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Annual General Meeting MTU Aero Engines AG May 8, 2024

Further information on agenda item 8: Resolution adopting the compensation system of the Executive Board

Under agenda item 8, the Supervisory Board proposes to approve the new system for the remuneration of the Executive Board members. According to Section 124 (2) Sentence 3 German Stock Corporation Act (AktG), the complete content of this compensation system is therefore announced below:

A. GUIDELINES AND PRINCIPLES

A.1. PRINCIPLES OF THE COMPENSATION SYSTEM FOR THE EXECUTIVE BOARD

The corporate strategy of MTU Aero Engines AG (MTU) is geared to profitable growth and customer satisfaction. MTU's growth strategy is aimed at four target areas.

- A balanced product portfolio – Participation in rapidly growing new programs
- Cutting-edge technologies – Maintaining and expanding technological leadership
- Enhanced competitiveness – Increased productivity accompanied by a reduction in capital tie-up
- Innovative corporate culture – Motivated employees in a creative environment

MTU optimizes its risk profile as well as growth opportunities by means of a balanced product portfolio achieved through participation in rapidly growing new programs. The digitalization of products, services and value creation processes is of growing importance, which is why maintaining and expanding MTU's technological leadership is of fundamental relevance. MTU encourages a culture of continuous improvement in order to secure its competitiveness. The focus here is on optimizing structures, processes and capital tie-up in all areas of the Company. Digitalization and automation technologies (Industry 4.0) play a key role here. MTU regards responsible economic activity as an important criterion of its competitiveness, and acts in harmony with its sustainability strategy. Highly motivated, skilled workers are crucial to the successful growth of the MTU Group. MTU's corporate culture places emphasis on personal development and achievement coupled with a strong sense of social responsibility. The Company promotes cultural and individual diversity, flexible working conditions and high-quality basic and further training opportunities for its workforce. MTU is confident that activities with a long-term focus, targeted investments and continuous development of the corporate culture will enable it to achieve its strategic objectives.

The compensation system for the Executive Board of MTU represents an important control element geared to ensure that corporate governance is optimally aligned with the long-term interests of the Company and its investors. The performance criteria of the compensation system are derived from MTU's value driving metrics and are reflected in the compensation system in the form of financial and ESG performance criteria. This creates incentives to implement the MTU growth and sustainability strategy, thereby aligning board compensation with positive and sustainable corporate development. Accordingly, the Executive Board compensation takes into account an appropriate composition of non-performance-related and performance-related components, in particular with long-term incentive effect.

A.2. PRINCIPLES AND CHANGES

The Supervisory Board has comprehensively reviewed and further developed the compensation system for members of the Executive Board presented to the Annual General Meeting on April 21, 2021. In addition to the statutory requirements and the recommendations of the German Corporate Governance Code (GCGC), the new Executive Board compensation system now in place takes into account current market developments and the expectations of our investors.

The Supervisory Board is guided by the following principles in structuring the Executive Board compensation system:

- Strategy aspect: Considering ambitious and long-term performance criteria as part of the performance-related compensation components with reference to MTU's corporate strategy, thus providing an incentive to achieve strategically important goals
- Pay-for-Performance: Ensuring an adequate and ambitious link between performance and compensation in line with investor expectations
- Sustainability and long-term focus: promoting the sustainable and long-term development of MTU through predominantly share-based and long-term performance-related compensation as well as consideration of nonfinancial sustainability targets (environment, social, governance – ESG) as an independent performance criterion
- Harmonization of Interest: Aligning the interests of the Executive Board with those of shareholders through relative measurement of performance as well as the linking of performance-related compensation with the share price development
- Conformity: Considering regulatory requirements as well as market practice of relevant peer-group companies
- Appropriateness: Ensuring that the compensation of Executive Board members is appropriate in relation to their duties and performance and to MTU's position, and taking into account the compensation and employment conditions of the employees

The new Executive Board compensation system is characterized in total by the following basic principles, which were partially adopted from the previous system due to the continued market and strategy conformity and partially newly added to the system due to the current developments of MTU as well as on the basis of the requirements of investors:

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- Compensation components of total compensation continue to be composed of non-performance-related and performance-related components with a particular focus on performance-related components, in particular the long-term performance component.
 - Within this structure, the performance-related components were further developed as follows:
 - Short-term incentive (STI): Integration of ESG as an independent performance criterion, which emphasizes the focus on sustainability, as well as the inclusion of a strategic multiplier, which enables the Supervisory Board to focus the Executive Board on special strategic and transformative processes and measures
 - Performance Share Plan (PSP): Introduction of a future-oriented, long-term incentive (PSP/LTI) that meets investor expectations and is based on financial performance criteria as well as ESG-related performance criteria. As one of the key performance indicators of MTU, EPS is used as a performance criterion. Thus, the (adjusted) EBIT will in the future only be taken into account for granting the short-term incentive. Relative Total Shareholder Return (TSR) will continue to be integrated as an indicator in the LTI plan but measured as part of the TSR percentile ranking to better represent performance compared to other companies. Due to the switch to a performance share plan, the applicable forfeiture rules were adjusted in line with regulatory requirements and market practice.
 - Incorporation of the possibility of granting an additional event driven incentive compensation, which the Supervisory Board may offer to the Executive Board in exceptional cases in order to meet extraordinary challenges that are not reflected in regular short- or long-term variable compensation.
 - Integration of flexibility in the definition of performance criteria and target achievement, which enables the Supervisory Board to react to changes in strategy and to take into account unforeseeable internal and external developments and special achievements as well as ensuring that payout from performance-related components for Executive Board members is consistent with MTU performance, investor expectations and compensation for the entire workforce.
 - Increase in the maximum compensation to give the Supervisory Board flexibility for future remuneration adjustments and new hires.
 - Adjustment of the amount of the shareholding obligations as part of the conversion of the LTI plan from a restricted stock plan to a performance share plan.

