



April 19, 2024

YOUR VOTE IS IMPORTANT. PLEASE ACT NOW.

Dear Shareholders,

As you may be aware, MTU Aero Engines will hold its 2024 Annual General Meeting on May 8, 2024. ISS, a proxy advisory firm, has recently published voting recommendations for the meeting. In their report, ISS recommends voting against item 8 - Approve the Remuneration System, commenting on:

- 1) The proposed policy contains significant scope for the award of discretionary payments via extraordinary bonuses (which is in addition to a +/-20 percent modifier already built into the STI payouts).
- 2) The increases to caps on total remuneration can be considered excessive, particularly in the absence of a compelling rationale or details on peer benchmarking.
- 3) We also note that 40 percent of the LTI is subject to rTSR, where underperformance of up to 25 percent against the competitor group may still result in payouts, which some shareholders may consider insufficiently challenging.

We respectfully disagree with the ISS recommendation and assessment on this resolution, particularly given the overall positive nature of the feedback that we received in the extensive shareholder consultation exercise of 2023. We feel strongly this is in the best interest of all shareholders and we believe you should consider the following key factors when voting:

1) ISS Comment: The proposed policy contains significant scope for the award of discretionary payments via extraordinary bonuses (which is in addition to a +/-20 percent modifier already built into the STI payouts).

- *Event-driven incentive*: The Supervisory Board (the "Board") considers this not a discretionary payment but a means to appreciate Management Board Members' ("Executives") target achievements outside the STI and LTI targets. The Board must
 - (i) only apply it in a specific, extraordinary situation that triggers mitigating incentive compensation
 - (ii) set a fixed budget that is within the maximum compensation cap, and
 - (iii) set robust targets and target criteria in advance. The target achievement per defined performance criterion will be published in the remuneration report for the respective reporting year.

The supervisory board's key argument to define this kind of payment in specific, extraordinary situation is to appreciate management board members' target achievements beyond the STI and LTI financial and ESG performance targets, which might be even in competition or even absolute conflict during the performance period to the latter.

- *Modifier within STI framework*: This enables the Board to set and appreciate essential strategic target achievements that are in principle in conflict with the STI financial and ESG performance targets. The Board will set specific, quantifiable targets for a fiscal year. For example, 'assess milestones in restructuring of groups ERP platform to enable long term business growth'. Notably, the specific strategic criteria are highly business sensitive so MTU will report on the target achievement per defined performance criterion in the remuneration report for the respective reporting year.

Please also note that the application of the multiplier falls in line with current German market practice.

- ***Sign-on bonuses:*** The Board considers the potential need to grant in individually, justified cases sign-on bonuses to recruit new management board members, i.e. for forfeited remuneration from their previous employers. This provision is vital for hiring high performing executives, considering the relevant competitive market environment for respective talents. The Board will aim to provide these awards on a like-for-like basis in terms of performance conditions, choice of instrument, other structural features etc. and will keep them within the proposed remuneration cap (see point 2, below).

2) ISS Comment: The increase to caps on total remuneration are considered excessive, particularly in the absence of a compelling rationale.

- The increase in caps aims to build a stable mid-term framework to attract and retain the best talent at the top of our organization. As a result, the Board looks to increasing the CEO cap from EUR 5.5m to EUR 8.5m, and non-CEO Executives from EUR 3.0m to EUR 5.0m.
- Peer Pay Alignment: The new amounts are fully in line with MTU's peer group, the DAX40 companies. Compared to these companies, MTU's new caps for CEO and non-CEO Executives are below the 25th percentile and therefore reasonable to the Board's believe. The selected MTU peer group can be found [<https://www.xetra.com/xetra-en/instruments/shares/dax-listed-blue-chips-xetra>].
- Inclusion of other expenses: The cap also includes the leverage of actuarial effects (e.g., past service expenses resulting from defined benefit plans granted in prior periods) and the inclusion of any sign-on bonuses that may be provided to incoming Executives.
- Caps are considered as firm: Caps are considered as a firm – never to exceed – framework, instead of a reference for remuneration target level. Accordingly, the Board is committed to determining the Executives' total target and maximum remuneration by considering their individual performance and capabilities, and will consider the pay alignment relative to horizontal and vertical benchmarks.

3) ISS Comment: We also note that 40 percent of the LTI is subject to rTSR, where underperformance of up to 25 percent against the competitor group may still result in payouts, which some shareholders may considering insufficiently challenging.

The vesting threshold begins at the 25th percentile, as this is German market practice driving competitiveness of the Executives' remuneration. The Board considers the new payout curve for the TSR metric itself more ambitious than the old system, now starting with a target achievement of 0% when threshold performance (25th percentile) is attained.

Conclusion

Please note if you require more information on the MTU Aero Engines response to any of the above points, these can be found here (<https://www.mtu.de/investor-relations/publications-events/annual-general-meeting/>).



We believe that the proposed resolution is in the best interest of all shareholders. Please also note other evolving features of the Executives remuneration scheme, which the Board has implemented to demonstrate MTU's ability to keep up-to-date with remuneration best practices:

- 4-year forward-looking performance period for the long-term compensation.
- Specific, yet different, ESG components in both the STI and in the LTI.
- Different financial targets in the STI and the LTI.
- Setting performance criteria specific to MTU's corporate strategy and transformative processes.

MTU Aero Engines strives for high levels of shareholder support for compensation resolutions, as we wish to demonstrate that the Board aims to act responsibly in managing compensation within the approved compensation system and governance.

We sincerely hope that you can consider the contents of this letter which aims to better clarify the analyses raised by proxy advisors, before casting your votes for the 2024 AGM. We would be pleased to speak with you on this or any related matters at your convenience. If you would like to discuss the AGM proposal with us, please contact:

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Yours respectfully,

A handwritten signature in black ink, appearing to read 'G. Riske'.

Gordon Riske
Chair of the Compensation Committee