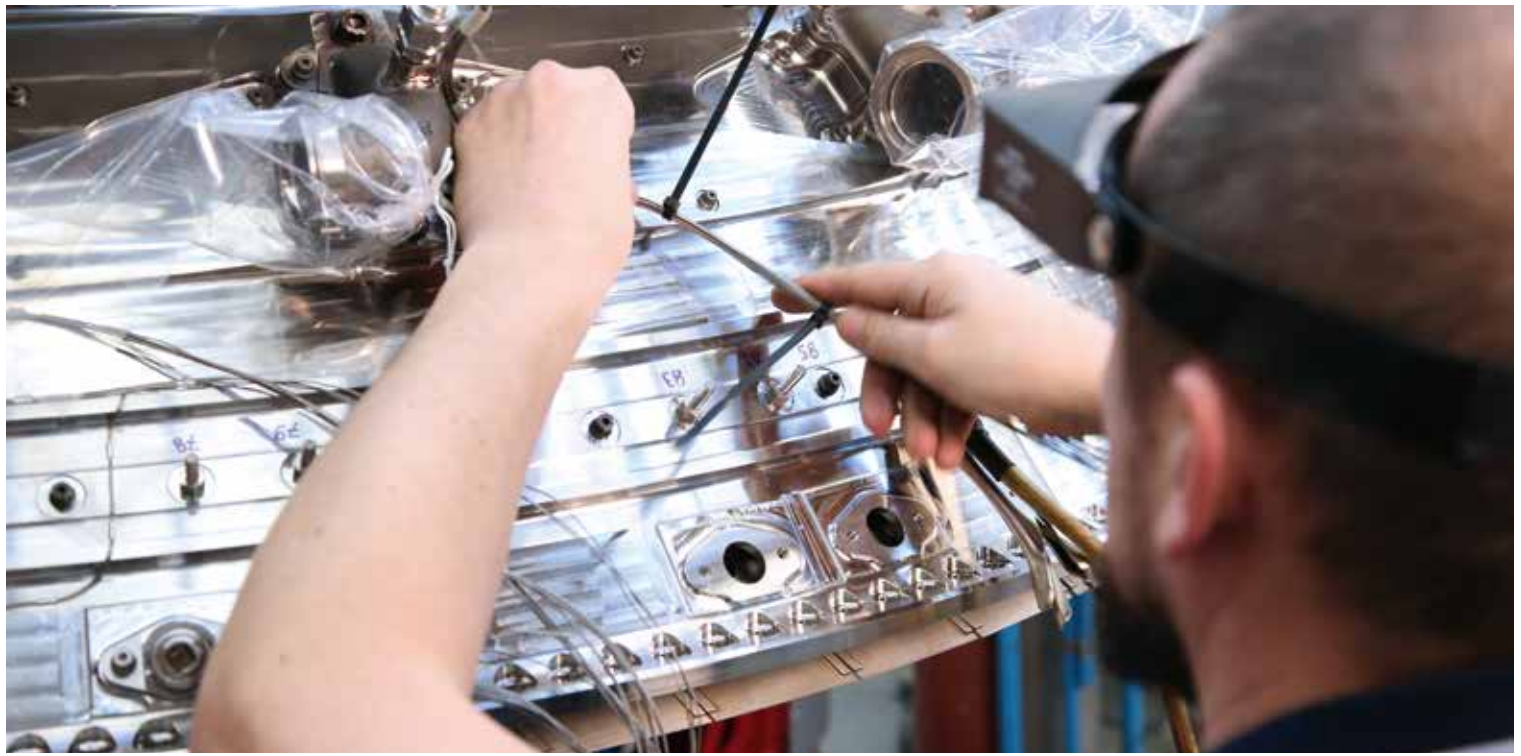




Half-Year Financial Report

January 1 to June 30, 2016



Contents

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January 1 to June 30, 2016

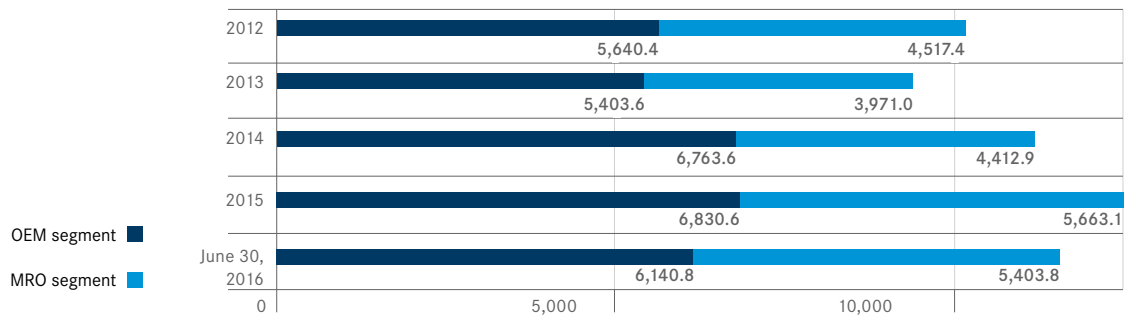
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Key Facts and Figures

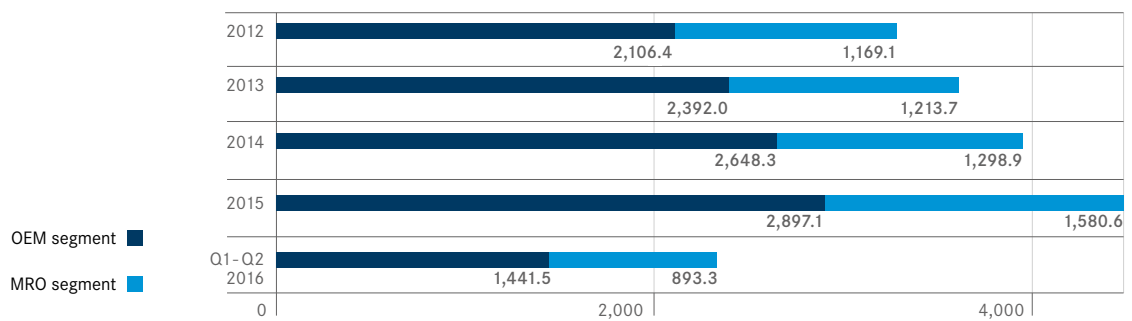
Key Facts and Figures for the Group

in € million (unless stated otherwise)	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Change against previous year	
			in € million	in %
Income Statement				
Revenues	2,299.2	2,202.0	97.2	4.4
Gross profit	333.9	271.3	62.6	23.1
Earnings before interest and tax (EBIT)	229.0	185.2	43.8	23.7
Adjusted earnings before interest and tax (adjusted EBIT)	254.1	212.8	41.3	19.4
Earnings before tax	216.6	140.3	76.3	54.4
Earnings after tax	158.6	104.0	54.6	52.5
Adjusted earnings after tax	176.1	147.2	28.9	19.6
Undiluted earnings per share (in €)	3.10	2.04	1.06	52.0
Diluted earnings per share (in €)	2.88	2.04	0.84	41.2
Revenue margins in %				
Earnings before interest and tax (EBIT)	10.0	8.4		
Adjusted earnings before interest and tax (adjusted EBIT)	11.1	9.7		
Earnings before tax	9.4	6.4		
Earnings after tax	6.9	4.7		
Adjusted earnings after tax	7.7	6.7		
Cash flow				
Cash flow from operating activities	196.0	170.5	25.5	15.0
Cash flow from investing activities	−94.7	−115.1	20.4	17.7
Free cash flow	69.8	86.7	−16.9	−19.5
Cash flow from financing activities	262.9	−51.5	314.4	>100
Change in cash and cash equivalents	364.4	7.2	357.2	>100
in € million (unless stated otherwise)	June 30, 2016	Dec. 31, 2015	Change against previous year	
			in € million	in %
Balance Sheet				
Intangible assets	2,212.5	2,214.0	−1.5	−0.1
Cash and cash equivalents	417.5	53.1	364.4	>100
Pension provisions	930.9	801.7	129.2	16.1
Equity	1,347.3	1,300.6	46.7	3.6
Net financial debt	859.1	881.2	−22.1	−2.5
Order backlog	11,544.6	12,493.7	−949.1	−7.6
Commercial and military engine business (OEM) before consolidation	6,140.8	6,830.6	−689.8	−10.1
Commercial maintenance business (MRO) before consolidation	5,403.8	5,663.1	−259.3	−4.6
Number of employees	8,362	8,334	28	0.3
Commercial and military engine business (OEM)	5,369	5,331	38	0.7
Commercial maintenance business (MRO)	2,993	3,003	−10	−0.3

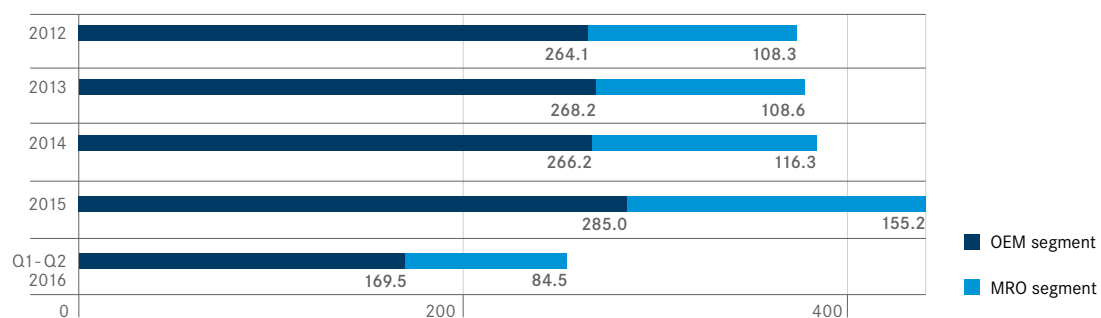
Order backlog by segment (before consolidation) in € million



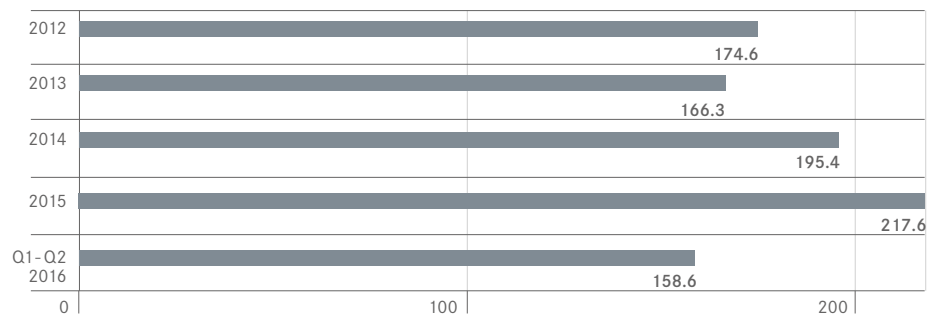
Revenues by segment (before consolidation) in € million



Adjusted EBIT by segment (before consolidation) in € million



Earnings after tax in € million



Interim Group Management Report

1 The enterprise MTU

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

Research and development

Technological changes within the aviation sector take place at an extremely rapid pace and require a continuous source of innovation. Development activities are currently dominated by work on the PW1000G family of geared turbofan engines and on the GE9X and PW800 engine programs:

Commercial geared turbofan programs

Engine	MTU program share	Aircraft manufacturer	Aircraft type	Number of seats	Entry into Service
PW1100G-JM	18 %	Airbus	A320neo	150 – 200	2016
PW1200G	15 %	Mitsubishi	MRJ	70 – 90	2018
PW1400G-JM	18 %	Irkut	MS-21	150 – 200	2017
PW1500G	17 %	Bombardier	C Series	110 – 150	2016
PW1700G	15 %	Embraer	E-Jet E175	80 – 90	2020
PW1900G	17 %	Embraer	E-Jet E190 / E195	100 – 140	2018 / 2019

Research and development (R&D) expenditure will remain at a high level during the financial years 2016 and 2017. In the first six months of 2016, R&D expenditure developed as follows:

Research and development expenditure

in € million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Change against previous year	
			in € million	in %
Commercial engine business (OEM)	104.2	89.3	14.9	16.7
Military engine business (OEM)	6.5	10.3	-3.8	-36.9
Commercial maintenance business (MRO)	2.9	2.4	0.5	20.8
Total research and development expenditure	113.6	102.0	11.6	11.4
Customer-funded R&D expenditure	-22.4	-22.9	0.5	2.2
Company-funded R&D expenditure	91.2	79.1	12.1	15.3
Capitalized development costs (OEM)	-52.7	-54.8	2.1	3.8
Research and development costs recognized as expense	38.5	24.3	14.2	58.4
Amortization of capitalized development costs	4.4	1.1	3.3	>100
R&D expenditure impact on EBIT adjusted	42.9	25.4	17.5	68.9

Research and development expenditure is subdivided into two categories for accounting purposes: company-funded R&D, which the group finances from its own resources, and externally funded R&D, which is contract-based and financed by the customer. Company-funded R&D expenditure is disclosed in the condensed interim consolidated financial statements (3 Research and development expenses).

