



Annual General Meeting

MTU Aero Engines AG

Speech delivered by the CEO

Reiner Winkler

On April 11, 2018

in Munich

**- Check against delivery -**

Dear shareholders,  
shareholder representatives,  
ladies and gentlemen,

Welcome, again, to our 2018 Annual General Meeting – this time on behalf of the Executive Board.

As Mr. Eberhardt mentioned earlier, the MTU Executive Board has returned to its full complement of four members, after working as a team of three for a couple of years. There are two newcomers to the team: Peter Kameritsch, who is responsible for Finance and IT, and Lars Wagner, who has assumed the function of Chief Operating Officer. Both have extensive management experience in the aviation industry and possess the entrepreneurial spirit that will reinvigorate MTU's future activities. We thus have an ideally constituted Executive Board, and I look forward to our positive, constructive teamwork.

Together with my fellow members of the Executive Board, I would like to join with the Supervisory Board in expressing my gratitude to our former COO, Dr. Rainer Martens, who is our special guest today. Thank you, Rainer, for your farsighted ideas and driving energy. You have contributed in no small measure to making MTU the strong company it is today – excellently positioned in the market and with a bright future ahead. Above all, and more specifically, you were instrumental in the development of our manufacturing and maintenance locations and our role in the Geared Turbofan™ programs.

### **Highlights of activities in MTU's business units**

As in previous years, the focus of our production activities in the commercial engine business in 2017 was the aforementioned Geared Turbofan™, or GTF. The two models of this family used to power the Airbus A320neo and the Bombardier C Series are already in service with commercial airlines. The challenge here was to ramp up the production rate of the components supplied by MTU – a challenge met not least through the use of highly advanced production technology and processes. Our final assembly line, on which around one third of all engines for the A320neo are to be assembled, is running smoothly, as is our blisk manufacturing facility – and both meet our high standards for quality, throughput and cost efficiency. Together with our partner Pratt & Whitney, we delivered a total of 374 GTF engines to customers in 2017. We thus achieved our delivery target, despite having to deal with some minor teething problems which have since been rectified. The proposed solutions have been approved and the modified parts are already in production. We are also confident that the issue of flawed knife-edge seals encountered in early 2018 will soon be resolved, and that we will be able to substantially increase our delivery rate for GTF engines in 2018.

In 2017, we also achieved several milestones in the GTF programs that are still at the development stage. In the United States, the Federal Aviation Administration (FAA) issued flightworthiness certificates for the GTF models destined to power the Mitsubishi Regional Jet and the new Embraer E-Jet 190. Moreover, two GTF applications successfully completed their maiden flights: the Irkut MC-21 and the Embraer E195-E2.

Geared Turbofan™ (GTF) engines played a similarly important role in MTU's commercial maintenance business. We founded a joint venture with Lufthansa Technik under the name of EME Aero. The new company is based in Poland and its purpose is to provide MRO services for the family of GTF engines. The aim of this venture is to establish the world's most efficient maintenance shop for GTF engines.

As well as expanding its commercial maintenance portfolio to include new engines such those of the GTF family, MTU has been continuously improving and adding to its services. In Canada, for instance, we added the V2500 to our MRO portfolio in 2017. Our customers evidently appreciate these efforts: In 2017, we not only renewed numerous existing contracts but also acquired a significant number of new customers.

The capacity utilization of our global network of MRO shops remained high – another indicator of MTU Maintenance’s success. Demand was particularly strong for maintenance of the two A320 engines, V2500 and CFM56, and for the CF34 engine that powers numerous business and regional jets. Indeed, demand for our commercial maintenance services has been so great that it occasionally exceeded the available capacity. To prevent this from happening again, and to enable us to offer our customers the best possible service, we are investing heavily in our MRO facilities. In Ludwigsfelde, for example, this capital expenditure will allow us to increase the total number of engines handled by the site in one year by around one fourth.

In the military engine business, an export deal for the Eurofighter Typhoon means new orders for the EJ200 engine: Qatar has agreed to purchase 24 of these aircraft. And a few weeks ago, Saudi Arabia signed a memorandum of intent to purchase 48 Eurofighter Typhoons. In 2017, we concluded a framework agreement with the German armed forces for the maintenance of the TP400-D6 engines that power their fleet of A400M military transporters.

### **Business performance in 2017**

All in all, we were able to report record figures once again in 2017. Our revenues reached a new all-time high of five billion euros, and our earnings grew at such a pace that we were able to raise our forecast not once but twice in the course of the financial year. The year-end results even surpassed these forecasts, enabling us to set new records with an EBIT adjusted of 607 million euros and a net income adjusted of 429 million euros. We have thus achieved the goal I set out to you, ladies and gentlemen, on this same occasion last year: namely to close the most substantial investment phase in MTU’s history without veering from our profitable growth trajectory – and moreover with yet another year of record performance.

### **Dividend**

Today you will be invited to vote on our dividend proposal for 2017, which at 2.30 euros per share is also the highest we have ever offered. This is 21 percent higher than the dividend for 2016, and the fifth successive increase. I truly hope you will accept this proposal, not least because it reflects our confidence in MTU, not only as the company stands today but more importantly with respect to the future development of its business activities. In the years to come, we intend to continue along this established path, with growing earnings which for you, our shareholders, translate into even higher dividends.

### **Employees**

This performance would not have been possible without the untiring efforts of all employees who work for the MTU group. I would therefore like to take this opportunity to thank them on behalf of the entire Executive Board. It is their ideas, commitment and hard work that lie at the heart of our innovative corporate culture and business success. For this, they merit our wholehearted gratitude.