B. PROCEDURE FOR DETERMINING AND IMPLEMENTATION

B.1. PROCEDURES FOR DETERMINING AND REVIEWING THE COMPENSATION SYSTEM

By law, the Supervisory Board is responsible for the determination, implementation and review of the remuneration and the compensation system for the Executive Board members. In this context and taking into account the voting results of the Annual General Meeting and the feedback of our investors, the Supervisory Board of MTU has decided to further develop the compensation system of the Executive Board members. In this regard, last year the Personnel Committee has identified those items that require change or further development in order to better align the compensation system with investor expectations and the company strategy. For the revision, the DAX40 market practice as well as those of the international companies comparable to MTU was also considered in detail and taken into account in the presented compensation system with the assistance of an independent remuneration expert and other external consultants. The Supervisory Board of MTU decides on the compensation

system of the Executive Board members upon proposal of the independent Personnel Committee within the meaning of the GCGC. The compensation system as resolved by the Supervisory Board on 24th October 2023 and 11th December 2023 on the recommendation of the Personnel Committee, will be submitted to the Annual General Meeting for approval. If the compensation system is not approved by the Annual General Meeting, the Supervisory Board shall submit a reviewed compensation system for approval at the next Annual General Meeting.

The design of the Executive Board compensation system is regularly reviewed by the Personnel Committee for any need for adjustment. If there is a need for change, the Personnel Committee submits proposed adjustments to the Supervisory Board. In the event of substantial changes, but at least every four years, the compensation system shall be resubmitted to the Annual General Meeting for approval.

B.2. IMPLEMENTATION AND INITIAL USE PROCEDURES

The new compensation system will be implemented retroactively from 1st January 2024, subject to the vote of the Annual General Meeting. Consequently, the remuneration of the members of the Executive Board for the period from 1 January 2024 is to be determined in accordance with the new compensation system.

At the latest at the beginning of the fiscal year, the Supervisory Board shall determine the specific remuneration of the Executive Board members in accordance with the compensation system submitted to the Annual General Meeting and shall define the performance criteria and target values for the upcoming fiscal year on which the Executive Board performance will be measured.

B.3. APPROPRIATENESS OF EXECUTIVE BOARD COMPENSATION

When determining the remuneration of the members of the Executive Board, the Supervisory Board ensures in accordance with Section 87 (1) German Stock Corporation Act (AktG) that the remuneration is commensurate with the tasks and performance of the respective Executive Board member as well as the economic situation of the company, success of the company and future prospects of MTU. It also ensures that the usual compensation is not exceeded without good cause.

The Personnel Committee reviews the appropriateness and alignment with the market of the Executive Board compensation regularly. For this purpose, a comparison is carried out with the support of an independent compensation expert against other suitable companies (horizontal comparison). The composition of the peer group determined by the Supervisory Board is disclosed in the compensation report.

In addition, the terms and conditions of employment for employees are taken into account when determining compensation, and a vertical comparison is made which examines MTU's internal compensation structure. For this purpose, the compensation of the Executive Board is compared with that of tier 1 managers (OFK), of tier 2 managers (FK) and of employees covered by the collective wage agreement, and the status quo and the development of these ratios over time are examined.

C. OVERVIEW OF THE EXECUTIVE BOARD COMPENSATION SYSTEM

C.1. THE COMPONENTS OF THE COMPENSATION SYSTEM

The following table shows the basic components of the compensation system.

Overview of the compensation components		
Non-performance-related components	Fixed compensation	Fixed, contractually agreed compensation, paid out in twelve equal installments
	Fringe benefits	<ul style="list-style-type: none"> – Taxable reimbursements of expenses – Cash equivalents of payments in kind – Insurance premiums
	Pension benefits	As of January 1, 2021, newly appointed Executive Board members receive an annual cash payment in lieu of pension contributions for their own provision instead of a defined benefit commitment to a company pension plan
Performance-related components	Short-term incentive (STI)	Financial and ESG-related performance criteria: <ul style="list-style-type: none"> – 50 % adjusted EBIT – 30 % Free Cashflow – 20 % ESG Capped at 0 % – 200 % Strategic goals taken into account by multiplier (0.8 - 1.2) Cap: 240 % of the target amount
	Performance Share Plan (PSP)	Performance period: 4 years Financial and ESG-related performance criteria: <ul style="list-style-type: none"> – 40 % Relative total shareholder return – 40 % EPS (adjusted) – 20 % ESG Capped at 0 % - 200 % Cap (incl. share price development and dividend payments): 250% of target amount
	Additional Event Driven Incentive Compensation	Possibility for the Supervisory Board to award further performance-related compensation in special exceptional cases Cap: 80 % of base pay
Additional compensation provisions	Maximum compensation	Limitation of total remuneration awarded for a fiscal year in accordance with Section 87a (1) sentence 2 no. 1 German Stock Corporation Act (AktG): <ul style="list-style-type: none"> – CEO: € 8.5 million – Ordinary Board members: € 5.0 million
	Sign-On payment	In exceptional cases: in the case of new employment, settlement of forfeited remuneration from the previous employer
	Share ownership guidelines	Obligation to hold MTU shares amounting to 200 % (CEO) or 100 % (Ordinary board members) of the fixed compensation (gross) until two years after the end of the Board member's term of office

