Annual General Meeting

MTU Aero Engines AG

Speech delivered by the CEO

Reiner Winkler

on May 8, 2014

in Munich

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

On behalf of the entire Executive Board, please allow me to welcome you all to the 2014 Annual General Meeting of MTU Aero Engines AG. Thank you for accepting our invitation – it gives us great pleasure to see such a strong show of interest in our company and its development.

I would like to start by reminding you that MTU will be celebrating its 80th anniversary this summer. I have served the company as its Chief Financial Officer for the past 13 years, and during this time I have actively participated in many changes that have marked its history. So I am well placed to recognize the strengths of the company that I now have the privilege to lead as its Chief Executive Officer – its excellent market position, all-round experience in every aspect of the engine business, and robust finances. The implications this has in terms of our products and services, financial results, and future perspectives are the subject of the report I wish to deliver to you today.

Highlights of MTU's activities in the business units

So, without further ado, let’s take a look at our business units.

Our commercial engine business was distinctly successful in 2013. This success hinged on the geared turbofan engine, which has already built up a strong reputation in previous years. If I may, I would like to briefly summarize the salient points of this new family of aircraft engines. We are working together with Pratt & Whitney on the geared turbofan development program. This engine sets new standards through the use of advanced technology that reduces fuel burn and carbon dioxide emissions by 15 percent compared with the current generation of engines. It also reduces perceived noise by half.

These advantages have made the geared turbofan (GTF) extremely popular with aircraft manufacturers. Airbus uses it to equip the A320neo, and Irkut deploys it in the MS-21. And it has even been selected as the exclusive engine for the Bombardier CSeries and the Mitsubishi Regional Jet. A fifth manufacturer joined the club in 2013, when Embraer chose the GTF as the exclusive powerplant for its next generation of E-Jets.

It goes without saying that the next important step is to ensure that the GTF engines are supplied on time to the aircraft manufacturers for subsequent delivery to the airlines. Our role in this context is twofold. Firstly, we must meet the specified development objectives – with a particular focus on fuel- and weight-saving – and secondly we must adhere to the defined schedules for development, testing, and certification. In both cases we are progressing according to plan and have achieved several important milestones in the past financial year. The engine for the Bombardier CSeries obtained aviation authority approval in 2013, the first GTF engine to do so. The CSeries went on to perform its maiden flight in September. Flight testing of the engine for the A320neo also got underway in 2013, with successful results so far. Its certification and first flight aboard the A320neo are expected to take place before the end of 2014. Other events scheduled for the current financial year include the approval of the engine for the Mitsubishi Regional Jet and initial ground tests of the engine for the MS-21. We also plan to carry out many other tests in the course of the year. So as you can see, the GTF programs are well on the way to entering the production phase.

The success of the GTF engines is also impressively borne out by the order figures. At last year’s Annual General Meeting, we spoke of 3,500 firm orders and options. That figure has since risen to over 5,300!

This huge market success is a boon for us, but also presents us with a number of challenges. By 2020, we will be required to deliver twice as many modules and engines as we do today. Never before in MTU’s 80-year history have we had to face such an immense increase in our production output in terms of unit volume. To optimize our production capacity to meet these demands, we have
significantly increased our capital expenditure in 2013. We have invested around 65 million euros in the construction of a new production facility in Munich dedicated to the manufacture of components for geared-turbofan engines. This facility is probably one of the most advanced of its kind anywhere in our industry. The ramp-up of the geared turbofan programs also involves a higher workload for the logistics management teams. To satisfy these needs, we are building a new, ultramodern logistics center. The foundation stone was laid in March 2014 and the new center will go into operation in 2015. To round off our investment strategy for the GTF, we will be spending around 40 million euros on the expansion of our production site in Poland, in order to provide the additional capacity needed when the new engines go into series production.

To ensure that our customers continue to receive the quality of service to which they are accustomed, we have also invested in improvements to the MTU Maintenance sites. The test rigs in Hannover and Ludwigsfelde have been upgraded to the latest standards, and a new logistics center has been established in Hannover. Moreover, to meet the growing demand for engine leasing services, we have set up two new joint ventures with the Japanese Sumitomo Corporation.

The common denominator in each of these cases is that MTU owes its success to innovation: hence our focus on innovative ideas and advanced technologies as the fundamental element in our development strategy. These principles are essential to our goal of providing our customers with a constant flow of new and improved solutions, perfectly tailored to their specific needs.

Allow me to pick out just one typical example. When our customers purchase a product, they also expect to benefit from the entire know-how they need to be successful in their own business. In the case of aircraft engines, this means being able to rely on the availability of spare parts and efficient maintenance services. Consequently, the dividing line between engine sales and maintenance is becoming increasingly blurred. We have recognized this trend by negotiating contracts with our partners that enable us to be integrated in the entire value chain from the outset. This approach offers considerable opportunities for MTU.

Further opportunities for transformation and growth are offered by the expansion of the global market. The current fleet of aircraft seating over 100 passengers amounts to 18,400 worldwide. This number is expected to increase to 26,000 by 2024. We aim to claim a share of this growth.

