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Annual General Meeting

MTU Aero Engines AG

on

21 April 2021

Report of the Executive Board on item 10 of the agenda (resolution on the authorization to issue convertible bonds and/or bonds with warrants, also excluding subscription rights; creation of a new Conditional Capital (Conditional Capital 2021); cancellation of the unused part of the authorization to issue convertible bonds and/or bonds with warrants 2019, partial cancellation of the Conditional Capital 2019 and corresponding modification of Section 4 (7) of the Articles of Association, amendment of the Articles of Association by Section 4 (8)) pursuant to Section 221 (4) sentence 2 in conjunction with Section 186 (4) sentence 2 German Stock Corporation Act (AktG)

The Executive Board and Supervisory Board propose that the Annual General Meeting approve the authorization and the creation of Conditional Capital (Conditional Capital 2021) for the issuance of convertible bonds and/or bonds with warrants (collectively the “Bonds”). The issuance of Bonds (or a combination of these instruments) may provide an opportunity, in addition to the conventional possibilities of raising debt and equity capital, to make use of attractive financing alternatives on the capital market, depending on the market situation. The issuance is to be limited to a total nominal value of the bonds of up to EUR 600,000,000 and an entitlement to subscribe up to a maximum of 2,600,000 registered non-par shares of the Company.

The Company has partially used the Authorization 2019 and has issued, in September 2019, through a private placement a convertible bond in the total nominal amount of EUR 500,000,000 with an exclusion of subscription rights. Consequently the Authorization 2019 resolved by Annual General Meeting on April 11, 2019 is no longer fully available and accordingly the flexibility for future financing is limited. The Executive Board and Supervisory Board therefore propose in the course of the new Authorization 2021 that the Annual General Meeting cancels the unused part of the Authorization 2019.

Considering that with the proposed resolution the Authorization 2019 shall be canceled as far as unused and thus no further bonds may be issued under the Authorization 2019, the Conditional Capital 2019 in the current amount of EUR 2,600,000 is only to be kept in order to serve the conversion rights under the convertible bond issued in September 2019. The Conditional Capital 2019 can therefore be cancelled, as proposed by the Executive Board and Supervisory Board, in the amount of EUR 1,000,000 and accordingly the Conditional Capital 2019 in Section 4 (7) sentence 1 of the Articles of Association can be adjusted on an amount of EUR 1,600,000.

The issuance of Bonds facilitates the raising of debt capital on favorable conditions (compared to conventional debt financing) which may be converted into equity capital upon maturity under certain conditions and thus may remain with the Company. The envisaged possibility to also create conversion obligations in addition to the granting of conversion and/or option rights provides more leeway for the structuring of this financing instrument. The authorization will provide the Company with the necessary flexibility to place the bonds itself or via affiliated companies managed by the Company ("Affiliated Companies"). In addition to the euro, the Bonds may also be denominated in other legal currencies, for example that of an OECD country, and may be issued with limited or unlimited maturity.

The Bonds may also provide for or permit new or treasury shares of the Company to be granted in the event of the exercise of conversion and/or option rights or the fulfillment of conversion obligations. To further increase flexibility, the conditions established for the Bonds may also provide for or permit that instead of granting holders of conversion or option rights or conversion obligations treasury shares in the Company, the Company pays an equivalent sum of money to them upon exercise of the conversion and/or option rights or upon fulfillment of the conversion obligations. This takes due account of the fact that an increase in the capital stock upon the exercise of conversion and/or option rights and/or the fulfillment of conversion obligations at a future point in time might not be welcome. Notwithstanding this, the use of the possibility of cash payment protects shareholders against a reduction in the proportion of their shareholding and against a dilution of the value of their shares because no new shares are issued.

Shareholders shall generally be granted subscription rights. In case of a placement via Affiliated Companies, the Company shall also ensure that the Company's shareholders are granted statutory subscription rights. In order to facilitate the settlement, a possibility is provided for the Bonds to be issued to one or several banks with the obligation that the Bonds be offered to the shareholders for subscription in accordance with their subscription rights.