	Malus and clawback provisions	Possibility for the Supervisory Board to partially or fully reduce or reclaim performance-related compensation components in the event of serious violations or incorrect consolidated financial statements
	Severance payment cap	Payments in the event of premature contract termination, including in the event of a change of control, may not exceed two years' compensation and may not compensate for more than the remaining term of the contract

C.2. COMPENSATION COMPONENTS AND STRUCTURE

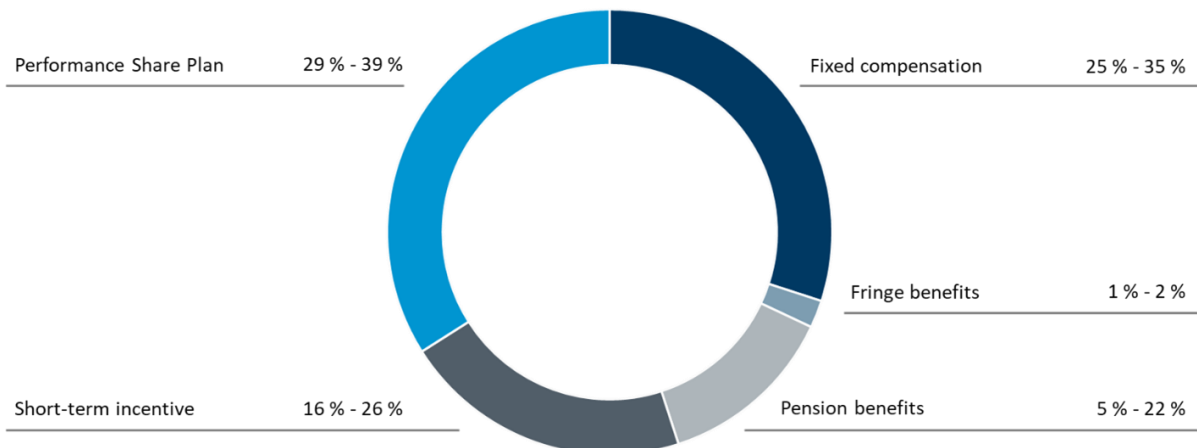
The compensation of the Executive Board members is composed of non-performance-related and performance-related components, the sum of which constitutes the total compensation of an Executive Board member.

The non-performance-related components comprise fixed compensation, fringe benefits and pension benefits. The performance-related components regularly consist of a short-term variable compensation in the form of the Short-term incentive (STI) and a long-term variable compensation in the form of a Performance Share Plan (PSP). In special exceptional cases, the Supervisory Board may also award a performance-related bonus for the Executive Board.

The total of the fixed compensation, the target amount of the STI and the grant value of the PSP constitute the target direct compensation of the members of the Executive Board. In order to strengthen the pay-for-performance concept of the compensation system, the target direct compensation consists mainly of performance-related components. In addition, the majority of the performance-related components are linked to the achievement of long-term targets. Targeted direct compensation is therefore structured to ensure long-term, sustainable development.

The sum of total target direct compensation, fringe benefits and pension benefits constitute the total target compensation of the Executive Board members.

Structure of the total target compensation



If a member of the Executive Board receives a payment as compensation for the loss of compensation entitlements from their previous employer in connection with his or her initial appointment or is granted additionally, in an exceptional case, an event driven incentive compensation, the proportions of the individual components may differ.

C.3.1 MAXIMUM REMUNERATION

In accordance with Section 87a (1) sentence 2 no. 1 German Stock Corporation Act (AktG), the Supervisory Board has set a maximum remuneration for each Executive Board member, which includes all fixed and variable components (fixed remuneration, ancillary benefits, pension scheme, short-term incentive and performance share plan and, if necessary, additional cause-related incentive compensation). Maximum compensation limits the total amount of compensation granted for a given fiscal year, regardless of the payout date. It amounts to €8.5 million for the CEO and €5.0 million for the Ordinary Board members.

D. DETAILED ANALYSIS OF THE INDIVIDUAL COMPENSATION COMPONENTS

D.1. NON-PERFORMANCE-RELATED COMPONENTS

Non-performance-related compensation consists of fixed compensation, fringe benefits and pension benefits.

D.1.1. FIXED COMPENSATION

Fixed compensation is a fixed, contractually agreed compensation that is paid in twelve equal installments.

D.1.2. FRINGES BENEFITS

Fringe benefits comprise taxable reimbursements of expenses and the cash equivalent of payments in kind, such as the use of a company car for business and private purposes, an annual medical check-up, and insurance premiums, including any taxes on such benefits that have been reimbursed. Insurance premiums include premiums for a D&O insurance policy concluded for the Executive Board members with a deductible of 10% of the damage for up to an amount of 1.5 times the annual fixed compensation.

D.1.3. PENSION BENEFITS

The active members of the Executive Board appointed before fiscal year 2021, earn company pension entitlements in the fiscal year in accordance with the "MTU Pension Capital" plan, which governs the post-employment benefits for members of the Executive Board of MTU Aero Engines AG. The pension target is to provide a pension level of 60% of the basic fixed compensation after 15 years of service on the Executive Board.

