Annual General Meeting

MTU Aero Engines AG

Speech delivered by the CEO

Reiner Winkler

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in Munich

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

On behalf of the Executive Board, it is my pleasure to welcome you to our 2019 Annual General Meeting. Thank you for taking the time to be here in Munich today, and for expressing your interest in MTU Aero Engines in this way.

Ladies and gentlemen, the title of our Annual Report 2018 is PROSPECTS. We have every reason to shine a spotlight on this aspect of our work. At last year’s AGM, I assured you that MTU had excellent prospects for the future. Our latest Annual Report provides tangible proof that these were no empty words. The examples it presents concerning our product portfolio, the processes implemented in our plants and the work of our project teams show that MTU has the products, processes and projects it needs for a successful future.

Allow me to pick out a few outstanding examples.

Highlights of activities in MTU’s business units in 2018

A number of new aircraft powered by engines in which MTU has a stake entered service with airline customers in the course of the year. In the commercial engine sector, these were the Embraer E190-E2 with Geared Turbofan™ engines and the Gulfstream G500 powered by the PW800. The T408 military engine has been in service in the Sikorsky CH-53K heavy-lift cargo helicopters operated by the United States Marine Corps since 2018.

The GE9X engine for the Boeing 777X long-haul airliner passed an important milestone in 2018 and demonstrated its capabilities during flight testing. In the business jets segment, the PW800 scored points with aircraft manufacturer Dassault, which has chosen the engine for its new Falcon 6X business jet. Furthermore, the first production version of Embraer’s KC-390 military transport aircraft, which deploys the V2500, successfully completed its maiden flight.

These examples from the commercial and military OEM business are significant wayposts on the path to a successful future. We also unlocked further opportunities in 2018.

We successfully doubled the production rate for Pratt & Whitney GTF engines. This ensures that Airbus receives the necessary number of engines for its best-selling A320neo airliner. We have also taken steps to reinforce our capacity to handle future production rate increases.

At the same time, we are positioning ourselves as a reliable partner in new engine development programs – I am thinking here for example of the next generation of engines for short- and medium-haul aircraft. Our goal is to acquire a higher share in new programs than has previously been the case.

Looking further ahead, we are not ignoring topics such as hybrid electric aircraft; indeed we are already taking part in technology studies and research programs in this domain. By developing new products and technologies, we are playing an active role in the drive to reduce the carbon footprint of aircraft engines and thus the environmental impact of aviation.

In the military engine business, we aim to leverage the export opportunities that the market offers – for example for the CH-53K heavy-lift cargo helicopter, which is currently also under discussion for Germany.

Probably the most exciting topic in the military business is the development of the Next European Fighter Engine (NEFE), a project that will be led jointly by MTU and Safran. This will enable us to play a significant role in future air defense programs. Both the German and French governments support this
project and have already commissioned a conceptual design study that will provide the basis for a technology demonstrator program to be launched later this year.

Besides its OEM business, MTU is also well-positioned in the market for commercial maintenance services (MRO). We are pleased to report full shops at our sites around the world in 2018. To enable us to meet the high demand, we are continuously optimizing our services portfolio. Examples from 2018 include consolidating our gas turbine expertise under the new MTU Power brand, extending our V2500 maintenance network to include MTU Maintenance Canada and adding technical asset management to our services portfolio.

We are also substantially expanding our capacities: in the past financial year, we got under way with the expansion of our sites in Ludwigsfelde, on the outskirts of Berlin, and Zhuhai, China.

We secured the future of our Chinese maintenance location by renewing the joint venture contract with China Southern up to 2051.

We also made preparations for the future maintenance of GTF engines by forging ahead with the creation of EME Aero in Poland, the world’s largest and most advanced MRO shop for Geared Turbofan™ engines, in a joint venture with Lufthansa Technik. Operations there are due to start by the end of the year.

Our workforce has been growing to meet these future needs: it increased by ten percent in 2018. We have created almost 900 new jobs worldwide. Almost 700 of these were in Germany.

All this goes to show that we are addressing the issues of most relevance to MTU’s future success. We have the right teams of specialists, competitive products and services, and promising innovations for ensuring sustainable air traffic.

Ladies and gentlemen, in today’s world, innovation goes hand in hand with digitalization. It’s a reciprocal process: innovation drives digitalization and digitalization drives innovation. MTU has engaged actively in both areas, and these are not empty words because we are already able to present viable solutions, developed on the basis of our wide-ranging knowledge and engineering skills. We integrate digital elements and applications and transform them into products, systems and services. In this way, we are laying the foundations for our future profitability – in other words, further improvements in EBIT and cash flow. And this in turn has a positive impact on our dividend, share price development and job creation.

2018: Financial results

Dear shareholders, there is much more I could report on our achievements in the financial year 2018, but sometimes numbers say more than words. In 2018, we generated 4.6 billion euros in revenues. The group’s operating profit increased to 671 million euros, while net income rose to 479 million euros. These are all record levels. 2018 was the best year yet in MTU’s history.

We met every single one of our forecasts which, by the way, we had increased twice in the course of the year. All this goes to prove that we can be trusted to keep our promises.

In 2018, we not only made efforts to increase our earnings potential and achieve profitable growth. We also worked hard to acquire new contracts, with success, as the figures show: by the end of the year, MTU’s order backlog amounted to 17.6 billion euros – higher than ever before.

