



Investor & Analyst Day 2016

MTU Aero Engines AG

Rzeszów, 14th December 2016

Agenda – MTU Investor and Analyst Day 2016

Time	Agenda	Speaker
9:00 – 9:10	Welcome	Michael Röger, VP Investor Relations
9:10 – 9:30	MTU's Market Environment: The Cycle Continues	Reiner Winkler, Chief Executive Officer
9:30 – 10:40	Technology Leadership Cost Leadership Industry 4.0 @ MTU	Dr. Rainer Martens, Chief Operating Officer
10:40 – 11:00	Coffee Break	
11:00 – 12:20	MTU's Partnership Strategy: Teaming up for Growth	Michael Schreyögg, Chief Program Officer
12:20 – 13:20	Lunch	
13:20 – 14:20	MTU's Financials and Outlook: Reap the Benefits	Reiner Winkler, Chief Executive Officer
14:20 – 16:00	MTU Polska Shop Tour	Krzysztof Zuzak, Managing Director of MTU Polska



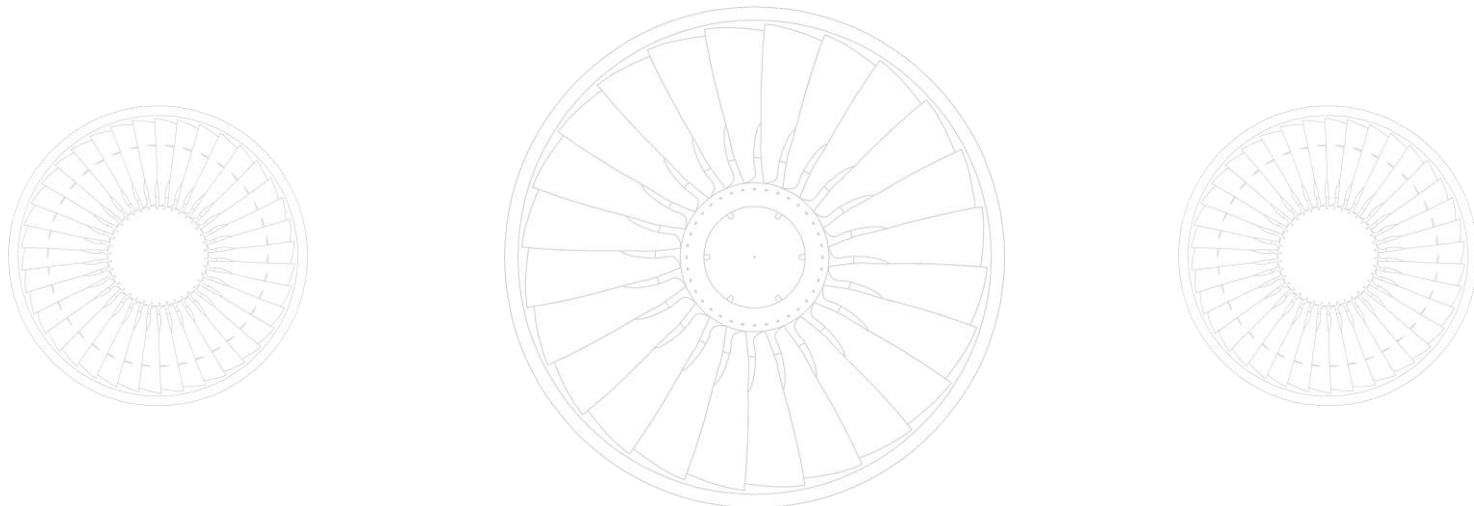
MTU's Market Environment: The Cycle Continues

Reiner Winkler, Chief Executive Officer

Rzeszów, 14th December 2016

Market indicators support our end customers

		2015	2016	
Airline Customers	Oil	\$52	\$43	Continuing low fuel prices ...
	Traffic growth	+7.4%	+6.2%	... stimulates traffic via low fares
	Load factors	80%	81%	Load factors at a historical peak



Market environment supports new engine deliveries as well as engine aftermarket

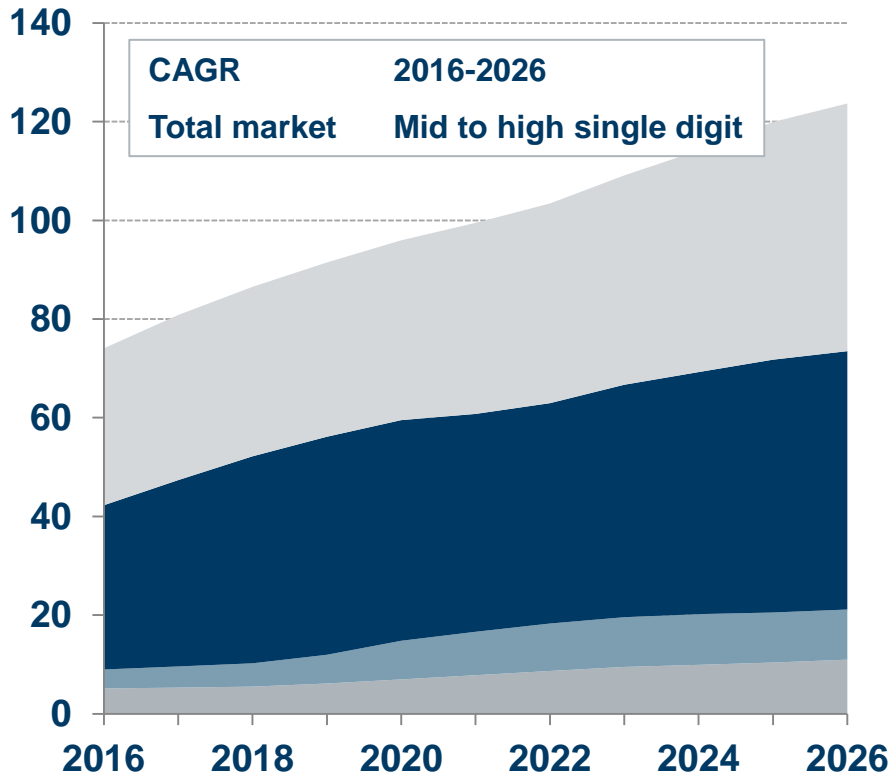
		2015	2016	
Engine Deliveries	Deliveries	3,130	3,150	Delivery rates are expected to go up
	Backlog	26,030	26,150	Backlog will turn into deliveries
Engine Aftermarket	Fleet growth	+5.0%	+5.2%	Fleet growth has been above average over the last few years
	Park rate	9.0%	7.3%	Low rate benefits mature engines
	Retirements	820	800	Retirements declined since 2014

Source: Ascend, MTU; airliner engines, firm orders only



MTU's continuous growth is supported by all market segments

OEM market volume (\$bn)



CAGR	Aircraft segment
Mid single digit	Widebody (50-120 klb)
Mid single digit	Narrowbody (20-50 klb)
High single digit	Regional jet (13-24 klb)
High single digit	Business jet (3-16 klb)

Source: MTU Dec 2016; escalated

MTU projects outperformance of market growth in 3 out of 4 segments

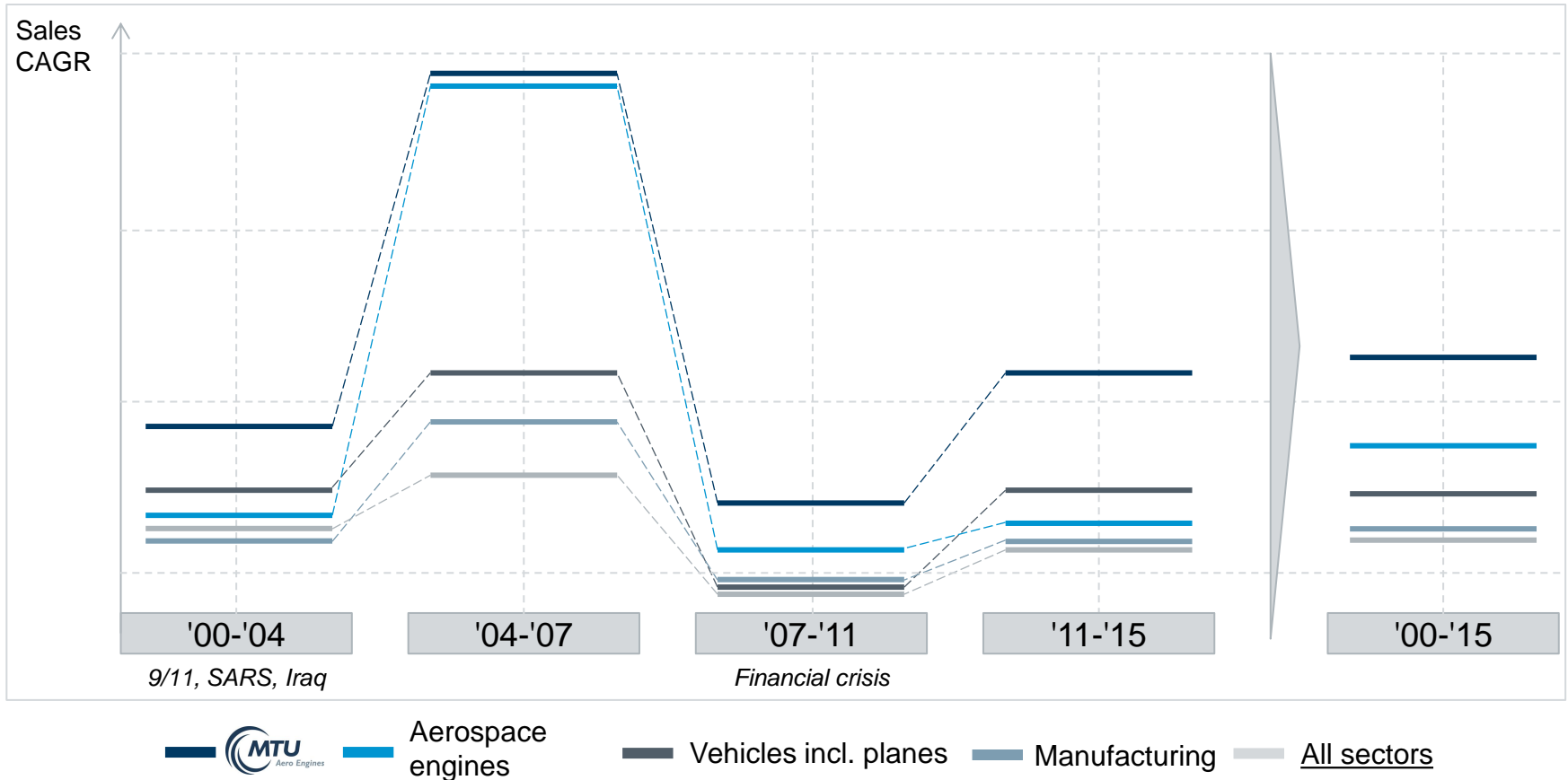
Over-proportional growth in three out of four segments

Increasing market shares, program shares and new business segments













Above average growth

Business jets	Regional jets	Narrowbodies	Widebodies
			
<p>New segments acquired</p> <ul style="list-style-type: none"> MTU is growing in the large business jet segment with future Gulfstream business jets 	<p>New segments acquired</p> <ul style="list-style-type: none"> Future will be dominated by GTF 	<p>Existing market share increased</p> <p>Program shares increased</p>	<p>Partner in all new GE widebody programs</p>
<p>→ Revenue to triple within 10 years</p>	<p>→ Increased market share from 0 to 90%</p>	<p>→ Excellent market position further improved</p>	<p>→ Strong partnership with GE Aviation</p>

MTU achieved higher CAGRs than industry average during good times and was less influenced by crises in bad times



Main indicators that influence the resilience of our industry

Demand indicators	Early '00s	Mid-late '00s	Today	Influence on Demand
Backlog	4 yrs 	8 yrs 	8 yrs 	✓ Higher rates needed to meet orders
Technology status	'90s 	'90s 	'10s 	✓ Step change in efficiency achieved
Cost of debt	high 	mid 	low 	✓ Easier access to financing options for airlines
Oil	30 	80 	50 	✓ Below \$80, continued traffic stimulation