When the previous plan was replaced, the benefits granted up to the start of the appointment to the Executive Board were transferred to the new plan as the initial transfer amount.

Once the initial transfer amount has been determined, a pension account is opened for each authorised member of the Executive Board, to which further capital units are determined on the basis of the individual Executive Board member's contribution and an age-related factor. The age-related factor represents an interest rate of 6% p.a. until the age of 60. As a rule, the contribution period is limited to 15 years of service on the Executive Board and ends when the member reaches the age of 60. From the age of 61, the pension account earns interest at 4% per year until the pension is drawn (bonus amount). The total of accrued capital units plus the initial transfer amount and any bonus amounts credited, make up the pension capital that is available to finance post-employment benefits.

If benefits are payable due to disability or death, before reaching the fixed age limit of 60 years, 50% of the benefits earnable up to the fixed age limit are added to the accrued balance of the pension account, taking into account the promised contribution period. The amount credited is based on the contributions paid at the time of exit. When an insured event occurs, the pension capital is generally granted as a one-time payment or at the request of the respective Executive Board – and subject to the Group's approval already granted – a life-long annuity may be granted, based on interest of 6% on the pension capital and benefit increases of 1% p.a. Furthermore, the pension balance can alternatively be paid out as capital in 10 instalments, each with a 4% increase in the capital balance, at the request of the Executive Board. When an insured event occurs, the pension account is topped up to the level of benefit commitment under the previous plan (guaranteed capital). Pension benefits do not become payable until an insured event occurs (i.e. on reaching pensionable age, disability or death) even if the insured party leaves the Executive Board. The pension entitlement is vested from inception.

Members of the Executive Board who are newly appointed to the Executive Board from January 1, 2021 will receive a pension allowance as a lump-sum, earmarked amount for their own pension provision, which is paid out annually in cash, instead of the previously described commitment. This enables the Executive Board members to take care of their own pension provision at their own discretion. By awarding a cash payment in lieu of pension contributions, MTU eliminates all interest rate risks and other biometric risks associated with financing a pension plan.

D.2. PERFORMANCE-RELATED COMPONENTS

The performance-related compensation regularly consists of the components Short-term incentive (STI) as well as Performance Share Plan (PSP). In special exceptional cases, the Supervisory Board may also award an event driven incentive compensation for the Executive Board.

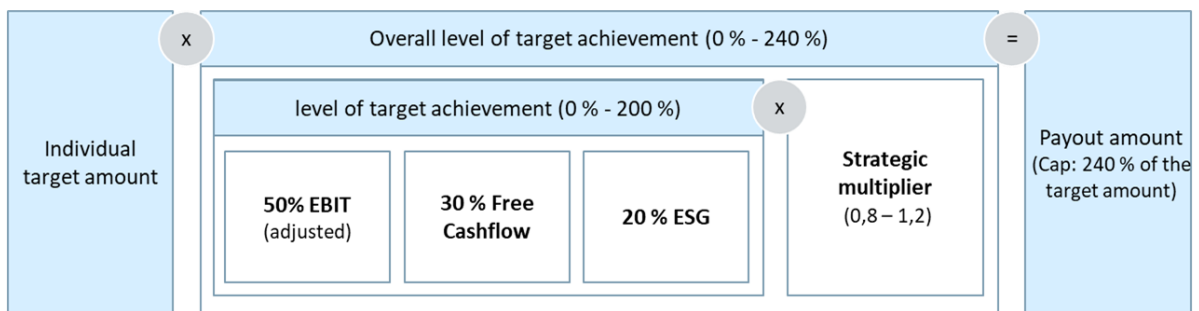
D.2.1. SHORT-TERM INCENTIVE (STI)

PRINCIPLES OF THE STI

The Short-term incentive (STI) is granted as performance-related compensation with short-term incentive effect. It amounts to around 40% of the performance-related Executive Board compensation and is intended to ensure the achievement of operational targets important for the long-term development of MTU.

This short-term variable compensation is granted to the beneficiaries annually in the amount of the target amount defined individually in the Executive Board Employment contract. The amount of short-term incentive (STI) may increase or decrease depending on the performance of MTU. Financial performance criteria as well as independently weighted ESG performance criteria are the basis for assessment, which are defined by the Supervisory Board for the respective fiscal year and communicated to the Executive Board members with corresponding objectives. A strategic multiplier also rewards the Board members' performance in achieving strategic and transformational tasks in parallel to achieving short-term financial and non-financial objectives. After expiry of a one-year performance period in accordance with the fiscal year of the MTU, from 1st January to 31st December, the short-term incentive is determined by multiplying the individual target amount by the overall target achievement level and paid out in cash.

Short-term incentive (STI)



The individual target amount, the defined target values of the financial and ESG performance criteria, the agreed strategic targets within the scope of the multiplier as well as the determined target achievements and the overall target achievement are disclosed in the compensation report for each fiscal year with the resulting payout amount.

FINANCIAL AND ESG PERFORMANCE CRITERIA OF STI

Overall target achievement for the respective STI is generally based on the following performance criteria:

- 50% adjusted EBIT
- 30% free cash flow
- 20% ESG
- Strategic objectives as a multiplier

Adjusted EBIT describes MTU's adjusted earnings before interest and taxes. The adjustment serves to eliminate special items. In this way, the success of managing operating activities is measured. EBIT (adjusted) thus enables an assessment of the economic success of MTU and its focus on sustainable and profitable growth.

