



Annual General Meeting

MTU Aero Engines AG

Speech by the CEO

Lars Wagner

May 8, 2024

Munich, Germany

– The spoken word is binding –

Ladies and gentlemen,
shareholders and shareholder representatives,

Light and shadow.

A contrast that aptly describes the 2023 fiscal year. For MTU Aero Engines AG, it was a year with both bright spots and dark moments.

That is particularly evident from our financials.

First, the bright side – our adjusted key performance indicators.

In 2023, we posted adjusted revenue of over €6.3 billion and adjusted EBIT of €818 million. Adjusted net income was €594 million. The free cash flow was €352 million.

Therefore, we fully met our ambitious targets. And that is not all: Operationally, MTU was in top form in 2023. The adjusted figures set new records across the board. They show what our company can do. And the earnings power and strength we can count on in the future.

However, the reported figures show the darker side:

Revenue was €5.3 billion. EBIT was minus €161 million. Below the line, we made a loss of €97 million. That is not something you are familiar with from us, ladies and gentlemen. In fact, MTU stands for earnings power and financial stability.

So what is the reason for the significant discrepancy between our adjusted and reported figures?

You are doubtless aware of the answer – we continuously communicated the facts: Our figures reflect the enormous financial impact of the Geared Turbofan™ fleet management plan. These special items placed a heavy burden of around €1 billion on our reported revenue and reported earnings.

The fleet management plan is the inspection program for the Geared Turbofan engines, which we call GTF for short. We produce these engines with our program partners, principally for the Airbus A320neo.

The reason for the fleet management plan is outside our influence. It was triggered by a manufacturing problem with a component produced by our program partner Pratt & Whitney.

The problem in the production process has now been resolved.
But: the installed components have to be inspected ahead of schedule.

In this context, it is important to stress that there was never any threat to safety-critical aspects of the engine. It is merely necessary to check whether the condition of the installed parts meets the specific durability expectations. If that is not the case, we immediately replace them. Without argument.

Many of the checks take place during scheduled shop visits. But not all of them.

Therefore, there will be between 600 and 700 additional shop visits by engines in the coming years. As a result, there will be an average of 350 aircraft a year on the ground up to 2026.

That is the reason for the high financial burden: The aircraft cannot be used, so compensation has to be paid to the airlines. In addition, there are the expenses for the additional shop visits – the time the engines are in the workshop.

MTU does not bear these costs alone – but it pays a share. As a partner in the Geared Turbofan program, the fleet management plan also affects us.

We had to establish provisions for the expected liabilities. That resulted in exceptional charges of approximately €1 billion in our 2023 figures.

The Geared Turbofan fleet management plan did not only affect our figures. It also had an impact on our share price.

Let us take a look at the share price performance in 2023:

Initially, our share price reflected our success. In April, shares in MTU reached a high for the year of 244 euros and 50 cents.

Following the announcement of the Geared Turbofan fleet management plan in September, there was a noticeable correction: Our shares lost a quarter of their value.

They have since rallied: By the end of the first quarter of 2024, the share price had even rebounded to slightly above the level prior to the announcement of the GTF issue.

You will not be surprised to hear me say that there is further upside potential. The majority of analysts also see further potential for our company and our share price.

I can assure you that the Executive Board of MTU Aero Engines AG is doing everything it can to bring about a lasting increase in our market capitalization.

For instance, despite the challenging free cash flow situation, we are continuing to invest robustly in the future, always with a view to the long-term value of the company.

At the same time, in line with our strategic targets, we have started to develop a transformation program to make MTU fit for the future.

We have set ambitious targets, especially for efficiency, resilience, innovation and sustainability. I am convinced that MTU will be at a new level by 2030.

Because we have a clear aspiration: We want to offer you a reliable, highly attractive and future-oriented investment.

Despite the present challenges, we have decided to propose to you that we should pay dividend for 2023.

Today, the Executive Board and Supervisory Board are proposing a dividend of €2 per share.

In this way, we want to send a signal that we will overcome the present challenging situation as soon as possible and will be able to reactivate our accustomed dividend policy – not least to thank you for your loyalty.

Will your loyalty pay off? Definitely!

MTU's future prospects are good. The entire aviation sector is on an upward trend. Demand for new engines is extremely high, and so is the need for maintenance.

That was corroborated by the air shows in recent months – which brought impressively high orders for MTU:

- Paris Airshow 2023: orders worth over 1 billion dollars for MTU;
- Dubai Airshow 2023: orders worth over 500 million dollars for MTU;
- Singapore Airshow 2024: orders worth 500 million dollars for MTU here too.

That places us in a strong starting position.

A position that we improved further in 2023 thanks to focused investments – both in technology and in capacity at all our sites worldwide.

Allow me to give you some examples:

Here in Munich, we have built a new blisk production facility, which sets standards in innovation.