Important key indicators in better shape than at any time in the last 15 years

Conclusion

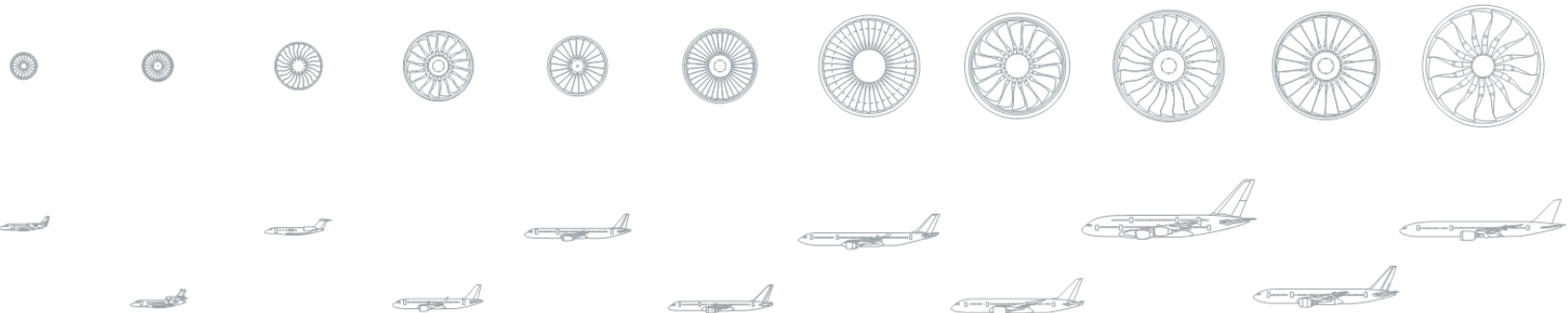
MTU's market is in excellent shape:
No indication of weakness of demand



MTU has the right portfolio:
MTU has positioned itself better than ever to move forward



MTU is reliable:
In the past, MTU weathered well through all times





Technology Leadership – Status Development Programs and Production Ramp-up

Dr. Rainer Martens, Chief Operating Officer

Rzeszów, 14th December 2016

Geared Turbofan – flying in-service

First Geared Turbofan engine flights



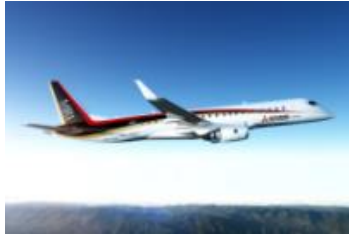
Bombardier CS100: 16.09.2013



Airbus A320neo: 25.09.2014



Bombardier CS300: 27.02.2015



Mitsubishi Regional Jet: 11.11.2015



Airbus A321neo: 09.03.2016



Embraer E190-E2: 23.05.2016



Irkut MS-21: open



Embraer E175-E2: open

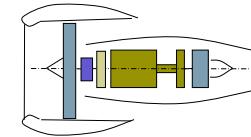
Six maiden flights with Geared Turbofan were accomplished in recent years, with two more on their way

Geared Turbofan – flying in-service

A very successful new product family

*High Bypass
Geared Turbofan Engines*

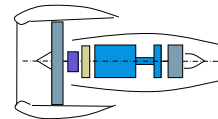
**PW1100G-JM / A319neo, A320neo and A321neo
PW1400G-JM / Irkut MS-21**



~81" Fan

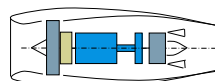
*Medium Bypass
Direct Drive Turbofan*

**PW1900G / Embraer E190-E2
PW1500G / BA C Series CS100 and CS300**



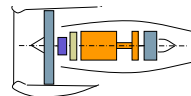
~73" Fan

**PW814 / Gulfstream G500
PW815 / Gulfstream G600**



~50" Fan

**PW1200G / MRJ
PW1700G / Embraer E175-E2**



~56" Fan

Large core

Medium core

Small core

10K

15K

20K

25K

30K

**The eight-engine product family powers eleven different aircraft
and provides a wide range of thrust**

Geared Turbofan – flying in-service

Deliveries and in-service experience



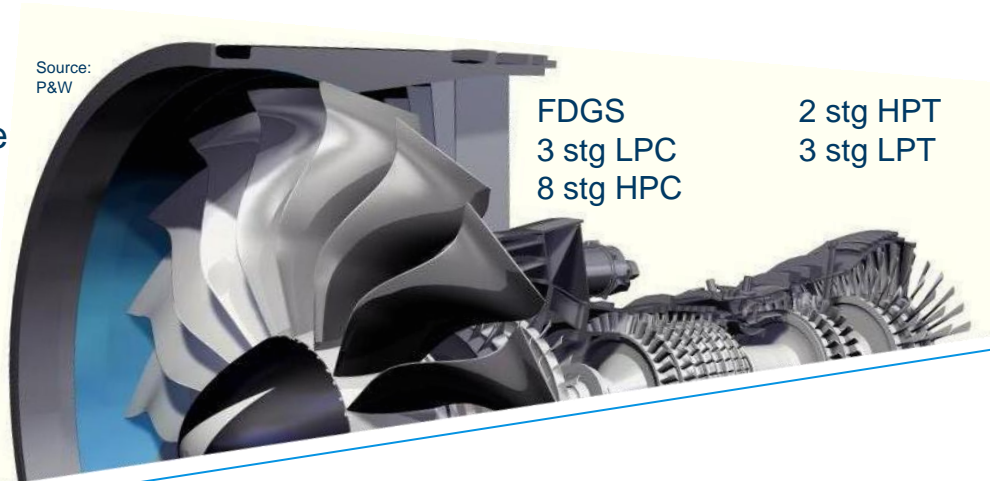
- Nine airlines are now operating over 30 aircraft powered by Geared Turbofan engines
- The engines have already accomplished more than 17,000 flights
- The dispatch reliability is already very high in early phase
- Early teething issues are fixed – motor-to-start time and nuisance messages
- Focus is on
 - product maturity
 - delivery performance and stabilizing the supply chain
 - completion of MRO-readiness.

Over thirty Geared Turbofan aircraft are in-service at nine airlines

Geared Turbofan – flying in-service

Features and metrics of PW1100G-JM

- Higher propulsive efficiency
- Higher low spool component efficiency
- Shorter, lighter



- 25% fewer stages
- 45% fewer airfoils
- Lower cycle temperature

Fuel Burn ✓

Reduced by approx. 16%

Noise ✓

Noise footprint reduced by approx. 75%

CO₂ / NOx ✓

Maintenance cost ✓

Specifications and targets have been proven in service

Update: Development milestones of new engine programs

	PW1500G C Series	PW1100G -JM A320neo	PW1200G MRJ	PW1400G MS-21	PW1900G 2nd Gen E-Jets	PW800 G500 / G600	GE9x B777x	T408 CH-53K
								
First engine to test	✓	✓	✓	✓	✓	✓	✓	✓
Tested in flying testbed	✓	✓	✓	N/A	✓	✓	2017	N/A
Engine certification	✓	✓	2017	✓	2017	✓	2018	2018*
First flight	✓	✓	✓	2017	✓ (E190-E2)	✓ (G500)	2018	✓
Entry into service	✓	✓	2018	2019	2018	2017	2020	2019

* T408: Certification of whole aircraft system after flight testing is completed

Steady progress on all platforms achieved

Update: Production ramp-up

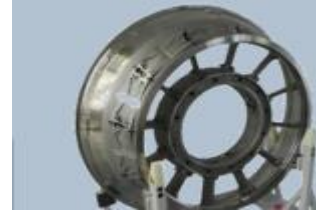
Key ramp-up projects



New blisk shop

Progress status

In operation



Optimize rotor and stator production lines

Progress status

In operation



Extension of MTU-AE Polska

Progress status

In operation



Engine assembly

Progress status

In operation



Logistics building

Progress status

In operation



Shop floor management





Progress status

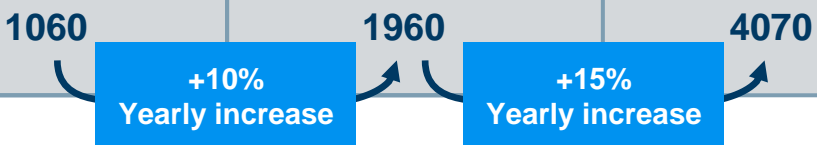
In operation

**Relevant projects have been completed.
Infrastructure and equipment are ready for ramp-up**

Update: Production ramp-up

Production rates

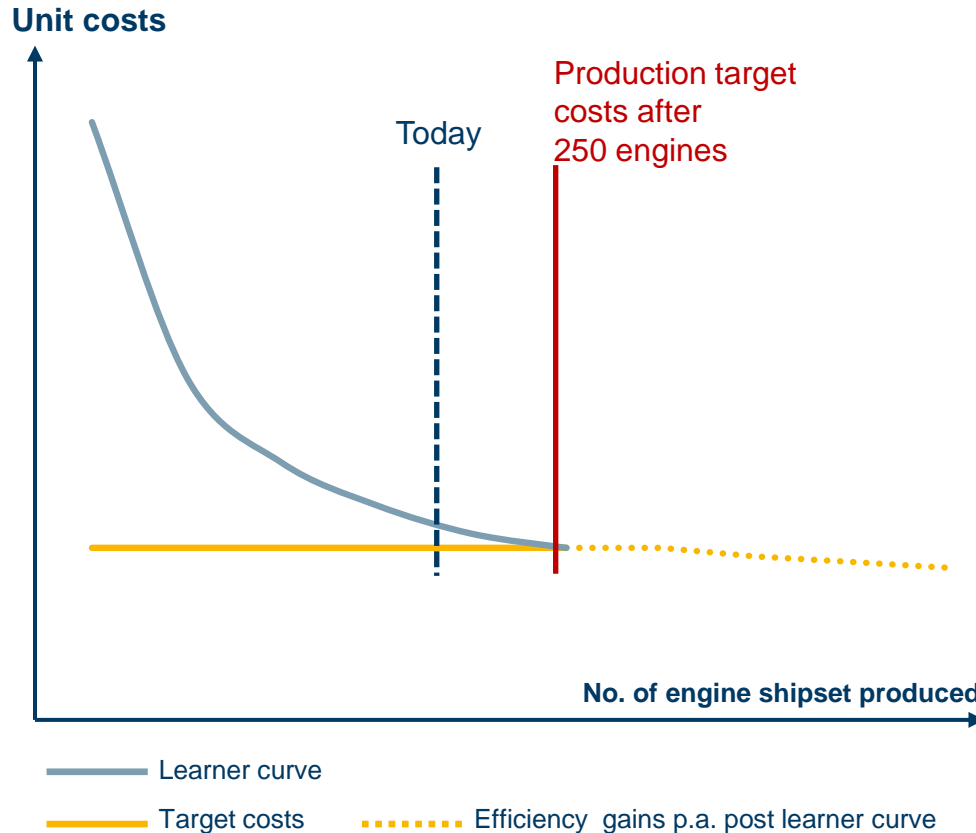
		2009	2015	2020
Turbines		800	1150	1850
Compressors		200	320	1580
Turbine center frames		30	380	350
Engine assembly		30	110	290
Total		1060	1960	4070



Volume increases step by step

Update: Production ramp-up

Geared Turbofan target costs and achievements



- Quality is at a high level: Production and supplier challenges have been fixed
- Volume is increased step by step
- Lead times are on track
- Actual costs are within target costs, further reductions are ongoing

