Annual General Meeting

MTU Aero Engines AG

Speech delivered by the CEO

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in Munich

- Check against delivery -
Dear shareholders,
shareholder representatives,
ladies and gentlemen,

Welcome to this year’s Annual General Meeting of MTU Aero Engines AG. My fellow members of the Executive Board join with me in thanking you for your interest. We are delighted that you have made room in your schedules to spend some time with us as we look back over our company’s progress and look ahead to the future.

First of all, and most importantly, 2015 was yet another record year for MTU and the outlook for the future is excellent.

If these words sound familiar, it’s probably because I said something similar a year ago. So the one thing you should not expect in the next quarter of an hour is to discover any major surprises. It is a hallmark of our company that we strive for continuity and reliability while realizing our strategic objective of sustainable, profitable growth. This is a promise you can trust, and one that proves that we have our shareholders’ best interests at heart as well as respecting the interests of our partners and customers.

**Business performance in 2015**

Ladies and gentlemen, I’m sure that most of you have been keeping abreast of MTU’s progress over the past year and closely following the company’s news. So you no doubt already know that 2015 was a year in which we celebrated numerous successes, and you will understand why I would like to begin my review of the past year with precisely these aspects of our performance.

In 2015, we generated revenues of 4.4 billion euros. Adjusted EBIT for the year amounted to 440 million euros and adjusted net income to 307 million euros. Each of these figures represents a new all-time best for MTU. What’s more, we significantly surpassed our earnings forecasts, even after having revised them upward in the course of the year. This is concrete evidence that our strategy of sustainable, profitable growth has been fruitful.

This consistency in our approach to business management is also reflected in the longer-term comparison of our performance. 2015 was our fourth record year in a row – four years in which we have seen an unbroken series of new all-time highs in revenues and earnings, each year qualifying as the most successful year in the history of MTU. I think we have reason to be extremely proud of this achievement.

**Highlights of the activities in MTU’s business units**

Aside from the hard financial data, 2015 was a successful year in many other ways as well. This was demonstrated by the video of the year’s major events that we showed at the beginning of this meeting, presenting the many milestones we reached in the course of the year.

Most of the highlights were to be found among the Geared Turbofan™ engines in the PurePower® PW1000G family. These are already in, or are about to go into, series production. The geared turbofan engines gave a convincing demonstration of their capabilities in 2015 in the first flights of the Bombardier CSeries 300 and the Mitsubishi Regional Jet. The engine destined for use in Embraer’s new-generation E-Jet took to the air for the first time last year – on board a flying testbed.

Another member of the PurePower® family is the PW800, which will be deployed in business jets manufactured by Gulfstream. Certified in February, the engine propelled the Gulfstream G500 on its maiden flight in May.
The geared turbofan engine made its market debut at the start of this year when Lufthansa took delivery of the first A320neo aircraft, powered by PW1100G-JM engines. Its entry into service in the customer’s fleet means that we can now ramp up series production.

Series production of the geared turbofan engines will drastically increase MTU’s manufacturing operations. That’s because the engines in this particular product family are enormously popular on the market: last financial year, roughly another 1,000 orders were received, which takes the total to about 7,000 orders and options. We are expanding our production capacity to deal with this hugely increased demand. Whereas in 2015 we delivered around 2,200 engines and modules, we will be expected to deliver nearly 4,000 in 2020. In other words, we will almost double our output by the end of this decade.

This makes it all the more important for us to ensure that we optimally manage the run-up to series production of the geared turbofan programs. One effort in this area was to accommodate the increased production requirements by expanding our manufacturing site in Poland; the new annex was inaugurated in February 2015. At our Munich plant, preparations for final assembly of the A320neo engines are running at full speed. It is in Munich that we will carry out final assembly and testing of around a third of all PW1100G-JM engines. This will be a first for MTU: never before have we been responsible for the final assembly of a commercial engine in such high numbers.

We are also on schedule with our preparations for the GE9X program. This engine, designed to power the Boeing 777X, will guarantee MTU a strong position in the future market for long-haul airliners. In 2015, we delivered prototype components for the first engine to test. GE has since successfully begun ground testing of the first full GE9X development engine at its testing operation in the U.S.

Even though the new engines will not be due for maintenance for another few years, they are firmly in the sights of our MRO team. We have built up the expertise and the capacity in Hannover to perform maintenance on the A320neo engines. The contractual side of things has also been settled. In June, we signed an agreement with Pratt & Whitney and JAEC regarding our joint collaboration in the provision of MRO services for the PW1100G-JM engine. This agreement makes MTU a partner in the aftermarket service network for this engine.

MTU Maintenance added a new service to its portfolio in 2015, namely the development of customized asset and material management solutions.

We also have good news to report in the industrial gas turbine sector, where in 2015 we acquired a 13% share in GE’s development and production program for the LM6000-PF+.