Development costs amounting to € 52.7 million were capitalized in the first six months of 2016 (January to June 2015: € 54.8 million). This represents 57.8% of all company-funded R&D expenditure (January to June 2015: 69.3%) and reflects the advanced stage of development work on engines of the GTF family and on the PW800 and GE9X projects. An amortization expense of € 4.4 million was recognized in respect of these intangible assets (January to June 2015: € 1.1 million), which primarily relate to the GTF programs that have already entered service. Consequently, the group's adjusted earnings before interest and tax (adjusted EBIT) include a total amount of € 42.9 million (January to June 2015: € 25.4 million) for research and development expenses and the associated amortization expense.

2 Business environment

2.1 Macroeconomic factors

There are significant regional disparities in the rate at which the global economy is growing. While moderate growth is being achieved in the United States, and the euro zone and Japan can at least report a slow-but-sure degree of progress, many emerging economies including Brazil and Russia are experiencing weak or even recessionary growth trends.

The seasonally adjusted gross domestic product (GDP) for the euro zone increased by 1.7% percent in the first quarter of 2016 compared with the same period of 2015. Economic growth in the euro zone is on the way to recovery, but remains modest despite the European Central Bank's flexible lending policy.

In the United States, the GDP increased in the first quarter of 2016 by 2.0% over the previous year. Despite the strong dollar, exports gave the economy a gentle push at the beginning of 2016. Consumers also provided stimulus. A fall in share prices on the stock markets and incipient fears that the global economy might worsen kept growth in check (sources: EUROSTAT, June 2016; EIU, June 2016).

China's economy grew by 6.7% in the first quarter of 2016 thus meeting the target set by the government. Downward pressure on exports from the People's Republic's relaxed in March, allowing them to grow by 18.7%. Among other things, this finally enabled Beijing to boost its foreign currency reserves in order to provide the necessary financial resources to shore up the value of the yuan renminbi and allowing it to increase again for the first time (source: National Bureau of Statistics of China, April 2016).

2.2. Microeconomic factors in the aviation industry

After a confident start to the year, airlines had to contend with a sudden drop in demand due to the terrorist attack that took place at Brussels airport in March 2016. In April and May, global passenger air traffic increased by 4.6%.

The Middle East exhibited the highest growth rate, at 12.2%, followed by Asia at 7.3% and Europe and North America with 1.9%.

In June 2016, the average price of a barrel of Brent crude was U.S. \$48. This was due partly to lower petroleum output and partly to the weak U.S. dollar. While crude oil prices are now beginning to recover, they still remain at a historically low level. At the beginning of June, a barrel of crude was being traded for the first time since October 2015 at a selling price above the 50-U.S.-dollar mark (source: EIA, June 2016).

Airbus and Boeing delivered a total of 658 aircraft to customers in the first six months of 2016. In terms of order backlog, the situation has remained stable, with orders for 13,250 aircraft on the books at the end of June 2016. This corresponds to a production workload of 7 to 8 years (source: Ascend Online, June 2016).

Sales have fallen in the business jet sector, with 122 aircraft delivered to customers in the first three months of 2016 – a decrease of 4.7% compared with the same period of the previous year (source: GAMA, May 2016).

2.3 Financial position

Information on exchange rates

Changes in the value of the U.S. dollar are particularly important for MTU's international business. Since the beginning of the year, the U.S. dollar has weakened further against the euro. At June 30, 2016, the euro was worth 1.11 U.S. dollars, compared with 1.09 U.S. dollars at December 31, 2015. The average exchange rate for the period from January 1 to June 30, 2016, as in the same period of the previous year, was U.S. \$1.12 to the euro.

2.3.1 Operating results

Reconciliation to adjusted key performance indicators

The adjustments applied to reconcile earnings before interest and tax with adjusted earnings before and after interest and tax are presented below:

Reconciliation to adjusted key performance indicators

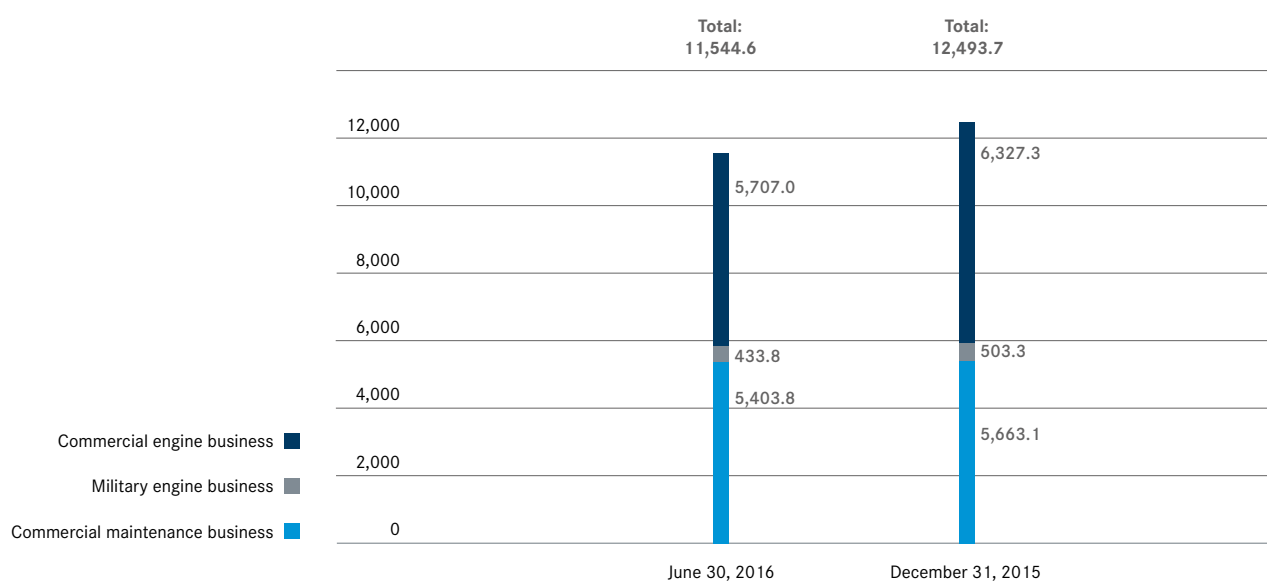
in € million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Change against previous year	
			in € million	in %
Earnings before interest and tax (EBIT)	229.0	185.2	43.8	23.7
Depreciation / amortization effects of purchase price allocation / IAE-V2500 stake increase	25.1	27.6	-2.5	-9.1
Adjusted earnings before interest and tax (adjusted EBIT)	254.1	212.8	41.3	19.4
Interest result	-3.7	-1.0	-2.7	<-100
Interest cost on pension provisions	-8.2	-7.1	-1.1	-15.5
Adjusted earnings before tax	242.2	204.7	37.5	18.3
Income taxes	-66.1	-57.5	-8.6	-15.0
Adjusted earnings after tax	176.1	147.2	28.9	19.6

For the financial year 2016, an average tax rate of 29.0% has been estimated on the basis of the expected pre-tax earnings of the MTU group's German and foreign entities. Because the profit/loss of companies accounted for using the equity method is recognized as a post-tax amount, the profit / loss of these companies does not form part of the tax basis used to calculate the group tax rate of 29.0%. The comparative prior-period amount of income taxes is based on the average tax rate of 30.0% for 2015, which was calculated using the same method.

Order backlog

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

Order backlog before consolidation in € million



The order backlog for the commercial engine business amounting to € 5.7 billion corresponds to the list price of firm orders placed by customers. In arithmetical terms, the total order backlog of approximately € 11.5 billion represents a production workload of approximately two and a half years.

Revenues

Group revenues in the first six months of 2016 amounted to € 2,299.2 million, which is € 97.2 million (4.4%) higher than in the first six months of 2015. While revenues in the OEM segment (commercial and military engine business) decreased by € 26.0 million (1.8%) to € 1,441.1 million, revenues in the MRO segment (commercial maintenance business) increased by € 139.1 million (18.4%) to € 893.3 million.

Cost of sales and gross profit

The cost of sales increased by € 34.6 million (1.8%) to € 1,965.3 million in the first six months of 2016, mainly as a result of changes in the product mix. In the same reporting period, gross profit increased by € 62.6 million (23.1%) to € 333.9 million, raising the gross profit margin to 14.5% (January to June 2015: 12.3%).

Earnings before interest and tax (EBIT)

Earnings before interest and tax increased in the first six months of 2016 by € 43.8 million (23.7%) to € 229.0 million (January to June 2015: € 185.2 million). Adjusted earnings before interest and tax improved to € 254.1 million (January to June 2015: € 212.8 million), resulting in an adjusted EBIT margin of 11.1% (January to June 2015: 9.7%).

Financial result

MTU's financial result for the reporting period to the end of June 2016 was a net loss of € 12.4 million (January to June 2015: € 44.9 million). The almost exclusive reason for this improvement of € 32.5 million was gains arising from the fair-value measurement of derivatives amounting to € 7.9 million (January to June 2015: fair-value losses amounting to € 26.7 million) and exchange-rate gains on financing transactions amounting to € 0.9 million (January to June 2015: exchange-rate losses amounting to € 7.4 million).

Earnings before tax

Earnings before tax increased by € 76.3 million to € 216.6 million in the first six months of 2016 (January to June 2015: € 140.3 million).

Earnings after tax

Earnings after tax increased to € 158.6 million (January to June 2015: € 104.0 million). Of this amount, € 158.4 million (January to June 2015: € 104.0 million) is eligible for distribution to the shareholders of MTU Aero Engines AG. Adjusted earnings after tax amounted to € 176.1 million (January to June 2015: € 147.2 million), which represents an increase of € 28.9 million compared with the first six months of 2015.

Consolidated statement of comprehensive income

In the consolidated statement of comprehensive income, earnings after tax of € 158.6 million (January to June 2015: € 104.0 million) are reconciled to the comprehensive income for the period, in the amount of € 98.0 million (January to June 2015: € 88.0 million).

Income and expenses recognized directly in other comprehensive income in the first six months of 2016, net of deferred taxes, include gains of € 31.6 million (January to June 2015: losses of € 47.4 million) arising from the fair-value measurement of cash-flow hedging instruments, net losses of € 13.4 million (January to June 2015: net gains of € 21.0 million) attributable to translation differences arising from the financial statements of foreign entities, and actuarial losses on plan assets and pension obligations amounting to € 78.8 million (January to June 2015: actuarial gains of € 10.4 million).

Based on the total comprehensive income for the period, which amounts to € 98.0 million, a net profit of € 97.8 million (January to June 2015: € 88.0 million) is potentially available for distribution to the shareholders of MTU Aero Engines AG.

2.3.2 Financial position

The principles and objectives of financial management, as applied today and in the future by MTU, are described in the 2015 Annual Report on page 91 et seq.

The group's main borrowing sources are credit agreements, bank loans and corporate bonds and notes. In May 2016, MTU Aero Engines issued a new convertible bond on the capital market.

As at June 30, 2016, the group had access to a revolving credit facility with five banks, totaling € 400.0 million. A total of € 14.3 million had been drawn down under this facility as of June 30, 2016 in the form of bank guarantees (December 31, 2015: a total of € 113.7 million drawn down, including € 14.6 million in the form of bank guarantees).