On track to achieve target costs



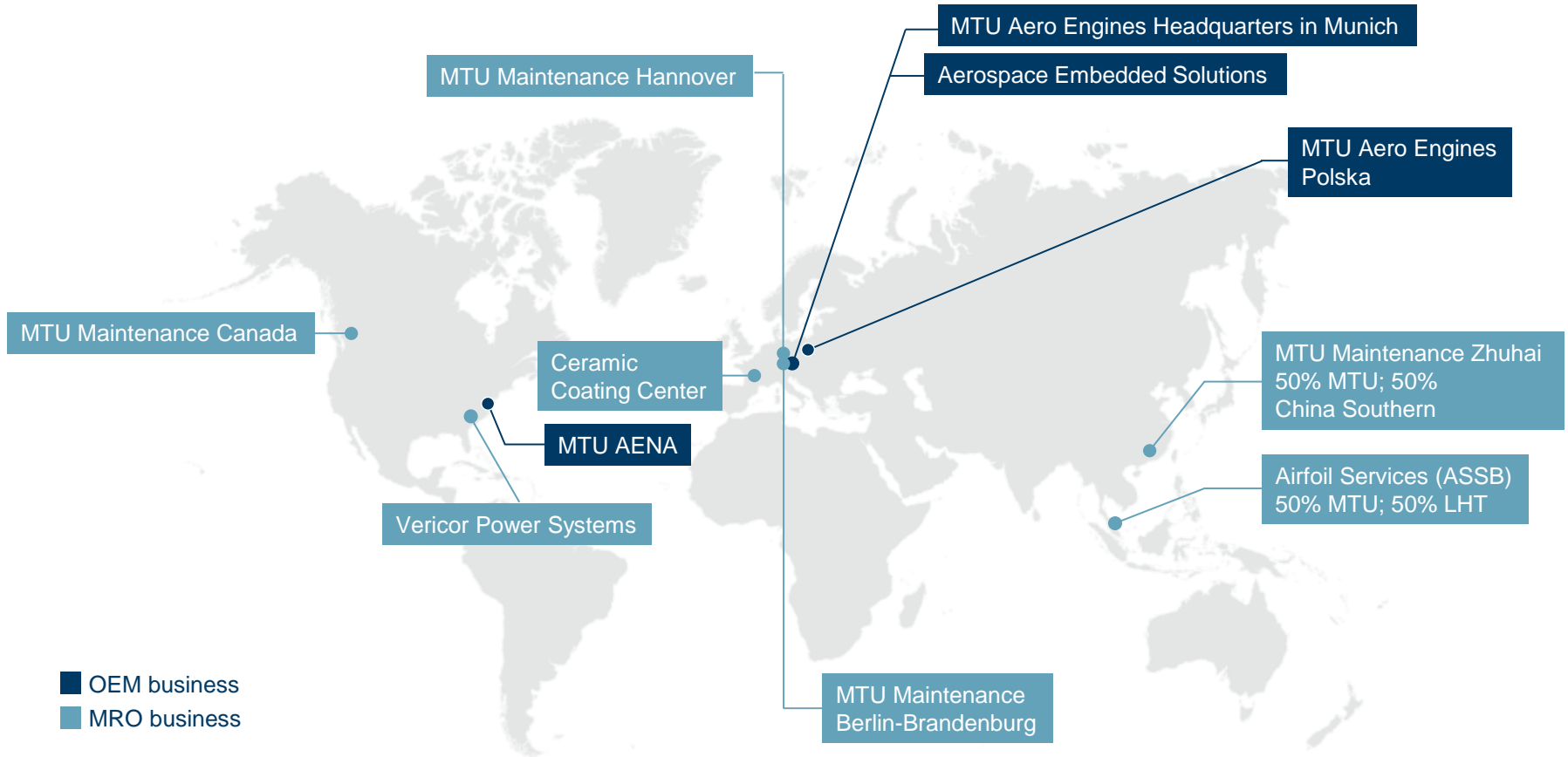
Cost Leadership – Production Strategy for Best-Cost

Dr. Rainer Martens, Chief Operating Officer

Rzeszów, 14th December 2016

Production strategy for best-cost

Major company sites



Production strategies for OEM and MRO define the most competitive locations worldwide

OEM production strategy

Strategic set-up

High-tech



MTU Aero Engines Munich

- Sophisticated parts and production processes
- Automation
- Development of new production technologies
- Know-how to support all MTU sites and suppliers

Mid-low-tech



MTU Aero Engines Polska

- Adopting established parts and production lines
- Improvement of "mid-tech" parts and production processes
- Module assembly improved with know-how transferred from automotive industry

Raw material, mid-low-tech



Supplier

- Raw parts
- Finished parts as second source
- "Low-tech" parts from low cost countries

OEM strategic setup ensures a cost-saving allocation of parts in the MTU network

OEM production strategy

Highly-automated blisk machining shop in Munich



Target

Key factors

Flexible manufacturing system

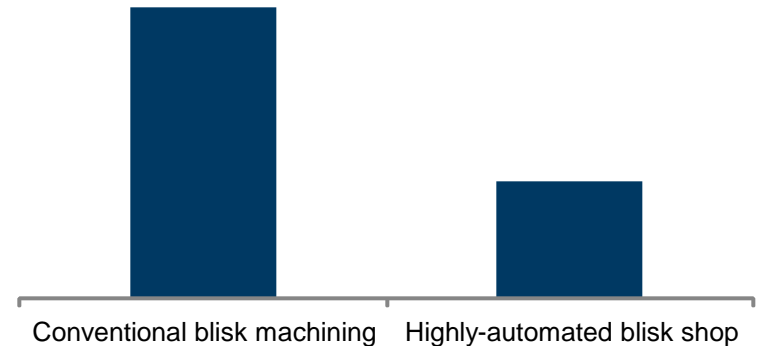
- Suitable product portfolio
- Efficient processes and structures
- Stable processes
- High utilization rate
- High flexibility and reaction time



Operating figures (YE 2016)

Labour efficiency [HC]

~1,100 blisks produced
30 employees



High-tech with highest quality standards is produced at a cost-efficient machining shop

OEM production strategy

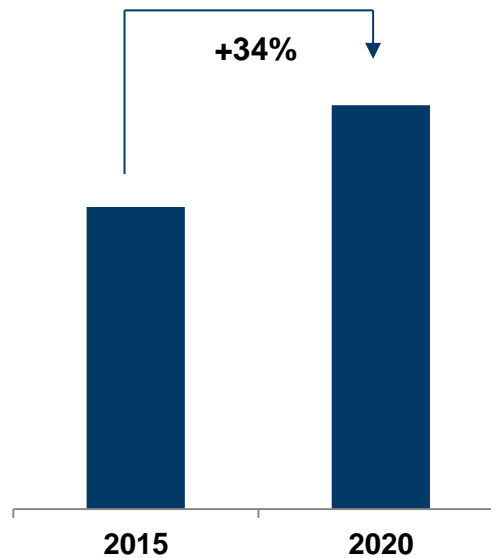
Labour and machining hours trend in Munich



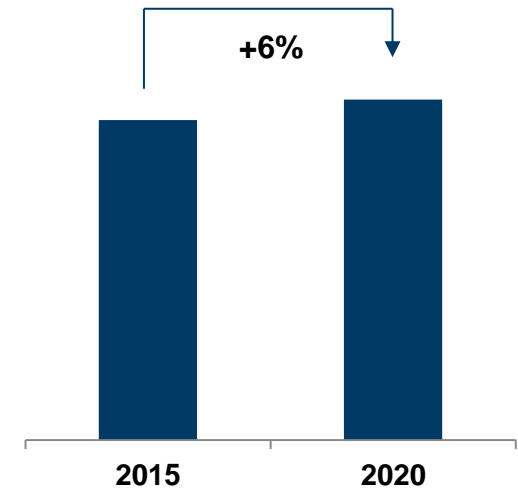
Production rate



Machining hours



Labour hours



Higher automation makes future production more efficient

OEM production strategy

Engineering, operations and services at MTU Aero Engines Polska



Major business areas

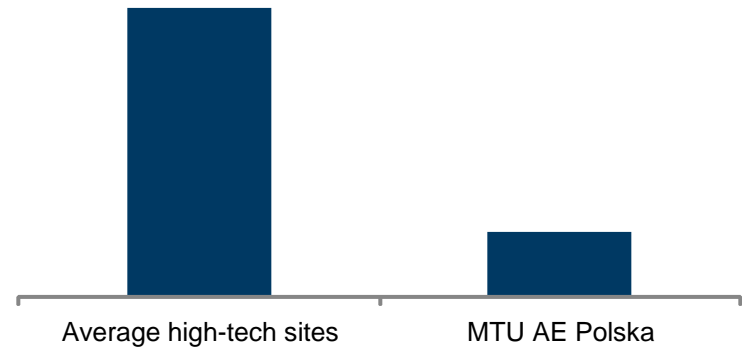
- Engineering and operations
- V2500 IAE upshare: Externals and accessories center
- Services: IT, procurement, production planning, production tooling design



Operating figures (YE 2016)

- ~ 110,000 parts produced
- ~ 600 employees thereof 120 R&D

Labour costs per hour



MTU Aero Engines Polska in Rzeszów is a key pillar of the OEM production strategy

OEM production strategy

History and company development at MTU Aero Engines Polska



June 2007
Supervisory
board
approval



April 2008
First ground
broken



August 2008
Construction
phase
started



April 2009
Production
start



Dec. 2012
Complete
Shop floor
in
operation



June 2012
V2500 IAE
upshare



Dec. 2014
Company
extension
finished

increasing workload

Time

The company was built and continuously expanded in recent years

MRO production strategy

Engine MRO at MTU Maintenance Zhuhai Co. Ltd.



Major business areas

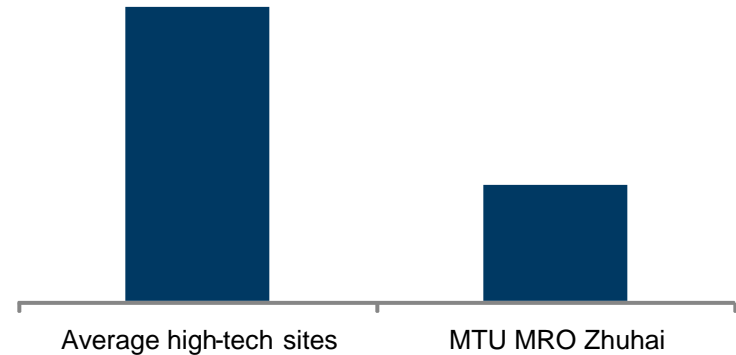
- Engine MRO
- On-wing services
- Standard repairs
- MRO-related services



Operating figures (YE 2016)

- ~ 250 engine shop visits
- ~ 750 employees

Labour costs per hour



MTU Maintenance Zhuhai is an established and well-known independent engine MRO facility in China

MRO production strategy

Parts repair at Airfoil Services Sdn. Bhd. (ASSB)



Major business areas

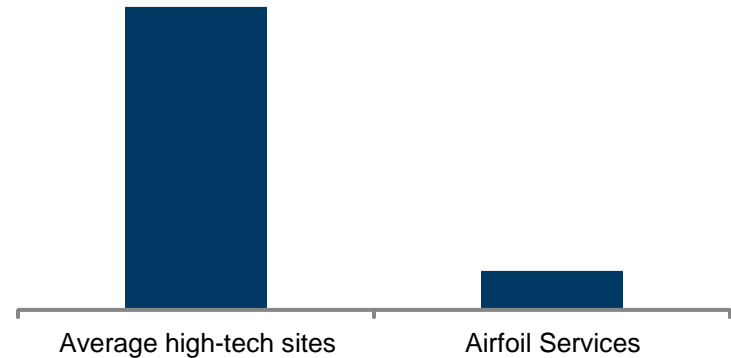
- Repair of high-pressure compressor (HPC) airfoils
- Repair of low-pressure turbine (LPT) airfoils



Operating figures (YE 2016)

- ~ 440,000 parts repaired
- ~ 450 employees

Labour costs per hour



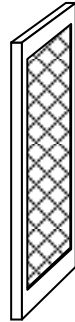
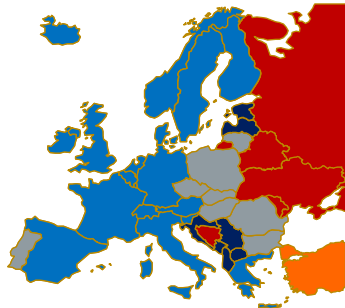
ASSB celebrated its 25th anniversary in 2016

Site selection and benefits

Three-step model for site selection

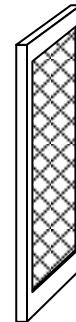
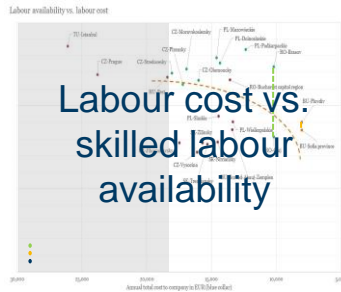
Step 1:

