Annual General Meeting of
MTU Aero Engines AG
on 11 April 2019

Report of the Executive Board on item 9 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 2019); amendment of the Articles of Association by Section 4 (7)) pursuant to Section 221 (4) sentence 2 in conjunction with Section 186 (4) sentence 2 of the 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 2019) 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 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 conver-
sion 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 con-
version 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 share-
holders 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 accord-
ance 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 be-
comes 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 sub-
scription 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 ob-
served 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 stipulat-
ing the conditions of the Bond. The subscription period would also make it more diffi-
cult to respond to favorable market conditions at short notice. Particularly in the case
of Bonds, the granting of subscription rights could jeopardize any successful place-
ment 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 eco-
nomic 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 de-
creased virtually to zero. Thus, the shareholders will not suffer any significant eco-
nomic disadvantages on account of the exclusion of subscription rights. The Execu-
tive 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 pur-
chases via the market at roughly the same conditions. Any relevant losses in the pro-
portions of their shareholdings can also be ruled out from the viewpoint of the share-
holders. 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 Compa-
y’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 ex-
tent 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.

Munich, March 2019

MTU Aero Engines AG

The Executive Board