The 34-meter high building is impossible to miss on our site! There are two main production levels, plus a level that can be used for flexible, contemporary office space. Overall, the building has a usable area of 14,000 square meters.

Most importantly: it is not just another production building. What you are looking at is the world's most modern rotor production facility.

When it is completed, it will be fully automated. We are therefore optimally positioned to serve our customers' needs.

And that is not all:

- Last year, we held the groundbreaking ceremony for a new development center at our headquarters in Munich.
- We created new training capacities at our locations in China and Canada. They secure the vocational and further training of our specialists.
- In China, we took a second test station into service. The additional space created in connection with this doubles our capacity in this important market.

- MTU Maintenance Dallas has relocated to new, significantly larger premises, so we can now perform engine tests there as well.
- Finally, we have effectively strengthened the capacity of our on-site service network, in other words, our mobile repair team – in Australia, Brazil and the USA.

In 2023, it was once again clear that our investments are right and important – and that that was the also the case during the coronavirus pandemic. Otherwise, we would not have the capacity for the additional Geared Turbofan shop visits and for the continued strong growth in demand for engine maintenance.

Ultimately, we face a balancing act: positioning the company well for market requirements and, at the same time, implementing the Geared Turbofan fleet management plan as quickly as possible.

At this point, I would like to stress once again that in the GTF fleet management plan MTU is part of the solution, not part of the problem.

Together with our partners, we are doing everything in our power to end the situation as quickly as possible – in the interests of our company, our employees – and naturally our investors.

So what exactly are we doing? We are working intensely on solutions at all levels of the company. Obviously, our workshops are also working with the required intensity to inspect the engines.

Here is a peek behind the scenes – at our Geared Turbofan maintenance in Hanover.

[Video] Welcome to MTU Maintenance Hannover. My name is Andreas Wohlers. I'm an aircraft mechanic specializing in engine technology. This is where maintenance work is performed on the Geared Turbofan. What do we do for the Geared Turbofan fleet management plan? The first step is disassembly of the engine. We remove the parts that might have a production defect. Then we inspect them. That involves two processes: FPI – fluorescent penetrant inspection, and AUSI – a type of ultrasonic testing. If all the parts are OK, we can reinstall them. If they are faulty, we need a spare part. After that, the Geared Turbofan is reassembled, tested and returned to the customer. Then the Geared Turbofan is ready for flight again. In short, the workflow is: disassembly – inspection – reinstallation or replacement and installation of the parts – assembly – testing – delivery.

Many thanks for the valuable insight, Mr. Wohlers.

At first sight, ladies and gentlemen, it probably looks quite easy. But, as you know from the media, a shop visit lasts about 150 days. That shows how many highly complex process steps are involved.

Overall, we see both light and shadow in the shop situation as well.
On the bright side: Aviation is booming, shops and order books are full.

Following the end of the Covid restrictions, people are flying frequently again, so demand for maintenance is also high. That is good news: Full shops mean revenue and earnings for us.

Besides, the Geared Turbofan is very successful.

Aircraft manufacturers and consequently engine producers have full order books. That is naturally a positive situation for us.

But then there is the downside:

At a time when our shops are already full, they now have to deal with the GTF fleet management plan as well. On top. That is a logistical feat and also requires an uninterrupted supply of spare parts.

Wherever possible, we are therefore shifting maintenance work on other engine types to other locations to free up additional capacity for the Geared Turbofan in Hanover. Because that is where we have the maximum GTF expertise.

Of course, we are also ramping up capacities as fast as possible at the other Geared Turbofan sites: at EME Aero in Poland and MTU Maintenance Zhuhai in China.

At the same time, we have to overcome the supply chain challenges:

If faulty parts are identified, we need spare parts to replace them. At a time when manufacturing capacity is already fully utilized for new engines.

The waiting time for a spare part increases the turnaround time. In other words, the time the engine spends in the shop before it can be reinstalled on the aircraft's wing.

We want to reduce this significantly.

We can do that: Maintenance is our absolute expertise, MTU has decades of experience with a wide range of engine types – and of more than 1,000 GTF overhauls up to now.

We have the right people with extremely high know-how. Our partners know that. They trust our expertise. That is why the first Geared Turbofan in the fleet management plan came to us for inspection in Hanover.

As you can see, ladies and gentlemen, we are deploying our full expertise and capacity to work through this problem in the consortium as quickly as possible.

In my view, it is important to stress that the Geared Turbofan is a great engine.

It is quiet, it is highly efficient – it is a true example of the art of engineering.

There is a good reason why it is a best-seller.

Here you can see me with an MTU component for the Geared Turbofan – one of our high-speed low-pressure turbines. They drive the engine fan.

You can see the fan with the large blades if you look at the front of an engine. Behind the fan is the gearbox – the special feature that gives the Geared Turbofan its name. It is this that significantly reduces fuel consumption, CO₂ emissions and noise.