Our 2017 Annual Report includes feature articles portraying MTU’s worldwide locations and the work their employees perform around the clock, 365 days a year, to serve our customers. If you haven’t yet received a copy, please ask the staff at our information desk to give you one on your way out.

MTU’s growth is also reflected in the size of its workforce, which increased by nearly 500 employees, or roughly six percent, in 2017. And we must continue to expand our human resources in line with our planned future growth. In 2018, we intend to recruit another 500 employees at different MTU locations. A large majority of these jobs will be based in Germany. As you know, MTU not only creates new jobs but also provides training for many young people, recruits skilled workers, and invests in the further education and personal development of its employees. MTU offers opportunities to work on

advanced high-tech products in an ultra-modern work environment. But as you can probably imagine, we face tough competition in the quest to win the best-qualified job applicants. This means we need to formulate an effective employer branding strategy. MTU's success in this respect is borne out by various independent awards. For more than ten years, the group's three locations in Germany have been rated among the best according to the Top Employers Institute, and MTU Aero Engines Polska has received this award five times. And MTU Maintenance Canada has received comparable recognition, entitling the company to display a seal of approval.

## **Sustainability**

This brings us to the question of non-financial performance indicators, which we published this year for the first time in the form of a non-financial statement as a separate part of the combined management report. The content of the non-financial statement echoes our existing sustainable management strategy. As you well know, sustainability comes in many different shapes and sizes. MTU's commitment to sustainable development is manifested first and foremost in eco-efficient products, with a focus on reducing engines' fuel consumption, CO<sub>2</sub> emissions and noise emissions – factors we can directly influence with our high-pressure compressors and low-pressure turbines. Sustainability also encompasses aspects of social responsibility such as a corporate culture that supports innovation and the development of employees' potential. This in turn obliges us to comply with strict social and environmental standards, applicable to every MTU location and extending to our business partners and suppliers. Sustainability also finds expression in our commitment to utmost quality vis-à-vis our customers as reflected in our products and services. This commitment has been recognized in the form of many awards in rating and ranking surveys.

## **Share price development**

Companies that produce consistently good results are also recognized by the capital market, an aspect no doubt of interest to you as our shareholders. Looking back over 2017, it can be seen that our share price has developed very satisfactorily, gaining in value by 36 percent in the course of the year. This compares favorably with the increase of 18 percent in the MDAX and of 15 percent in the Stoxx Europe TMI Aerospace & Defense index. In both cases, the MTU share sailed well ahead of its competitors.

We are aware that this stock market performance reflects more than just our financial results in 2017, and that the current share price is partly based on expectations of our future business performance. But I can assure you that your investment is safely placed with us, and that we aim to deliver further growth and improved profitability in the years to come – starting now and even before the end of the current financial year.

## **Outlook**

In 2018, commercial series production business looks set to become the fastest growing segment in terms of revenues. Continued growth is also projected for the commercial MRO and spare parts business. Revenues in MTU's military engine business are likely to remain at the same level as in 2017. This shows that our business success is unbroken. Despite the enormous production ramp-up, MTU forecasts a moderate increase in EBIT adjusted for 2018 and expects earnings after tax to increase in line with operating profit. The cash conversion rate, defined as the ratio between free cash flow and net income adjusted, is projected to be slightly higher in 2018 than in the previous year, in the mid-double-digit percentage range.

This places MTU in an excellent position to continue along its sustainable growth path. Our priority is to sustain and increase the company's value in the long term – to the benefit of our customers,

business partners, employees and other stakeholders – naturally including investors such as yourselves.

But forward-looking policies don't necessarily guarantee future success. In our field of business, innovations are the key route to growth. And innovations in the aviation sector, in particular, require endurance and a long-term perspective. In 2018, as we enter a new consolidation phase, this means giving more prominence to the innovation processes launched during the preceding investment phase. We have developed new products and services that have quickly gained acceptance with our customers. This will have a significant effect on our revenues and earnings in the years to come.

Information on the progress achieved by our business units in the first three months of 2018 will be made available together with the interim report for the first quarter, to be published on May 3, 2018.

### **Supervisory Board election**

Ladies and gentlemen, one of your tasks today is to elect new members to the MTU Supervisory Board. Prof. Dr. Wilhelm Bender is leaving the Supervisory Board. I would like to take this opportunity to thank him for his many years of valued service and constructive contributions to the work of the Supervisory Board. At the same time, you will be asked to approve the appointment of Dr. Christine Bortenlänger as a new shareholder representative on the Supervisory Board. I hope you will vote in favor of this proposal, and welcome Dr. Bortenlänger as a new member of the Supervisory Board.

I would also like to take this opportunity to thank the members and incumbent chairman of the Supervisory Board, Mr. Eberhardt, for their valuable support and many ideas and suggestions proposed during the past year, on behalf of the entire Executive Board. For our work as company executives depends on the smooth interaction of all governing bodies.

My thanks also go to our customers and business partners, without whom MTU could never have risen to this level of success. They inspire us to ever greater efforts and improvements.

We are also grateful to our investors – that means you! – for the trust you have demonstrated in our company this past year. I hope you share our confidence in MTU's future prospects and that you will continue to support the company and its new executive team.

I will now hand you back to Mr. Eberhardt, who will guide you through the further proceedings of the Annual General Meeting.

Thank you for your kind attention.