations concerning energy efficiency and economic viability.

Combustor A combustor or combustion chamber consists of an outer casing and a flame tube or 'can' in which the actual combustion takes place. Inside, the compressed air flowing into the chamber is mixed with fuel, which is then ignited and burns at a temperature of over 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.

DECMU DECMU stands for Digital Engine Control and Monitoring Unit and is a full-authority engine subsystem. There are normally two separate units for engine control and monitoring, but DECMU integrates both functions in a single unit.

Fan The extremely large first rotor of the low-pressure compressor is called the fan. It accelerates the bypass stream flowing aftward and provides the engine's main thrust. It is driven by the low-pressure turbine via the low-pressure shaft.

Geared turbofan Geared turbofan engines consume far less fuel and generate significantly less noise than today's engine types. They therefore have every chance of becoming the standard type for use in future short- and medium-haul aircraft. Normally, an engine's fan, low-pressure compressor and low-pressure turbine are all rigidly connected to one shaft. In contrast, the geared fan is 'decoupled' from the low-pressure section by means of a reduction gear unit. This enables the low-pressure turbine and the low-pressure compressor to run at their optimum high speeds, while the fan rotates at a much lower speed (in a ratio of approx. 3:1). This results in significantly improved overall engine efficiency and greatly reduced noise levels.

Heat exchanger A heat exchanger consists of a series of connected tubes with one fluid medium flowing inside the tubes – air in the case of aircraft engines – and a second fluid medium at a different temperature flowing along the outside of the tubes, causing energy to be transferred from the hotter medium to the cooler one. Future engines might possibly use such heat exchangers to recycle the residual energy contained in the exhaust gas stream, feeding it back into the compressed air upstream of the combustor. This would significantly increase the engine's efficiency. This method is already being used in gas turbines, particularly in power generation plants.

Industrial gas turbines

The operating principle of an industrial gas turbine is essentially the same as that of an aero engine. However, instead of the customary low-pressure turbine used in aircraft, industrial gas turbines have a so-called power turbine. This turbine delivers the necessary power, either directly or via a gear unit, to an additional attached power unit such as a pump or generator. Nearly all industrial gas turbines of the lower and intermediate power classes are aero-engine derivatives.

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.

NGPF

NGPF stands for Next Generation Product Family and designates the new generation of aircraft with one central aisle. It includes the successors to the Airbus A320 family and the Boeing 737.

OEM business

OEM stands for original equipment manufacturer. At MTU, the term 'OEM business' is used to designate one of the company's two business segments, where it refers to the development, manufacture and assembly of (new) commercial and military engines. Spare parts for (in-service) commercial and military engines and maintenance services for military engines are also included in this business segment.

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 – 225 kN), and engines with a thrust ranging from 50,000 to more than 100,000 pounds (around 225 – around 450 kN). Although the official unit of force used to measure thrust is the kilonewton (kN), the English unit 'pound' is still widely used in this context by the international engineering community. The abbreviation for 'pound' when used as a unit of force is lb.

Turbine

In a turbine, the energy contained in the gases emerging at high pressure and velocity from the combustor is converted into mechanical energy. Like the compressor, the turbine is subdivided into a high-pressure and a low-pressure section, each of which is directly connected to the corresponding compressor via the respective shaft. The turbine has to withstand much higher stresses than the compressor, as it has to deal not only with the high gas temperatures but also with the extreme centrifugal forces of several tons acting on the outer rim of its disks.

Turbine center frame

The turbine center frame connects the high-pressure turbine to the low-pressure turbine. It has to be able to withstand the high mechanical and thermal loads. The center frame includes struts to support the shaft bearings, clad with an aerodynamic fairing, and the necessary air and oil supply lines.

Turbofan engine

The turbofan is a decisive advancement of the turbojet principle, the main difference being its enlarged first compressor stage, known as the fan. While in turbojet engines, all of the ingested air flows consecutively through the compressor, the combustor and the turbine, turbofans separate the air stream behind the fan. A fraction of the air reaches the combustor via a number of further compressor stages and is burned. The rest, however – which constitutes a much larger fraction – is channeled around the inner components. The ratio between these two airflows is known as the bypass ratio. In modern commercial engines, this ratio can be as high as 10:1. The greater the bypass ratio, the more economical, environmentally compatible and silent the engine. Turbofans are far more fuel-efficient than turbojets.

Turbojet engine

All first-generation engines work according to the turbojet principle: The entire volume of intake air is ingested by the compressor. The resulting compressed air is channeled into the combustor, where fuel is injected and the fuel-air mixture is burnt. The hot gases stream at high velocity into the turbine, which drives the compressor via a shaft. Because of their low efficiency and the high noise levels they generate, turbojet engines are no longer produced today.

Turboprop engine

The most noticeable external feature of a turboprop is its propeller. Inside, however, the engine differs only slightly from the turbojet and the turbofan. The turbine is larger, and drives not only the compressor but also the propeller, the latter via a gear unit to reduce the speed of rotation. Consequently, more energy has to be drawn from the exhaust gas stream in the turbine of a turboprop than in that of other engine types. Over 90 percent of the energy is required for the compressor and the propeller. Turboprop airplanes can only achieve flight speeds of up to 800 km/h and are thus slower than turbojets or turbofans, but they do have the advantage of consuming far less fuel. This predestines them for use in roles where speed is less important, such as on shorthaul routes or for air freight.