Free cash flow

MTU determines free cash flow by combining cash flow from operating activities and cash flow from investing activities. Because the latter includes certain components (non-operating exceptional items) that lie outside the control of operations management and do not form part of the group's core activities, corresponding adjustments are applied. The free cash flow calculated for the first six months of 2016, as in previous reporting periods, therefore excludes the following components: proceeds from the sale of financial assets held for the purpose of liquidity management amounting to a negative adjustment of € 37.7 million (January to June 2015: € 16.7 million), acquisition payments for shares in engine programs amounting to € 2.6 million (January to June 2015: € 29.6 million) and expenses in connection with aircraft and engine financing agreements amounting to € 3.6 million (January to June 2015: € 18.4 million).

Free cash flow in the first six months of 2016 amounted to € 69.8 million (January to June 2015: € 86.7 million).

Financial position

in € million	Jan. 1 - June 30, 2016	Jan. 1 - June 30, 2015	Change against previous year	
			in € million	in %
Cash flow from operating activities	196.0	170.5	25.5	15.0
Cash flow from investing activities	-94.7	-115.1	20.4	17.7
Non-operating exceptional items	-31.5	31.3	-62.8	<-100
Free cash flow	69.8	86.7	-16.9	-19.5
Non-operating exceptional items	31.5	-31.3	62.8	>100
Cash flow from financing activities	262.9	-51.5	314.4	>100
Translation differences	0.2	3.3	-3.1	-93.9
Change in cash and cash equivalents	364.4	7.2	357.2	>100
Cash and cash equivalents at				
the beginning of the reporting period	53.1	64.6		
the end of the reporting period	417.5	71.8		

Cash flow from operating activities

Cash flow from operating activities in the first six months of the financial year 2016 amounted to € 196.0 million (January to June 2015: € 170.5 million). The increase compared with the previous year was mainly attributable to positive business developments.

Cash flow from investing activities

The cash outflow from investing activities in the first six months of the financial year 2016 amounted to € 94.7 million (January to June 2015: € 115.1 million). Capital expenditure on intangible assets accounted for € 69.5 million (January to June 2015: € 74.3 million) of this amount, and mainly comprised payments in connection with development costs for the PW1000G family of geared turbofan engines and for the PW800 and GE9X engine programs.

Capital expenditure on property, plant and equipment in the first six months of 2016 increased by € 23.6 million to € 62.3 million, compared with € 38.7 million in the same six-month period of 2015. As well as being used to purchase new plant and machinery for the series-production phase of the geared-turbofan programs and in preparation for the maintenance of these engines, this capital expenditure also included replacement investments for existing plant and machinery.

Cash outflows for investment in financial assets amounted to € 4.9 million (January to June 2015: € 23.6 million) and almost exclusively related to loans in connection with aircraft and engine financing agreements.

In the first six months of 2016, proceeds from the disposal of intangible assets, property, plant and equipment, and financial assets amounted to € 40.8 million (January to June 2015: € 20.4 million). The repayment of loans issued in connection with aircraft and engine financing agreements resulted in a cash inflow of € 1.2 million (January to June 2015: € 1.1 million).

Cash flow from financing activities

In the period from January 1 to June 30, 2016, the net cash inflow from financing activities amounted to € 262.9 million (January to June 2015: a net cash outflow of € 51.5 million). The principal source of this capital inflow was the issue of a new, convertible bond. On the debit side, cash flow from financing activities included the repayment of liabilities to banks, the dividend paid to shareholders for the financial year 2015, and the settlement of deferred purchase-price components of shares in engine programs.

Cash and cash equivalents

Taking the effects of currency translation into account, cash flow developments resulted in an increase in cash and cash equivalents of € 364.4 million (January to June 2015: € 7.2 million).

Cash and cash equivalents comprised the following items at June 30, 2016:

Cash and cash equivalents				
in € million	June 30, 2016	Dec. 31, 2015	Change against previous year	
			in € million	in %
Demand deposits and cash	155.3	34.7	120.6	>100
Fixed-term and overnight deposits with an original maturity of three months or less	262.2	18.4	243.8	>100
Total cash and cash equivalents	417.5	53.1	364.4	>100

Net financial debt

Net financial debt serves as an indicator of the MTU group's financial position and is defined as the difference between gross financial debt and current financial assets. MTU's net financial debt at June 30, 2016 amounted to € 859.1 million (Dec. 31, 2015: € 881.2 million).

Net financial debt				
in € million	June 30, 2016	Dec. 31, 2015	Change against previous year	
			in € million	in %
Bonds and notes	347.9	353.2	-5.3	-1.5
Convertible bond	472.3		472.3	
Financial liabilities to banks	30.1	149.2	-119.1	-79.8
thereof: Note purchase agreement	30.1	30.1		
thereof: Revolving credit facility		99.1	-99.1	-100.0
thereof: Other liabilities to banks		20.0	-20.0	-100.0
Financial liabilities to related companies	0.6		0.6	
Finance lease liabilities	12.2	12.9	-0.7	-5.4
Financial liabilities arising from program participations	490.5	531.4	-40.9	-7.7
thereof: Financial liabilities arising from IAE-V2500 stake increase	393.8	419.6	-25.8	-6.1
Gross financial debt	1,353.6	1,046.7	306.9	29.3
less:				
Cash and cash equivalents	417.5	53.1	364.4	>100
Loans to third parties	59.9	60.7	-0.8	-1.3
Loan to related companies	17.1	13.8	3.3	23.9
Securities		37.9	-37.9	-100.0
Financial assets	494.5	165.5	329.0	>100
Net financial debt	859.1	881.2	-22.1	-2.5

With effect of May 17, 2016, MTU Aero Engines AG placed an unsecured convertible bond with a total par value of € 500.0 million. The bond is issued with preferential subscription rights and is convertible into new and / or existing registered non-par-value common shares of the bond issuer.

The convertible bond has a term of maturity of 7 years and is divided into units with a par value of € 100,000. The coupon rate is 0.125 % p.a., payable yearly in arrears.

Bondholders have the right to convert the units they hold into common shares of MTU Aero Engines AG at any time from June 27, 2016 onwards. A conversion price of € 124.7701 was fixed at the issue date. This represents a premium of 50 % above the reference share price.

In accordance with the bond features, the company is authorized to call the convertible bond for early repayment at par value (plus accrued unpaid interest) at any time

- (i) on or after June 16, 2020, if, over a defined period of time, the quoted market price of the company's common shares equals or exceeds 130% of the conversion price in effect at that time, or
- (ii) if no more than 20% of the total par value of the convertible bond remains outstanding.

For more detailed information on corporate bonds, the note purchase agreement and the financial liabilities arising from the IAE-V2500 stake increase, please refer to page 201 et seq. of the MTU Aero Engines AG Annual Report 2015.

2.3.3 Net assets

Changes in balance sheet items

The group's total assets, equity and liabilities increased by € 413.1 million from € 5,188.3 million at December 31, 2015 to € 5,601.4 million at June 30, 2016.

Compared with the reported amounts at December 31, 2015, non-current assets increased by € 21.7 million to € 3,166.1 million while current assets increased by € 391.4 million to € 2,435.3 million.

Intangible assets amounting to € 58.7 million (January to June 2015: € 86.7 million) were capitalized in the first six months of 2016. This reflects, in particular, the progress made in development work on the GE9X and PW800 engine programs and the PW1000G engine family. Additions to property, plant and equipment in the first six months of 2016 amounted to € 62.3 million (January to June 2015: € 38.7 million).

In the first six months of 2016, inventories increased by € 37.6 million to € 931.6 million, trade receivables by € 17.7 million to € 726.2 million, construction contract and service business receivables by € 24.4 million to € 325.7 million, prepayments (classified as current assets) by € 3.9 million to € 14.5 million, and cash and cash equivalents by € 364.4 million to € 417.5 million. By contrast, current other financial assets decreased by € 40.9 million to € 13.9 million and other current assets by € 15.7 million to € 5.9 million.

Between December 31, 2015 and June 30, 2016, group equity increased by € 46.7 million to € 1,347.3 million.

Factors that contributed to the increase in equity in the first six months of 2016 included higher earnings after tax, which amounted to € 158.6 million compared with € 104.0 million in the period from January to June, 2015, and the equity component of the convertible bond, after deduction of transaction fees and taxes in the amount of € 16.0 million. A further amount of € 7.5 million (January to June 2015: € 1.8 million) was added to equity through the Share Matching Plan, while the sale of treasury shares through the MAP employee stock option program generated proceeds of € 12.1 million (January to June 2015: € 7.6 million). Fair-value gains on financial instruments designated as cash-flow hedges, amounting to € 31.6 million (January to June 2015: fair-value losses amounting to € 47.4 million) also contributed to the increase in equity. Negative effects on equity included the dividend payment for the financial year 2015, amounting to € 86.9 million (January to June 2015: € 74.0 million), translation differences arising from the financial statements of international entities, amounting to € 13.4 million (January to June 2015: a positive effect of € 21.0 million) and actuarial losses on plan assets and pension obligations resulting from changes in the discount rate amounting to € 78.8 million (January to June 2015: actuarial gains of € 10.4 million).

The equity ratio was 24.1% (Dec. 31, 2015: 25.1%).

Pension provisions were increased by € 129.2 million compared with December 31, 2015, in particular owing to the lower discount rate applicable in the reporting period. The increase of € 36.1 million in other provisions is largely due to deferred items in connection with MTU's share in the GENx and GP7000 engine programs.

Compared with the amount reported at December 31, 2015, financial liabilities increased overall by € 214.3 million to € 1,636.5 million, mainly as a result of the convertible bond issue mentioned earlier. On the other hand, certain line items moved in the opposite direction: utilization of the revolving credit facility decreased by € 99.1 million, other financial liabilities to banks by € 20.0 million, and financial liabilities arising from the IAE-V2500 stake increase were also lower.

Another contributing factor was the effect of the U.S.-dollar exchange rate, which reduced the fair value of financial liabilities denominated in U.S. dollars, especially in the case of currency derivatives.

Trade payables amounted to € 736.6 million at June 30, 2016, which is € 63.2 million higher than at December 31, 2015.

Construction contract and service business payables decreased between December 31, 2015 and June 30, 2016 by € 69.4 million to € 304.4 million. This total includes advance payments from customers insofar as they exceed the corresponding amount of receivables.

Other liabilities increased by € 16.7 million compared with the amount reported at December 31, 2015, to € 59.5 million. This increase in the first half of 2016 is due mainly to the recognition of benefits payable to employees in connection with unutilized vacation entitlements.

Employees

MTU's workforce comprised 8,362 employees at June 30, 2016 (Dec. 31, 2015: 8,334).

3 Subsequent events

Events after the end of the interim reporting period (June 30, 2016)

No significant events with a material impact on the net assets, financial position or operating results of the MTU group have occurred after the end of the interim reporting period and prior to the date this half-year financial report was drawn up (July 18, 2016).

4 Report on forecasts, risks and opportunities

In order to take best advantage of market opportunities and to identify and manage the risks involved, the Executive Board has set up an integrated opportunity and risk management system, which is linked to the group's value-oriented performance indicators and its organizational structure. The system is based on the internationally recognized COSO II Enterprise Risk Management Framework. It also incorporates the group's internal control system with respect to financial reporting processes pursuant to Section 289 (5) and 315 (2) no. 5 of the German Commercial Code (HGB). For a detailed description of the main features of the system and the methods used, please refer to page 121 et seq. of the Annual Report 2015.

4.1 Forecasts

Macroeconomic factors

According to the forecast published by the Economist Intelligence Unit (EIU) in July, global economic performance is expected to grow by 2.2% in 2016. In other words, momentum is low. Stock markets have become more volatile since the results of the Brexit referendum were announced, and the pound sterling has come under pressure. All in all, market confidence has declined. In the opinion of the EIU, the greatest risks to global economic stability are the the question of the EU's continued unity, the possible increase in interest rates by the U.S. Federal Reserve Bank, a hard landing in China, and the impact of non-economic shocks such as geopolitical conflicts, terrorism, and mass migration by refugees.

