



General Meeting  
MTU Aero Engines Holding AG

Address delivered by Chief Executive Officer  
Udo Stark  
in Munich  
on May 12, 2006

**- THE SPOKEN WORD SHALL APPLY -**

Dear Shareholders,  
Ladies and Gentlemen:

I am pleased to welcome you, also on behalf of my colleagues on the board of management, at the first General Meeting of MTU Aero Engines as a listed company. We greatly appreciate your great interest and personal involvement in the company. This includes the attending media representatives that have been accompanying MTU in a committed and fair manner.

My colleagues and I today report on MTU's fiscal year 2005 and our expectations for the continued development of MTU. For starters, let me say we are off to a flying start into the current year, as it will readily become apparent from the figures for the first four months.

### **Fiscal 2005 in overview**

But let me first present the key figures of fiscal 2005, which for MTU has been a banner year strategically as well as operationally.

Last year's striking change no doubt was our successful initial public offering in June 2005, at which we placed 35.65 million shares. At an issue price of 21 euros, the IPO was multiply oversubscribed. In September 2005, the company was already included in the MDAX, making your company one of the presently 50 most significant midcap securities of the German capital market.

At the IPO, about two-thirds of the capital stock was placed. As of early-February this year, the company's entire stock is widely held, after KKR sold its last remaining approximately 29% holding to institutional investors. We greatly appreciate the bullish reception of the two placements; it provides the company with a solid foundation on which to continue its profitable growth course. It moreover solidifies our standing as an independent national partner of the German armed forces, notably in the military arena.

No less encouraging has been the way our market capitalization developed. From the day we went public to early-May this year, it grew by 40%, to about 1.6 billion euros.

On the operational side, we beat our own targets. MTU outpaced its markets. Let me elaborate on just some of the key data:

Sales rose to about 2.15 billion euros, up 12.0%. In terms of EBITDA<sup>1</sup>, at 233.0 million euros, we easily beat last year's performance, by 35%.

Helped by substantial down-payments from customers, the cash flow from operational activities amounted to about 290 million euros for the year (2004: 73 million euros). Our net income<sup>2</sup> for 2005, adjusted for the effects from the purchase price allocation, amounted to 51.4 million euros, up 295% (2004: 13.0 million euros). Per share, the 2005 figure amounts to 0.93 euros, versus 0.24 euros in 2004.

For our shareholders, I would like to immediately proceed with a rundown on actual business developments in the current year. A glance at 2006 first-quarter developments provides ample room for optimism.

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<sup>1</sup> EBITDA = earnings before interests, taxes, depreciation and amortization, calculated on a comparable basis; adjusts the IFRS results of the company by restructuring and transaction costs, capitalized R&D costs as well as the effects deriving from IFRS Purchase Accounting.

<sup>2</sup> Adjusted net income: adjusts the reported net income for the effects of IFRS Purchase Accounting and associated tax effects to make it more comparable with the profit for the year according to HGB, which serves as the basis for calculating the dividend

## First quarter 2006

In these three months, we grew our sales 10.8%, from 509.7 million euros to 564.8 million euros. Concurrently, our EBITDA grew 21.1%, to 66.6 million euros, compared with 55.0 million euros the year before.

Very good news comes from adjusted net income, which MTU more than doubled, to 25.7 million euros (1-3/2004: 11.2 million euros).

Looking at individual business segments, we find that **commercial engine maintenance, repair and overhaul (MRO)** scored best in terms of sales growth over the previous year. The first-quarter sales in this segment rose 28.1%, to 221.1 million euros.

The **commercial engine business** in the first quarter posted 246.0 million euros in sales. Adjusted for the spin-off of Atena last year, that amounts to a 5.8% gain.

The **military engine business** reported sales of 102.3 million euros, up 1.7% over the first three months of 2005.

The results show MTU to be on a winning track. The targets we had set ourselves for the first quarter just ended were met throughout, if not surpassed.