In addition to EBIT (adjusted), the second performance criterion – free cash flow – represents an additional value-driving key performance indicator for MTU. The purpose of optimizing cash flow is to ensure that the group maintains its financial strength. This makes it possible to invest in maintaining MTU’s technological leadership and consequently to achieve MTU’s growth strategy. The inclusion of free cash flow into the STI provides incentives for implementing the corporate strategy. MTU determines its free cash flow by combining its cash flow from operating activities and cash flows from investing activities. Cash flow from investing activities is adjusted for non-recurring cash outflows – comprising payment for the acquisition of shares in engine programs, payments in connection with interest-bearing loans and financial assets held for the purpose of liquidity management. Optimizing cash flow ensures that the Group’s financial strength is maintained. This enables investments in maintaining MTU’s leading technology position and thus achieving MTU’s growth strategy. The anchoring of free cash flow in the STI thus provides incentives for the implementation of the company strategy.

ESG performance criteria are determined by the Supervisory Board based on MTU’s sustainability strategy. Based on the relevance of the strategic ESG focus, the Supervisory Board selects up to three performance criteria and defines ambitious objectives to be achieved over the performance period of the respective STI.

The following catalog of ESG criteria is used for this purpose:

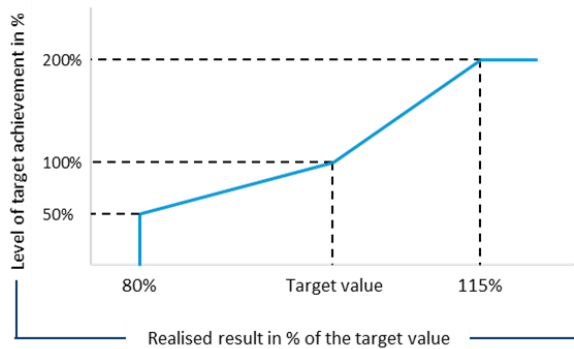
Catalog for ESG criteria				
Environmental management	Social commitment	Compliance	Growth & resilience	Product responsibility & quality
Innovation	Attractiveness as employer	Employees & Diversity	Responsible procurement	Digital

For each financial and ESG-related performance criterion, the Supervisory Board shall establish a minimum value, a target value and a maximum value at the latest at the beginning of the respective grant year.

After the end of the respective fiscal year, the actual achieved value for each performance criterion, which results from the audited IFRS consolidated financial statements of MTU which is prepared in accordance with the respectively valid accounting regulations, is compared with the predetermined target value. The target achievement is 0% if the realized result is below the minimum value set by the Supervisory Board. When the minimum value is reached, the target achievement is 50%. When the target value is reached, the target achievement is 100%. If the realized result corresponds to the maximum value specified by the Supervisory Board or is above the maximum value, this results in a target achievement of 200%. Target achievement is limited to 200%. Linear interpolation is carried out between the three defined points.

The following target achievement curve applies to the financial performance criteria:

Short-term incentive (STI) – Target achievement curve



The Supervisory Board may adjust the respective minimum and maximum values of the target achievement curve for future grants if this is necessary in accordance with MTU's corporate planning and strategic objectives.

In order to be able to react to changes in the company's key performance indicators, the Supervisory Board may replace individual performance criteria and their respective weightings with other external financial reporting performance criteria, taking into account MTU's corporate planning and strategic objectives. In the event of such a replacement, the Supervisory Board shall disclose the reasons in the compensation report. The replacement will take place at the latest at the beginning of the respective grant year for which the short-term incentive is granted.

STRATEGIC MULTIPLIER OF STI

In addition to financial performance criteria and non-financial ESG targets, strategic targets are also taken into account as part of the STI by means of a multiplier ranging from 0.8 to 1.2. The following exemplary list takes into account criteria that are relevant to the corporate strategy. This offers the Supervisory Board the possibility to implement targets in the STI that are relevant to the long-term and sustainable success of MTU.

Examples of strategic criteria			
New and further development of business relationships with strategic business partners (customers, suppliers, development partners, etc.)	Further development of technology, production and location strategies	Further development and introduction of (digital) solutions	Organizational and cultural change

The target achievement per defined performance criterion and thus the overall target achievement are published in the compensation report for the respective reporting year.

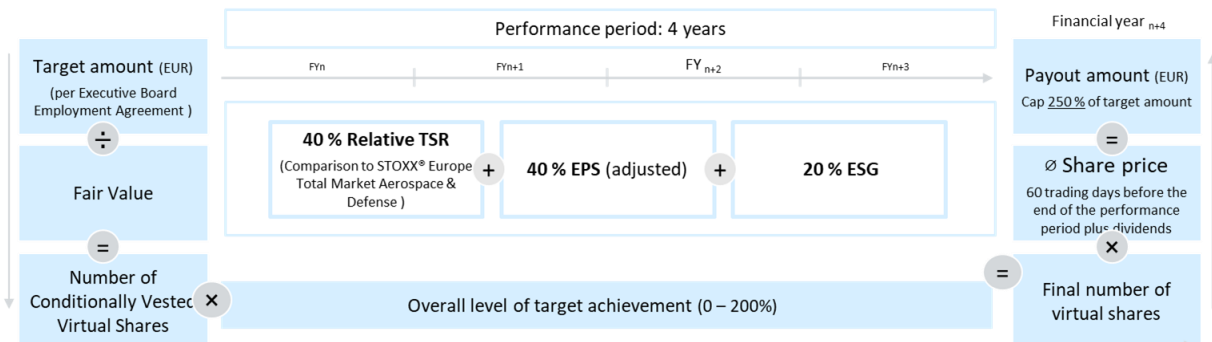
In determining the achievement of the target, the Supervisory Board may – at its reasonable discretion and in justified special cases – take into account extraordinary positive and negative developments that do not have a specific connection to the performance of the Executive Board. This can lead to an increase as well as a reduction in the achievement of the target. Only significant business changes that are not taken into account in the target setting and whose effects cannot be adequately recognised in the target achievement are considered to be extraordinary developments. Generally unfavorable market developments are expressly not considered to be extraordinary developments. Should the Supervisory Board make an adjustment, the Supervisory Board will report on this in detail and transparently in the remuneration report for the respective financial year.

