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Annual General Meeting

**MTU Aero Engines AG
on
15 April 2015**

Report of the Executive Board on item 8 on the agenda (resolution on the revocation of the previous Authorized Capital I, II and III and creation of new Authorized Capital 2015; revision of Section 4 (5) and deletion of Section 4 (7) of the Articles of Association) pursuant to Section 203 (2) 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 creation of authorized capital to enable the Company to respond at short notice to market conditions without having to convene a new General Meeting. The authorizations to create authorized capital granted to the Company by the Annual General Meetings on April 22, 2010 and on May 5, 2011 have not been used to date by the Company (as on: March 3, 2015) and expire on April 21, 2015. They are to be replaced by a new authorization. As before, the new authorization is limited to five years.

In total, authorized capital of EUR 15,600,000 is to be created against cash contributions. This is equivalent to 30% of the Company's current capital stock. The authorization is to be granted for the maximum period of five years permitted by law (until April 14, 2020). The existing Authorized Capital I, II and III is revoked.

As a basic principle, the new shares originating from the use of the authorized capital must be offered to the shareholders for subscription. Subscription rights may also be granted to the shareholders in such way that new shares are assumed by a bank or a company operating in accordance with Section 53 (1) sentence 1 or Section 53b (1) sentence 1 or (7) of the German Banking Act (KWG), subject to the obligation that the shares be offered to the shareholders for subscription (Sections 203 (1) and 186 (5) AktG). However, the Executive Board is authorized, with the approval of the Supervisory Board, to exclude shareholders' subscription rights, in whole or in part, in certain cases. Specifically:

The Executive Board and the Supervisory Board propose that the Annual General Meeting approve the creation of Authorized Capital 2015 at a nominal aggregate amount of up to EUR 15,600,000, which can be used against cash contributions.

The Executive Board is to be authorized to exclude fractional amounts from subscription rights. This will serve to create a practicable subscription ratio. Without the exclusion of subscription rights for fractional amounts, the technical implementation of the capital increase and the exercise of subscription rights would be rendered considerably more complicated, especially if the capital were increased in rounded amounts. By limiting the exclusion to fractional amounts, the potential dilution effect is very small. The new shares, which as fractional amounts are excluded from subscription rights, will either be sold on the stock exchange or otherwise disposed of in a way that best benefits the Company.

Furthermore, the Executive Board shall, with the approval of the Supervisory Board, be able to exclude subscription rights to the extent this is necessary to grant holders of convertible bonds or bonds with warrants subscription rights to new shares if stipulated under the conditions of these bonds. To facilitate their placement on the capital market, bonds usually have protection against dilution which provides for the holders to be granted subscription rights for new shares in subsequent share issuances equal to that of shareholders. Often the Conditional Capital is insufficient to satisfy these subscription rights of bondholders, particularly since the size of the future share issuances cannot be predicted at the time the relevant Conditional Capital is created. In order to give the bonds this kind of protection against dilution, the subscription rights must be able to be satisfied out of the Authorized Capital. Therefore, when using the Authorized Capital, the subscription rights of shareholders must be excluded in respect of these shares. This facilitates the placement of the bonds and is thus in line with the shareholders' interest in an optimum financing structure for the Company.

In accordance with Sections 203 (2), 186 (3) sentence 4 AktG, the Executive Board is to be authorized, with the approval of the Supervisory Board, to exclude the shareholders' subscription rights if the new shares are issued at an issue price that does not fall significantly below the stock exchange price. The number of shares issued in this manner excluding subscription rights may not exceed a total amount of 5% of the capital stock when this authorization becomes effective or is exercised. This authorization places the Company in a position to rapidly and flexibly exploit market opportunities in its various business segments and, if necessary, to cover any capital requirements for these measures at very short notice. The exclusion of subscription rights not only enables the Company to respond rapidly but also to place shares at a price close to the stock market price, i.e. without the markdown required in case of rights emissions. This produces higher proceeds from the issuance for the benefit of the Company. Moreover, new groups of shareholders can be won through such a placement.

In the event that subscription rights are maintained, Section 186 (2) AktG provides for the possibility not to determine the specific issue price when publishing the subscription period but only to indicate the basis for its determination. However, even in this case, it cannot be expected that the best possible placement success will ultimately be achieved for the Company because the issue price must be published at least three days prior to the expiry of the subscription period. In addition, if subscription rights are granted, the successful placement with third parties is jeopardized or entails additional expenses and/or time because it is uncertain to what extent subscription rights will be exercised (subscription conduct). Thus, the best possible reinforcement of equity capital is achieved by the authorization to exclude the shareholders' subscription rights in the interests of the Company and all shareholders.

When exercising the authorization, the Executive Board will calculate the markdown as low as possible, taking into account the market situation prevailing on the date of the placement. The issue price and thus the proceeds received by the Company for the new shares will be based on the stock market price of the shares already listed and not fall significantly below the current stock market price, i.e. at least by not more than 5%. The exclusion of subscription rights may not exceed 5% of the Company's current capital stock. In calculating this 5% limit of the capital stock, an allowance shall be made for the granting of option or conversion rights for company shares excluding subscription rights after this authorization, i.e. since April 15, 2015, in accordance with Section 186 (3) sentence 4 AktG. Finally, in calculating this 5% limit, an allowance shall be made for sales of treasury shares excluding subscription rights in accordance with Section 186 (3) sentence 4 AktG.

In accordance with the statutory provisions, the need to protect shareholders by providing extensive protection against the dilution of their share ownership is accounted for by these requirements. Because of the issue price of the new shares being close to the stock market price and the limiting of the size of the capital increase without subscription rights, in principle, each shareholder has the opportunity to acquire the shares required to maintain his/her/its shareholding through the stock exchange at almost identical conditions. Thus, it is ensured that in accordance with the legal purpose of Section 186 (3) sentence 4 AktG the financial and voting right interests are reasonably safeguarded when using the Authorized Capital excluding subscription rights, while at the same time the Company gains reasonable freedom to act in the interest of all shareholders.

Having considered all the described facts and circumstances, the Executive Board and the Supervisory Board deem the exclusion of subscription rights in the described cases both adequate and necessary for the reasons described above, even when taking into account the dilution effect arising to the detriment of the shareholders.

The Executive Board will report on the use of the Authorized Capital at the next Annual General Meeting.

Munich, March 2015

MTU Aero Engines AG

The Executive Board