
MTU Aero Engines substantiates outlook to 2025

- **2017: successful end of investment phase**
- **2018: transition to consolidation phase with continuing increase in earnings and cash flows**
- **Impact of IFRS 15 amendments on MTU's key performance indicators**

Munich, December 12, 2017 – At its Investor and Analyst Day 2017, MTU Aero Engines AG provided a concrete outlook for the period to 2025. 2017 marks the end of the company's most substantial investment phase, from which it emerged with an increased adjusted EBIT margin. In 2018, MTU will move into a consolidation phase during which the company expects a continuing rise in earnings and substantially higher free cash flows. Between now and 2025, the company aims to boost its average cash conversion rate into the high double digits through the combined effect of a moderate increase in working capital and a decrease in the cash flow from investing activities. The cash conversion rate measures the proportion of net income converted into free cash flow.

MTU Aero Engines AG CEO Reiner Winkler comments: "During the consolidation phase, we expect to see more stable growth in the new engine business, accompanied by improved profit margins. The strong growth in our highly profitable spare parts sales and commercial maintenance business is likely to continue, even though margins in our commercial MRO business will remain under pressure. There are signs of potential growth in our military business as of 2020." Looking ahead to a next investment phase, Winkler says: "Our long-term objective is to acquire higher shares in future engine programs than before."

2017 is the last year of MTU's investment phase. During the period from 2014 to 2017, the company experienced its strongest growth in the commercial maintenance business. Spare parts sales also grew substantially. "Business in both of these sectors developed better than we had assumed when we embarked on our investment phase," says Winkler. Delays led to a moderate growth in the commercial engine business and to declines in military engine business. MTU had initially projected strong growth in the commercial engine business and a stable military engine business. Winkler adds: "This mix enabled us to improve our adjusted EBIT margin during the investment phase." The original forecast was for a stable level of margins.

In 2018, the commercial OEM business is likely to achieve the strongest growth, with a predicted 30-percent increase in revenues. The commercial maintenance business is also expected to grow, with revenues increasing by a percentage in the high teens, while spare parts sales are expected to increase by a mid-single-digit percentage. Revenues in the military engine business are forecast to remain at the same level as in 2017. "This makes 2018 a transi-



tion year with a moderate increase in adjusted EBIT and a growing cash conversion rate,” says Winkler.

The amended version of the IFRS 15 reporting standard is effective for annual periods starting on or after January 1, 2018. The main changes concern the recognition of payments to customers, including concessions, the acquisition of program shares and development costs. In future, such expenses will be recognized as deductions from revenue, rather than costs. “This has an impact on reported revenues, which will be lower than before when calculated on the basis of the amended version of IFRS 15,” explains Peter Kameritsch, the designated CFO and CIO of MTU Aero Engines. “However, this will have little impact on earnings, and even lead to an improvement in our profit margins.” If the amended version of IFRS 15 had been applied in 2016, group revenues would have amounted to €3,288 million rather than the reported €4,733 million, while adjusted EBIT for the year would have been €485 million instead of €503 million. Other changes concern the definition of order backlog. Apart from the effect of the amended IFRS 15 reporting standard, the growing number of engines covered by long-term service agreements will also be included. However, the new definition leads to an almost unchanged order backlog of €14.3 billion for 2016 (2016 reported: €14.2 billion).

In the consolidation phase from 2019 onward, MTU expects its commercial maintenance business to continue growing faster than the market. At the same time, MTU expects a shift away from independent maintenance to the MRO services within the OEM service networks. “To minimize the impact of these changes on our earnings, we are focusing on best-cost locations when expanding our MRO capacity. The latest example is EME Aero, our joint venture with Lufthansa Technik for the maintenance of Geared Turbofan™ engines, which will be based in Poland,” reports Chief Program Officer Michael Schreyögg. “At the same time, we are continuing to expand our portfolio of repair and maintenance services, with a view to better satisfying customer needs.”

As far as the production activities are concerned, MTU expects the unprecedented growth of the Geared Turbofan™ programs to reach a peak in 2018, at the beginning of the consolidation phase. “After significantly increasing throughput in recent years, we expect growth to normalize during the consolidation phase,” says MTU COO Dr. Rainer Martens. His optimism is based on the high order backlog and MTU’s excellent market position.

The military engine business, which has been declining recently, can be expected to grow again from 2020 onward and reach a level of around €500 million by 2027. “The prospects in this sector are more of a long-term nature,” says Schreyögg. Future sales are most likely to arise from export deals under existing programs such as the EJ200 Eurofighter engine or the



TP400-D6 for the A400M military transporter, and from new engines such as the T408 for the CH-53K heavy-lift transport helicopter or engines for a next-generation weapon system.

From the mid-2020s onward, MTU expects the development of new aircraft. As in the previous investment phase, this will give MTU the opportunity to further expand its market position. “To optimize our positioning, we are constantly building up our expertise and our competencies as technological leaders,” says Lars Wagner, MTU’s new COO as of January 2018. “We are intensively working on our technology roadmap, use our experience from the Geared Turbofan™ programs and promote a culture of innovation”.

One of the ways in which MTU utilizes its innovative strength is by reorganizing its business units in such a way that they can draw maximum benefits from modern-day digital technologies. Unlike companies in other sectors of industry, digitalization will not fundamentally change MTU’s business model.

About MTU Aero Engines

MTU Aero Engines AG is Germany’s leading engine manufacturer, with core competencies in low-pressure turbines, high-pressure compressors, turbine center frames, manufacturing processes and repair techniques. MTU plays a key role in the new engine market through its partnership in many international development, manufacturing and sales programs, to which it contributes its high-tech components. One third of the global fleet of passenger airliners relies on components supplied by MTU. MTU is one of the world’s top 5 providers of maintenance services for commercial aircraft engines and industrial gas turbines. These activities are combined under the roof of MTU Maintenance. In the military sector, MTU Aero Engines is the lead industrial partner for almost every type of engine flown by the German armed forces. MTU operates affiliates around the globe; its corporate headquarters are based in Munich, Germany.

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