



*Convenience translation  
The German version is decisive*

## **Annual General Meeting**

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

### **Report of the Executive Board on item 6 of the agenda (resolution on the authorization to purchase and use treasury shares pursuant to Section 71 (1) no. 8 of the German Stock Corporation Act (AktG) and to exclude subscription rights) pursuant to Section 71 (1) no. 8 sentence 5 in conjunction with Section 186 (4) sentence 2 of the German Stock Corporation Act (AktG)**

In accordance with customary business practice, the proposal for a resolution put forward by the Executive Board and the Supervisory Board provides on the basis of Section 71 (1) no. 8 AktG for authorization by the Annual General Meeting for the Company to acquire treasury shares amounting to up to 10% of the current capital stock for five years. The Executive Board already has such an authorization. This expires at the end of April 22, 2010 and is to be renewed.

When making a decision on the use of treasury shares, the Executive Board shall be guided solely by the interests of the shareholders and the Company. The Executive Board shall report to the Annual General Meeting on any exercise of the proposed authorization.

When purchasing treasury shares, the principle of equal treatment must be observed pursuant to Section 53a AktG. Such envisioned purchase of the shares on the stock exchange or through a public offer to buy (or a public call to submit a sell offer) observes this principle. Insofar as a public offer or a public call to submit an offer is oversubscribed, acquisition must take place pro rata. For the resale of treasury shares purchased, the law provides in principle for the sale on the stock exchange or through an offer to all shareholders, by which means the principle of equal treatment pursuant to Section 53a AktG is observed.

The Annual General Meeting may, however, also resolve a disposal by other means in analogous application of Section 186 (3) and (4) AktG. In this respect, the resolution provides that the Executive Board is authorized to effect disposal of the purchased treasury shares in a manner other than on the stock exchange or through an offer addressed to all shareholders if the treasury shares that have been purchased are sold in return for a cash payment at a price which is not significantly lower than the stock exchange price of shares of the Company of the same class and terms of issue at the time of disposal. The Executive Board shall allocate any markdown on

the stock exchange price based on the market conditions prevailing at the time of placement so that it is as low as possible. This authorization also makes use of the possibility to exclude subscription rights as permitted in Section 71 (1) no. 8 AktG, in analogous application of Section 186 (3) sentence 4 AktG. Overall, the shareholders' financial and voting right interests are suitably protected if the treasury shares are sold to third parties excluding shareholders from subscription rights on the basis of Section 71 (1) no. 8 AktG. The authorization to sell treasury shares in return for a cash payment, including shares for which subscription rights are excluded in application of Section 186 (3) sentence 4 AktG when making use of the authorized capital and/or when exercising the authorization to issue convertible bonds and/or bonds with warrants, is restricted to a maximum of 10% of the Company's capital stock when the authorization becomes effective or – if such value is lower – when this authorization is exercised. It is thereby ensured that no purchased treasury shares are sold based on the simplified exclusion of subscription rights pursuant to Section 186 (3) sentence 4 AktG where this would result in the exclusion of the subscription rights of the shareholders for a total of more than 10% of the capital stock in direct or indirect application of Section 186 (3) sentence 4 AktG. This restriction is in the interest of the shareholders who would like to maintain, if possible, the proportion of their shareholding and who are basically able to retain the amount of their shareholding in the Company in this manner by purchasing MTU shares through the stock exchange. The Executive Board and the Supervisory Board take the view that this framework serves the Company's interests, given the strategy pursued by the Company, and is also suitable to serve the shareholders' interests.

The resolution further provides for an authorization for the Executive Board, with the approval of the Supervisory Board, to use the acquired treasury shares in whole or in part to satisfy the claims of the Company's employees and officers accruing from the Company's stock programs. MTU promotes a culture of ownership within the Company and, through share-based compensation and employee stock programs, enables the Executive Board, executive employees and staff to participate in the Company and its development. Against this backdrop, treasury shares may be used in connection with share-based compensation or employee stock programs of the Company or its affiliated companies and issued to persons who are, or were, employees or officers of the Company or one of its affiliated companies. In terms of legal technique, this form of use is contingent on the subscription rights of the shareholders being excluded in this respect with regard to the treasury shares of the Company. The exclusion of subscription rights required for such use is in the interests of the Company and its shareholders.

Furthermore, the resolution provides for an authorization for the Executive Board to offer to third parties, and/or to make use of, all or some of the acquired treasury shares as (part) counter payment, in the context of business combinations or in the acquisition, whether direct or indirect, of companies, parts of companies or holdings in companies. When opportunities arise, the Company is to be enabled to implement targeted acquisitions of companies or of holdings in accordance with the Company's object, as set out in its Articles. In an international context in particular, owners of companies and holdings frequently expect to receive shares in the acquiring company as a counter payment for the disposal of the company or holding. The proposed authorization places the Company in a position in which it is also able, for instance, to make use of available treasury shares as a counter payment in concrete acquisition projects in which it may be in competition with other prospective buyers, and hence

under certain circumstances to be able to forego increasing the capital stock in return for non-cash contributions as would otherwise be necessary. In terms of legal technique, this form of use is also contingent on the subscription rights of shareholders being excluded in this respect with regard to treasury shares of the Company, which is provided for by the resolution in this sense.

Moreover, the Executive Board is to be entitled, with the approval of the Supervisory Board, to use acquired treasury shares to fulfill conversion rights or obligations arising under convertible bonds, bonds with warrants, profit participation certificates or profit participation bonds (or a combination of these instruments) issued by the Company or by affiliated companies. This authorization is in the interests of the Company and of the shareholders simply because it enables the Company, insofar as is proper in the specific case, to avoid issuing new shares from the Conditional Capital, and hence increasing the capital and diluting shareholders' voting rights and quotas. The price at which the shares are issued in the cases described above depends on the respective circumstances of the individual case and on the point in time. In setting prices, the Executive Board will orient itself in line with the interests of the Company. It is also a prerequisite in terms of legal technique for the subscription rights of the shareholders to be excluded in this respect with regard to the treasury shares of the Company, which is a constitutive element of the resolution.

Treasury shares acquired on the basis of the present authorizing resolution may be redeemed by the Company without a new resolution by the Annual General Meeting with the approval of the Supervisory Board. In accordance with Section 237 (3) no. 3 AktG, the Company's Annual General Meeting may resolve the redemption of its fully paid-up non-par shares without thereby necessitating a reduction in the capital stock of the Company. The proposed authorization explicitly provides for this alternative, in addition to a redemption that is coupled with a capital reduction. In the event of redemption of treasury shares without a capital reduction, the mathematical proportion of the remaining non-par shares in the Company's capital stock increases automatically. The Executive Board shall hence be authorized to effect the amendment to the Articles of Association necessitated thereby with regard to the number of shares altered by such redemption.

On the basis of the above considerations, the Executive Board and the Supervisory Board regard the proposed authorization concerning the acquisition of treasury shares as being in the interests of shareholders, and in individual cases can justify the exclusion of shareholders' subscription rights. The respective corporate bodies shall hence examine and consider on a case-by-case basis whether the sale or other use of treasury shares, excluding subscription rights, is in the overriding interest of the Company.

**Munich, March 2015**

**MTU Aero Engines AG**

**The Executive Board**