The EIU expects growth to be sluggish in the euro zone (1.6%) and in Japan (0.4%). It predicts a moderate growth rate of 1.8% for North America. Given the present stock market turbulence and apparent cooling off of the Chinese economy, the U.S. Federal Reserve Bank has already indicated that it is in no hurry to raise interest rates – which reduces the burden on the currencies of emerging economies.

Economic growth in China is expected to reach 6.7% according to the EIU. The Chinese government is striving to transform the nation from the world's extended workbench to a more service-based economy (source: EIU, July 2016).

Microeconomic factors in the aviation industry

The International Air Transport Association (IATA) paints a positive picture of the industry's future development, forecasting increased airline profits of U.S. \$39.4 billions for 2016. This growth will be mainly driven by high demand for passenger air travel and low kerosene prices. The EIA predicts an average price per barrel of Brent crude of U.S. \$43 for 2016 (2015: U.S. \$52 per barrel).

The forecast published by IATA in June foresees a continuing high seat occupancy rate of 80% and an increase in passenger air traffic of 6.2%. IATA estimates that Britain's departure from the EU could cut the volume of passengers traveling to or from the U.K., and hence airline revenues, by between 1.0 and 1.5% in the coming years. This estimate is based on the devaluation of the pound sterling and other conjunctural factors. However, the U.K. accounts for no more than 4.0% of global passenger air traffic.

Given the currently favorable market environment, airlines are continuing to invest in fleet renewal programs. Airbus and Boeing have maintained their forecasts and plan to deliver around 1,400 aircraft in 2016, as in the previous year.

Future development of MTU

MTU has firmed up forecasts for the financial year 2016 compared to the outlook from the Annual Report 2015.

Growth predictions for the commercial spare parts business, as well as for the commercial maintenance business were adjusted upwards, which has a positive effect on earnings potential.

MTU expects its commercial engine business to see organic growth in the range of a mid-single digit percentage. Though the business with new parts is affected by the ramp-up of the PW1000G, scheduled for the second half of 2016. The main growth driver in the spare parts business is the V2500 program.

The military engine business is expected to remain stable in 2016.

MTU's most recent forecast for its commercial maintenance business in 2016 is now for revenues to grow by around 10 % in U.S.-dollar terms.

For the group as a whole, assuming an exchange rate of 1.10 U.S. dollars to the euro, MTU forecasts an increase in revenues of approximately € 4,700 million (2015: € 4,435.3 million).

MTU also expects the group's operating profit (adjusted EBIT) for 2016 to increase to around €480 million (2015: €440.3 million). Changes in the product mix in the commercial engine business, which compared to the previous year may have a negative impact on operating profit, are expected to be more than compensated for by growth in the commercial maintenance business and by the favorable U.S.-dollar exchange rate, which is expected to remain strong.

Adjusted earnings after tax are expected to rise in 2016 to around € 330 million (2015: € 306.9 million).

2016 will be another year of substantial investment spending accompanied by a reduction in the amount of advance payments in the military engine business. However, MTU plans to compensate for these factors through its operating activities and achieve a free cash flow of around € 70 million (2015: € 72.0 million).

4.2 Risks

MTU's operating environment, economic factors and relationships with business partners and consortia give rise to risks that have an impact on the group's business performance. MTU's product portfolio currently includes engine programs that were only recently launched on the market (PW1100G-JM and PW1500G). Products at this early stage in their lifecycle bear fundamental risks, e.g. technical risks or risks in the supply chain.

Another issue of relevance to MTU is the changing nature of the engine MRO market, which calls for closer ties between engine manufacturers and downstream maintenance services. This new market configuration presents MTU with both risks and opportunities. On the risk side, it will be necessary for MTU to offer greater price concessions – especially for spare parts – in order to maintain its market share. But it also creates advantages in the form of a guaranteed volume of spare parts, higher capacity utilization of MRO locations, and the financial benefits of belonging to a worldwide MRO network.

The areas of risk to which MTU is exposed have not changed significantly compared with those presented in the Annual Report 2015. For a detailed description of these risks, please refer to pages 121 to 129 of the Annual Report 2015.

4.3 Opportunities

Thanks to its balanced engine portfolio, comprising commercial and military engines at every stage of their lifecycle, MTU considers that it is well positioned in the market. Selective research and development, forward-looking investments, greater stakes in risk-and-revenue-sharing partnerships, and the maintenance business all open up new opportunities for MTU.

MTU sees opportunities for future participation in the positive market developments in the aviation industry, based on the engine programs that are currently at the development stage and on the engines that have recently been launched on the market. The selection of geared turbofan (GTF) engines for all major, recently developed regional jets and for the Airbus A320neo is a clear reflection of the technological lead enjoyed by this engine concept.

In the military engine business, export campaigns for engine programs, especially for the EJ200 Eurofighter engine, present opportunities to benefit from additional sales and from the ensuing maintenance business.

Over and above these specific cases, MTU's current assessment of its potential opportunities is the same as that presented in the Annual Report 2015. For a detailed description of these opportunities, please refer to the Annual Report 2015, page 129 et seq. (Opportunities report) and page 133 (SWOT analysis).

Overall assessment of MTU's risk exposure and potential opportunities

Thanks to its integrated risk and opportunity management system, MTU is in a position to identify areas of risk and potential opportunities at an early stage and take suitable proactive measures to manage such risks or to grasp opportunities.

There has been no significant change in the MTU group's risk exposure and potential opportunities compared with the assessment made at December 31, 2015. From the present standpoint, the risks are seen as limited and manageable, and the MTU group's continuing existence as a going concern is not endangered.

5 Significant transactions with related parties

Information regarding significant transactions with related companies and persons is provided in Note 38 to the condensed interim consolidated financial statements (Transactions with related companies and persons).

Condensed Interim Consolidated Financial Statements

Consolidated Income Statement

Consolidated Income Statement (unaudited)

in € million	(Note)	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Q 2 2016	Q 2 2015
Revenues	(1)	2,299.2	2,202.0	1,201.3	1,102.5
Cost of sales	(2)	-1,965.3	-1,930.7	-1,037.1	-956.7
Gross profit		333.9	271.3	164.2	145.8
Research and development expenses	(3)	-38.5	-24.3	-19.1	-8.7
Selling expenses	(4)	-48.4	-45.7	-23.9	-23.8
General administrative expenses	(5)	-35.8	-33.6	-18.7	-17.4
Other operating income		6.0	8.0	2.9	3.5
Other operating expenses		-3.1	-3.7	-1.7	-1.8
Profit / loss of companies accounted for using the equity method	(7)	14.1	13.1	5.8	3.6
Profit / loss of companies recognised at cost		0.8	0.1	0.8	0.1
Earnings before interest and tax (EBIT)		229.0	185.2	110.3	101.3
Interest income		0.4	0.9	0.2	0.7
Interest expenses		-4.1	-1.9	-2.2	-0.9
Interest result	(8)	-3.7	-1.0	-2.0	-0.2
Financial result on other items	(9)	-8.7	-43.9	-11.5	7.0
Financial result		-12.4	-44.9	-13.5	6.8
Earnings before tax		216.6	140.3	96.8	108.1
Income taxes	(10)	-58.0	-36.3	-28.6	-25.1
Earnings after tax		158.6	104.0	68.2	83.0
Thereof attributable to:					
Owners of MTU Aero Engines AG		158.4	104.0	68.2	82.8
Non-controlling interests		0.2	0.0	0.0	0.2
Earnings per share in €					
Undiluted (EPS)	(11)	3.10	2.04	1.34	1.62
Diluted (DEPS)	(11)	2.88	2.04	1.12	1.62

Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income (unaudited)

in € million	(Note)	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Q 2 2016	Q 2 2015
Earnings after tax		158.6	104.0	68.2	83.0
Translation differences arising from the financial statements of international entities		-13.4	21.0	-7.7	-16.6
Financial instruments designated as cash flow hedges		31.6	-47.4	-24.2	48.9
Items that may subsequently be recycled to profit or loss		18.2	-26.4	-31.9	32.3
Actuarial gains and losses on pension obligations and plan assets		-78.8	10.4	-39.0	10.9
Items that will not be recycled to profit or loss		-78.8	10.4	-39.0	10.9
Other comprehensive income		-60.6	-16.0	-70.9	43.2
Total comprehensive income		98.0	88.0	-2.7	126.2
Thereof attributable to:					
Owners of MTU Aero Engines AG		97.8	88.0	-2.7	126.0
Non-controlling interests		0.2	0.0	0.0	0.2

Consolidated Balance Sheet – Assets

Assets (unaudited)

in € million	(Note)	June 30, 2016	Dec. 31, 2015
Non-current assets			
Intangible assets	(14)	2,212.5	2,214.0
Property, plant and equipment	(15)	639.4	632.0
Financial assets accounted for using the equity method	(16)	174.2	168.0
Other financial assets	(16)	90.4	85.2
Prepayments		2.1	3.2
Deferred tax assets		47.5	42.0
Total non-current assets		3,166.1	3,144.4
Current assets			
Inventories	(17)	931.6	894.0
Trade receivables	(18)	726.2	708.5
Construction contract and service business receivables	(19)	325.7	301.3
Other financial assets	(16)	13.9	54.8
Other assets	(20)	5.9	21.6
Cash and cash equivalents	(21)	417.5	53.1
Prepayments		14.5	10.6
Total current assets		2,435.3	2,043.9
Total assets		5,601.4	5,188.3

Consolidated Balance Sheet – Equity and Liabilities

Equity and Liabilities (unaudited)			
in € million	(Note)	June 30, 2016	Dec. 31, 2015
Equity	(24)		
Subscribed capital		52.0	52.0
Capital reserves		435.5	404.7
Revenue reserves		1,217.1	1,145.6
Treasury shares		-25.3	-30.1
Other comprehensive income		-332.0	-271.4
Owners of MTU Aero Engines AG		1,347.3	1,300.8
Non-controlling interests			-0.2
Total equity		1,347.3	1,300.6
Non-current liabilities			
Pension provisions		906.7	777.5
Other provisions	(27)	21.8	24.8
Financial liabilities	(28)	1,058.8	910.2
Deferred tax liabilities		7.4	22.7
Total non-current liabilities		1,994.7	1,735.2
Current liabilities			
Pension provisions		24.2	24.2
Income tax liabilities		22.7	31.1
Other provisions	(27)	534.3	495.2
Financial liabilities	(28)	577.7	512.0
Trade payables		736.6	673.4
Construction contract and service business payables	(30)	304.4	373.8
Other liabilities	(31)	59.5	42.8
Total current liabilities		2,259.4	2,152.5
Total equity and liabilities		5,601.4	5,188.3

Consolidated Statement of Changes in Equity

For more information on equity components, please refer to Note 24 of the selected explanatory notes.

