



Annual General Meeting

MTU Aero Engines AG

Speech delivered by the CEO

Reiner Winkler

on April 15, 2015

in Munich

**- Check against delivery -**

Dear shareholders,  
shareholder representatives,  
ladies and gentlemen,

On behalf of the entire Executive Board, it is my pleasure to welcome you to our 2015 Annual General Meeting, the tenth since MTU Aero Engines went public in June 2005. We much appreciate your continuing interest in our company, which is also your company.

MTU is a company that combines strong roots in the past with a clear vision of the future. We celebrated our 80th anniversary in 2014 while at the same time focusing on investments to assure tomorrow's success.

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

Our overriding priority is to maintain a balanced portfolio of engines covering all market sectors—business jets, regional and medium-haul aircraft, and long-haul airliners. We made good progress in this respect in 2014.

By acquiring a stake in the GE9X program for the Boeing 777X, we made sure that we will be well placed in the future market for long-haul passenger aircraft. We expect to generate revenues of around four billion euros through our share in this program.

We are also assured of a prime position in the future market for business jets through our stake in the PW800 engine program. In 2014, Gulfstream announced that it had chosen the PW800 to power its new G500/G600 family of business jets.

In the market for short- and medium-haul aircraft, pride of place is given to the PW1000G family of geared turbofan engines, which was already much talked-about in previous years. Our development work on this program led to the achievement of several decisive milestones in 2014, including the first flight of the GTF-powered A320neo in September and the certification of the neo engine in December. Technologically speaking, the geared turbofan represents a quantum leap in engine design, reducing both fuel burn and carbon dioxide emissions by 15 percent and halving noise emissions compared with conventional engines. These advantages have been recognized by our airline customers, who to date have placed orders totaling more than 6,300 GTF engines for five different aircraft applications.

This number speaks volumes, especially when you consider that it relates exclusively to geared turbofan engines. Our portfolio also includes other development programs—ten in total at the present time. MTU will have to transform its production processes and dramatically increase capacity in order to meet the demand for engines and modules, deliveries of which are expected to double over the next five years. This is a huge challenge, but one that we are looking forward to tackle.

In preparation for production ramp-up, we have already started to streamline our processes and optimize our manufacturing costs and structures. We have also taken steps to modernize and expand our production facilities. Three investment programs are of particular importance in this respect. Firstly, we have constructed a new production center for geared turbofan components in Munich, which is one of the most advanced facilities of its kind in the world. This was followed in November 2014 by the inauguration of a new logistics center, also in Munich. And finally, in February 2015, operations commenced at the expanded MTU plant in Poland. The capital expenditure associated with these investment programs currently amounts to more than 100 million euros.

This money is well invested, because the global aviation market is booming and we have every intention of profiting from this growth. Industry experts predict an average annual growth rate of around five percent for the coming years. If this forecast is accurate, it means that some 40,000 passenger aircraft will be in service by the year 2035, compared with 21,000 today—in other words, a twofold increase within 20 years.

As I already pointed out to you this time last year, the aero engine market is changing. We are witnessing a distinct trend toward the closer integration of engine sales and maintenance. In concrete terms, this is visible in the current tendency to include maintenance workshares from the outset when negotiating the terms of partnerships in new engine programs. We have taken steps to adapt to this situation by more strongly integrating our OEM and MRO activities. This change is also reflected in our organizational structure, where we have reduced the size of the Executive Board from four to three members. Dr. Stefan Weingartner, after a successful term as President MTU Maintenance, left the company at the end of March at his own request. His previous functions have been redistributed: Responsibility for the MTU Maintenance sites has been assigned to Chief Operating Officer Dr. Rainer Martens, while sales and marketing has been integrated into the remit of Chief Program Officer Michael Schreyögg. I would like to take this opportunity to express my sincere thanks to Dr. Stefan Weingartner, on behalf of the entire Executive Board team. Under his capable leadership and active involvement, our maintenance business has thrived and expanded in a changing market. Many thanks, Stefan, for these achievements.

The changing market presents MTU with new opportunities. We can continue to offer our services as an independent maintenance provider. But at the same time, our role as risk- and revenue-sharing partner in certain engine programs gives us opportunities for leveraging our close ties with the OEMs to enter into cooperative MRO agreements. We seized some of these opportunities in 2014: We were accepted as an approved maintenance organization in GE's global MRO network for the turbine center frame of the GENx engine, which powers the Boeing Dreamliner. And we have successfully built on our position as the world's number-one provider of V2500 maintenance services. These moves have placed us among the top five companies in the MRO market and assure us of high capacity utilization in this domain over the coming years.

As you might expect, other factors affecting our business at the present time are oil prices and the U.S. dollar exchange rate. Lower oil prices have led to lower airline operating costs, but I would like to emphasize that we do not expect this to have a significant impact on orders for more fuel-efficient aero engines. Airlines typically keep their aircraft in service for decades, and so their fleet planning is based on long-term requirements. Moreover, a good 60 percent of the current order backlog consists of additions to the existing fleet in order to meet increased demand, rather than replacements for older aircraft. So there is still room to promote further sales of modern aircraft.

