



Annual General Meeting

MTU Aero Engines AG

Speech delivered by the CEO

Reiner Winkler

on May 4, 2017

in Munich

- Check against delivery -

Dear shareholders,
shareholder representatives,
ladies and gentlemen,

It is my pleasure to welcome you here today in Munich, also on behalf of my fellow members of the Executive Board, Rainer Martens and Michael Schreyögg. We are delighted that you have taken the time to show your interest in MTU Aero Engines by attending our Annual General Meeting in person.

Ladies and gentlemen, as you no doubt already know from our quarterly and annual reports, 2016 was the most successful financial year in MTU's history. This is perhaps not a particularly original opening to my speech, given that we also presented record results in previous years. But we are nonetheless pleased to have achieved another record year – emphasizing as it does the sustainability of our successful progress. We have grown steadily from year to year because we are consistently guided by a clear strategy, have a policy of long-term investment in MTU's future development, and we keep our sights focused on market requirements and our customers' needs.

Business performance in 2016

Thanks to this strategy, we generated 4.7 billion euros in revenues in 2016. Adjusted EBIT for the year grew to 503 million euros and, on the bottom line, the group delivered a net income of 345 million euros. That means a new best-ever performance across the board for MTU. Not only did the company grow but, more importantly, it grew very profitably – with earnings and net income both increasing at a higher rate than revenues.

These results also confirm our ability to reliably deliver on our promises. We were on target with all of our forecasts – including the earnings forecasts, which we raised twice in the course of the year.

This briefly outlines the main points. You will find a detailed review of our business performance in our 2016 Annual Report, copies of which are available at the information desk.

Highlights of the activities in MTU's business units

Ladies and gentlemen, the positive developments we have seen in the past financial year are broadly based. All MTU business units chalked up successes in 2016.

The Geared Turbofan™, or GTF, remained at the center of many of our activities. Its popularity on the market is going from strength to strength: up to the end of 2016, more than 8,000 firm orders and options had been placed for the PW1000G family of low-noise, fuel-saving engines.

The first highlight of the year for the GTF took place in January 2016, when launch customer Lufthansa took delivery of the first A320neo. Since this successful market debut, 11 airlines have placed the A320neo in service, and the modern GTF engines with which it is equipped have logged over 150,000 flight hours in commercial service.

Meanwhile, here at MTU, we are busy ramping up our production capacity for these engines. We reached the final, decisive milestone in 2016, when we inaugurated our final assembly line for GTF engines and delivered the first fully assembled engines. Our Munich location is one of only three facilities worldwide selected for the final assembly of engines for the A320neo, and will be responsible for almost one third of these engines.

With the new engine for the Bombardier C Series, a second model in the GTF family has entered service with a customer: Swiss has flown the CS100 in regular commercial service since July 2016. In December 2016, Air Baltic began operating flights with the larger C Series model, the CS300.

The other GTF-family programs also passed a number of milestones in 2016:

The engine for the Irkut MS-21 received FAA certification in May. In the same month, a geared turbofan successfully propelled Embraer's E190-E2 on its maiden flight. And the Mitsubishi Regional Jet is already midway through its flight test phase.

In each case, MTU has demonstrated its reliability as a partner. The workshares for which we are responsible in the Geared Turbofan™ programs are being delivered according to plan, fully satisfying all deadline, quality and cost-development requirements. In the early phases of a completely new generation of engines like the GTF family, it is understandable that teething problems cannot be entirely ruled out – for instance slightly higher wear on certain components. Our partner Pratt & Whitney is working together with the customers to find fast, professional solutions to these issues.

Significant progress was also made on the GE9X engine for the Boeing 777X long-haul airliner. It passed its first series of ground tests in 2016 with flying colors, proving without doubt that its performance is up to specification.

MTU's military engine business won a significant export order in 2016, when Kuwait signed a contract to purchase 28 Eurofighters. This military aircraft is powered by EJ200 engines, built by a consortium in which MTU holds a 33% share.