I don’t think it would be immodest to say that this is a remarkable achievement.

We therefore have a solid financial basis on which to plan ahead, make new investments and grow still further.
Dividend

As in previous years, we wish to reward your investment with an appropriate share of our earnings. The dividend we are proposing today is for a payment of 2.85 euros per share. This is the highest dividend to be offered since MTU went public and the sixth successive increase. And it is a clear demonstration of our attachment to the values of continuity and reliability.

Share price development

Ladies and gentlemen, I know that as investors you keep an eye on the changing value of your shares, and not just the dividend yield. In 2018, the MTU share reflected the ups and downs of a turbulent year for stock markets. Over the year as a whole, it gained six percent in value. This is not as modest as might appear at first glance. Looking at the performance chart, it is evident that the MTU share once again performed better than the MDAX and the Stoxx Europe TMI Aerospace & Defense index in 2018. It even reached the all-time high of 197.30 euros in 2018. Since the beginning of 2019, the price of the MTU share has risen steadily and reached all-time record levels.

In any case, it ought to go without saying that share-price developments in an industry like ours with long lead times should be monitored over an extended period of time. That way it is easier to see the true progression of a company’s value. And in our case it’s pretty impressive: since the IPO in 2005, the MTU share has increased in value by more than 800 percent.

Rating

Ladies and gentlemen, in 2018 we were able to prove once again that MTU’s combination of financial strength and innovative power is stronger than ever. This was also recognized by the capital market: a month ago, the Fitch rating agency raised our credit rating to BBB with a stable outlook, placing us firmly within the investment grade category.

Employees

MTU’s all-round positive development is also reflected in the commitment and motivation displayed by our workforce. The results of our 2018 employee survey revealed that the spirit of innovation is firmly embedded in our corporate culture. MTU places great value on commitment to shared ideals, teamwork and job satisfaction, and employees have a strong sense of identification with the company. It was therefore particularly gratifying to see that all items in the questionnaire received above-average scores.

Please allow me, therefore, to profit from this occasion to express my gratitude to the 10,000 or so employees who work for MTU around the world – for their outstanding performance, their motivation and their courage to embrace change. I think this deserves a round of applause. As I’m sure my fellow members of the Executive Board will agree, we all make up a strong team capable of moving ahead with our future-oriented strategy. After all, we have the right products, efficient processes and focused projects. And a corporate culture that is open to change, promotes innovation and values the contribution of each and every one.

Outlook

Ladies and gentlemen, however much we are pleased with our successes so far, we don’t intend to rest on our laurels. We still have big things up our sleeves! The key component of our strategy is to continue generating profitable growth.
MTU expects to generate revenues of around € 4.7 billion in 2019. All operating segments are geared to growth. The commercial engine business looks set to become the fastest growing operating segment in 2019. But we also expect to see organic growth in revenues from spare parts sales, the military engine business and the commercial maintenance business. The group is looking to achieve an EBIT margin adjusted of around 15.5 percent in 2019. Net income adjusted is expected to increase in line with operating profit. The cash conversion rate – that is, the ratio of free cash flow to net income adjusted – is also projected to increase to somewhere between 50 and 60 percent in 2019.

We will be able to tell you how far we have progressed toward these targets in the first three months of the year when the quarterly figures are reported on April 30.

Great things are expected of MTU. From all sides. But that’s what spurs us on. We will continue to do everything in our power to maintain a balance between our customers’ interests and those of our employees, shareholders and other stakeholders. We are convinced that this is the only route to sustainable success. We will work toward this goal in the future as in the past – melding tradition and innovation. In short: MTU has excellent prospects and is poised for a successful future.

**Agenda**

Before handing over to the next speaker, I would like to draw your attention to items 7, 8 and 9 on the agenda of today’s meeting. They relate to authorizations granted to the Executive Board with regard to capital increases, the purchase and use of treasury shares, and the issue of certain financial instruments. The existing authorizations expire in 2020, prior to the probable date of the next ordinary general meeting. We therefore ask you to approve the renewal of these authorizations for an additional five years, as is customary for major listed companies. Please be reassured that, as always in the past, we will not make use of these authorizations unless absolutely necessary. If we are presenting these proposals for resolution this year, it is because it is important to us that MTU should maintain the greatest possible flexibility in the management of its funding requirements, without interruption.

Ladies and gentlemen, the past year’s outstanding performance would not have been possible without our employees’ untiring efforts, our customers’ loyalty, and our suppliers’ and partners’ reliability. I would therefore like to take this opportunity to thank all these people on behalf of the Executive Board. We would also like to thank the Supervisory Board and its chairman, Klaus Eberhardt, for actively and constructively supporting our work. Most especially I would like to personally thank the Supervisory Board for its show of confidence by re-electing me as Chief Executive Officer. And last but not least, I wish to think you – our valued shareholders – for choosing to invest in MTU and the appreciation of our work that this represents.

As you all know, aviation plays an indispensable role in global economic progress. We all benefit from open markets, and from diversity, transparency, liberty, democracy and international cooperation. These all depend on worldwide mobility. MTU contributes to these goals every day. It is good to know that we have your support.

Thank you for your kind attention.