The head of our Development and Technology department, Dr. Stefan Weber, explains exactly how it works.

[Video] The gearbox makes the real difference. In other engines, the fan and low-pressure turbine rotate at the same speed. In the Geared Turbofan, the fan and the low-pressure turbine are decoupled. So both components can run at their optimum speed. The fan can rotate more slowly than the low-pressure turbine. That is the key to reducing consumption, CO₂ emissions and noise.

Compared with previous engines, the Geared Turbofan reduces CO₂ emissions by 20 percent and the noise footprint by 75 percent. That's a quantum leap in engine development. So far, the Geared Turbofan engine family has saved almost five billion liters of fuel and avoided 14 million tonnes of CO₂ emissions. That's impressive evidence of what the engine can do!

Thank you. Those really are impressive figures!

The architecture of the Geared Turbofan is definitely right. But will it also play a significant role in the future of aviation?

The answer is a clear YES! It is a vital component in our technology agenda as we head for emission-free flying. Together with our long-term partner, Pratt & Whitney, we are working on a further enhancement of the Geared Turbofan, the GTF Advantage, which will improve thrust and durability and reduce consumption.

And we are already turning our attention to the next development phase: We are working on the second generation of the Geared Turbofan. This is a further development in terms of efficiency and climate impact. Together with sustainable aviation fuels – SAFs for short – or liquid hydrogen, the climate impact of the second-generation GTF will be significantly lower – up to 65 percent lower than a gas turbine aero engine produced in 2000.

Allow me to take a look now at sustainability.

After all, sustainability will have bigger impact on the future of aviation than any other topic.

My first point is fuel.

As we move toward climate neutrality in aviation, sustainable aviation fuels – SAFs – have an important role to play. They are produced sustainably so they have a positive impact on the climate – directly and immediately.

Even more importantly, SAFs, can already be used without problem in our engines today. Without any modification of the engine architecture.

Furthermore, the present airport infrastructure can still be used. And it is also clear that SAFs will be the only option, especially for long-haul flights, in the foreseeable future.

So there are clear advantages – but what are the drawbacks?

That brings us back to the theme of light and shadow.

The biggest challenge of SAFs is their availability. We need more production capacity. In the short term.

We have the technology. And the knowledge.

What is missing in industrialization, in other words, production plants and affordable green electricity. We need an attractive business model for industrial investors.

The issue is not production here in Germany. For that, regions with far more wind energy and solar power are needed. Germany's opportunity in the area of SAFs is in engineering, specifically, plant engineering that we can export to the relevant regions.

In my view, we need to step up our political advocacy in this area. In my discussions with politicians in Berlin, I ceaselessly stress that this is a real opportunity for Germany – one that our domestic aviation industry would also benefit from. We must not miss this opportunity!

And now, back to our focus on sustainability.

My second point relates to the engines themselves. Our technology agenda focuses on the evolutionary development of gas turbines based on the Geared Turbofan.

At the same time, we are considering completely new, revolutionary propulsion concepts. I presented them both to you in detail last year: the water-enhanced turbofan and the Flying Fuel Cell. We drove forward both research projects as part of European research programs in 2023. The aim is clear: We want to use these new technologies to further reduce engine emissions, if possible to almost zero.

Third:

We want to make our manufacturing and maintenance activities climate-neutral. For that, we have established our climate protection strategy. It applies for all fully consolidated MTU locations. Worldwide.

We successfully implemented our climate protection strategy in 2023. Compared with the baseline year, 2019, we have reduced CO₂ emissions by 45 percent. And we are continuing to reduce them.

Switching to alternative energy sources is an important step toward this. Here at our headquarters in Munich, for example, we are therefore pressing ahead with deep geothermal energy. Going forward, we want to heat without fossil fuels.

The drilling started last year at this site. Let us take a look at the work – with our project manager, Stefan Lange:

[Video]: Thanks for letting me show you our geothermal energy project. We want to use deep geothermal energy as a sustainable energy source in Munich. This is the drilling rig. The first bore path was completed a few weeks ago. It is 2,650 meters long. We have now successfully completed the pumping tests – and the results are promising. Drilling of the second bore path is currently under way. Our geothermal plant should have output of 10 megawatts. That would be enough to supply 2,000 homes. It would cover about 80 percent of MTU's heating requirements.

Many thanks Mr. Lange – this is an important project, also to help us achieve our ESG targets.

Incidentally, MTU is focusing on the procurement of green electricity across its sites. Power generation for our sites in Poland and Serbia is already completely emission-free. And we operate our main location in Munich with a climate-neutral footprint.

All that is geared to the big vision for aviation: climate neutrality by 2050.

We work daily toward this goal. We are making a clear contribution to more climate-friendly aviation.

