Annual General Meeting

MTU Aero Engines Holding AG

on

05 May 2011

Report of the Management Board pursuant to items no. 6 and 7 of the agenda (resolution on the creation of Authorized Capital; amendments to Sec. 4 of the Articles of Association) pursuant to Sec. 203(2) sentence 2 in conjunction with Sec. 186(4) sentence 2 of the Stock Corporation Act

The Management Board and the Supervisory Board propose that the Annual General Meeting approve Authorized Capital II and III to enable the Company to react at short notice to market conditions without having to convene a new General Meeting. The Annual General Meeting of 30 May 2005 (taking into account the second resolution passed on 31 May 2005) authorized the Company to create Authorized Capital II. This authorization expired on 29 May 2010. The Annual General Meeting of 22 April 2010 authorized the Company to create Authorized Capital I by issuing registered no par value bearer shares against contributions in cash of up to EUR 5,200,000. This authorization will remain in force until 21 April 2015. The authorization has not yet been used. This authorization will be supplemented by Authorized Capital II and III, and the Articles of Association will be amended accordingly. Authorized Capital II and III will also be limited until 21 April 2015. Specifically:

- All in all, the Company intends to create authorized capital up to the maximum legal amount of together EUR 26,000,000 through Authorized Capital I that has already been resolved and through Authorized Capital II and III. This corresponds to 50% of the Company's current share capital. The authorizations for Authorized Capital II and III are to be granted for four years, i.e., until 21 April 2015. The law permits authorization for up to five years. In deviation from the system used for the existing authorizations, it is proposed that the Annual General Meeting pass a resolution with regard to the creation of two additional authorized capitals (Authorized Capital II 2011 and Authorized Capital III 2011). The Management Board will be authorized to increase capital against contributions in cash in the case of Authorized Capital II 2011 and against contributions in cash or in kind in the case of Authorized Capital III 2011.

- In principle, the new shares originating from the use of the authorized capital must be offered to the shareholders for subscription. The subscription right 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 Sec. 53(1) sentence 1 or Sec. 53b (1) sentence 1 or (7) of the Banking Act (KWG) with the obligation to offer the shares to the shareholders for subscription (Secs. 203(1) and 186(5) of the Stock Corporation Act).

- It is generally considered permissible to divide the authorization for the increase of capital into different amounts of authorized capital, as intended in this case. Due to the way share-
holders voted at last year’s Annual General Meeting, the Company plans to make use of this option. Against this background the Company has decided to limit Authorized Capital III, which provides for exclusion of subscription rights in the case of a corporate acquisition, to a maximum amount of EUR 5,200,000.

The Management Board is authorized, with the consent of the Supervisory Board, to exclude the subscription right of the shareholders, in whole or in part, in certain cases. Specifically:

a) Authorized Capital II 2011

The Management Board and the Supervisory Board propose that the Annual General Meeting approve Authorized Capital II 2011 in the nominal aggregate amount of up to EUR 15,600,000, which can be used, once or several times, against contributions in cash.

The Management Board will only be authorized to exclude fractions from the subscription right. This will serve to create a practical subscription ratio. Without the exclusion of the subscription right for fractions, the technical implementation of the increase of capital and the exercise of subscription rights would be complicated, especially if the capital were increased in rounded amounts. If the fractions are restricted, the potential dilution effect is very small. The new shares, which as peak amounts are excluded from the subscription right, will either be sold on the stock exchange or otherwise exploited in a manner which is beneficial for the Company.

b) Authorized Capital III 2011

The Management Board and the Supervisory Board propose that the Annual General Meeting approve Authorized Capital III 2011 in the nominal aggregate amount of up to EUR 5,200,000, which can be used, once or several times, against contributions in cash and/or in kind.

The Management Board will also be authorized to exclude fractions from the subscription right. The reasons for this are the same as for Authorized Capital II 2011 (see item a) above).

In the case of a capital increase against contributions in kind for the purpose of the direct or indirect acquisition of companies, parts of companies or equity interests, the Management Board is furthermore authorized, with the consent of the Supervisory Board, to exclude the subscription right of the shareholders.

The authorization of the capital increase against contributions in kind with the exclusion of subscription rights will mean that the Management Board has shares available to it, which it can use in appropriate cases to acquire companies, parts of companies or equity interests, and will mean that it does not have to resort to the stock exchange. Should the opportunity arise, the Company intends, in keeping with its corporate purpose as defined by its Articles of Association, to acquire companies, parts of companies or equity interests in order to further strengthen its competitive position and thus enable long-term and continuous revenue growth. As a capital increase must take place at short notice in the case of an acquisition, it normally cannot be resolved on directly by the Annual General Meeting, which is only held once a year. Convoking an extraordinary general meeting is usually unreasonable and thus unsuitable because it requires a great deal of time and effort particularly regarding the substantial lead time. For this reason, Authorized Capital III, which the Management Board can access quickly with the consent of the Supervisory Board, needs to be created.

The Company is in competition with other companies. Therefore, it must always be in a position to act quickly and flexibly in changing markets in the interests of its shareholders. This includes the ability to make direct or indirect acquisitions of companies, parts of companies or equity interests to strengthen the Company’s competitive position. Experience shows that increasingly the direct or indirect acquisition of companies, parts of companies or equity interests is affecting larger units. Often the seller insists on receiving shares in the acquiring company as consideration for the sale because this may be more favorable for it.
Therefore, the opportunity to offer Company shares as acquisition currency creates an advantage when competing for attractive acquisition targets. The proposed authorization will give the Company the necessary flexibility to quickly exploit opportunities to acquire other companies, equity interests or parts of companies and enable it to offer Company shares as consideration if required. The exclusion of subscription rights will in fact lead to a reduction of relative share ratios and relative voting rights ratios of existing shareholders. However, if subscription rights were granted, the Company would not be able to offer its own shares as consideration when acquiring companies, equity interests or parts of companies, and the advantages for the Company and its shareholders would not be realized.

Currently, no plans to use this option for a specific acquisition exist. The Management Board will carefully examine whether or not to use the authorization to increase capital with the exclusion of subscription rights in each case where an opportunity to acquire companies, equity interests or parts of companies against the issue of new shares arises. The Management Board will only make use of its authorization if such acquisition against the issue of shares is in the best interests of the Company. Only if this prerequisite is fulfilled will the Supervisory Board give the consent needed.

Naturally, the issue amount cannot be determined at present because there are no concrete plans to make use of the authorization. The law provides that the Management Board, with the consent of the Supervisory Board, may determine the relevant issue amount. According to customary practice, the issue amount can also be determined to be the amount of the imputed proportion ratio of the shares in the share capital. This is to mitigate the risk that, where it is not possible to make an objective valuation, payment obligations or liabilities will be calculated on the basis of the issue amount which the Company and the subscriber used to value the subscriber’s consideration in kind. In a concrete case, the Management Board will, of course, carefully examine whether the number of shares issued to acquire a company, an equity interest or a part of a company correspond to the agreed value of such asset.

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

The Management Board will report on the use of the Authorized Capitals at the next Annual General Meeting.

Munich, March 2011

MTU Aero Engines Holding AG

The Management Board