The news regarding the A400M military transporter is less positive but as we know, and just as in the case of the GTF, any new project of this complexity can run into unforeseen problems. Airbus is currently working together with its customers to develop viable solutions – supported wherever necessary by the members of the Europrop International engine consortium.

We are pleased to report that, in 2016, capacity utilization remained high in MTU's global network of MRO facilities. Future prospects are similarly bright, given that we have not only signed contracts with a significant number of new customers but also renewed contracts with existing customers who are more than satisfied with our services. Examples include LATAM Airlines, Garuda Indonesia, Sky Regional Airlines and, for the maintenance of industrial gas turbines, Rojana Power and Statoil.

The commercial maintenance business celebrated two anniversaries in 2016, both of which underscore the importance of creating successful partnerships with commercial airlines. Our joint venture with China Southern Airlines, MTU Maintenance Zhuhai, has been in operation for 15 years and is today the leading engine maintenance provider in China. And Airfoil Services Malaysia, a joint venture between MTU and Lufthansa Technik, has been in existence for 25 years. Going forward, we intend to build on the close ties we have forged with airlines, for instance by setting up a joint venture with Lufthansa Technik for the maintenance of Geared Turbofan™ engines. This will allow the two German companies to combine forces and thereby play a leading role in the international market.

As part of our financial management process, we have taken measures to optimize our loan structure and borrowing arrangements. We have increased our available cash flow by issuing a convertible bond with a nominal value of 500 million euros. On the one hand, we intend to use the proceeds of this bond issue to redeem the remaining shares of the previous corporate bond which matures in June 2017, which will on the other hand still leave us sufficient scope to utilize the additional funds generated for other general purposes.

All in all, as you can see, we have endeavored to make the best use of the opportunities that presented themselves in 2016. We are excellently positioned in the current market. We do business in an attractive industry. We favor organic growth because our company has a sound financial basis. We are doing everything we can to ensure MTU's ongoing prosperity and carry the group into the future.

Embracing the digital revolution

Assuring MTU's future is also a question of systematically leveraging the countless opportunities offered by the new digital age. As technology leaders, we have already embraced many of the key elements of Industry 4.0: they are an everyday reality throughout the different business units, from development to production and on to maintenance. Please allow me to explain what this entails by means of a few concrete examples. Let's look first at the digital development process. Here, we are making increasing use of simulation tools, thereby avoiding the high costs of testing real hardware. Before a new "physical" engine comes anywhere near our test rigs, it has already undergone numerous tests as a virtual data model. Another good example is in-flight engine health monitoring. We are designing new methods of capturing and analyzing data to help us improve our MRO services. The aim is to reduce the frequency of shop visits and improve maintenance planning accuracy thanks to more precise predictions. But Industry 4.0 is about more than just using digital technology to build better products and offer better services. As illustrated by the many examples featured in our 2016 Annual Report, taken from all areas of the company, we are already well positioned in this respect. No, our ultimate goal is to create a truly digital MTU 4.0 by transforming our entire value chain.

Dividend

Ladies and gentlemen, it is the declared aim of our dividend policy to offer our shareholders – i.e. you – an appropriate means of benefiting from the company's success, based on continuity. After a record year, it is only fitting that our dividend proposal should also stand at an all-time high. If you accept our proposal of 1.90 euros per share, the total dividend payment this year will amount to 97.6 million euros. MTU thus remains a strong dividend-paying stock.

Share price development

In addition to the dividend yield, investors like yourselves are also no doubt interested in the development of the MTU share price. Looking back over 2016, we can be very satisfied with its performance. With a gain of 22%, the MTU share was one of the top performers in the MDAX, which closed 2016 with a modest gain of 6.8%. As you can see from the graph, our share also developed significantly better than the average for our competitors. Over the past twelve months, MTU's share price has increased by 60% while the MDAX index has risen by 22%. At the close of trading yesterday, the MTU share stood at €132.85. This means, ladies and gentlemen, that the MTU group has never before been so highly valued on the stock market at the time of an Annual General Meeting. Since the IPO in 2005, the value of the MTU share has multiplied more than sixfold. This corresponds to an annual yield of approximately 16 percent.