Not every idea will come to fruition. But we need the courage to try out new options, to describe new routes. The courage to shape the future of aviation. With technology and innovation. With passion and curiosity.

We have the courage, the curiosity, the passion. We have had them for 90 years. In 2024, MTU is celebrating its 90th anniversary.

This year, we can look back over a 90-year success story. And we are also looking forward.

True to our motto: “90 years and beyond – Passion for engines.”

With 90 years of expertise and the necessary passion, we are heading onwards – with a clear vision for climate-neutral civil aviation.

And naturally, ladies and gentlemen, we are also focusing on our military business. That also involves both light and shadow.

Light, because the need for military equipment is rising. With our products, we are back at the center of society, in the political debate.

Yet shadow too, because the sad reasons are the dreadful wars of recent times – including here in Europe.

As a result, the debate about Europe’s sovereignty and defense capability is right back on the agenda. It is quite clear that this is also about defending our values, our free and democratic system.

We are aware of our responsibility. Our military programs make an important contribution to Europe’s defense capability. Today, for example, through our share in the Eurofighter engine program. Tomorrow through the FCAS program.

We have signed a four-year national technology agreement for this new European fighter jet system. MTU achieved all the milestones in 2023. Now it is up to the political level to set phase 2 in motion.

Going forward, we also want to use the opportunity for technology transfer from the military to the commercial aviation sector.

In addition, we want to work with the French Group Safran on the engine for the next generation of military helicopters. A pan-European team should develop this quickly and efficiently.

As you can see, ladies and gentlemen, 2023 was a busy year for MTU.

There were many challenges, but also a good deal of progress and success. That is the tremendous achievement of a strong team.

On behalf of the entire Executive Board, I would like to express my sincere thanks for that. We are proud to have such a competent and motivated team at our side.

Most of all, we are pleased that our employees enjoy their work. At all 18 MTU sites, across all business areas, we experience their enormous dedication and pleasure in what we do every day. That is a wonderful thing to see.

We have a team that goes the extra mile and doesn't allow itself to be blown off course, even if there is turbulence.

There is one point I would specifically like to emphasize here, even though it is self-evident for us:

What matters to us is competence, commitment, passion. "90 years and beyond – Passion for engines."

For us, it is irrelevant where someone comes from, their gender, their predilections. Our company stands for open-mindedness, diversity and respect. Racism and exclusion have no place at MTU.

I say that as a committed European.

Europe is deeply rooted in my life and my heart. I was born in north Germany. I have studied and worked in England, France and Spain. My wife is Spanish, our children were born in France.

And, as a passionate flyer, let me say:

There is no other sector that facilitates a comparable, global exchange – of people and cultures, goods and services. Aviation transcends borders; it connects people. And that is what MTU and its 12,000 employees around the world stand for.

With our team spirit, we will overcome the challenges, together. We will use our operational strength to shape the future of aviation.

We are convinced that the light will drive out the darkness.

Despite the contrasts in 2023 – it made one thing clear: We are well-positioned for the future. We still have our sights set firmly on our vision and our goals. We see an excellent starting position in all segments.

We ask the necessary questions. And we respond with the right strategy.

MTU is a healthy, high-performing and growth-oriented company with a stable business model that works, even in the most difficult conditions.

2024 will still be dominated by the Geared Turbofan fleet management plan. Nevertheless, we expect a positive organic development – across all areas of business.

We expect the strongest revenue growth to come from the commercial series business. At the same time, revenue in the spare parts business, commercial maintenance and the military business should increase. Overall, we expect Group revenue to be between €7.3 and €7.5 billion in 2024.

We anticipate that the adjusted EBIT margin will be over 12 percent. Adjusted net income and adjusted EBIT should rise in tandem.

We are also looking optimistically beyond the present year. We aim for profitable long-term growth.

Last year, I presented our target to you as a simple formula: 8 - 1 - 25: revenue of €8 billion and an operating profit of €1 billion by 2025.

That target has not changed. And we will deliver.

You, our shareholders, provide the basis for our success. By making available the capital for us to grow – by buying and holding our shares. Many thanks for that!

I would also like to thank the Supervisory Board, which provides wise advice to support our decisions.

I would specifically like to mention Dr. Joachim Rauhut. After 15 years of service, he is stepping down from the Supervisory Board today. Dr. Rauhut: many thanks for your intense and successful commitment.

Ladies and gentlemen, as announced in the invitation, Gordon Riske, the Chairman of our Supervisory Board, will shortly be proposing Dr. Johannes Bussmann as Dr. Rauhut's successor.

I would also like to thank our business partners, who value and demand our products. And the stakeholders who place their trust in us. You all help us as we shape the future of aviation.

With our “passion for engines – since 90 years and for many years beyond ...”

And – we are firmly convinced – with plenty of light and little shadow.

Thank you.