Evaluation of possible countries and regions



Step 2:

Pre-selection of countries and regions



Step 3 “deep dive”:

Close-pitch selection of 2-3 countries
1-2 regions each



Country & regional level

- Logistics
- Skilled labour availability
- Wage level

Regional level

- Total cost
- Logistics
- Skilled labour availability
- Labour regulations
- Macroeconomics
- Governmental incentives

The establishment of companies in Rzeszów, Zhuhai and Kuala Lumpur were based on this model

Site selection and benefits

OEM benefits and achievements

	2009	2015	2020
Total production rates	1060	1960	4070
Headcount MTU Aero Engines Munich	4430	4410	4470
Headcount MTU Aero Engines Polska	240	560	800

- Total production will grow approx. 15% per year, from 2015 to 2020
- Headcount in Munich will remain stable through increased efficiency and benefits from production strategy
- Headcount at MTU AE Polska will continuously grow. Further service work packages will be transferred

Production strategies foster the ramp-up with growing headcounts only at best-cost sites

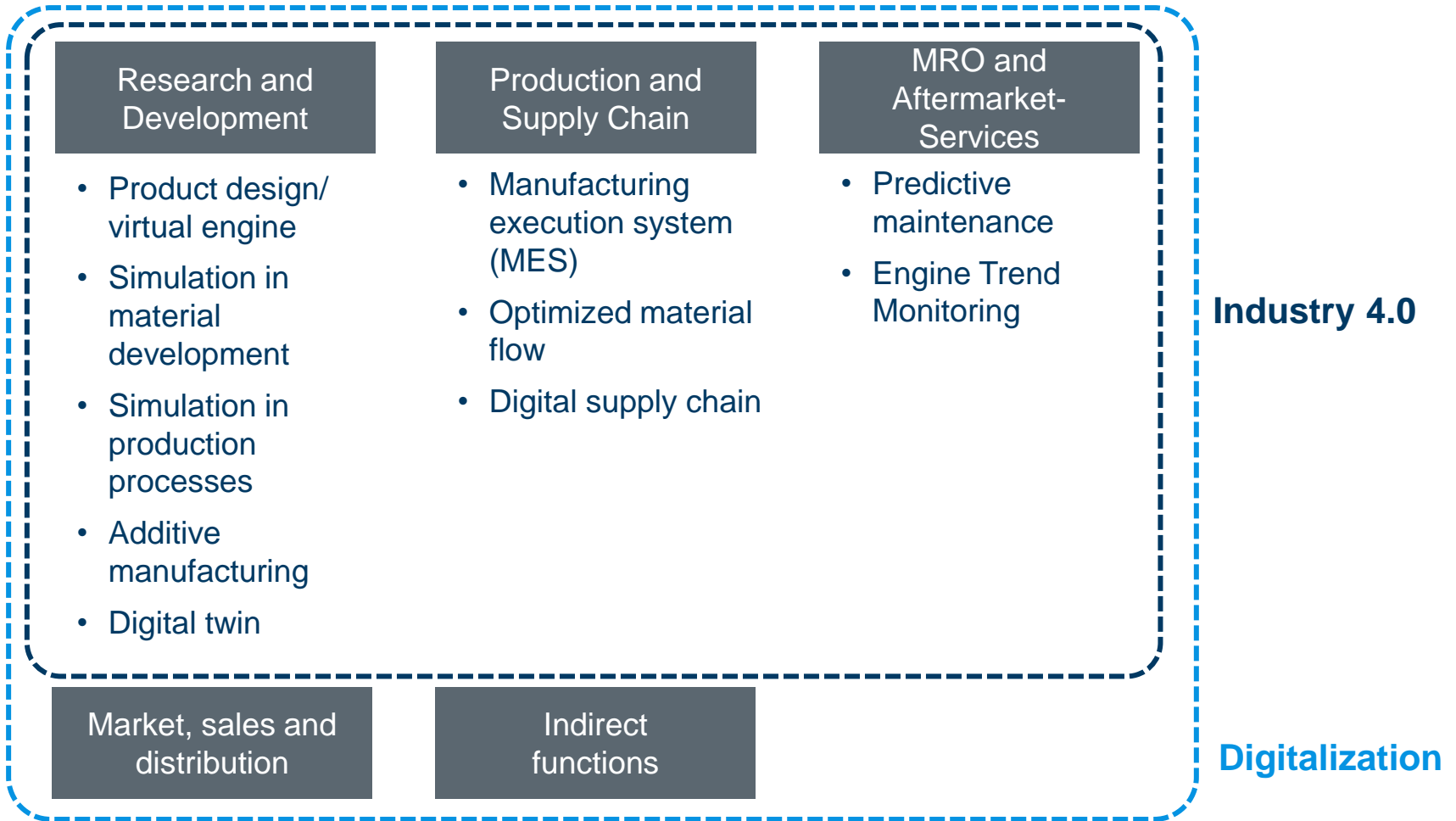


Industry 4.0 @ MTU

Dr. Rainer Martens, Chief Operating Officer

Rzeszów, 14th December 2016

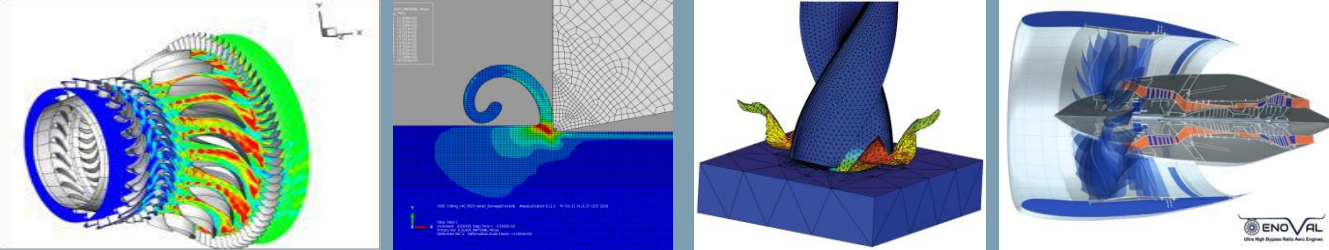
Industry 4.0 projects and digitalization



Different projects are leveraging all sectors of the supply chain

Virtual engine – product design 4.0




Technology roadmap key enabler

<p>Virtual Engine</p>	
<p>Goal</p>	<ul style="list-style-type: none"> • Intensified use and development of highly capable simulation methods for all engineering disciplines as well as manufacturing of engine parts and modules • Reduction of cost-intensive testing of materials, parts, modules and ultimately engines
<p>Activities</p>	<ul style="list-style-type: none"> • ICM²E: Integrated Computational Materials and Manufacturing Engineering • DLR TESIG: Testing and Simulation Gas Turbines with a cutting edge facility • Digital factory “Fabrik 4.0” including “Logistic 4.0” • Additive manufacturing • Life cycle engineering • Strong enhancement of interdisciplinary working together

Preparing for the future – balancing design, materials and manufacturing innovation with cost

Additive manufacturing – the cornerstone has been laid

Very promising new technology

<p>Commercial & Military Business</p>	 <p>Boroscope eye</p>	 <p>Sealing carrier</p>	 <p>Bearing chamber</p>
<p>Cost reduction</p>	<p>Up to 30%</p>		
<p>Weight reduction</p>	<p>Up to 10%</p>		
<p>Certification</p>	<p>2013 ✓</p>	<p>2019</p>	<p>2020</p>

Additive manufacturing offers distinct functional and cost-reduction potential

Conclusion

- Geared Turbofan engine generation has entered service and meets all targets
- Development milestones for all new engine programs are secured
- Several new programs are about to enter service or already in-service
- Major ramp-up projects done. Quality, volume and cost on track
- OEM and MRO ramp-up will trigger headcount increase at best-cost sites
- Production and sourcing strategies define future roadmaps
- Industry 4.0 projects will foster technological leadership