Our milestones in 2015 were not limited to the commercial engine business; we achieved several in the military engine business, too: for example, the maiden flight of the Sikorsky CH-53K transport helicopter, which is powered by GE38 engines – a program in which MTU holds an 18% share. Another maiden flight was that of the Embraer KC-390 transporter, powered by V2500 engines. In the export market, the Eurofighter scored a success when Kuwait placed an order for 28 aircraft. This gives MTU guaranteed production work on the EJ200 through to 2021.

Ladies and gentlemen, I think you will agree with me when I say that the financial year 2015 has been an outstandingly successful year for MTU. All the examples I have cited demonstrate that our investments pay off in the long run. And that’s precisely why we don’t intend to slow down now. On the contrary, we aim to keep up the momentum with a focused program of investments designed to leverage new growth potential – and by this I mean organic growth, fueled by our own resources. This strategy will enable us to act from a position of strength and actively shape the future of aviation.
Employees

While it is easy to list our company’s achievements, we should not forget that a great deal of effort went into obtaining these results. It seems only right to me that the Executive Board should take this opportunity to give credit for these immense efforts where it is due. Let there be no doubt about it: without the skills and abilities of our workforce, the record results I mentioned earlier would simply not have been possible. I would therefore like to express my sincere gratitude to all MTU employees for their commitment, their flexibility, and their constant willingness to help find solutions. Thank you all very much!

Share price development

Supported by our successful operating results and investors’ confidence in our positive outlook for the future, the MTU share gained 25% in value over the course of 2015. We have every reason to be pleased with this performance – as a glance at the comparative indices bears out. The MTU share distinctly outperformed the Stoxx Europe TMI Aerospace & Defense Index, which includes the stocks of other companies in the sector such as Airbus, Safran and Rolls-Royce. It also developed slightly better than the MDAX, which closed 2015 23% up on the previous year. We view the positive development of the MTU share price as a vote of confidence for which we would like to thank you, our esteemed shareholders. But we also view it as a duty, namely doing everything in our power to merit your continued trust as we move forward.

Dividend

According to MTU’s philosophy, successful operating results also mean higher dividends. Today you are therefore invited to accept our proposal of an increased dividend for 2015 of €1.70 per share. This is the highest dividend we have ever offered, and is our way of thanking you for your consistent faith in the company, faith that many of you have had for many years. I hope you feel that in this way we have adequately rewarded your loyalty. Through this dividend proposal, we are pursuing a twofold objective: to guarantee you an attractive yield on your investment while at the same time retaining sufficient capital to enable MTU to meet its future financing requirements. I think it’s fair to say that both of these aspects are in your best interests and hope that you will vote in favor of our proposal.

For these reasons, I firmly believe that MTU is a worthwhile investment – and I’m convinced that it will remain so. We have every intention of continuing to grow our business and generate high shareholder returns.

Outlook

So far, my presentation has mainly focused on the past year’s achievements, but as you know, the stock market deals in future prospects. At this point I would therefore like to provide an overview of our market environment and the goals we aim to achieve in 2016.

According to industry analysts, the key indicators of aviation market trends are set to see positive development in 2016; for example, the IATA predicts that passenger traffic will increase by 6.9%. The major aircraft manufacturers have bulging order books – especially for the types of aircraft for which MTU supplies engine components. The current fleet of in-service engines is also growing, and today amounts to 43,600 engines – an increase of 5% since the beginning of 2015, with no end in sight. The market in China may be contracting, but this by no means gives us cause for concern, because aviation will still remain a strong factor in this region’s growth.
MTU intends to make the most of this favorable economic situation to press forward in its quest for sustainable and profitable growth. In 2016 we aim to generate revenues of around 4.6 to 4.7 billion euros. The commercial maintenance business will probably grow the fastest, but an increase is also expected in commercial series sales and spare parts sales, while revenues in the military engine business are expected to remain stable. We expect to achieve a stable adjusted EBIT margin of around ten percent and an increase in earnings after tax in line with operating profit.

It might be too soon to make detailed projections, but I think it can be safely said that MTU has made a good start to the new financial year and is well prepared to meet its objectives. You will find out more when we publish our interim report for the first quarter in two weeks’ time.

All in all, there is every chance that by this time next year, we will be celebrating the fifth in our series of record years. MTU is a growing company – and not just for the sake of growth, but in order to create added value. MTU’s Executive Board and its entire workforce have demonstrated their ability to fulfill this objective: because MTU believes in delivering products to a recognized quality standard; and because its employees are motivated by the desire to move the company forward. They want to continue writing the company’s success story, now and in the near and distant future. This is how MTU creates value – for its customers, its partners, its employees and not least for you, our shareholders.

Please allow me to conclude with a few more words of thanks. On behalf of the entire Executive Board, I would first like to thank our customers and partners for their loyalty and trust, which drive us onward and upward to greater endeavors. Many thanks also to the members of the Supervisory Board and their chairman, Klaus Eberhardt, for their consistently constructive advice and support throughout the past financial year. And last but by no means least, I would like to express my sincere gratitude to everyone assembled here today for the faith you have demonstrated in MTU, including myself, the other members of the Executive Board, and the entire workforce. I hope that we can count on you to take a continued interest in our projects and help us realize our growth targets and set new records for MTU.

Thank you for your kind attention.