The April numbers, which just came in, corroborate the very positive business trend:

For the first four months, we are pleased to report sales of about 761 million euros, or 13.7% more than for the same period in 2005. EBITDA, again including April, was about 93 million euros, up 36.5% over the prior year. At 35 million euros, adjusted net income, too, showed considerable growth, up 23.3 million euros, or nearly 200%, over the first four months of 2005.

In a nutshell: Compared with the first quarter of 2006 with its already good results, April again brought appreciable gains. The solid growth trend continues. This is corroborated also by a short glance at developments in the aviation industry overall:

## Aviation industry on the rise

The aviation industry continues on an upward trend. IATA International Air Transport Association pegs 2005 international air traffic growth at 7.6%. Allowing additionally for developments in the respective national markets, global growth amounted to fully 5%. Cargo grew a little over 3%.

There is an index making clear how MTU stands out positively from general market developments: this is the number of engines in parked (100-plus seat) aircraft, called the park rate. Last year, the rate was 12.3% globally. However, it was a mere 7.1% for the MTU engine fleet. In 2005, the park rate for the overall market came down 1%, and for the engine fleet with MTU content it even dropped 5%.

In the first three months of 2006, the positive trend continued. The park rate in the general market dropped by 1% compared with the year before, while for the MTU fleet, it fell 3%. We owe that to our engine portfolio, which is young and modern and therefore represented in aircraft first to re-enter service.

This comparative data on the whole makes aviation experts expect that future growth will still exceed the long-term 4.5 to 5.0% average annual gain predicted for international passenger and freight traffic.

## **2005: Record orders and rising aircraft deliveries drive long-term growth**

This positive outlook takes its cue also from the record orders received last year by the prime engine manufacturers Airbus and Boeing. In the aggregate, they totalled 2,142 orders comparing with 668 deliveries (up 10% from 2004). While this order spike is not likely to recur at that level anytime soon, order backlogs, already at a high level, will probably continue to increase also in the current year, considering that in the very first quarter, almost 300 orders were received.

In the smaller business jet sector, too, where MTU has appreciable stakes in Pratt & Whitney programs, 2005 saw healthy developments. At 750 business jet deliveries, the market surged 27%. Developments in 2006 will remain encouraging as well: through March 2006, already 189 business jets were delivered by their manufacturers.

## **Fiscal year 2005 in numbers**

In 2005, MTU not only grew with the market, it outpaced it. This will become apparent from some of the key data:

### Sales

Our sales grew 12.0% last year, outperforming the 10% general market growth. The sales gain, to 2,148.6 million euros, is due primarily to the above-average growth in commercial engine maintenance. This is where we gained 27.1%, to 732.1 million euros. Solid sales growth, at 4.3%, was recorded by our OEM business, which increased from 1,375.6 million euros in 2004 to 1,434.8 million euros in 2005.

Split between defense and nondefense markets, the OEM business broadly divides as follows:

Sales in the commercial engine business grew 7.2%, to 943.4 million euros. Military sales, at 491.4 million euros, remained just about flat at last year's level.

Unarguably, air commerce is an international business. For MTU, this means that its contracts are largely denominated in U.S. dollars. Exposure to fluctuations in currency exchange rates, and hedging against it, therefore, are relevant concerns for MTU. In the absence of hedging, a 1-cent fluctuation, for instance, would translate to plus/minus 3 to 4 million euros in EBITDA. The companies, therefore, methodically hedge against exchange rate fluctuations, especially of the U.S. dollar. For the current year, we have buffered the company from exchange rate fluctuations by hedging more than 70% of the U.S. dollar exposure at an average rate of 1.26 dollar to the euro.

## EBITDA

With reference now to 2005's EBITDA: It stands for earnings before interest, taxes and depreciations, figured comparably. It excludes effects relating solely to the leveraged buyout, that is the acquisition by an investment firm. This refers notably to the purchase price allocation and associated depreciation and substantial transaction costs. Moreover, the earnings have been adjusted for events unconnected with the operational business, such as reversed reserves for research and development or restructuring costs. This way, we created the comparability with other companies desired by the capital market, which otherwise would be obscured by effects from the leveraged buyout.