Consolidated Statement of Changes in Equity (unaudited)

	Sub- scribed capital	Capital reserves	Revenue reserves	Treasury shares	Other comprehensive income			Owners of MTU Aero Engines AG	Non-con- trolling interests	Total equity
					Exchange differenc- es on translating foreign operations	Actuarial gains and losses on pension obligations and plan assets ¹⁾	Financial instru- ments designated as cash flow hedges			
in € million										
Carrying amount at Jan. 1, 2015	52.0	397.5	1,002.0	-32.2	18.0	-193.9	-54.9	1,188.5	-0.2	1,188.3
Earnings after tax			104.0					104.0	0.0	104.0
Other comprehensive income					21.0	10.4	-47.4	-16.0		-16.0
Total comprehensive income			104.0		21.0	10.4	-47.4	88.0	0.0	88.0
Dividend payment			-74.0					-74.0		-74.0
MAP employee stock option program		5.9		1.7				7.6		7.6
Share Matching Plan		1.4		0.4				1.8		1.8
Carrying amount at June 30, 2015	52.0	404.8	1,032.0	-30.1	39.0	-183.5	-102.3	1,211.9	-0.2	1,211.7
Carrying amount at Jan. 1, 2016	52.0	404.7	1,145.6	-30.1	30.7	-204.4	-97.7	1,300.8	-0.2	1,300.6
Earnings after tax			158.4					158.4	0.2	158.6
Other comprehensive income					-13.4	-78.8	31.6	-60.6		-60.6
Total comprehensive income			158.4		-13.4	-78.8	31.6	97.8	0.2	98.0
Dividend payment			-86.9					-86.9		-86.9
Equity portion of convertible bond ²⁾		16.0						16.0		16.0
MAP employee stock option program		9.1		3.0				12.1		12.1
Share Matching Plan		5.7		1.8				7.5		7.5
Carrying amount at June 30, 2016	52.0	435.5	1,217.1	-25.3	17.3	-283.2	-66.1	1,347.3	0.0	1,347.3

¹⁾ Relating to pension obligations and plan assets

²⁾ after transaction costs and taxes

Consolidated Cash Flow Statement

Consolidated Cash Flow Statement (unaudited)

in € million	(Note)	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Q 2 2016	Q 2 2015
Operating activities					
Earnings after tax		158.6	104.0	68.2	83.0
Depreciation, amortization, write-downs and reversals of write-downs on non-current assets		86.4	78.1	41.2	43.4
Profit / loss of companies accounted for at cost		-0.8	-0.1	-0.8	-0.1
Profit / loss of companies accounted for using the equity method		-14.1	-13.1	-5.8	-3.6
Proceeds from the disposal of fixed assets		0.3	-0.1	0.3	-0.1
Change in pension provisions		13.0	10.5	9.8	8.7
Change in other provisions	(27)	36.1	-4.2	-30.6	-25.9
Other non-cash items		6.1	47.8	21.9	-16.6
Change in working capital		-69.2	-29.4	-22.3	-21.4
Interest result	(8)	3.7	1.0	2.0	0.2
Interest paid		-12.5	-12.5	-11.5	-11.6
Interest received		0.4	0.9	0.2	0.7
Dividends received		3.0	5.0	3.0	5.0
Income taxes	(10)	58.0	36.3	28.6	25.1
Income taxes paid		-73.0	-53.7	-35.6	-27.5
Cash flow from operating activities		196.0	170.5	68.6	59.3
Investing activities					
Capital expenditure on:					
Intangible assets	(14)	-69.5	-74.3	-53.8	-12.2
Property, plant and equipment	(15)	-62.3	-38.7	-41.4	-22.3
Financial assets	(16)	-4.9	-23.6	-2.2	-22.5
Proceeds from disposal of:					
Intangible assets / property, plant and equipment	(14) / (15)	3.1	2.6	2.9	2.4
Financial assets	(16)	37.7	17.8		
Repayment of non-current loans		1.2	1.1	0.9	0.4
Cash flow from investing activities		-94.7	-115.1	-93.6	-54.2
Financing activities					
Proceeds from convertible bond ¹⁾	(28)	495.3		495.3	
Borrowings / Repayment of liabilities to banks	(28)	-119.1	51.9	-30.0	61.5
Dividend payment		-86.9	-74.0	-86.9	-74.0
Settlement of contingent purchase price liabilities for program shares		-40.8	-38.6	-24.1	-22.2
Sale of shares under the MAP employee stock option program / Share Matching Plan		14.5	9.3	14.5	9.3
Borrowings / Repayment of other financial liabilities	(28)	-0.1	-0.1	-2.5	-2.5
Cash flow from financing activities		262.9	-51.5	366.3	-27.9
Net change in cash and cash equivalents during period		364.2	3.9	341.3	-22.8
Effect of translation differences on cash and cash equivalents		0.2	3.3	0.8	-2.5
Cash and cash equivalents at beginning of period		53.1	64.6		
Cash and cash equivalents at end of period (June 30)		417.5	71.8		

¹⁾ after transaction costs

Notes to the Interim Consolidated Financial Statements

Group segment reporting

Segment information

A description of the activities of the individual operating segments is provided on page 228 of the Annual Report 2015. No changes were made to the composition of the operating segments during the first six months of 2016.

Segment information for the period from January 1 to June 30, 2016 was as follows:

Reporting by operating segment 2016

	Commercial and military engine business		Commercial maintenance business		Reportable segments total		Consolidation / reconciliation		MTU group	
in € million	Jan. 1 – June 30, 2016	Q 2 2016	Jan. 1 – June 30, 2016	Q 2 2016	Jan. 1 – June 30, 2016	Q 2 2016	Jan. 1 – June 30, 2016	Q 2 2016	Jan. 1 – June 30, 2016	Q 2 2016
External revenues	1,424.1	752.6	875.1	448.7	2,299.2	1,201.3			2,299.2	1,201.3
Intersegment revenues	17.0	8.0	18.2	15.8	35.2	23.8	-35.2	-23.8		
Total revenues	1,441.1	760.6	893.3	464.5	2,334.4	1,225.1	-35.2	-23.8	2,299.2	1,201.3
Gross profit	225.5	108.2	108.2	56.0	333.7	164.2	0.2		333.9	164.2
Amortization	31.9	16.2	5.2	2.6	37.1	18.8			37.1	18.8
Depreciation	36.0	18.2	11.7	6.0	47.7	24.2			47.7	24.2
Total depreciation / amortization	67.9	34.4	16.9	8.6	84.8	43.0			84.8	43.0
Earnings before interest and tax (EBIT)	145.6	68.8	83.3	41.6	228.9	110.4	0.1	-0.1	229.0	110.3
Depreciation / amortization effects of										
purchase price allocation	9.4	4.7	1.2	0.6	10.6	5.3			10.6	5.3
IAE-V2500 stake increase	14.5	7.2			14.5	7.2			14.5	7.2
Adjusted earnings before interest and tax (adjusted EBIT)	169.5	80.7	84.5	42.2	254.0	122.9	0.1	-0.1	254.1	122.8
Profit / loss of companies accounted for using the equity method	0.3	0.1	13.8	5.7	14.1	5.8			14.1	5.8
Carrying amount of companies accounted for using the equity method (June 30, 2016)	27.4		146.8		174.2				174.2	
Assets (June 30, 2016)	4,892.0		1,277.5		6,169.5		-568.1		5,601.4	
Liabilities (June 30, 2016)	3,737.9		743.4		4,481.3		-227.2		4,254.1	
Significant non-cash items	5.8	19.0	0.1	2.9	5.9	21.9	0.2		6.1	21.9
Capital expenditure:										
Intangible assets	58.6	25.6	0.1	0.1	58.7	25.7			58.7	25.7
Property, plant and equipment	40.6	27.2	21.7	14.2	62.3	41.4			62.3	41.4
Total capital expenditure on intangible assets and property, plant and equipment	99.2	52.8	21.8	14.3	121.0	67.1			121.0	67.1
Key segment data:										
EBIT in % of revenues	10.1	9.0	9.3	9.0	9.8	9.0		0.4	10.0	9.2
Adjusted EBIT in % of revenues	11.8	10.6	9.5	9.1	10.9	10.0		0.4	11.1	10.2

Segment information for the period from January 1 to June 30, 2015 was as follows:

Reporting by operating segment 2015

	Commercial and military engine business		Commercial maintenance business		Reportable segments total		Consolidation / reconciliation		MTU group	
in € million	Jan. 1 – June 30, 2015	Q 2 2015	Jan. 1 – June 30, 2015	Q 2 2015	Jan. 1 – June 30, 2015	Q 2 2015	Jan. 1 – June 30, 2015	Q 2 2015	Jan. 1 – June 30, 2015	Q 2 2015
External revenues	1,448.8	733.1	753.2	369.4	2,202.0	1,102.5			2,202.0	1,102.5
Intersegment revenues	18.3	7.3	1.0	0.9	19.3	8.2	-19.3	-8.2		
Total revenues	1,467.1	740.4	754.2	370.3	2,221.3	1,110.7	-19.3	-8.2	2,202.0	1,102.5
Gross profit	176.5	104.0	94.6	42.7	271.1	146.7	0.2	-0.9	271.3	145.8
Amortization	30.1	15.1	4.4	2.2	34.5	17.3			34.5	17.3
Depreciation	34.9	17.7	11.7	5.9	46.6	23.6			46.6	23.6
Total depreciation / amortization	65.0	32.8	16.1	8.1	81.1	40.9			81.1	40.9
Earnings before interest and tax (EBIT)	112.8	67.9	72.3	34.8	185.1	102.7	0.1	-1.4	185.2	101.3
Depreciation / amortization effects of										
purchase price allocation	10.9	5.4	1.2	0.6	12.1	6.0			12.1	6.0
IAE-V2500 stake increase	15.5	7.8			15.5	7.8			15.5	7.8
Adjusted earnings before interest and tax (adjusted EBIT)	139.2	81.1	73.5	35.4	212.7	116.5	0.1	-1.4	212.8	115.1
Profit / loss of companies accounted for using the equity method	-2.9	-2.9	16.0	6.5	13.1	3.6			13.1	3.6
Carrying amount of companies accounted for using the equity method (Dec. 31, 2015)	27.6		140.4		168.0				168.0	
Assets (Dec. 31, 2015)	4,589.5		1,273.2		5,862.7		-674.4		5,188.3	
Liabilities (Dec. 31, 2015)	3,429.4		791.7		4,221.1		-333.4		3,887.7	
Significant non-cash items	49.2	-17.3	-1.2	0.9	48.0	-16.4	-0.2	-0.2	47.8	-16.6
Capital expenditure:										
Intangible assets	86.6	30.3	0.1	0.1	86.7	30.4			86.7	30.4
Property, plant and equipment	33.4	19.8	5.3	2.5	38.7	22.3			38.7	22.3
Total capital expenditure on intangible assets and property, plant and equipment	120.0	50.1	5.4	2.6	125.4	52.7			125.4	52.7
Key segment data:										
EBIT in % of revenues	7.7	9.2	9.6	9.4	8.3	9.2		17.1	8.4	9.2
Adjusted EBIT in % of revenues	9.5	11.0	9.7	9.6	9.6	10.5		17.1	9.7	10.4

The significant non-cash items relate in particular to gains and losses arising from foreign currency translation, which have no impact on cash flows.

Reconciliation with MTU consolidated financial statements – earnings

in € million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Q 2 2016	Q 2 2015
Consolidated earnings before interest and tax (EBIT)	229.0	185.2	110.3	101.3
Interest income	0.4	0.9	0.2	0.7
Interest expense	-4.1	-1.9	-2.2	-0.9
Financial result on other items	-8.7	-43.9	-11.5	7.0
Earnings before tax	216.6	140.3	96.8	108.1

General information

MTU Aero Engines AG, Munich, together with its consolidated group of companies, counts among the world's largest manufacturers of engine modules and components and is one of the world's leading providers of maintenance services for commercial aircraft engines. The group's business activities encompass the entire lifecycle of an engine program – from development, structural design, testing and manufacturing of new commercial and military engines and spare parts through to the maintenance, repair and overhaul of commercial and military engines.

MTU divides its activities into two operating segments: the commercial and military engine business (OEM) and the commercial maintenance business (MRO). MTU's commercial and military engine business, or OEM segment, covers the development and manufacturing of modules, components and spare parts for engine programs, and in some cases final assembly. The military engine business additionally includes the provision of maintenance services. The MRO segment consists of the commercial maintenance business, which covers all activities relating to the maintenance, repair and overhaul of commercial engines and associated logistical support.

The parent company, MTU Aero Engines AG, registered office Dachauer Str. 665, 80995 Munich, is registered under reference HRB 157206 in the commercial registry of the district court of Munich. The condensed interim consolidated financial statements were approved for publication by the Executive Board of MTU Aero Engines AG on July 18, 2016.

Financial reporting

In accordance with the provisions of Section 37w of the German Securities Trading Act (WpHG), MTU's half-year financial report consists of condensed interim consolidated financial statements, an interim group management report and a statement by the legal representatives. The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) relevant for interim financial reporting, as endorsed by the European Union (EU). The interim group management report has been drawn up in accordance with the applicable provisions of the German Securities Trading Act (WpHG).

Statement of compliance

The condensed interim consolidated financial statements at June 30, 2016 have been drawn up in compliance with IAS 34. In preparing these statements, MTU has applied all International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and effective at the date on which the condensed interim consolidated financial statements were approved for publication, insofar as they have been endorsed by the European Commission for use in the EU.