D.2.2. PERFORMANCE SHARE PLAN (PSP/LTI)

PRINCIPLES OF THE PSP/LTI

The long-term variable compensation in the form of the Performance Share Plan (PSP/LTI) is granted as performance-related compensation with long-term incentive effect. Under the Performance Share Plan, the long-term variable remuneration is granted to the beneficiaries annually in the form of a conditionally allocated number of virtual shares (performance shares), which results from the individually defined target amount of the long-term remuneration divided by the fair value of a performance share to be taken into account at the time of granting. The number of virtual shares may increase or decrease, depending on the long-term performance of MTU, as measured by the performance criteria established for this purpose, after the end of the four-year performance period. The final number of virtual shares is determined by multiplying the conditionally allocated shares by the overall level of target achievement of the performance criteria. The final number of virtual shares is limited to 200%. The relevant payout amount is derived from multiplying the final number of virtual shares by the MTU’s average share price over the 60 trading days prior to the end of the performance period plus dividend payments during the performance period. The payout amount is limited to a maximum of 250% of the individual contractually defined target amount of the long-term compensation (cap).

Performance Share Plan (PSP)



PERFORMANCE CRITERIA OF THE PSP/LTI

The overall target achievement for the respective PSP/LTI tranche is based on the following financial and ESG-related performance criteria:

- 40 % relative TSR
- 40 % EPS (adjusted)
- 20% ESG

Relative TSR is recognized as an external performance criterion geared to the capital market. It enables relative measurement of performance against relevant competitors and a link between the interests of the Executive Board and shareholders. Relative TSR compares MTU's TSR performance with the TSR performance of the STOXX® Europe Total Market Aerospace and Defense. This creates incentive for long-term and sustainable outperformance of the MTU share on the capital market.

The relative TSR performance of the MTU is determined based on the percentile ranking method. The relative TSR is therefore defined as the ranking of the MTU's TSR performance compared to the TSR performance of the STOXX® Europe Total Market Aerospace & Defense Index companies. In order to determine the relative TSR target achievement, the TSR performance of the MTU stock during the performance period is determined and the TSR performance of the companies of the STOXX® Europe Total Market Aerospace & Defense (Comparison Index) is compared. MTU's TSR performance is the share price performance plus fictitiously reinvested gross dividends. Analogous to the determination of the TSR performance of the MTU, the TSR performance of the companies of the benchmark (STOXX® Europe Total Market Aerospace & Defense) is determined. The average value of the 60 trading days before the respective key date is used for the start and end value.

In the event that the selected benchmark index is significantly restructured, adjusted or discontinued during the performance period, the Supervisory Board of MTU reserves the right to select an alternative benchmark index and, if necessary, to recalibrate the target achievement curve.

EPS (adjusted) is a key performance indicator, particularly for our shareholders. The target achievement for EPS (adjusted) is calculated as the arithmetic mean of the adjusted EPS figures realized during the four-year performance period in the consolidated and audited financial statements compared to the defined target value.

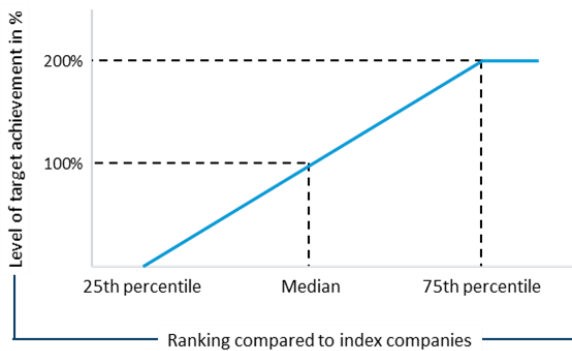
ESG performance criteria are determined by the Supervisory Board based on MTU's sustainability strategy. Based on the relevance of the strategic ESG focus, the Supervisory Board selects up to three performance criteria and defines ambitious objectives to be achieved over the performance period of the respective tranche.

For each financial and ESG-related performance criterion, the Supervisory Board shall establish a minimum value, a target value and a maximum value at the latest at the beginning of the respective fiscal year.