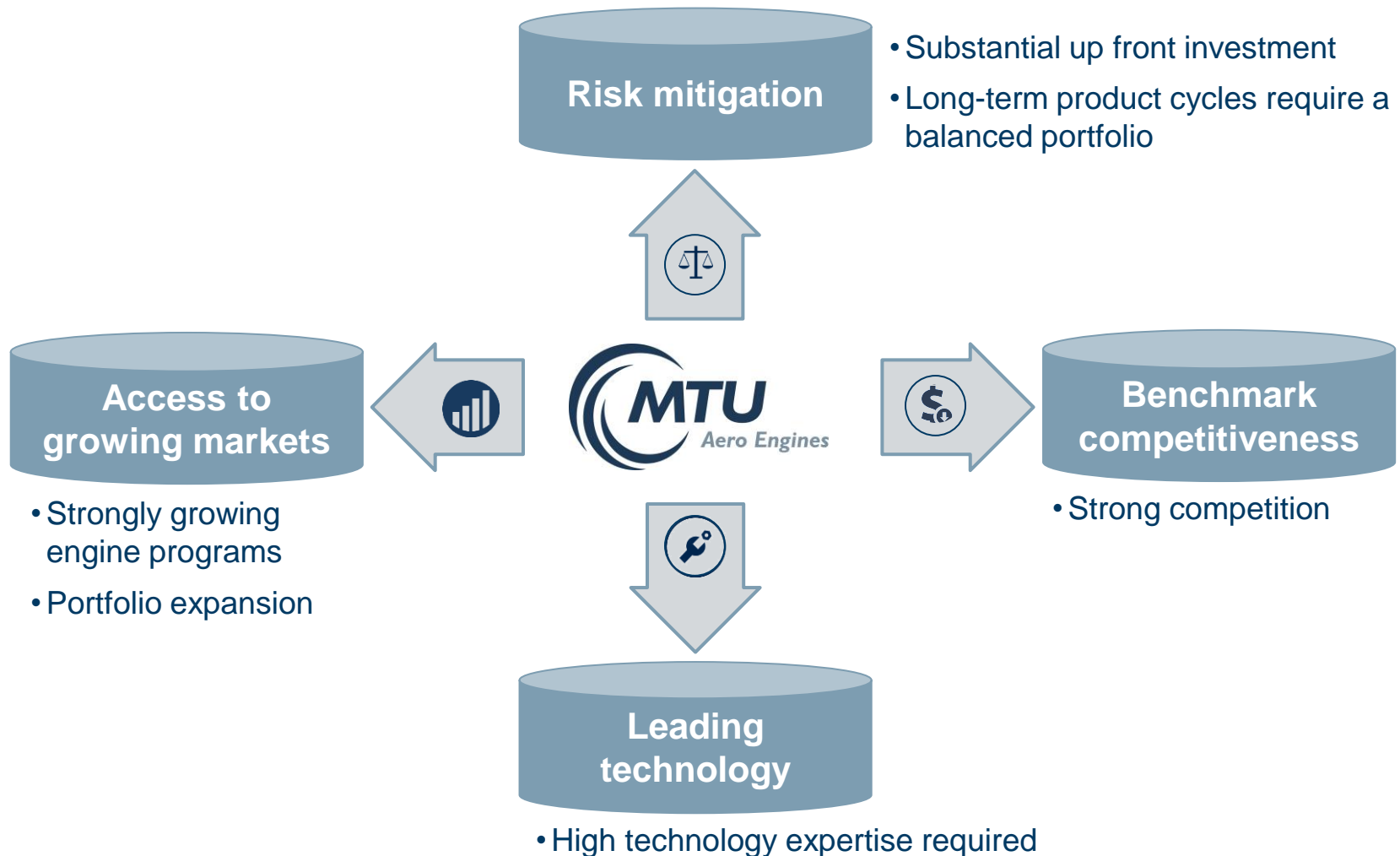


MTU's Partnership Strategy: Teaming up for Growth

Michael Schreyögg, Chief Program Officer

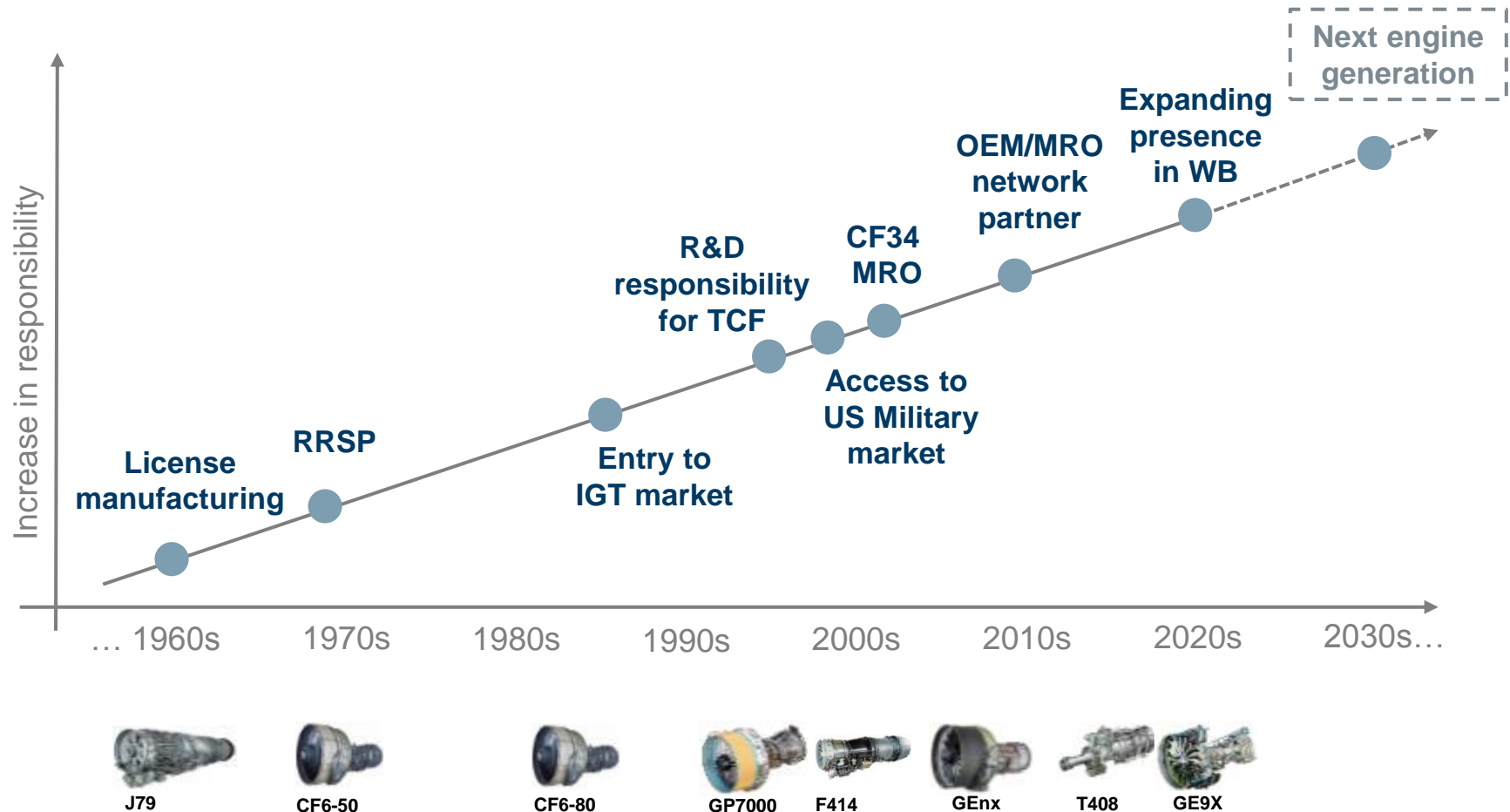
Rzeszów, 14th December 2016

MTU's strategic objectives in a long term business environment



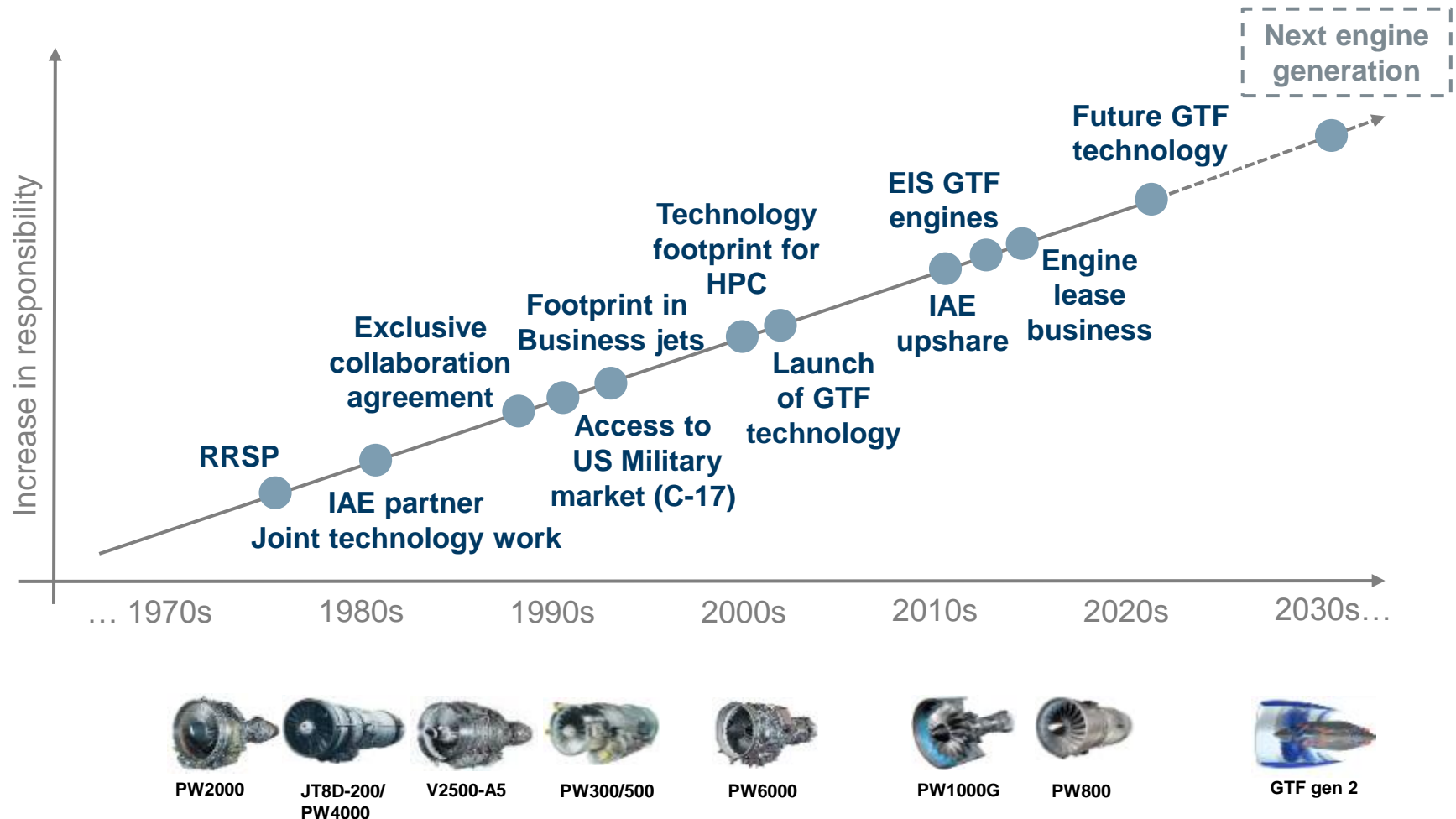
General Electric: Reliability in a long-term partnership

Focusing on widebody segment and US military market access

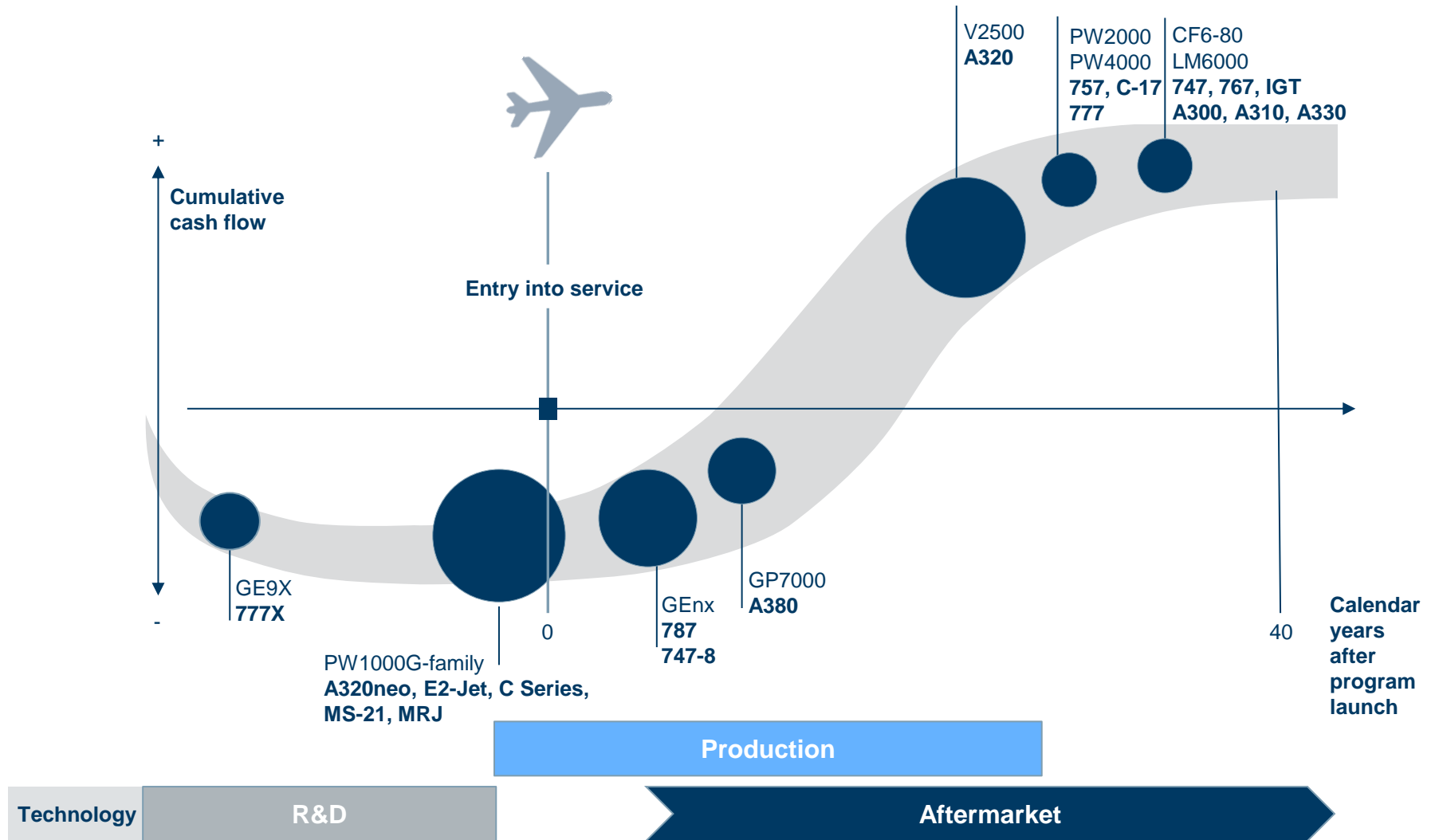


Pratt & Whitney: Exclusive collaboration

Increase our market presence and expand our responsibilities



Return on investment in the commercial engine business



MTU Aero Engines partnering with OEMs

Well established in all market segments



- Excellent technology
- Benchmark production costs
- Reliable partner in terms of delivery and quality
- Long-term relationship
- Market leader in widebody segment
- Access to US military business
- Strategic collaboration
- Improving market position in business / regional jet and narrowbody segment