The accounting methods applied when preparing the condensed interim consolidated financial statements are the same as those used to prepare the annual consolidated financial statements at December 31, 2015, with the exception of the following standards and amendments:

New and amended standards

Standard	Title
IAS 1	Disclosure Initiative
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 16/IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization
Amendments to IAS 16/IAS 41	Agriculture: Bearer Plants
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IAS 27	Equity Method in Separate Financial Statements
Annual improvements to IFRSs 2010 – 2012	IFRS 2 – Share-based Payment
	IFRS 3 – Business Combinations
	IFRS 8 – Operating Segments
	IFRS 13 – Fair Value Measurement
	IAS 16 – Property, Plant and Equipment
	IAS 24 – Related Party Disclosures
Annual improvements to IFRSs 2012 – 2014	IAS 38 – Intangible Assets
	IFRS 5 – Non-current Assets Held for Sale
	IFRS 7 – Financial Instruments: Disclosures
	IAS 19 – Discount Rate for Employee Benefits
	IAS 34 – Interim Financial Reporting (Inclusion of cross-references)

These new standards and amendments are effective for annual periods beginning on or after January 1, 2016. However, their (first-time) application did not have any impact on MTU's condensed interim consolidated financial statements. The condensed interim consolidated financial statements do not contain all the information and disclosures required for year-end consolidated financial statements and should therefore be read in conjunction with the MTU consolidated financial statements at December 31, 2015.

From the perspective of management, the half-year financial report contains all customary accounting adjustments necessary for a fair presentation of the group's operating results, financial position and net assets. The fundamental accounting principles and methods applied are described in the Notes (p. 155 et seq.) to the consolidated financial statements at December 31, 2015.

Group reporting entity

At June 30, 2016, the MTU group including MTU Aero Engines AG, Munich, comprised interests in 31 companies. For a list of these major shareholdings, please refer to the Annual Report 2015, page 225.

Notes to the Consolidated Income Statement

1 Revenues

Revenues				
in € million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Q 2 2016	Q 2 2015
Commercial engine business	1,200.9	1,251.8	644.9	616.3
Military engine business	240.2	215.3	115.7	124.1
Commercial and military engine business (OEM)	1,441.1	1,467.1	760.6	740.4
Commercial maintenance business (MRO)	893.3	754.2	464.5	370.3
Consolidation	-35.2	-19.3	-23.8	-8.2
Total revenues	2,299.2	2,202.0	1,201.3	1,102.5

2 Cost of sales

Cost of sales				
in € million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Q 2 2016	Q 2 2015
Cost of materials	-1,686.5	-1,606.7	-851.8	-778.2
Personnel expenses	-253.2	-255.1	-125.5	-129.5
Depreciation and amortization	-81.6	-78.0	-41.5	-39.7
Other cost of sales	56.0	9.1	-18.3	-9.3
Total cost of sales	-1,965.3	-1,930.7	-1,037.1	-956.7

The change in cost of sales relates to growth in revenues in the reporting period and is affected by the current product mix. The amount stated under other cost of sales mainly derives from the increase in inventories of work in progress and finished products, the effect of translation differences, and depreciation and amortization charges recognized in respect of outstanding cost-of-sales items.

3 Research and development expenses

Research and development expenses				
in € million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Q 2 2016	Q 2 2015
Cost of materials	-49.7	-44.1	-20.4	-20.5
Personnel expenses	-39.8	-33.8	-19.5	-15.0
Depreciation and amortization	-1.7	-1.2	-0.8	-0.3
Research and development expense before capitalization	-91.2	-79.1	-40.7	-35.8
Capitalized development costs	52.7	54.8	21.6	27.1
Research and development costs recognized as expense	-38.5	-24.3	-19.1	-8.7

4 Selling expenses

Selling expenses

in € million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Q 2 2016	Q 2 2015
Cost of materials	-8.5	-8.1	-4.8	-5.7
Personnel expenses	-32.4	-33.3	-15.6	-16.7
Depreciation and amortization	-0.6	-0.8	-0.3	-0.4
Other selling expenses	-6.9	-3.5	-3.2	-1.0
Total selling expenses	-48.4	-45.7	-23.9	-23.8

Selling expenses mainly comprise marketing and advertising costs and other costs incurred in connection with the sales organization.

5 General administrative expenses

General administrative expenses

in € million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Q 2 2016	Q 2 2015
Cost of materials	-3.3	-3.2	-2.0	-1.7
Personnel expenses	-28.4	-26.9	-14.1	-13.7
Depreciation and amortization	-0.9	-1.1	-0.4	-0.5
Other administrative expenses	-3.2	-2.4	-2.2	-1.5
Total general administrative expenses	-35.8	-33.6	-18.7	-17.4

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

7 Profit/loss of companies accounted for using the equity method

Profit/loss of companies accounted for using the equity method

in € million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Q 2 2016	Q 2 2015
Associated companies	0.1	0.1		
Joint ventures	14.0	13.0	5.8	3.6
Profit/loss of companies accounted for using the equity method	14.1	13.1	5.8	3.6

8 Interest result

Interest result

in € million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Q 2 2016	Q 2 2015
Interest income	0.4	0.9	0.2	0.7
Interest expenses				
Bonds and notes	-5.7	-5.7	-2.9	-2.9
Convertible bond	-0.6		-0.6	
Liabilities to banks	-0.6	-0.3	-0.3	-0.1
Finance lease arrangements	-0.2	-0.2	-0.1	-0.1
Other interest expenses	-0.7	-1.0	-0.1	-0.5
Capitalized borrowing costs for qualifying assets	3.7	5.3	1.8	2.7
Total interest expenses	-4.1	-1.9	-2.2	-0.9
Interest result	-3.7	-1.0	-2.0	-0.2

The deterioration in the net interest result is due mainly to the lower amount of borrowing costs capitalized for qualifying assets acquired or constructed in connection with the group's share in the PW1 100G-JM engine program and to the interest expense for the convertible bond.

9 Financial result on other items

Financial result on other items

in € million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Q 2 2016	Q 2 2015
Exchange-rate gains / losses on currency translation				
Currency holdings	-1.5	4.6	-2.7	2.4
Financing transactions	0.9	-7.4	-0.1	2.9
Fair value gains / losses on derivatives				
Currency and interest rate derivatives	7.9	-26.3	-0.8	10.5
Forward commodity sales contracts		-0.4		-0.1
Interest portion included in measurement of assets and liabilities				
Pension obligations	-8.2	-6.6	-4.1	-3.3
Receivables, other provisions and liabilities	-7.7	-9.2	-3.8	-4.6
Financial result on sundry other items	-0.1	1.4		-0.8
Financial result on other items	-8.7	-43.9	-11.5	7.0

The financial result on other items improved in the first six months of the financial year 2016 by € 35.2 million compared with the result for the same period in the previous year. This was mainly

due to gains arising from the fair-value measurement of derivatives amounting to € 7.9 million (January to June 2015: fair-value losses amounting to € 26.7 million) and exchange-rate gains on financing transactions amounting to € 0.9 million (January to June 2015: exchange-rate losses amounting to € 7.4 million). On the other hand, exchange-rate losses of € 1.5 million were incurred on currency holdings (January to June 2015: exchange-rate gains amounting to € 4.6 million).

10 Income taxes

Income taxes comprise the following items:

Income taxes				
in € million	Jan. 1 – June 30, 2016	Jan. 1 – June 30, 2015	Q 2 2016	Q 2 2015
Current tax expense	-64.7	-41.6	-22.6	-34.0
Deferred tax income	6.7	5.3	-6.0	8.9
Income tax expense	-58.0	-36.3	-28.6	-25.1

11 Earnings per share

Diluted earnings per share are calculated by dividing earnings after tax by the sum obtained when the number of common shares that could potentially be issued through the granting of equity instruments is added to the weighted average number of outstanding shares.

In the first six months of 2016, the amount of earnings after tax available for distribution to the shareholders of MTU Aero Engines AG was € 158.4 million (January to June 2015: € 104.0 million). In the reporting period from January to June 2016, the weighted average number of outstanding shares was 51,168,336 (January to June 2015: 51,027,928 shares). These combined parameters resulted in a value of € 3.10 for undiluted earnings per share in the first six months of 2016 (January to June 2015: € 2.04).

Diluted earnings per share came to € 2.88 (January to June 2015: € 2.04) due to the dilutive effect of the 4,007,370 shares that could potentially be issued in connection with the new convertible bond, placed in May 2016, and of the additional 791 shares (January to June 2015: 14,570 additional shares) that could potentially be issued through the Share Matching Plan, which represent the deferred portion of the Executive Board's share-based compensation.

Notes to the Consolidated Balance Sheet

14 Intangible assets

Intangible assets comprise capitalized program assets, program-independent technologies, acquired development services, software for engineering applications, and acquired goodwill.

In the first six months of 2016, the group capitalized intangible assets totaling € 58.7 million in value (January to June 2015: € 86.7 million). These mainly related to acquired development services and allocable borrowing costs, which amounted to € 53.8 million (January to June 2015: € 57.8 million), and to the acquisition of program assets amounting to € 4.3 million (January to June 2015: € 28.3 million) for the PW1000G family of geared turbofan engines and the GE9X and PW800 engine programs.

Of the intangible assets totaling € 58.7 million (January to June 2015: € 86.7 million) that were capitalized in the first six months of 2016, an amount of € 30.6 million (January to June 2015: € 64.2 million) relates to externally acquired assets and € 28.1 million (January to June 2015: € 22.5 million) to self-created assets.

The amortization expense for intangible assets in the first six months of 2016 amounted to € 37.1 million (January to June 2015: € 34.5 million).

15 Property, plant and equipment

Additions to property, plant and equipment in the period from January 1 to June 30, 2016 amounted to € 62.3 million (January to June 2015: € 38.7 million), and related mainly to technical equipment, plant and machinery, operational and office equipment, and corresponding advance payments. The depreciation expense in the first six months of 2016 amounted to € 47.7 million (January to June 2015: € 46.6 million).

16 Financial assets

Financial assets accounted for using the equity method

Financial assets accounted for using the equity method amounted to € 174.2 million (Dec. 31, 2015: € 168.0 million). For information on the composition of these assets, please refer to page 181 et seq. of the Annual Report 2015.

Other financial assets

Other financial assets

	Total		Non-current		Current	
in € million	June 30, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015
Loans, receivables, other financial assets (LaR)	98.1	95.1	86.0	78.5	12.1	16.6
Loans to third parties ¹⁾	59.9	60.7	59.9	60.7		
Loans to related companies ¹⁾	17.1	13.8	17.1	13.1		0.7
Receivables from employees	1.2	0.9			1.2	0.9
Receivables from suppliers	2.9	2.3			2.9	2.3
Sundry other financial assets	17.0	17.4	9.0	4.7	8.0	12.7
Available-for-sale financial assets (AfS)	1.7	44.0	1.7	6.1		37.9
Other investments in related entities	1.7	6.1	1.7	6.1		
Marketable securities ¹⁾		37.9				37.9
Derivatives without hedging relationship (FAHfT)	0.1	0.2		0.1	0.1	0.1
Derivatives with hedging relationship (n.a.)	4.4	0.7	2.7	0.5	1.7	0.2
Total other financial assets	104.3	140.0	90.4	85.2	13.9	54.8

¹⁾ Included in net financial debt

Other financial assets decreased by € 35.7 million to € 104.3 million in the first six months of 2016 (Dec. 31, 2015: € 140.0 million). This was mainly due to the sale of securities. The increase in the carrying amount of derivatives due to the applicable U.S.-dollar exchange rate and the increase in loans to related companies, on the other hand, had a counter-effect.

17 Inventories

Inventories		
in € million	June 30, 2016	Dec. 31, 2015
Raw materials and supplies	300.5	321.2
Finished goods	344.0	311.6
Work in progress	277.2	246.4
Advance payments	9.9	14.8
Total inventories	931.6	894.0

18 Trade receivables

Trade receivables		
in € million	June 30, 2016	Dec. 31, 2015
Third parties	607.5	640.9
Related companies	118.7	67.6
Total trade receivables	726.2	708.5

19 Construction contract and service business receivables

Construction contract and service business receivables		
in € million	June 30, 2016	Dec. 31, 2015
Construction contract receivables (based on percentage of completion)	382.6	383.7
Thereof: Advance payments received for construction contracts	-245.3	-263.2
Service business receivables (based on percentage of completion)	188.4	180.8
Total construction contract and service business receivables	325.7	301.3

20 Other assets

Other assets comprise recoverable tax payments, in particular surplus input tax payments.