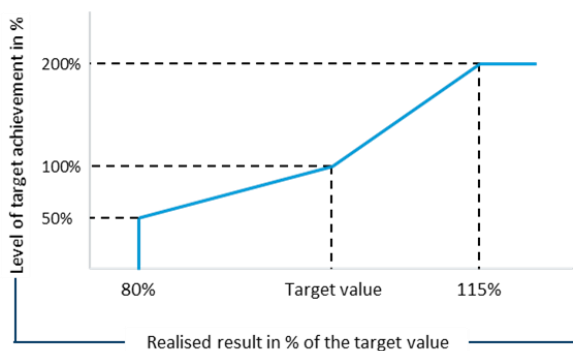
After the end of the respective four-year performance period, the actual achieved value is determined and compared to the predetermined target value. The target achievement is 0% if the realized result is below the minimum value set by the Supervisory Board. When the minimum value is reached, the target achievement is 0% in the case of the TSR criterion or 50% in view of possible additional criteria, depending on the performance criterion. When the target value is reached, the target achievement is 100%. If the realized result corresponds to the maximum value specified by the Supervisory Board or if this is above the maximum value, this corresponds to a target achievement of 200%. Target achievement is limited to 200%. Linear interpolation is performed between the three defined points.

The following target achievement curve applies to the financial performance criteria:

Performance Share Plan (PSP) – Target achievement curve relative TSR



Performance Share Plan (PSP) – Target achievement curve EPS (adjusted)



The Supervisory Board may adjust the respective minimum and maximum value of the target achievement curve for future grants, insofar as this is necessary in accordance with the MTU corporate planning and the strategic objectives.

In determining the achievement of the target, the Supervisory Board may – at its reasonable discretion and in justified special cases – take into account extraordinary positive and negative developments that do not have a specific connection to the performance of the Executive Board. This can lead to an increase as well as a reduction in the achievement of the target. Only significant business changes not taken into account in the target setting and whose effects cannot be adequately recognised in the target achievement are considered to be extraordinary developments. Generally, unfavorable market developments are expressly not considered extraordinary developments. Should the Supervisory Board make an adjustment, the Supervisory Board will report on this in detail and transparently in the remuneration report for the respective financial year.

The specified target values, minimum and maximum values as well as the actual values achieved and the resulting target achievements per performance criterion and thus the overall target achievement are published in the compensation report after the end of the performance period.

In order to be able to respond to changes, the Supervisory Board can replace individual performance criteria and their respective weighting with other performance criteria of external financial reporting, taking into account the company planning and the strategic objectives of MTU. In the event of such a replacement, the Supervisory Board shall disclose the reasons in the compensation report. The replacement will occur before the start of the relevant grant year for which the PSP tranche is granted.

D.2.3 ADDITIONAL EVENT DRIVEN INCENTIVE COMPENSATION

In special exceptional cases, the Supervisory Board may grant the Executive Board additional incentive compensation to meet exceptional challenges that are not reflected in regular short-term or long-term variable compensation. The targets and the corresponding target corridors of this event-related performance-related remuneration are defined in advance. The incentivization period can be within a fiscal year, but also beyond this. The maximum payout will not exceed the amount of 80% of the fixed compensation and the payout will be considered for the maximum compensation.

D.3 SIGN-ON PAYMENT

If a member of the Executive Board loses compensation claims against his or her previous employer due to the change to MTU, in exceptional cases, the Supervisory Board may grant appropriate and market-based compensation to new members of the Executive Board. This is to ensure that the best possible candidates can be won for MTU. Such one-time compensation payment will be separately identified and justified in the compensation report.

D.4 SHARE OWNERSHIP GUIDELINES

To strengthen the long-term and sustainable development of MTU and to further align the interests of the Executive Board and shareholders, the compensation system stipulates share ownership guidelines for the Executive Board members. The members of the Executive Board are obliged to acquire MTU shares equivalent to 200% (CEO) or 100% (Ordinary Board Members) of their gross fixed compensation within a four-year build-up phase and to hold these shares for a period of two years after their term of office as an Executive Board member has ended.

D.5 MALUS UND CLAWBACK

The Supervisory Board has the option in certain cases to reduce performance-related compensation components that have not yet been paid out or to reclaim performance-related compensation components that have already been paid out.

In the event of a serious breach of MTU's fundamental principles of conduct, a material contractual obligation or duties of care as defined in Section 93 German Stock Corporation Act (AktG), the Supervisory Board may, at its due discretion, reduce performance-related compensation components in part or in full (malus).

If the performance-related compensation components have already been paid out, the Supervisory Board may in the above cases also, at its due discretion, demand partial or full repayment of amounts paid out (compliance clawback).

Moreover, the Supervisory Board has the option to demand partial or full repayment of performance-related compensation components already determined or paid out on the basis of incorrect consolidated financial statements (performance clawback) if, on the basis of corrected consolidated financial statements, a lower amount or no amount at all would have resulted from the performance-related compensation components.

E. COMPENSATION-RELATED TRANSACTIONS

E.1. TERMS OF THE EXECUTIVE BOARD CONTRACTS OF SERVICE

The term of Executive Board contracts of service is based on the respective appointment period resolved by the Supervisory Board. The Supervisory Board observes the requirements of the German Stock Corporation Act as well as the recommendations of the GCGC both when appointing Executive Board members and in the agreed term for Executive Board contracts of service. For this reason, Executive Board contracts of service are concluded for a maximum term of five years. Executive Board contracts of service do not provide for the possibility of ordinary termination; the right of both parties to terminate without notice for good cause remains unaffected. In the event of premature termination of an appointment, the Executive Board contract of service may be terminated by either party with six months' notice prior to the end of a calendar year.