Taking a look now at concrete numbers: at a 35% gain, EBITDA in 2005 saw an above-average growth, to 233.0 million euros. Seen a sharp upward trend have earnings in commercial engine MRO, where the gain was 68.8%. In the OEM business, we distinctly improved EBITDA, up 23.7%.

MTU's EBITDA marge, or the operating result, has grown about 2 percentage points overall for MTU. In the OEM business, the gain was achieved despite appreciably increased deliveries of new products.

I am saying "despite appreciably increased deliveries of new products" for a good reason, because business in this area is hotly contested. As a result, discounts on the initial sale of engines often hurt earnings. However, efficiency improvements have helped to compensate, as has the significant growth in volume in the MRO segment. And, not least, the wind-down of the development programs, now nearly complete, for our new engines GP7000 and PW6000 for the biggest and smallest Airbus transport, respectively, permit scheduled slowdown of research and development spending.

## Cash Flow

A quick word on cash flow from operational activities: it nearly quadrupled, to 290.1 million euros. It is driven by increased operating earnings and improvements in working capital. This is where particularly large down-payments from military customers have made themselves felt.

Strong liquidity improvements enabled us to appreciably reduce financial liabilities. MTU has paid down some 525 million euros in loans, reducing its net financial liabilities by more than 70%.

## Net income

With reference now to the year's net income, which MTU in the last fiscal year again improved appreciably, from 0.2 million euros in 2004 to 32.9 million euros last year.

Adjusting this figure for the previously explained purchase price-related goodwill allocations and the impact they have on taxes, a clearly upside picture again results: the adjusted 2005 net income stood at 51.4 million euros, after 13.0 million euros in 2004. That is very nearly a 300 percent increase.

## Dividends

Based on the positive sales and earnings developments and in consideration of the outlook for the years ahead, the board of management and the supervisory board propose to today's general meeting that a dividend of 0.73 euro per share be paid out.

For comparison: the adjusted net income yields a result of 0.93 euro per share for 2005. Our current 90 million-euro objective for 2006, by comparison, corresponds to more than 1.60 euro per share.

The proposed payout amounts to a dividend yield of 2.5%. This figure ranges at our peer group level and slightly above the European aerospace average.

In the years ahead, too, we aim to keep the distribution of company profits compatible with that of our peer group and adequate from earnings and liquidity aspects.

## Equity capital

A few words still on the development of equity capital. On Dec. 31, 2004, it stood at 217.0 million euros, and at 528.3 million euros on Dec. 31, 2005. In other words, the equity ratio, including the capital increase from the IPO, improved from 8.0% to 20.7%. On Dec. 31, 2005, accordingly, the company's interest-bearing debt merely amounted to 37% of equity capital. That in our opinion reflects a solid capital structure.

## **Development of the individual business segments**

I believe that apart from the general balance sheet and profit & loss numbers, some explanations will be helpful about activities in the commercial engine, military engine and commercial MRO sectors.

### **Commercial engine business**

From the **commercial engine business**, MTU in 2005 derived more than 43% of its overall sales. Sales grew 7.2%, to 943.4 million euros. The growth was driven by especially hefty gains in the OEM business. This is because in its 2005 deliveries, MTU has grown faster than the industry average. All of the engines today reaching customers as new products will several years from now call for spare parts and repair services. MTU will profitably provide both.

Significant milestones last fiscal year were:

- The "Clean" demonstrator engine successfully passed its first test at Stuttgart University's altitude test facility. "Clean" is an MTU-led European technology demonstrator program. Under the program, essential technologies to sustain a recuperated aircraft engine were validated. The concept enables fuel consumption to be reduced some 15 to 20% compared with present-generation engines.
- For use on business jets, we successfully launched a new engine, the PW307. MTU has a 15% role in the engine. It will make its first flight on the Falcon 7X.