23 Cash and cash equivalents

Cash and cash equivalents		
in € million	June 30, 2016	Dec. 31, 2015
Demand deposits and cash	155.3	34.7
Fixed-term and overnight deposits with an original maturity of three months or less	262.2	18.4
Total cash and cash equivalents	417.5	53.1

Cash and cash equivalents include foreign currency holdings with an equivalent value of € 79.6 million (Dec. 31, 2015: € 52.2 million).

24 Equity

Changes in equity are presented in the Consolidated Statement of Changes in Equity.

The company's subscribed capital (capital stock) is unchanged at € 52.0 million and is divided into 52.0 million non-par bearer shares.

Capital reserves include premiums from the issue of shares and the equity component (net of proportional transaction costs and taxes) of the bond issued in 2007 and repaid / converted in the first quarter of 2012, as well as of the new convertible bond issued in 2016. Also included is the fair value of shares granted under the Matching Stock Program and Share Matching Plan as well as an amount representing the difference between the proceeds of treasury shares sold under the MAP employee stock option program and Share Matching Plan and their original acquisition cost.

Revenue reserves comprise the post-tax retained earnings of consolidated group companies, insofar as these have not been distributed, and the portion of earnings after tax generated in the first six months of 2016, amounting to € 158.4 million (January to June 2015: € 104.0 million), which is available for distribution to shareholders of MTU Aero Engines AG after deduction of the dividend payment for the financial year 2015, which totals € 86.9 million (January to June 2015: € 74.0 million). Due to the positive earnings after tax generated in the first six months of 2016, revenue reserves increased to € 1,217.1 million at June 30, 2016 (Dec. 31, 2015: € 1,145.6 million).

A total of 51,356,103 MTU Aero Engines AG, Munich, shares (June 30, 2015: 51,118,724 shares) were in issue at June 30, 2016. The company held 643,897 treasury shares (June 30, 2015: 881,276 treasury shares) at June 30, 2016.

In the first six months of 2016, other comprehensive income (OCI) decreased by a further € 60.6 million (January to June 2015: decreased by € 16.0 million), from a negative balance of € 271.4 million at December 31, 2015 to a negative balance of € 332.0 million at June 30, 2016. These changes include fair-value gains on cash flow hedging instruments amounting to € 47.2 million before tax (i.e. deferred tax) or € 31.6 million after tax (i.e. deferred tax). The comparative figures for January to June 2015 were fair-value losses of € 64.4 million before tax and € 47.4 million after tax.

Actuarial losses on plan assets and pension obligations, resulting from changes in the discount rate, amounted to € 116.2 million before tax and € 78.8 million after tax (January to June 2015: actuarial gains of € 15.5 million before tax and € 10.4 million after tax). Translation differences arising from the financial statements of international entities produced a negative effect of € 13.4 million (January to June 2015: a positive effect of € 21.0 million).

27 Other provisions

The increase of € 36.1 million in other provisions to € 556.1 million relates primarily to deferred items in connection with MTU's share in the GENx and GP7000 engine programs, and reflects the situation at the reporting date.

28 Financial liabilities

Financial liabilities						
	Total		Non-current		Current	
in € million	June 30, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015	June 30, 2016	Dec. 31, 2015
Bonds and notes	347.9	353.2	97.8	347.2	250.1	6.0
Convertible bond	472.3		472.2		0.1	
Financial liabilities arising from IAE-V2500 stake increase	393.8	419.6	342.1	367.1	51.7	52.5
Financial liabilities arising from other program participations	96.7	111.8	50.8	56.0	45.9	55.8
Financial liabilities to banks						
Note purchase agreement	30.1	30.1	30.0	30.0	0.1	0.1
Revolving credit facility		99.1				99.1
Other liabilities to banks		20.0				20.0
Financial liabilities to related companies	0.6				0.6	
Finance lease liabilities	12.2	12.9	10.9	11.6	1.3	1.3
Total gross financial liabilities	1,353.6	1,046.7	1,003.8	811.9	349.8	234.8
Derivatives without hedging relationship	27.3	38.3	8.7	22.3	18.6	16.0
Derivatives with hedging relationship	51.5	102.9	7.8	27.4	43.7	75.5
Personnel-related financial liabilities	29.2	30.6	10.3	14.1	18.9	16.5
Other financial liabilities						
Repayment of grants toward development costs	34.5	38.5	25.3	29.3	9.2	9.2
Sundry other financial liabilities	140.4	165.2	2.9	5.2	137.5	160.0
Total other financial liabilities	282.9	375.5	55.0	98.3	227.9	277.2
Total financial liabilities	1,636.5	1,422.2	1,058.8	910.2	577.7	512.0

Bonds and notes

For detailed information on the corporate bond, issued for a nominal amount of € 250.0 million, and the note purchase agreement, issued for a nominal amount of € 100.0 million, please refer to page 201 of the Annual Report 2015.

Convertible bond

With effect of May 17, 2016, MTU Aero Engines AG placed an unsecured convertible bond with a total par value of € 500.0 million. The bond is issued with preferential subscription rights and is convertible into new and / or existing registered non-par-value common shares of the bond issuer.

The convertible bond has a term to maturity of 7 years and is divided into units with a par value of € 100,000. The coupon rate is 0.125% p.a., payable yearly in arrears. A conversion price of € 124.7701 was fixed at the issue date. This represents a premium of 50% above the reference share price.

The carrying amount of the convertible bond in the balance sheet at June 30, 2016, included discounted interests of € 23.8 million calculated according to the effective interest method and transaction fees of € 4.5 million recognized directly in equity, which were offset against deferred interest liabilities and charges from the compounding of interest recognized in the income statement amounting to € 0.6 million.

Financial liabilities arising from IAE-V2500 stake increase

The agreement signed by MTU in the financial year 2012 in order to increase its stake in the V2500 engine program by five percentage points to 16% included a deferred purchase price component contingent upon the number of flight hours performed over the next 15 years. At June 30, 2016, this liability, taking interest and partial settlements into account, amounted to € 393.8 million (Dec. 31, 2015: € 419.6 million).

Financial liabilities arising from other program participations

The financial liabilities arising from other program participations mainly relate to deferred program entry payments for the PW1000G family of GTF engines, the PW800 and the LM6000-PF+.

Note purchase agreement

For detailed information on the note purchase agreement issued for a nominal amount of € 30.0 million, please refer to page 202 of the Annual Report 2015.

Revolving credit facility

The company has access to a revolving credit facility of € 400.0 million with five banks, which runs until October 30, 2020. A total of € 14.3 million had been drawn down under this facility at June 30, 2016, in the form of guarantees in favor of third parties (Dec. 31, 2015: a total of € 113.7 million, of which € 14.6 million in the form of guarantees in favor of third parties). Any credit utilized is subject to interest at the customary market reference rate plus an additional margin. Unused credit facilities are subject to a loan commitment fee.

Other liabilities to banks

Other liabilities to banks relates to a money-market line that allows MTU to borrow or invest liquid funds of up to € 20.0 million on a short-term basis at money-market conditions. This uncommitted facility was not being utilized at June 30, 2016 (Dec. 31, 2015: € 20.0 million).

Finance lease liabilities

Finance lease liabilities represent obligations under finance lease arrangements that are capitalized and amortized using the effective interest rate method. For information on significant leased assets, please refer to page 181 of the Annual Report 2015.

Liabilities arising out of derivatives

The derivative financial instruments with and without hedging relationship, which amounted to € 78.8 million at the interim reporting date (Dec. 31, 2015: € 141.2 million), are held for the purpose of hedging exchange-rate and commodity-price risks.

Personnel-related financial liabilities

Personnel-related financial liabilities mainly comprise obligations relating to company pensions and the Christmas bonus. The increase of € 10.7 million in these liabilities was mainly due to the latter items. One-time capital payments and payments by installment relating to the company pension scheme amounted to € 12.6 million (Dec. 31, 2015: € 15.4 million). Personnel-related financial liabilities also include liabilities to group employees under the MAP employee stock option program and the Share Matching Plan (SMP) amounting to € 3.2 million (Dec. 31, 2015: € 5.7 million). The total expense for payments under the MAP and SMP in the first six months of 2016 amounted to € 2.0 million (January to June 2015: € 2.0 million).

Repayment of grants toward development costs

In the financial years from 1976 through 1991, MTU received grants from the German Federal Ministry of Economics and Technology toward the development costs of the PW2000 engine. Once the sales figures of PW2000 production engines for the Boeing 757 and C-17 as set down in the grant notice have been met, MTU is obliged to reimburse the full sum of the grants received within a timeframe of ten years. In the financial years 2011 through 2015, a total amount of € 24.9 million was repaid, and a further € 4.7 million in the first six months of 2016.

Sundry other financial liabilities

The sundry other financial liabilities totaling € 140.4 million (Dec. 31, 2015: € 165.2 million) include an amount of € 95.7 million (Dec. 31, 2015: € 111.4 million) relating to obligations arising from externally acquired development services for the PW1000G family and the PW800. This item also includes numerous other smaller amounts relating to diverse contractual obligations.

30 Construction contract and service business payables

Construction contract and service business payables

in € million	June 30, 2016	Dec. 31, 2015
Advance payments received for construction contracts	391.4	471.4
Amount of above offset against construction contract receivables	-245.3	-263.2
Advance payments received for service business	158.3	165.6
Total construction contract and service business payables	304.4	373.8

Construction contract and service business payables represent the excess amount after advance payments received have been offset against the corresponding receivables, measured using the percentage-of-completion method (see Note 19: Construction contract and service business receivables).

31 Other liabilities

Other liabilities, all of which have a remaining term of less than one year, comprise the following items:

Other liabilities		
in € million	June 30, 2016	Dec. 31, 2015
Personnel-related liabilities		
Social security	2.1	1.9
Other personnel-related liabilities	42.2	27.7
Other tax liabilities	15.0	12.8
Sundry other liabilities	0.2	0.4
Total other liabilities	59.5	42.8

Personnel-related liabilities

The social security liabilities comprise an amount of € 0.3 million (Dec. 31, 2015: € 0.2 million) mainly for contributions to insurance associations for occupational accidents and an amount of € 1.8 million (Dec. 31, 2015: € 1.7 million) for accounts payable to health insurance providers. Other personnel-related liabilities principally concern vacation entitlements and flex-time credits.

Other tax liabilities

The other tax liabilities amounting to € 15.0 million (Dec. 31, 2015: € 12.8 million) comprise outstanding personal income tax and church tax payments, solidarity surcharges and domestic and foreign transactional taxes.

32 Additional disclosures relating to financial instruments

Carrying amounts, measurement/recognition methods and fair value aggregated by category

In the following tables, the carrying amounts of financial instruments are aggregated by category, irrespective of whether or not the instruments fall within the scope of IFRS 7 or IAS 39. The information presented also includes separate amounts for each category as a function of the measurement / recognition method applied. Finally, the carrying amounts are set opposite the fair values for comparison.