Providing leading technology

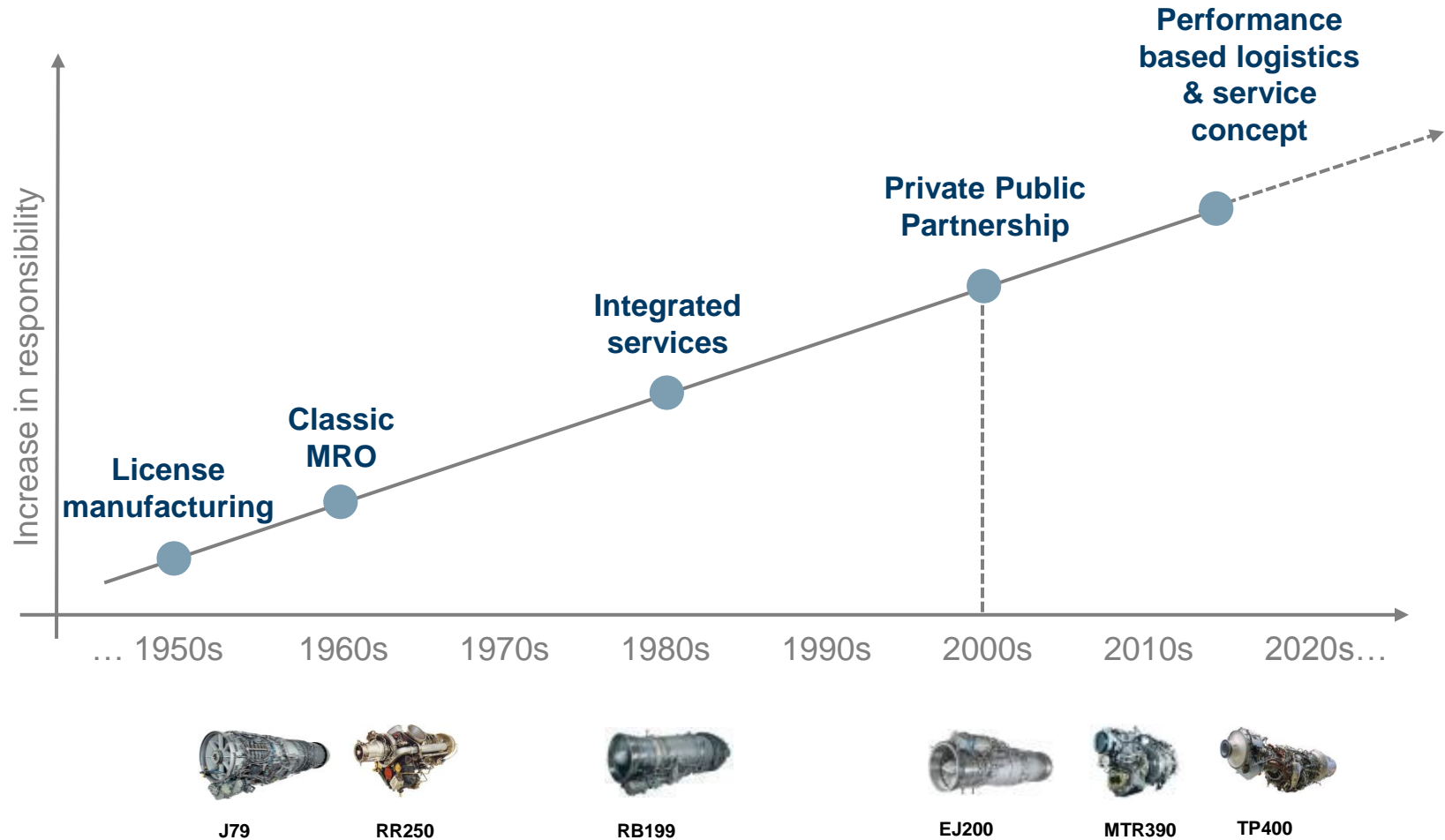


Ensuring growth & market access in all business segments



Balanced portfolio & risk mitigation

MTU Aero Engines cooperating with the German Armed Forces



MTU Aero Engines and the German Armed Forces

Saving cost, time and resources



60
years

- Customer since 1956
- Private Public Partnership since 2002
- Employees: 75% MTU; 25% Armed Forces

Since 2002

900 Engines
8,300 Modules

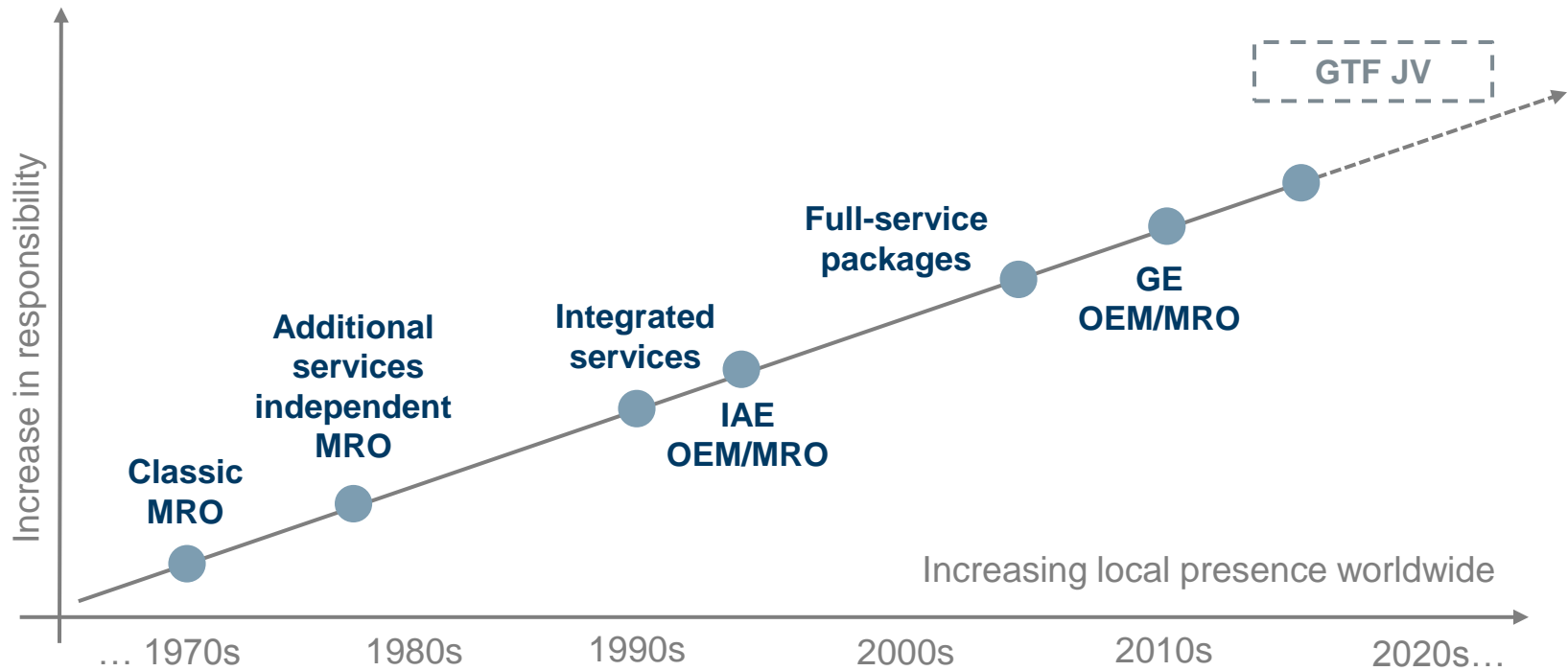
- Engine, module and parts repair
- Technical and logistical support
- Spare parts provisioning and stock management



Bringing a commercial approach to military engine programs
Sharing technical know-how and military operational experience

Evolution of our MRO service portfolio

Increasing airline demand for full MRO service packages



MTU Maintenance and Lufthansa Technik

Best-cost for engine parts repair



**25
years**

- 50:50 partnership with Lufthansa Technik since 2003*
- Over 80 customers worldwide
- Revenue has grown 9x since 2003

**~5 million
parts repaired**

- Repair of blades from major aircraft engine types, including GE, CFMI and IAE
- Cost-efficient and state-of-the-art engine parts repair
- Synergies and economies of scale
- Potential to expand product portfolio to cover all OEMs



Dedicated to parts repair – now and in the future

*company was founded in 1991 by MTU and Malaysian Airlines

MTU Maintenance Zhuhai Ltd. and China Southern

A success story



15
years

- 50:50 JV with China Southern since 2001
- Access to 3rd biggest airline worldwide
- JV \$ revenue has doubled in last 5 years

In 2016
~\$800m
revenue

- Improved market access
- Most efficient narrowbody engine MRO shop
- Worldwide customer base
- Strong financial performance



#1 MRO shop in China aiming to expand customer base and grow narrowbody portfolio

MTU Maintenance and JetBlue

Low-cost airline supported with t(h)rust



11
years

- Contract in place since 2005
- Reliable fleet management on a flight-by-hour basis
- Offering full service package

>500
Shopvisits

- Market leader for V2500
- More than 300 engines covered
- Joint capacity planning approach



Driving cost-savings for airline and supporting MTU's strategy as independent MRO provider

Engine lease JVs with Sumitomo

Complementing each other's business model



3
years

- Entities located in Amsterdam since 2013
- Lease pool of +100 engines
- Lease business complementing traditional MRO business
- Improved access to used material
- Asset & material management

In 2016
>100
Engine leases

- Integrated engine leasing solutions for all thrust segments
- Expansion of customer base and sales channels (esp. Asia)
- Capital-intensive business



Rapid recognition in lease business



Potential for further growth

Partnerships are necessary to remain competitive in commercial MRO

OEM cooperation



Independent MRO



Airline cooperation



Goal

- Provide cost-efficient, industrialized MRO
- Leverage OEM network

- Remain #1 provider with focus on customers
- Provide integrated life cycle services

- Develop current cooperation
- Investigate future cooperation potential

Partner

We continue to develop strong partnerships

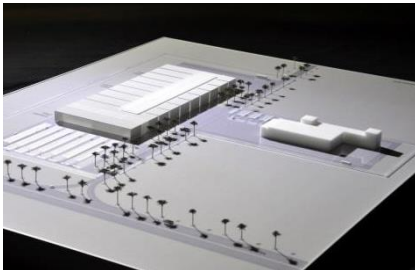
MTU and Lufthansa Technik explore a maintenance joint venture



Background

- MTU and Lufthansa Technik participate in the PW1000G aftermarket network
- Additional capacity for disassembly, assembly and test work in a cost competitive environment
- For MTU, the PW1000G is a major growth program in the commercial engine business
- For Lufthansa, the PW1000G is an integral part of the fleet development