As you can see, our main objective is to achieve growth through new products, new customers, and new markets. But this does not mean that we want to grow at any price. Our real goal is to generate profits on a sustainable basis. To achieve this, we have launched several targeted programs to improve efficiency. In the short term, the main aim is to secure earnings, for example by increasing efficiency in production and use of material. This includes efforts to rein in costs and narrow down prices, and to further streamline the organization of manufacturing processes.

**Borrowing arrangements**

To secure the means of financing our growth plans, we took advantage of the favorable lending conditions in 2013 to open a new credit line for the sum of 400 million euros. This provides us with a solid liquidity reserve for the next few years to back up our robust capital structure. By planning ahead, we are sure of being able to assume all future financial obligations. And, combined with our stable investment-grade rating, we can guarantee that your investment as MTU shareholders is safe.

**2013 business performance**

This brings us directly to the world of finance, so let’s take a brief look at the operating results. Our performance in 2013 continued along the successful path laid in 2012, when we recorded record figures. At 3.7 billion euros, our revenues even surpassed the previous year’s unprecedented high level, while our adjusted earnings values equaled the record established one year earlier.
Nonetheless – and for the first time in our history – we were obliged to revise our earnings forecast downward in the light of our half-year results. This was partly due to the strong growth and great success of the commercial engine business. This might sound paradoxical, but in fact the new engine business is much less profitable than the spare parts business. And unfortunately sales of spare parts were weaker in 2013 than we had originally anticipated. At the same time, sales of industrial gas turbines were stagnant. Earnings were therefore affected by a combination of these factors.

The revised forecasts published in the summer of 2013 were fully met, with an operating profit of 377 million euros and earnings after tax of 232 million euros. This, as I mentioned previously, enabled us to maintain our performance at the previous year’s record level. MTU is thus a stable and healthy company.

**Dividend**

As our shareholders, you are entitled to a share of these benefits. The Executive Board and Supervisory Board therefore propose an unchanged dividend of 1.35 euros per share for the financial year 2013 to the Annual General Meeting. This proposal is in line with our standard of a continuous and stable dividend policy.

In future, too, we will endeavor to generate profits that adequately recompense your trust in the company – bearing in mind the need for strategic investments that will enable the company to continue operating in its market.

**Share-price development**

This brings us to the subject of the MTU share price – so let’s take a look at its performance over the past year. As you can see in this chart, the MTU share was unable to keep pace with the MDAX and the Dow Jones Aerospace & Defense Index when averaged over the year. After achieving an all-time high of 79.25 euros in May, it fell to its lowest quoted price for the year of 65.76 on the publication date of the six-month interim financial report. The MTU share closed the year at a price of 71.39 euros, which is 4% higher than its value at the beginning of the year.

At the moment, the value of the MTU share is oscillating around 68 euros. Admittedly this is well below its highest stock-market valuation, but as I described earlier, MTU is well positioned in the market. And this evidently means that the share holds a great deal of potential in the long term. For myself and the other members of the Executive Board, this is both an incentive and a responsibility. My promise to you as our shareholders is that the MTU share will continue to be a worthwhile investment.

In this respect, it is particularly gratifying to see that so many MTU employees agree with our point of view and have bought shares in the company. In 2013, 18.5% of the workforce participated in the employee stock option program – the highest level of participation since the program was launched in 2008.

**Employees**

MTU’s success is based on the committed efforts of its workforce, which today consists of nearly 8,700 employees. My colleagues on the Executive Board fully agree with me when I say that we are proud of this team. We are aware that they have to go to extraordinary lengths to deal with the challenges of ramping up the new programs and managing costs. And yet these faithful MTU employees find the motivation to give of their best each day and contribute to our company’s success.
and that of its products. So I would like to express my special thanks to all of them – on behalf of the entire Executive Board.

Outlook

To close, I would like to add a final word concerning the future prospects of our company and yours, MTU Aero Engines AG.

As you were informed in the interim report published last week, MTU’s revenues and earnings in the first quarter of 2014 were in line with the previous year. Given this successful start to the year and on the basis of the available information concerning the rest of the year, I can announce the good news that we will be able to maintain our record level of performance in 2014. In concrete figures this means that we expect to increase our revenues to €3,750 million, while generating an adjusted EBIT and an adjusted net income on a level with the previous year.

Allow me to assure you that the Executive Board is making concerted efforts with the support of the entire workforce to ensure that the MTU group again operates successfully in 2014. As I mentioned earlier, MTU has plenty of potential to generate strong organic growth, a potential that we intend to exploit to the maximum.

I am delighted to be at the helm of MTU as it celebrates its 80th anniversary and makes plans for the next decade. Please be assured that, together with my colleagues on the Executive Board, I will take care to respect the interests of every partner who places their trust in us: our customers and business associates, our employees and members of the public at large – and not least, our shareholders.

Thank you for attending this AGM, for your kind attention, and for your trust in our company.