E.2. REGULATIONS IN THE EVENT OF AN ENTRY OR EXIT DURING THE YEAR

In the event of joining or leaving the Company during the fiscal year, entitlements to fixed remuneration and performance-related remuneration components are reduced pro rata temporis.

E.3. PREMATURE TERMINATION

E.3.1. SEVERANCE PAYMENT

Members of the Executive Board whose contract of service is terminated prematurely by MTU are entitled to receive a severance payment equivalent to the total of the prorated fixed compensation, prorated short-term incentive (STI) and prorated compensation under the Performance Share Plan (PSP) for the original remaining term of their contract. The severance payment is capped at twice the departing Executive Board member's total annual compensation ("severance payment cap"). If the contract of service is terminated by MTU for good cause, no severance package is paid.

In the event of a change of control, Executive Board members have the right to resign their office as a member of the Executive Board for good cause. Under the contracts of service for members of the Executive Board in effect since January 1, 2016, a change of control is deemed to have occurred if a shareholder, alone or on the basis of voting rights attributable to him or her pursuant to Sections 33 et seq. of the German Securities Trading Act (WpHG), acquires the majority of the voting rights and this results in significant disadvantages for the Executive Board. Material disadvantages are, in particular, if the Executive Board member is removed, if his/her responsibilities and duties are significantly altered, or if the Executive Board member is asked to accept a reduction in employment benefits or to agree to premature termination of his/her contract of service. In such a case, each member of the Executive Board shall have a special right of termination, which is to be exercised within a period of six months, with a period of notice of three months to the end of a month. If a member of the Executive Board makes use of his/her special right of termination, or if the Executive Board member's contract of service is terminated by mutual consent within nine months of the change of control, the Executive Board member receives a severance payment corresponding to the benefits still to be awarded up to the end of the contract term originally agreed. For the calculation of the severance payment, 100% target achievement is agreed for the variable compensation components. The maximum amount of the severance payment is limited to the severance payment cap.

E.3.2. INCAPACITY TO WORK AND DEATH

In the event of incapacity to work due to illness, accident or another reason for which the Executive Board member is not responsible, the Executive Board member shall continue to receive his or her fixed compensation for a period of 12 months, but no longer than until the end of the Executive Board contract of service. The short-term incentive will also continue to be granted. For the Performance Share Plan, a pro rata reduction of the payment amount determined at the end of the performance period is made according to the ratio of the number of full months beyond the period of 12 months to the entire performance period.

If the Executive Board member dies during the term of the Executive Board contract of service, the spouse, registered partner or dependent children receive the (pro rata) fixed compensation for the month of death and the three months following the month of death. A pro rata claim up to the end of the month of death arises for STI. In this case, the payout ratio to 100% and the strategic multiplier by factor 1 are considered and multiplied by the individual target amount. With respect to the tranche(s) of the Performance Share Plan prior to the expiration of the performance period, all virtual performance shares will be forfeited, and a compensatory payment will be made for the virtual performance shares. Hereby, the conditionally vested number of virtual shares is multiplied by the average share price of the MTU last 60 trading days before the date of death and the dividends paid within the performance period up to that point are added.

E.3.3. PERFORMANCE-RELATED COMPENSATION IN THE EVENT OF PREMATURE TERMINATION

SHORT-TERM INCENTIVE (STI)

If the appointment is revoked by MTU for good cause, the Executive Board member shall not receive any short-term incentive for the fiscal year in progress at the time of expiry of fiscal unity if the Executive Board contract of service is terminated without notice.

PERFORMANCE SHARE PLAN (PSP)

In the event that the Executive Board Employment Agreement begins or ends during the financial year, the PSP is granted pro rata temporis for the financial year. If the Executive Board Employment Agreement ends by extraordinary termination for good cause in accordance with Section 626 (1) BGB by MTU or by the resignation of the mandate by the Executive Board member without a mutual provision, the appointment shall be approved by the Supervisory Board for good cause pursuant to section 84 (3) German Stock Corporation Act (AktG) shall be forfeited before the end of the performance period or if the Executive Board member withdraws before the end of the performance period without mutual consent, all performance shares of the PSP shall be forfeited without compensation.

E.4. SECONDARY ACTIVITIES OF EXECUTIVE BOARD MEMBERS

Any paid or unpaid secondary activity, an office as a member of a supervisory board or advisory board, an honorary office in the commercial sector or similar requires the prior written approval of the Supervisory Board, which may be revoked at any time.

At the request of the Supervisory Board, the Executive Board member shall accept, without separate compensation, supervisory board mandates and similar offices in companies in which MTU holds a direct or indirect interest. The Executive Board member will give up or resign from such activities and offices at any time at the request of the Supervisory Board, but no later than upon leaving the Company.

F. TEMPORARY DEVIATIONS FROM THE COMPENSATION SYSTEM

In accordance with section 87a (2) sentence 2 German Stock Corporation Act (AktG), the Supervisory Board has the right to temporarily deviate from the established compensation system in special and exceptional circumstances (e.g. in the event of a serious financial or economic crisis) if this becomes necessary in the interests of MTU's long-term well-being. Generally unfavorable market developments are expressly not considered to be special and exceptional circumstances that permit a temporary deviation from the compensation system.

Deviation from the compensation system is only possible by means of a resolution to this effect by the Supervisory Board, based on a proposal by the Personnel Committee and after careful consideration of the necessity. Even in the event of a deviation, compensation must continue to be geared to the long-term, sustainable development of MTU and be in line with the success of the Company and the performance of the Executive Board.