Turboshaft engine

Turboshaft engines are used in helicopters and are similar to turboprops but, because the drive shaft cannot be connected in a straight line to the rotor, it is connected instead to a transmission system (gearbox), which converts the energy from the exhaust stream into the rotational motion of the rotor.

Index

Overview of Engines

Commercial Engines

Type	Description	Application
PW4000Growth	340 – 440 kN thrust range	Boeing 777
GP7000	315 – 380 kN thrust range	Airbus A380
GEnx	235 - 333 kN thrust range	Boeing 787, 747-8
CF6	180 – 320 kN thrust range	Airbus A300, A310, A330, Boeing 747, 767, DC-10, MD-11
PW2000	170 – 190 kN thrust range	Boeing 757, C-17
V2500	100 – 150 kN thrust range	Airbus A319, A320, A321, Boeing MD-90
CFM56*	82 – 154 kN thrust range	Boeing 737, Airbus A318 - A321
PW6000	98 – 106 kN thrust range	Airbus A318
JT8D-200	90 – 100 kN thrust range	Boeing MD-80-Reihe
PW1000G	68 – 109 kN thrust range	Mitsubishi Regional Jet, Bombardier CSeries, Irkut MS-21
CF34*	41 – 91 kN thrust range	business and regional jets
PW300	18 – 30 kN thrust range	medium-weight business and regional jets
PW500	13 – 20 kN thrust range	light and medium-weight business jets
PT6A*	500 – 2000 shp thrust range	business- and cargo-props
PW200*	500 – 1000 shp thrust range	light-to-medium weight twin-engined helicopters

*MRO only

Industrial Gas Turbines

Type	Description	Application
LM6000	Derivative of the CF6-80 aero engine Power class up to 44,000 kW	Electrical power stations
LM5000	Derivative of the CF6-50 aero engine Power class up to 34,000 kW	Electrical power stations, mechanical power systems, oil and gas industry
LM2500/LM2500+	Derivative of the CF6-6 aero engine Power class 22,000 to 30,500 kW	Electrical power stations, mechanical power systems, oil and gas industry, power systems for ships
ASE/TF 40/50	Power class up to 4,100 kW	Electrical power systems, power systems for ships, mechanical power systems, generator sets

Military Engines

Type	Description	Application
F110	Two-spool turbofan engine in the 122 – 145 kN thrust range	Lockheed F-16, Boeing F-15K
F404/F414	Two-spool turbofan engine in the 80 – 97 kN thrust range	Boeing F/A-18 Hornet amongst others
EJ200	Two-spool turbofan engine with afterburner in the 90 kN thrust class	Eurofighter
RB199	Three-spool turbofan engine with Panavia Tornado afterburner and thrust reverser in the 70 – 80 kN thrust range	Panavia Tornado
J79	Single-shaft turbojet engine with afterburner in the 70 – 80 kN thrust range	F-4 Phantom
Larzac04	Two-spool turbofan engine in the 14 kN thrust class	Alpha Jet
TP400-D6	Three-spool engine with a power output of 8,000 kW	Airbus A400M
GE38	Turboprop engine in the 5,500 kW power range	Sikorsky CH-53K
Tyne	Turboprop engine in the 3,955 kW power range	Breguet Atlantic and Transall C160
T64	Turboshaft engine with free power turbine in the 3,000 kW power class	Sikorsky CH-53G
MTR390/MTR390 Enhanced	Turboshaft engine with free power turbine in the 950 kW power class	Eurocopter Tiger
RR250-MTU-C20B	Turboshaft engine with free power turbine in the 310 – 340 kW power range	PAH1, Bo105, and others

Contact

MTU Aero Engines Holding AG
Dachauer Straße 665
80995 Munich, Germany
Telephone: +49 89 1489-0
Fax: +49 89 1489-5500
E-mail: info@mtu.de
www.mtu.de

Eckhard Zanger
Senior Vice President
Corporate Communications
and Investor Relations
Telephone: +49 89 1489-9113
Fax: +49 89 1489-9140
E-mail: Eckhard.Zanger@mtu.de

Inka Koljonen
Director Investor Relations
Telephone: +49 89 1489-8313
Fax: +49 89 1489-95139
E-mail: Inka.Koljonen@mtu.de

The addresses of MTU's affiliates, joint ventures and program management and coordination companies in Germany and abroad can be found on the Internet at www.mtu.de

This Annual Report published by MTU Aero Engines Holding AG is available in print form in German and English. We would be happy to send you copies on request. The report is also available on the Internet in German and English.

Translation
The German version takes precedence.

Financial calendar 2010

February 24, 2010	Publication of provisional business results for 2009
	Annual results press conference
	Conference call with analysts and investors
April 20, 2010	Interim Report as at March 31, 2010
	Conference calls with journalists, analysts and investors
April 22, 2010	Annual General Meeting
July 27, 2010	Interim Report as at June 30, 2010
	Conference calls with journalists, analysts and investors
October 26, 2010	Interim Report as at September 30, 2010
	Conference calls with journalists, analysts and investors
November 9, 2010	Investor and Analyst Day 2010

MTU Aero Engines

MTU Aero Engines Holding AG
Dachauer Straße 665
80995 Munich • Germany
Tel. +49 89 1489-0
Fax +49 89 1489-5500
www.mtu.de

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