Disclosures relating to financial instruments

Carrying amounts, measurement/ recognition methods and fair value aggregated by category at June 30, 2016

	Category as defined in IAS 39/ Other category	Carrying amount June 30, 2016	Amount carried in balance sheet in accordance with IAS 39				Amount carried in balance sheet IAS 17	Financial instru- ments not within the scope of IAS 39 or IFRS 7	Total	Fair value June 30, 2016
in € million			Measured at amortized cost	Measured at cost	Fair value recognized in equity	Fair value recognized in income statement				
ASSETS										
Other financial assets										
Loans, receivables, other financial assets	LaR	93.7	91.4					2.3	93.7	93.7
Available-for-sale financial assets	AfS	6.1		6.1					6.1	6.1
Trade receivables	LaR	726.2	726.2						726.2	726.2
Construction contract and service business receivables	LaR	325.7	325.7						325.7	325.7
Derivative other financial assets										
Derivatives without hedging relationship	FAHfT	0.1				0.1			0.1	0.1
Derivatives with hedging relationship	n.a.	4.4			4.4				4.4	4.4
Cash and cash equivalents	LaR	417.5	417.5						417.5	417.5
EQUITY AND LIABILITIES										
Trade payables	FLAC	736.6	736.6						736.6	736.6
Financial liabilities										
Bonds and notes	FLAC	347.9	347.9						347.9	353.6
Convertible bond	FLAC	472.3	472.3						472.3	472.3
Financial liabilities arising from increase and acquisitions of program shares	FLAC	490.5	490.5						490.5	498.8
Other gross financial debt	FLAC	30.7	30.7						30.7	30.7
Derivative financial liabilities										
Derivatives without hedging relationship	FLHfT	27.3				27.3			27.3	27.3
Derivatives with hedging relationship	n.a.	51.5			51.5				51.5	51.5
Finance lease liabilities	n.a.	12.2					12.2		12.2	12.2
Other financial liabilities	FLAC/ n.a.	204.1	174.9					29.2	204.1	207.1
Thereof aggregated by category as defined in IAS 39										
Loans and receivables	LaR	1,563.1	1,560.8					2.3	1,563.1	1,563.1
Available-for-sale financial assets	AfS	6.1		6.1					6.1	6.1
Financial assets held for trading	FAHfT	0.1				0.1			0.1	0.1
Financial liabilities measured at amortized cost	FLAC/ n.a.	2,282.1	2,252.9					29.2	2,282.1	2,299.1
Financial liabilities held for trading	FLHfT	27.3				27.3			27.3	27.3

Abbreviations:

LaR = Loans and Receivables
HtM = Held-to-Maturity Investments
AfS = Available-for-Sale Financial Assets

FAHfT = Financial Assets Held for Trading
FLAC = Financial Liabilities Measured at Amortized Cost
FLHfT = Financial Liabilities Held for Trading
FLtPL = Financial Liabilities Measured at Fair Value Through Profit or Loss

Disclosures relating to financial instruments

Carrying amounts, measurement/recognition methods and fair value aggregated by category at December 31, 2015

	Category as defined in IAS 39/ Other category	Carrying amount Dec. 31, 2015	Amount carried in balance sheet in accordance with IAS 39				Amount carried in balance sheet IAS 17	Financial instru- ments not within the scope of IAS 39 or IFRS 7	Total	Fair value Dec. 31, 2015
in € million			Measured at amortized cost	Measured at cost	Fair value recognized in equity	Fair value recognized in income statement				
ASSETS										
Other financial assets										
Loans, receivables, other financial assets	LaR	95.1	94.2					0.9	95.1	95.1
Available-for-sale financial assets	AfS	44.0		6.1	37.9				44.0	44.0
Trade receivables	LaR	708.5	708.5						708.5	708.5
Construction contract and service business receivables	LaR	301.3	301.3						301.3	301.3
Derivative financial assets										
Derivatives without hedging relationship	FAHfT	0.2				0.2			0.2	0.2
Derivatives with hedging relationship	n.a.	0.7			0.7				0.7	0.7
Cash and cash equivalents	LaR	53.1	53.1						53.1	53.1
EQUITY AND LIABILITIES										
Trade payables	FLAC	673.4	673.4						673.4	673.4
Financial liabilities										
Bonds and notes	FLAC	353.2	353.2						353.2	361.1
Financial liabilities arising from increase and acquisitions of program shares	FLAC	531.4	531.4						531.4	534.8
Other gross financial debt	FLAC	149.2	149.2						149.2	149.2
Derivative financial liabilities										
Derivatives without hedging relationship	FLHfT	38.3				38.3			38.3	38.3
Derivatives with hedging relationship	n.a.	102.9			102.9				102.9	102.9
Finance lease liabilities	n.a.	12.9					12.9		12.9	12.9
Other financial liabilities	FLAC/ n.a.	234.3	203.7					30.6	234.3	237.4
Thereof aggregated by category as defined in IAS 39										
Loans and receivables	LaR	1,158.0	1,157.1					0.9	1,158.0	1,158.0
Available-for-sale financial assets	AfS	44.0		6.1	37.9				44.0	44.0
Financial assets held for trading	FAHfT	0.2				0.2			0.2	0.2
Financial liabilities measured at amortized cost	FLAC/ n.a.	1,941.5	1,910.9					30.6	1,941.5	1,955.9
Financial liabilities held for trading	FLHfT	38.3				38.3			38.3	38.3

Financial instruments not within the scope of IFRS 7 or IAS 39 mainly relate to personnel-related liabilities and the corresponding plan assets accounted for in accordance with IAS 19. Cash and cash equivalents, trade receivables, and other receivables are generally due within a short time. The same is usually true for trade payables and other liabilities as well; the carrying amounts of these assets therefore correspond approximately to their fair value.

Classification of fair-value measurements of financial assets and liabilities according to the fair-value hierarchy

In order to comply with the rules governing the fair-value measurement of financial assets and liabilities, MTU assigns these assets and liabilities to three levels of a fair-value hierarchy.

The three levels of the fair-value hierarchy are described below, together with their utilization when measuring financial assets and liabilities:

Level 1 Quoted prices in active markets for identical assets or liabilities (unadjusted input);

Level 2 Prices of assets or liabilities that can be observed directly or indirectly (derived);

Level 3 Unobservable inputs used to measure prices of assets or liabilities.

The following tables show the allocation of financial assets and liabilities measured at fair value to the three levels of the fair-value hierarchy for 2016 and 2015:

Allocation of financial assets and liabilities to the 3 levels of the fair value hierarchy at June 30, 2016

in € million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial instruments		4.5		4.5
Total financial assets		4.5		4.5
Financial liabilities measured at fair value				
Derivative financial instruments		78.8		78.8
Total financial liabilities		78.8		78.8

Allocation of financial assets and liabilities to the 3 levels of the fair value hierarchy
at December 31, 2015

in € million	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Derivative financial instruments		0.9		0.9
Available-for-sale financial assets		37.9		37.9
Total financial assets		38.8		38.8
Financial liabilities measured at fair value				
Derivative financial instruments		141.2		141.2
Total financial liabilities		141.2		141.2

The fair value of the derivative financial instruments and securities assigned to level 2 is measured using the discounted cash flow (DCF) method. The fair value of available-for-sale financial assets corresponds approximately to their nominal value, due to the interest rate conditions and credit-worthiness of the respective contractual partners.

Within the scope of its partnerships in engine programs, MTU is a party to aircraft financing agreements for the purpose of promoting sales. Such loan commitments are only ever entered into jointly with other partners in the engine consortium. They are provided in two basic forms: predelivery payment (PDP) and backstop commitments. In both cases, any funds made available to the purchaser are always transferred directly to the aircraft manufacturer solely by the consortium leader.

MTU classifies loan commitments offered up to the reporting date totaling a nominal amount, translated into euros, of € 280,4 million (Dec. 31, 2015: € 404.6 million) as part of its gross risk in accordance with the requirements of IFRS 7. However, based on experience, it is considered to be very unlikely that these notional loan amounts will actually be utilized to their full extent. In the event that loan commitments are utilized, MTU considers the associated liquidity and credit risks to be manageable. For more information, especially concerning the terms of the loan agreements, please refer to page 212 of the Annual Report 2015.

37 Contingent liabilities and other financial obligations

At June 30, 2016, contingent liabilities amounted to € 41.6 million (Dec. 31, 2015: € 61.4 million). Contingent liabilities and other financial obligations are not material to the financial position of the MTU group. As in previous periods, with the exception of certain obligations in connection with leasing arrangements, no amounts fell due for payment during the reporting period. Similarly, no amounts are expected to be paid during the rest of the financial year 2016. For information concerning the composition and nature of contingent liabilities and other financial obligations, please refer to page 222 of the Annual Report 2015.

Purchase commitments for intangible assets and property, plant and equipment amounted to € 67.9 million at June 30, 2016 (Dec. 31, 2015: € 39.1 million).

38 Transactions with related companies and persons

Related companies

Transactions between group companies and joint ventures or associated companies were, without exception, conducted in the context of their normal business activities and made on terms equivalent to those that prevail in arm's-length transactions. Business transactions between companies included in the consolidated financial statements were eliminated in the course of consolidation and are therefore not subject to any separate disclosure.

Business with related companies

During the course of the reporting period, intra-group transactions involving the supply of goods and services were conducted by group companies as part of their normal operating activities (e.g. development, repairs, assembly, IT support).

Trade receivables from these companies at June 30, 2016 amounted to € 118.7 million (Dec. 31, 2015: € 67.6 million), while trade payables totaled € 82.2 million (Dec. 31, 2015: € 66.8 million). Income arising from intra-group transactions in the first six months of 2016 amounted to € 803.2 million (January to June 2015: € 632.4 million), while the corresponding expenses amounted to € 558.3 million (January to June 2015: € 460.3 million).

Related persons

No group company has conducted any significant transactions with members of the group's Executive Board or Supervisory Board, or with any other individuals holding key management positions, or with companies in which these persons hold a seat on the managing or supervisory board. The same applies to close members of the families of those persons.

Events after the interim reporting date (June 30, 2016)

No significant events with a material impact on the net assets, financial position or operating results of the MTU group have occurred after the end of the interim reporting period and prior to the date this half-year financial report was drawn up (July 18, 2016).

Publication of the half-year financial report

The half-year financial report of MTU Aero Engines AG, Munich, for the period from January 1 to June 30, 2016, will be published on the company's website on July 26, 2016.

Statement by the legal representatives

We hereby affirm that, to the best of our knowledge, the condensed interim 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 interim 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.

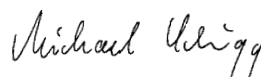
Munich, July 18, 2016



Reiner Winkler
Chief Executive Officer



Dr. Rainer Martens
Chief Operating Officer



Michael Schreyögg
Chief Program Officer

Auditor's opinion

Addressed to: MTU Aero Engines AG

We have reviewed the condensed interim consolidated financial statements prepared by MTU Aero Engines AG, Munich, comprising the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and selected explanatory notes, together with the interim group management report similarly prepared by MTU Aero Engines AG, Munich, for the interim reporting period from January 1, 2016 to June 30, 2016. These documents form part of the half-year financial report pursuant to Section 37w of the German Securities Trading Act (WpHG). The preparation of the condensed interim consolidated financial statements in accordance with IFRSs as endorsed for application in the EU, and the preparation of the interim group management report in accordance with the applicable requirements of the German Securities Trading Act (WpHG), are the responsibility of the group's legal representatives. Our responsibility is to express an opinion on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We conducted our review of the condensed interim consolidated financial statements and of the interim group management report in accordance with German generally accepted standards for the auditing of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the review such that we obtain reasonable assurance that the condensed interim consolidated financial statements do not deviate significantly from the IFRS requirements concerning the presentation of interim reports, as endorsed for application in the EU, and that the interim group management report does not deviate – from the applicable requirements of the German Securities Trading Act (WpHG), based on our critical evaluation of these documents. In a review as opposed to a full audit, our evaluation is based principally on interviews with employees of the company and on analytical assessments. Its findings are therefore less reliable than those of a full audit. Since our review does not constitute an audit in the strict legal sense, we are unable to pronounce a certified opinion.

Nonetheless, based on our review, no findings have come to light that might lead us to conclude that the condensed interim consolidated financial statements do not comply with the IFRS requirements for interim financial reporting, as endorsed for application in the EU, nor that the interim group management report does not comply with the applicable requirements of the German Securities Trading Act (WpHG).

Munich, July 21, 2016

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Keller
German Public Auditor

Westermeier
German Public Auditor

Additional information

Financial calendar

Interim financial report at June 30, 2016	July 26, 2016
Quarterly Statement at September 30, 2016	October 25, 2016
MTU analysts and investors conference 2016	December 14, 2016

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Translation

The German version takes precedence.

MTU Aero Engines AG online

- For more information about MTU Aero Engines AG, please visit our website at www.mtu.de.
- For direct access to the section devoted to investor relations, follow this link: www.mtu.de/de/investor-relations.
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Cover page

Instrumentation work in a GE9X turbine center frame at MTU Aero Engines, Munich



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