And regarding currency, the strong dollar is giving us a favorable tailwind for our revenues and earnings.

So as you can see, by investing in the future we have laid the foundations for tomorrow's business success.

## **2014 business performance**

Our confidence is also borne out by our financial results for 2014. We met all of our targets, including the earnings forecast that was revised upward in October. 2014 was yet another record year, with revenues reaching a new peak of 3.9 billion euros and adjusted earnings higher than ever before. We generated an operating profit of 383 million euros, and earnings after tax amounted to 253 million euros.

In the financial year 2014, MTU proved that it is in the best of health. We have not only produced convincing operating results but also successfully followed through on our strategic objectives. Not to mention the steps taken to integrate our OEM and MRO businesses based on a fundamental overhaul of our organizational structure—these will ensure that we always have the right people in the right positions to shape the future of the aviation industry.

## **Dividend**

And we have more good news for you: if you accept the boards' proposal, we intend to increase our dividend by 10 cents to 1.45 euros. This is the highest dividend we have ever offered. If accepted, the total dividend payment will amount to approximately 74 million euros.

We view this significantly higher dividend as an expression of our confidence in our ability to create sustainable added value for our shareholders and our determination to increase profits over the long term.

## **Items 6 to 8 of the agenda**

I'd now like to move to a more formal aspect of this meeting and briefly discuss items 6 to 8 of the agenda before proceeding to a vote. These items relate to the renewal of the authorization to purchase and issue treasury shares, the renewal of the authorization to issue certain categories of financial instruments, and the renewal of the authorization to increase the company's capital stock (authorized capital). As we informed you in our invitation, these authorizations are due to expire next week. We require your approval in order to renew them so we can continue to grant MTU the maximum degree of flexibility in its financial affairs. These resolutions are purely provisional and each will remain valid for a period of five years. Their content is largely identical to similar authorizations granted in 2010 and 2011 and their wording is based on generally accepted, standard formulations. This also applies to exclusion clauses relating to share issue under specific circumstances. We are well aware of the importance of your subscription rights, and wish to reassure you that they will not be excluded except when we believe this to be in the company's interest. At present, we have no plans to exercise any of these authorizations. Their sole purpose is to give us sufficient leeway to respond rapidly and flexibly should action be deemed necessary or expedient. The existing authorizations were utilized in 2010 and 2011 to purchase treasury shares. No use was made of the authorizations to increase the company's capital stock through authorized or conditional capital.

## **Share price development**

Now let us turn our attention to the MTU share. As our shareholders, you have experienced a year in which the stock market went through a highly volatile phase—affecting both the DAX and MDAX as well as the aerospace indexes and MTU. The closing price of the MTU share at the end of 2014 was 72.16 euros. Its value thus increased by no more than 1.1 percent over the course of the year. This stands in stark contrast to its evolution in the first few months of 2015, in which it progressed from one new all-time-high to another, passing the 80-euro mark at the beginning of the year and surpassing 90 euros in March. Market analysts cited three reasons for this favorable development: firstly, the positive market and exchange rate situation; secondly, shareholders' confidence in our strategic development plans; and thirdly, our reputation for sticking to our promises.

The MTU share has always been seen as a good investment for shareholders seeking reliable, long-term returns. Those who bought shares in the company ten years ago when it first went public have since seen their investment quadruple in value. This is further proof that our business model pays off over the long term.

## **Outlook**

But even in the shorter term, meaning a one-year horizon, our business model brings success. We intend to continue investing in the future in 2015, in growth, productivity and innovation specifically. And as in 2014, we will keep a close eye on our financial targets. Our objectives for 2015 are to increase revenues to around 4.4 billion euros and generate an adjusted EBIT in the region of 420

million euros, resulting in earnings after tax of roughly 285 million euros. In this way, MTU will continue to break its own records.

The management report detailing the business results for the first quarter of 2015 will be published on April 28. Unfortunately I can't quote any exact figures, other than to say that the first-quarter results indicate that we are well on the way to reaching our targets.

## **Employees**

This confidence is largely based on one strength of our company that can't be expressed in financial statistics. I'm referring to the dedication of our employees, who have demonstrated great commitment and flexibility under extreme pressure at our plants and helped to implement many projects. For this and for their willingness to go above and beyond the call of duty, I would like to thank the entire workforce on behalf of the Executive Board.

These results are something that the whole team can be proud of.

This team effort naturally includes your own investment as shareholders. By purchasing our shares, you have shown that you believe in the future of the aviation industry, and especially in MTU. It demonstrates that you trust in us and think in terms of the long-term benefits—just as we do. For this I would like to express my sincere gratitude, and also thank our customers and business partners for their loyalty and commitment to our company.

Your trust gives us the motivation and responsibility to make every effort to ensure the future success of MTU. And I am sure that, with your continued support, we can look forward to many more years of successful business.

Thank you for your kind attention.