This gratifying development is solid proof that we are pursuing the right strategy. The majority of analysts see it this way, too: some 85 percent of them recommend the MTU share as "buy" or "hold", with upside targets as high as 150 euros.

Many of our employees also hold shares in MTU. In 2016, almost one in three members of our workforce purchased shares through the MAP employee stock option program. Together, they invested the record amount of €14.5 million. This makes us very happy because it shows how much they believe in the company they work for, and that we have succeeded in building a culture of ownership.

Employees

While we're on the subject of the company's employees, I would like to add that they have once again pulled together as a team in 2016, devoting all their efforts to achieving excellent results for MTU. Day in and day out, everyone who works for MTU gives their best – creating innovative products,

maintaining the highest quality standards, satisfying the needs of customers and partners, leading projects to success, and thereby contributing to the company's profitable growth. On behalf of the entire Executive Board, I would like to express my sincere gratitude to all MTU employees. Thank you all very much!

Ladies and gentlemen, as members of the Executive Board, I and my colleagues know that we can have every confidence in this dedicated team of highly qualified workers. And as shareholders you can do so too.

1st quarter 2017

This is borne out by the financial results for the first three months of 2017, which we published at the end of last week, and you have almost certainly read by now. MTU has made a good start to the new financial year, with first-quarter revenues up 15 percent and a 20-percent increase in earnings. We are thus well on the way to meeting our full-year targets.

Outlook

In 2017, the MTU group aims to generate around 5.1 or 5.2 billion euros in revenues. We expect to see the highest growth rate in the commercial maintenance business. The commercial engine business and spare parts sales are also expected to grow, whereas revenues in the military engine business are likely to decline. The expected growth trend in 2017 relates not only to revenues but also to adjusted EBIT, accompanied by a stable EBIT margin. As regards the bottom line, we expect net income to increase at a higher rate than operating profit. 2017 is the final year of the most significant investment phase in MTU's history, which we expect to conclude while remaining on our profitable growth trajectory. Over this ten-year period, we have invested approximately four billion euros in the company's future.

As these projections amply demonstrate, MTU has a clearly defined growth profile. We have the right people, the right technologies, and the right market position. And – may I emphasize – MTU has a clear strategy for the road ahead, beyond the end of the investment phase and up to 2025. Starting in 2018, we will enter what we refer to as the consolidation phase, in which we will reap the full benefits of our earlier investments. For you, too, as our shareholders, this means benefiting from our increasing revenues and earnings, further improved profitability, and also higher cash flows. If we were pilots, we would say we don't fly our company by sight, using visual flight rules, but by instruments, programmed to a defined flight plan and stored route. And last but not least, MTU has a rock-solid balance sheet with plentiful cash resources – and hence the financial strength it needs for the future. On this basis, we will continue to invest in MTU's future and leverage new opportunities for profitable growth and added value.

Ladies and gentlemen, MTU's outstanding performance in the past financial year and its bright outlook are in no small measure the result of long-lasting, successful business relationships. For this, on behalf of the entire Executive Board, I would like to take this opportunity to express my sincere gratitude – especially toward our customers and partners. We are looking forward to having the honor of working together long into the future. I would also like to thank the members of the Supervisory Board and their chairman, Klaus Eberhardt, for actively supporting the work we do. And to you, dear shareholders, I would like to say thank you very much for being here today and for the trust you place in MTU. I can assure you that all of us at MTU appreciate the value of that trust. We will do everything in our power to ensure that 2017 is yet another good year for the company and for yourselves as its shareholders.

Thank you for your kind attention