- The PW6000 to power the Airbus A318 will make its debut with A318 launch customer LAN Chile. Production of the engine will commence this year. Another piece of good news is that Pratt & Whitney awarded MTU a sole-source contract for the final assembly of the production engines.
- Turning into a true bestseller has been the V2500 engine powering the Airbus A320 family of transports. The largest ever contract awarded the V2500 engine consortium was won last year when the IndiGo airline ordered 100 V2500-powered Airbus A320s. For MTU, that means about 155 million euros in sales.
- MTU's most significant commercial engine program down the road, the GP7000 to equip the Airbus A380, in December 2005 won its FAA certification. Flight testing on the A380 will begin anytime soon.

These then, were some of the milestones from the commercial programs.

## **Military engine business**

With reference now to the **military engine business**:

This is where MTU last year derived 23% of overall sales. At 491.4 million euros, sales remained stable at last year's level.

- The on-going service entry of the Eurofighter Typhoon led to sustained high EJ200 engine sales, apart from a temporary stretch in delivery between the first and second tranches of the EJ200. Export sales will do their bit, as well: in April 2005, a contract was inked for the supply of 38 engines to power the 18 Eurofighter Typhoons Austria has ordered.
- For the MTR390 powering the Tiger combat helicopter, a development contract was signed last year for an updated version. Spain will be the first customer to deploy this improved MTR390 Enhanced version.
- On the TP400-D6 to power the emerging A400M military transport, MTU will serve a very special role: final assembly and acceptance tests of all production engines will occur at its Ludwigsfelde site in the Brandenburg region. Development of the TP400 is well along. In end-2005, the engine successfully completed its first run, and in February 2006 it made its first run with the propeller mounted.
- Finally: The military business will receive a long-term boost from the expansion, signed in 2005, of the industry-military cooperative model of engine maintenance. Under the model, MTU and the German air force jointly repair military engines in an MTU-led effort. The work will be performed both at MTU's Munich site and the Erding air force base.

## Commercial MRO business

With reference now to the third pillar of our business: **commercial engine MRO**.

At a sales growth of 27.1%, it presently is MTU's fastest growing business segment. The company draws more than one-third of its business from this area.

MTU is the world's largest independent provider of engine maintenance services, a position we worked to consolidate last year. The total contract value of all engines already committed for repair services in the years ahead soared by 943 million euros, to 2.896 million euros.

- MTU is perfectly positioned in the strongly growing Asian market.

For one, in China there is MTU Maintenance Zhuhai, which in 2004 was honored as best maintenance operation in Asia Pacific. MTU Maintenance Zhuhai in fiscal 2005 more than doubled its sales, to 83.3 million euros. We expect the shop to show solid growth also in the years ahead.

- MTU's second Asian stronghold is Airfoil Services Sdn. Bhd. (ASSB) in Malaysia, a joint venture with Lufthansa-Technik. It specializes in the repair of engine blades. In October 2005, we decided to expand operations there and expect to grow sales to roughly 20 million dollars by 2010.
- Hailing from Asia also was one of the major repair contracts we won in 2005: in January last year, Shanghai Airlines awarded MTU a sole-source contract for the repair of PW2000 engines. The nine-year deal is worth 240 million euros.
- A massive order was garnered in June 2005: MTU Maintenance Hannover signed a sole-source pact with JetBlue (U.S.) for the repair of all of the airline's engines. The ten-year contract is worth 750 million euros and is the largest ever in the annals of MTU Maintenance.

These examples serve to underscore MTU's determination to continue on its profitable growth track also in the years ahead. Our markets are growing, and our customers are satisfied with MTU's performance.

## Employees

The healthy developments I am reporting today for many of the company's activities spring from the good work of the entire MTU team. At MTU, we have a highly qualified and motivated crew that performed extremely well last year. I take the opportunity to cordially thank, personally and on behalf of my colleagues on the board of management, all employees for their successful commitment.