Main contribution to MTU's strategy



- Shared investments
- Synergies due to combined volume

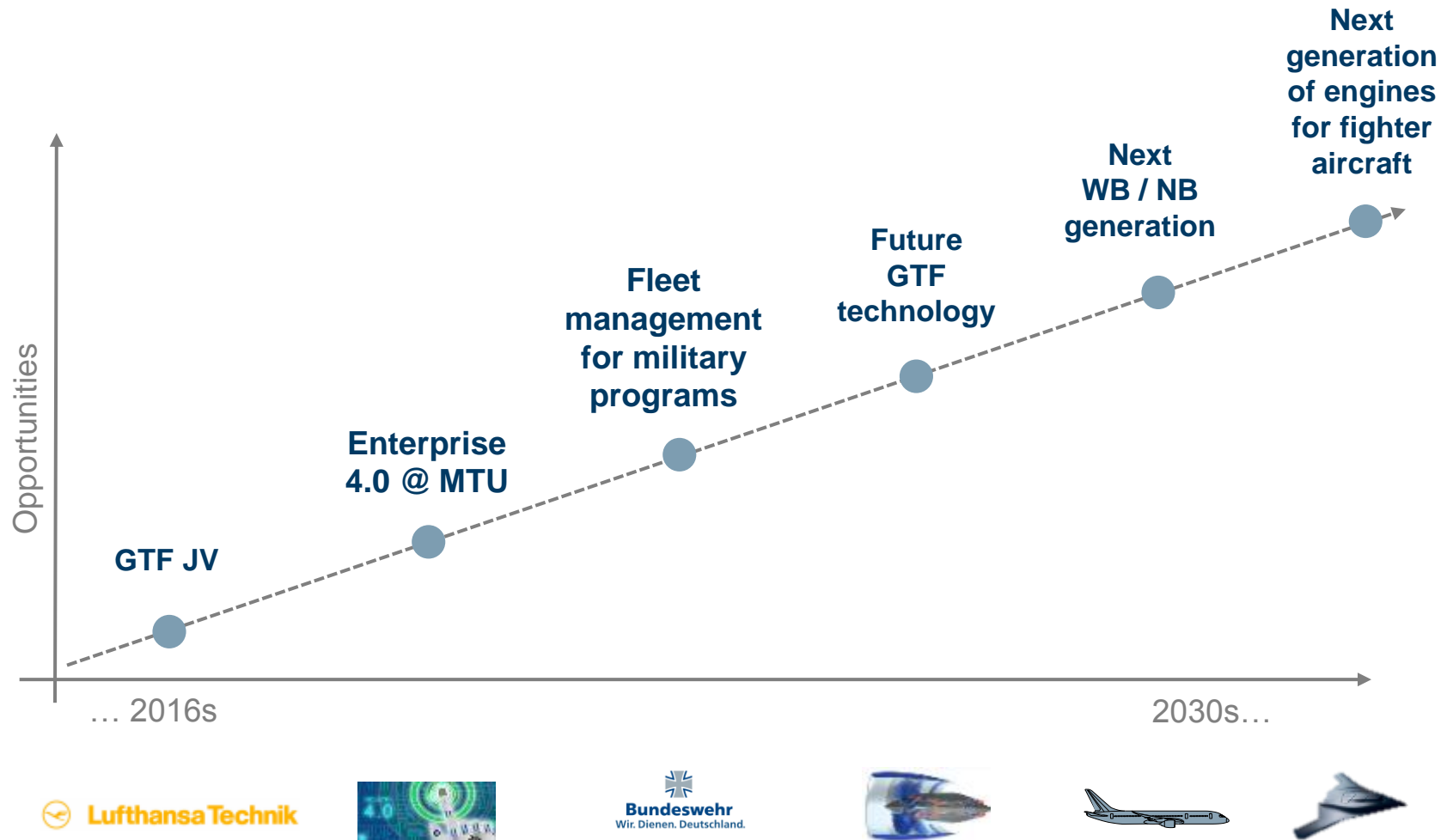


- Shared buildup effort
- Fast ramp-up

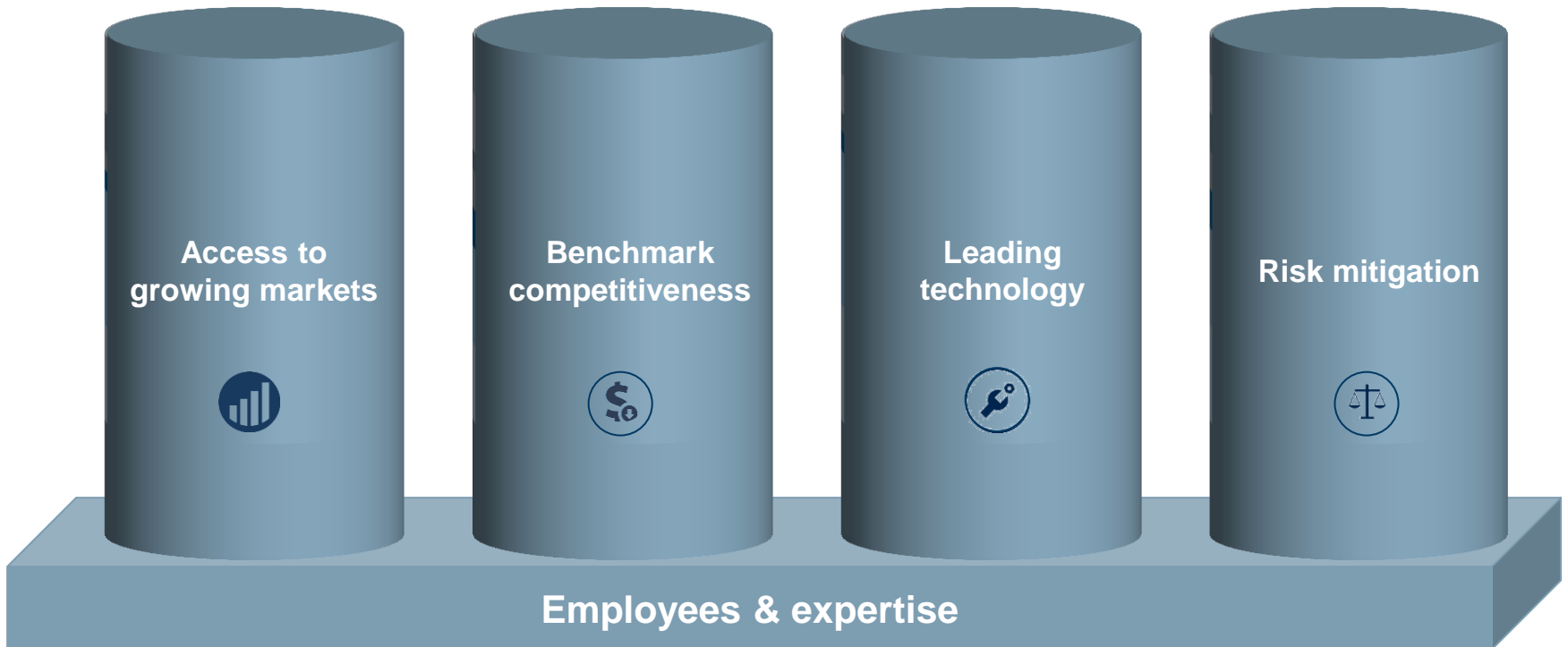



High volumes and high industrialization in a low-cost environment will generate the most efficient MRO shop for PW1000G in the future

Opportunities @ MTU to ensure future growth



Pillars of MTU Strategy



All of MTU's partnerships with their different characteristics contribute to MTU's growth strategy

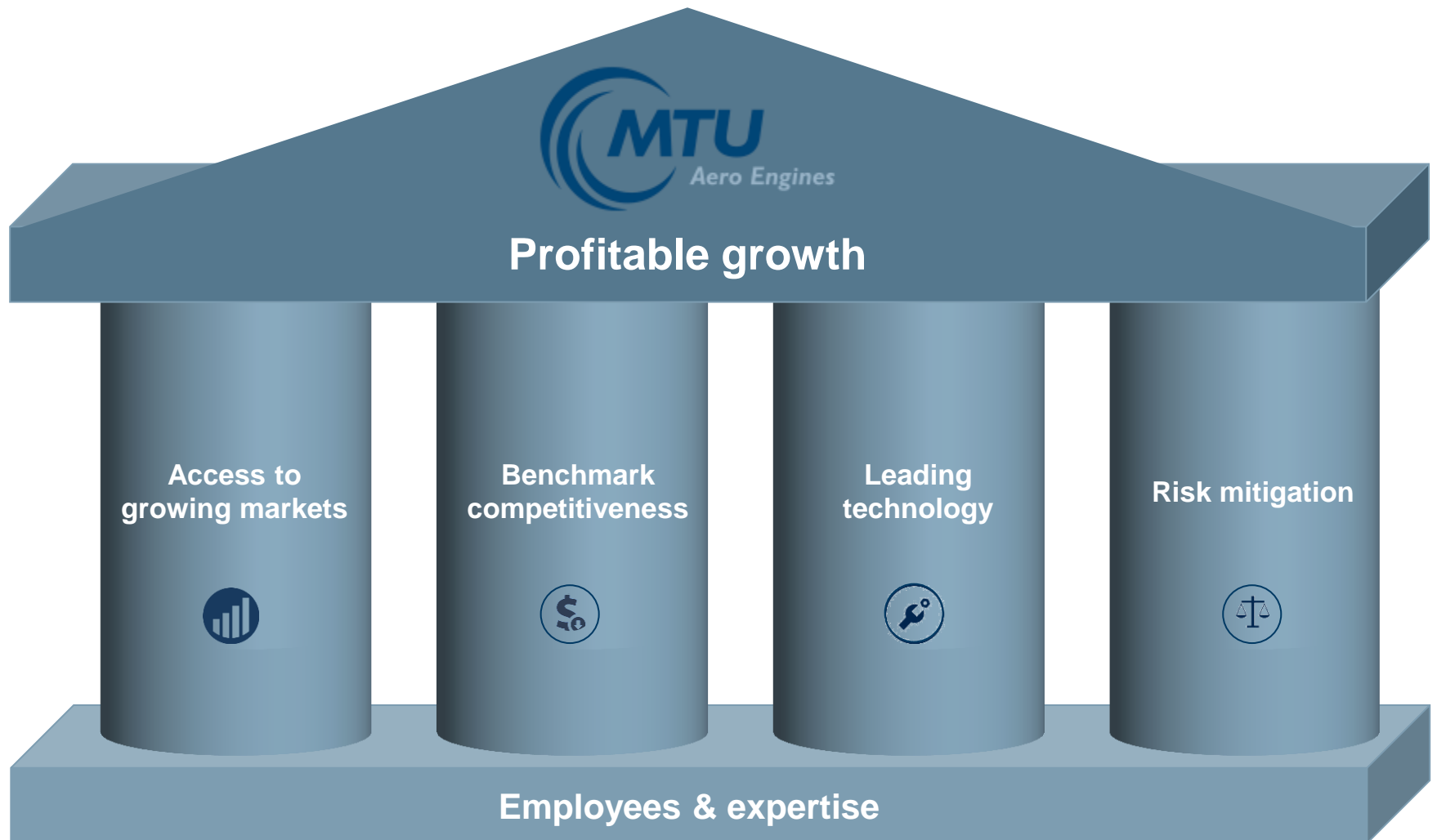


MTU's Financials and Outlook: Reap the Benefits

Reiner Winkler, Chief Executive Officer

Rzeszów, 14th December 2016

Pillars of MTU Strategy



Head and tailwinds 2017

Organic Revenue Growth

Military: Down mid single digit



Commercial OE: Up high single digit



Commercial Spares: Up mid single digit



Commercial MRO: Up in the low teens



Tailwind from US\$

Slight headwind from mix

Long-term outlook 2014-2025: Status CMD2015

	Investment phase 2014-2017	Consolidation phase 2018-2025
Revenues	Military:  Com. OE:  Com. spares:  Com. MRO: 	Military:  Com. OE:  Com. spares:  Com. MRO: 
EBIT adjusted	Growth in line with revenue	Growth stronger than revenue
Net Income adj.	Growth stronger than EBIT adj.	Growth in line with EBIT adj.
CCR*	Low double digit %	High double digit %

* Cash Conversion Rate = Free Cash Flow/Net Income adj.