However, the Executive Board shall also be authorized to exclude, with the consent of the Supervisory Board, the subscription rights of shareholders to the extent that the issuance of shares based on conversion or option rights or conversion obligations is restricted to a maximum of 5 % of the capital stock when this authorization becomes effective or – if such value is lower – when this authorization is exercised. This possibility to exclude subscription rights provides the Company with the flexibility to exploit favorable capital market situations at short notice and, by determining the conditions in accordance with the prevailing market situation, to achieve better terms when stipulating the interest rates and issue price of the bond. The decisive factor is that, as opposed to an issuance of Bonds with subscription rights, the issue price can be determined immediately before the placement, thereby avoiding an increased risk of price change for the duration of the subscription period. In contrast, where subscription rights are granted, the subscription price would have to be disclosed by three days prior to the expiry of the subscription period. In view of the frequently observed volatility on the stock markets, the market risk would still be immanent for a number of days, which would result in safety margins being deducted when stipulating the conditions of the Bond. The subscription period would also make it more difficult to respond to favorable market conditions at short notice. Particularly in the case of Bonds, the granting of subscription rights could jeopardize any successful placement with third parties, or result in additional expenses, due to the uncertainty of the exercise thereof. By determining the issue price of the Bonds in these cases as not materially below the notional market value as calculated using recognized methods of financial mathematics, the shareholders' need for protection with regard to an economic dilution of their shareholding is to be accounted for. If the issue price were equivalent to the market value, the value of the subscription rights would be decreased virtually to zero. Thus, the shareholders will not suffer any significant economic disadvantages on account of the exclusion of subscription rights. The Executive Board will endeavor to achieve the highest issue price possible and to keep any economic gap to the price at which the current shareholders can buy additional shares via the market as small as possible. Shareholders who would like to maintain their share in the Company's capital stock can achieve this by way of additional purchases via the market at roughly the same conditions. Any relevant losses in the proportions of their shareholdings can also be ruled out from the viewpoint of the shareholders. The authorization is restricted to the issuance of conversion and/or option rights (also with conversion obligations), which account for up to 5 % of the Company's capital stock. Any other issuance of shares against cash contributions or sale of treasury shares shall be taken into account in this 5 % of the capital stock, to the extent that such shares are issued excluding subscription rights pursuant to Section 186 (3) sentence 4 German Stock Corporation Act (AktG) during the term of the proposed authorization. It is thereby ensured that no Bonds are issued where this would result in the exclusion of subscription rights of shareholders for a total of more than 5% of the capital stock in direct or indirect application of Section 186 (3) sentence 4 German Stock Corporation Act (AktG). This further restriction is in the interests of the shareholders who would like to maintain, if possible, the proportion of their shareholding in case of corporate action to this effect.

Moreover, the Executive Board shall be authorized, with the consent of the Supervisory Board, to exclude fractional amounts from the subscription rights of shareholders. Such fractional amounts may result from the amount of the respective issue volume and the need for a practicable subscription ratio. In these cases, the exclusion of subscription rights for fractional amounts facilitates the implementation of the corporate measure. The new fractional shares, which are excluded from the subscription rights of shareholders, will either be sold on the stock exchange or otherwise disposed of in a way that best benefits the Company. The restriction of the exclusion to fractional amounts does not result in any significant dilution for the shareholders; in the opinion of the Executive Board, such restriction is justified and appropriate in view of the circumstances.

Furthermore, the Executive Board is to be provided with the possibility to exclude, with the consent of the Supervisory Board, the subscription rights of shareholders in order to grant to the holders or creditors of conversion and/or option rights or convertible bonds with conversion obligations subscription rights for the same number of shares to which they would be entitled as shareholders upon exercise of their conversion or option rights or upon compliance with their conversion obligations. Placing the holders/creditors of conversion and/or option rights (also with conversion obligation) at an economic disadvantage is thereby avoided; they are granted dilution protection which is in accordance with capital market practice, which facilitates the placement of the convertible bonds and/or bonds with warrants, and which enables the Company to have a higher cash inflow, as there is no need in these cases for a reduction of the conversion and/or option price or for any other dilution protection. The only disadvantage for the existing shareholders lies in the fact that the holders/creditors of conversion and/or option rights (also with conversion obligation) are granted subscription rights to which they would in any event be entitled if they had already exercised their conversion and/or option rights or complied with their conversion obligation. Consequently, in considering the advantages and disadvantages, the exclusion of the subscription rights appears reasonable in this case.

In case the Executive Board makes use of one of the foregoing authorizations to exclude subscription rights, it will report at the next Annual General Meeting.

Munich, March 2021

MTU Aero Engines AG

The Executive Board