We are making an all-out effort to help our workforce maintain and build their skills. Continuation training is high on our priority list, and MTU puts its money where its corporate mouth it: in Germany alone we last year spent 2.9 million euros on continuation training.

The great success we scored in commercial engine MRO markets causes us to create 200 new jobs at the Hannover location in 2006.

## **Prospects: Research focus on fuel-saving technologies**

Our highly-qualified team of employees will help us shape the future. For the **aviation industry** is multiply **challenged** to make air traffic comply with the needs down the road.

Take fuel prices, for one. In 2005, they increased 42%, and many analysts assume the upward spiral will continue.

Another challenge we are facing are environmental standards. In view of finite fossil fuel reserves and the mandates of the Kyoto Protocol, the anticipated growth of air traffic must not be allowed to add to CO<sub>2</sub> emissions. That in itself is a very challenging goal.

Additionally, the infrastructure is running up against certain absolute constraints. Air traffic growth demands the expansion of airport facilities, which will be a financial as well sociopolitical headache. Alternatively, better use can be made of existing infrastructure. Already, approaches in that direction are in place, as perhaps in the form of cost incentives like noise-related landing fees, and the imposition of noise quotas may soon be considered as well.

For future engines, these upcoming challenges are clear:

Engines must be thriftier, cleaner and quieter. MTU has for decades been working to meet such demands in its research and development work.

Already, our present engine technology is a step in the right direction: MTU's high-pressure compressor for use in the PW6000 reduces fuel consumption by 3%.

MTU's low-pressure turbine for use in the GP7000 has been optimized to be 1% more efficient than comparable models.

That may not sound like much, but in our industry it makes a big difference: on a New York-Frankfurt flight, a GP7000-powered Airbus A380 will use a ton fuel less. Over a year's time, that adds up to more than 400 tons per airliner. And as the fuel consumption comes down, so do CO<sub>2</sub> emissions, at a 1:1 ratio.

The GP7000 is setting new benchmarks also in terms of noise, complying with the International Civil Aviation Organization standards with a comfortable 28-decibel margin.

In the time ahead, we have set our sights on even more ambitious noise and fuel consumption reduction targets. Those efforts include a new high-pressure compressor we are developing as well as a geared turbofan engine.

## **Research and development spending**

In sheer numbers, our research and development outlays last year amounted to 8.0% of our consolidated sales. Including externally funded R&D activities, that percentage equates to about 172 million euros. If we—correctly so—consider the impact of these research and development activities on the OEM business, that corresponds to 12.0% of OEM sales.

Some 80 million euros of this total amount, which are borne by MTU, were used on developments in the commercial sector. That equates to 9% of the commercial OEM sales.

The large PW6000 and GP7000 development programs, which in previous years gobbled huge R&D sums, are rapidly nearing the production phase, so that R&D expenditures for them are slowing. Yet investments into new products, that is into the installed engine base, are increasing sharply. By multiple year comparison, our 2005 R&D spending ranges at the high end of an average figure. That will be the case also this fiscal year.

### **Outlook for 2006: The markets are growing, and MTU grows with them**

Ladies and Gentlemen, let me conclude my report with an **outlook for the full year 2006**.

For 2006, we have set ourselves ambitious but nevertheless realistic targets. We want to be judged by how well we are meeting them.

In sales, we anticipate about 9% growth, to around 2.35 billion euros. We expect sales to keep growing nicely especially in the commercial engine business and commercial MRO.

As to EBITDA, we are targeting at least 270 million euros for 2006, and in line with it, 90 million euros in adjusted net income. As previously mentioned, that adds up to over 1.60 euro per share (plus 75%).

We are on track to meet if not outperform these goals. If operations continue to hum right along, we propose to review our declared targets at the time we submit our 2006 half-year results.

Rest assured that my colleagues and I will go the extra mile to lead your company into a sustained profitable future. To do just that, we would greatly appreciate your support and trust.

Thank you for your attention.