Investment phase 2014 to 2017 – well on track to deliver

Organic revenue growth	2014 A	2015 A	2016 G	2017 G	CAGR
Military:	↑	↓ ↓	↗	↓	→ ✓
Commercial OE:	↑ ↑	→	→	↑ ↑	↑ ✓
Commercial Spares:	↑ ↑	↑	↑	↑	↑ ✓
Commercial MRO:	↑	↗	↑ ↑ ↑	↑ ↑	↑ ↑ ✓

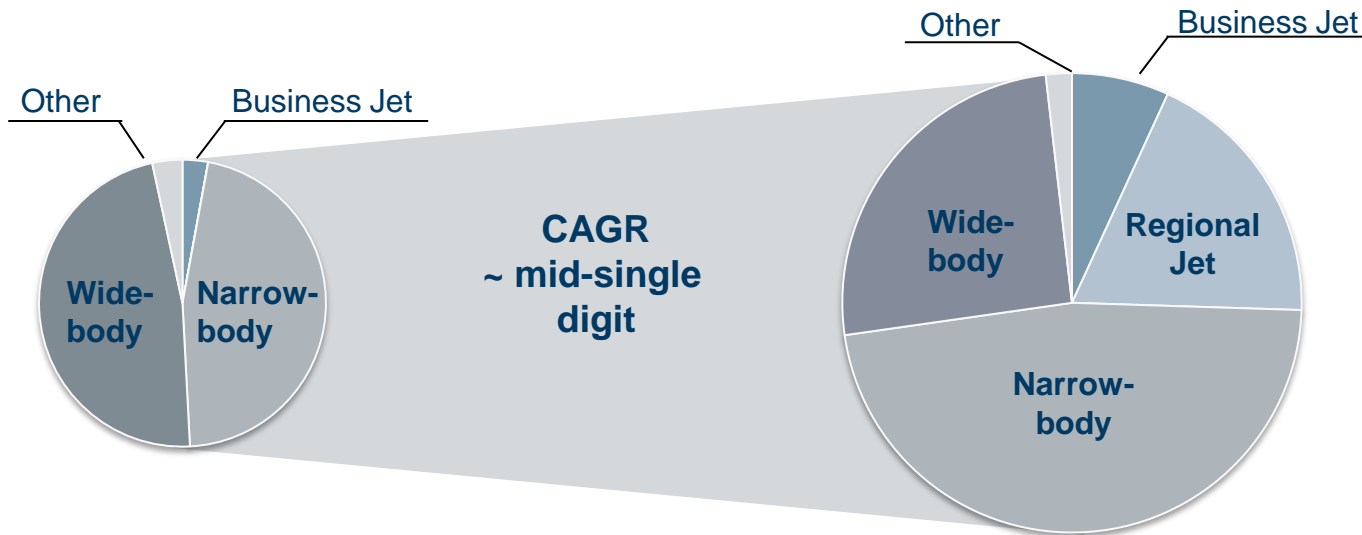
Investment phase 2014 to 2017 – well on track to deliver

	2014 A	2015 A	2016 G	2017 G	2014-2017	
EBIT adjusted Margin	~10%	~10%	~11%		Growth in line with revenue	✓
Net Income adj.	€253m	€307m	~€340m		Growth stronger than EBIT	✓
CCR	17%	22%	21%		Low double digit %	✓

Revenue growth in commercial OE

Today (2015)

Future (2025)

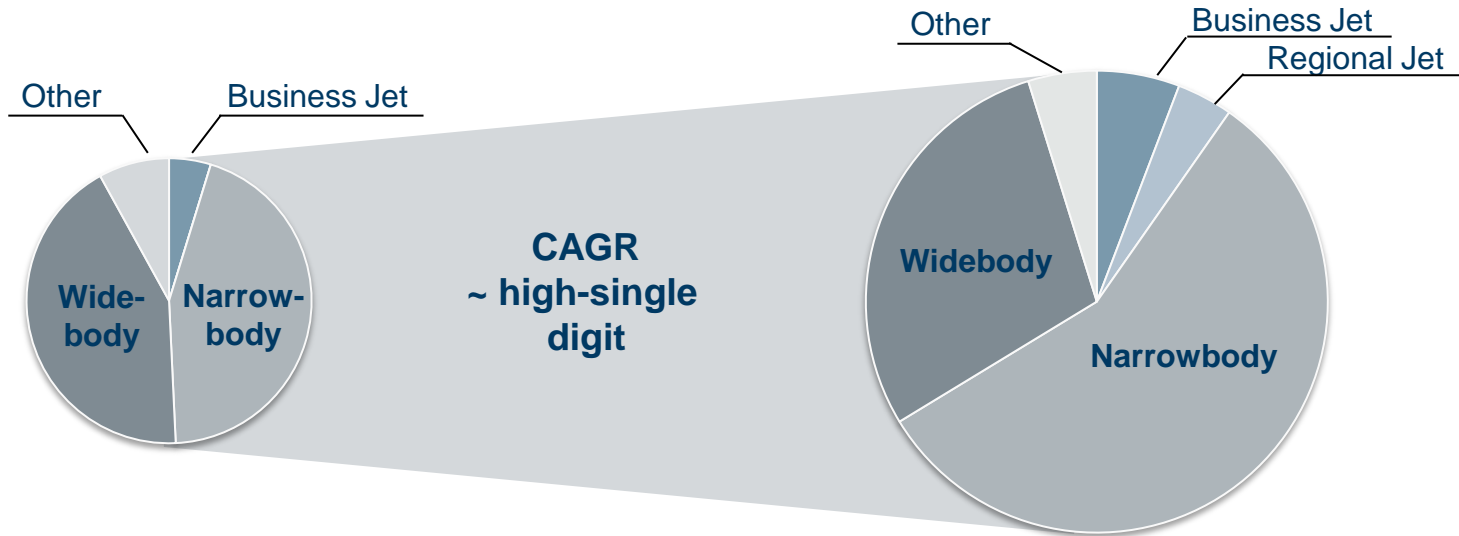


Growth of commercial OE business secured through extensively filled order books and stronger diversification

Revenue growth in commercial spare parts

Today (2015)

Future (2025)



New engine programs (GP7000, GEnx, GTF) will join the V2500 to significantly drive future spare parts growth

Revenue growth in military

Today (2015)

Future (2025)

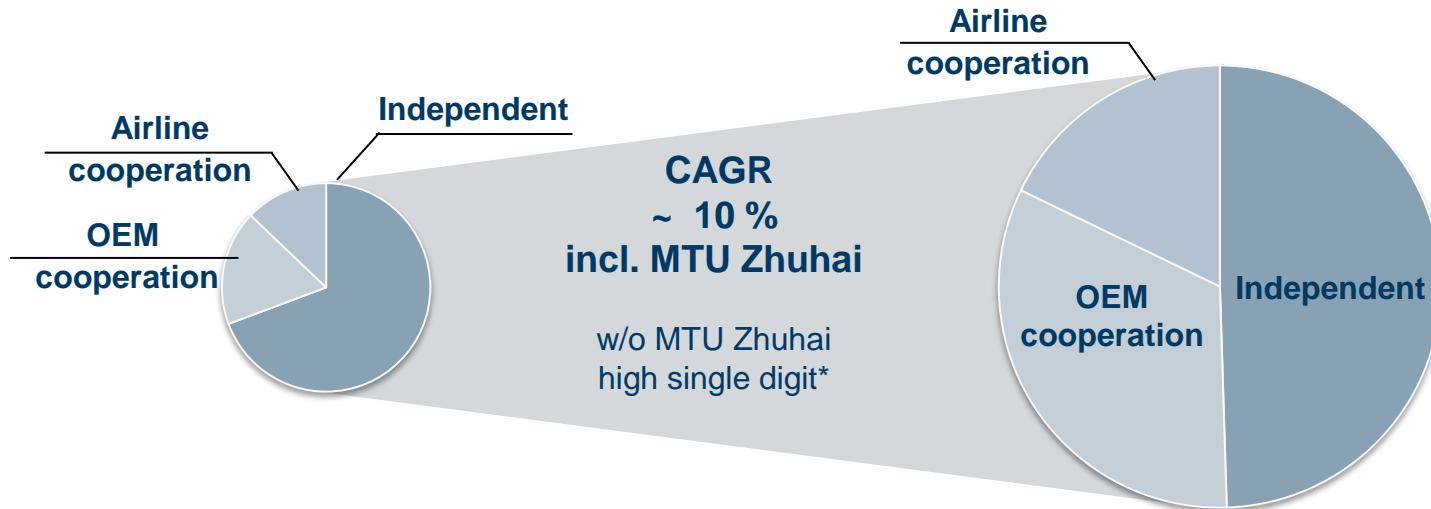


Stronger demand in aftermarket/services and T408/GE38 compensates for decline in EJ200 production

Revenue growth MRO

Today (2015)

Future (2025)



Independent business will remain MTU MRO's revenue driver while OEM & airline cooperation business gains importance

*) MTU Zhuhai is consolidated at equity thus not part of MTU's group reported IFRS revenues.. JV's Net Income part of the group's EBIT line.

Long term outlook 2018-2025 update: Improvement of profits and cashflow reconfirmed

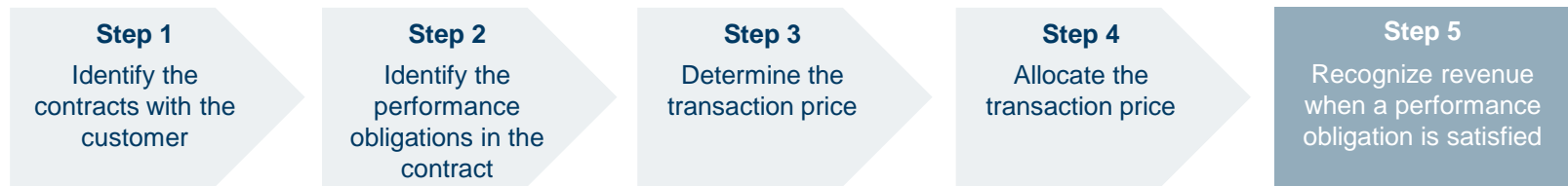
	Consolidation phase 2018-2025	
Revenue	Military (ex slightly down ):	
	Com. OE:	
	Com. spares:	
	Com. MRO:	
EBIT adjusted	Growth stronger than revenue	
Net Income adj.	Growth in line with EBIT adj.	
CCR	High double digit %	

MTU's cash deployment strategy

Prio	Instrument	Investment phase 2014-17	Consolidation phase 2018 - 25
I	Investment in organic growth	Strong investment in new programs ✓	Limited opportunities ↘
II	Dividend deployment	Growth in line with net income ✓	Growth stronger than net income ↗
III	Share buyback programs	No buyback programs as cash conversion low	Instrument to limit deleveraging ↗
IV	M&A	No suitable targets in aircraft engine market	No new targets expected ↗

IFRS 15 – Summary

- IFRS 15 *"Revenue from Contracts with Customers"* has been endorsed by the EU in October 2016, becoming effective in 2018
- It replaces all existing IFRS revenue recognition requirements
- IFRS and US GAAP revenue standards are substantially aligned
- The new framework focuses on contractual performance obligations and on allocating a transaction price to those obligations (5-step model)



- Core principle: Revenue should be recognized as an entity transfers control of goods or services
- No impact on cash flows

IFRS 15 @ MTU

Preliminary assessment of implications on MTU accounts:

Main accounting issues	Current accounting	Potential future accounting
Concessions	<ul style="list-style-type: none"> Cost of goods sold 	<ul style="list-style-type: none"> Reduction of revenue when underlying engine sales occur
Program entry fee and compensation payments for development costs	<ul style="list-style-type: none"> Capitalization as intangible asset Straight-line amortization over the useful life within costs of goods sold 	<ul style="list-style-type: none"> Payment to the customer capitalized as “other long-term assets” Reduction of revenues over program term depends on timing of revenue recognition
Flight Hour Agreements	<ul style="list-style-type: none"> Recognition of revenue when shop visits occur 	<ul style="list-style-type: none"> No change

No material impact on profit and cash recognition expected from IFRS15

**Market in
excellent shape**

**Better position
than ever**

GTF on spec

**Acceleration of
EBIT and FCF
growth**

...looking forward to answering your questions!

Cautionary Note Regarding Forward-Looking Statements

Certain of the statements contained herein may be statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements that are forward-looking by reason of context, the words "may," "will," "should," "expect," "plan," "intend," "anticipate," "forecast," "believe," "estimate," "predict," "potential," or "continue" and similar expressions identify forward-looking statements.

Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) competition from other companies in MTU's industry and MTU's ability to retain or increase its market share, (ii) MTU's reliance on certain customers for its sales, (iii) risks related to MTU's participation in consortia and risk and revenue sharing agreements for new aero engine programs, (iv) the impact of non-compete provisions included in certain of MTU's contracts, (v) the impact of a decline in German or other European defense budgets or changes in funding priorities for military aircraft, (vi) risks associated with government funding, (vii) the impact of significant disruptions in MTU's supply from key vendors, (viii) the continued success of MTU's research and development initiatives, (ix) currency exchange rate fluctuations, (x) changes in tax legislation, (xi) the impact of any product liability claims, (xii) MTU's ability to comply with regulations affecting its business and its ability to respond to changes in the regulatory environment, (xiii) the cyclical nature of the airline industry and the current financial difficulties of commercial airlines, (xiv) our substantial leverage and (xv) general local and global economic conditions. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

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