



Acting for tomorrow, today
OUR RESPONSIBILITY, OUR PLANS

21

Sustainability Report

MTU AERO ENGINES AG
BUSINESS YEAR 2021

STANDARDS OF ECOLOGICAL & SOCIAL RESPONSIBILITY IN PROCUREMENT

Supplier management

We work with numerous suppliers around the globe. As a basis for this collaboration, we hold them to the environmental and social criteria that are important to us.



We procure components, goods and services for our production and maintenance activities from suppliers based all over the world. We integrate the global supply chain into our sustainability activities.

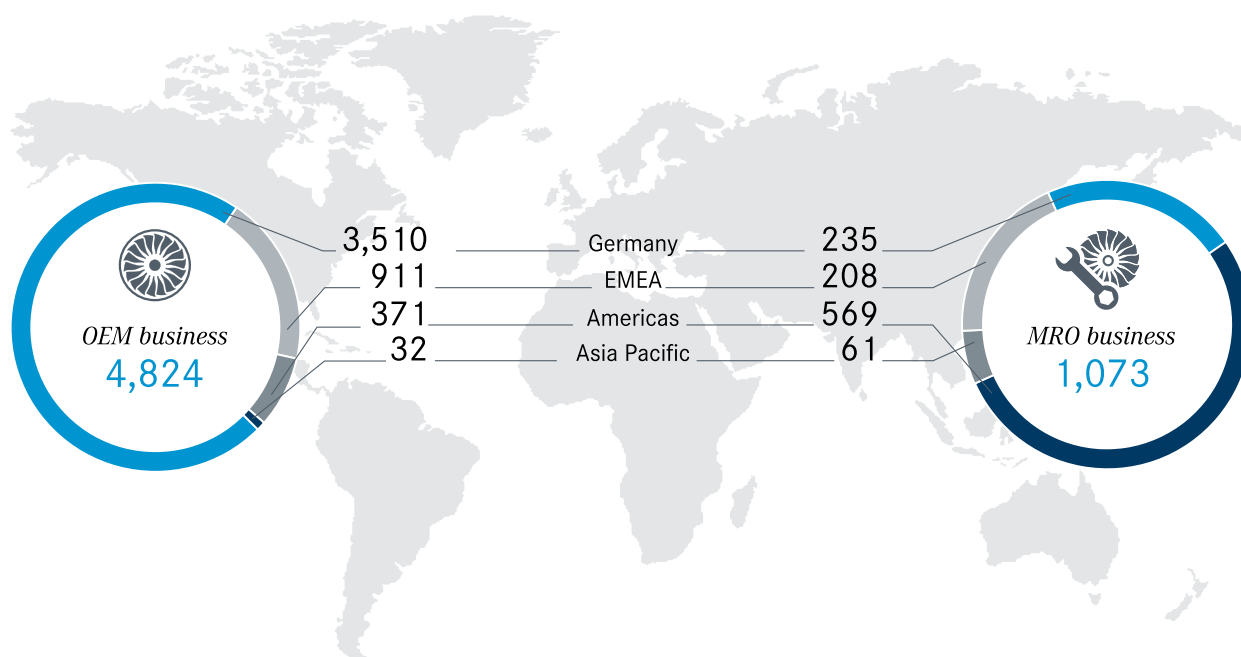
The value added by an MTU product includes important pre-production stages at external suppliers. We seek to create reliable relationships with those suppliers based on mutual trust. In keeping with our claim of sustainable value creation and the expectations of our stakeholders, we uphold certain standards in purchasing. For us, the pursuit of sustainable supplier management (responsible sourcing) encompasses environmental and social aspects as well as transparency along the supply chain. Key sustainability requirements are mandatory for suppliers. We place the same standards as regards sustainability on the collaboration with our suppliers that we do on our own business activities. To a large extent, the same standards apply to both of MTU's business segments: new and spare parts (original equipment manufacturer: OEM) and commercial maintenance (maintenance, repair and overhaul: MRO). However, they each have their own organizational units for sourcing production material.

Because today's supply chains are so global, extensive and complex, we concentrate our efforts regarding sustainability aspects on the supply step immediately upstream (tier 1). However, our direct suppliers are contractually obliged to ensure that their subcontractors also abide by our defined standards.

Our supplier base

In 2021, MTU worked with 5,897 suppliers around the world, so its supplier base was roughly the same size as in the previous year (2020: 5,810). Europe is home to 82.5% of the suppliers, with 63.5% of the total number of suppliers located in Germany.

MTU suppliers 2021 by region



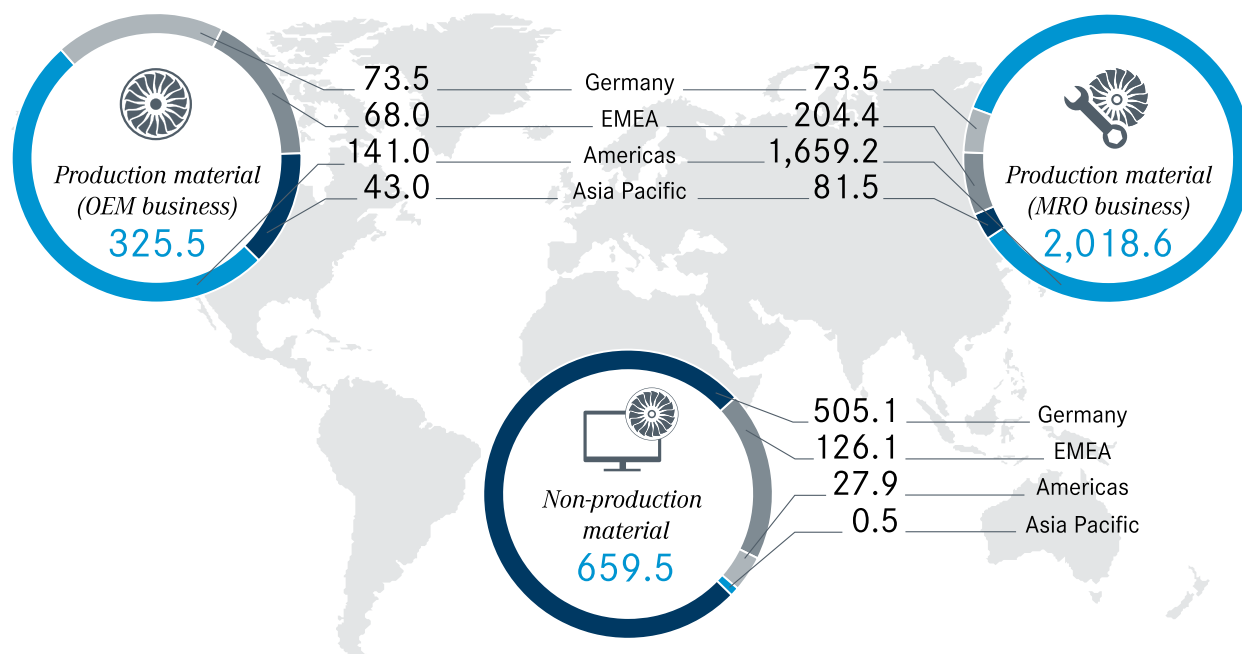
GRI 102-9: Supplier base for production material and non-production material for OEM (new and spare parts) and MRO (commercial maintenance) segments: EMEA = Europe (excluding Germany), the Middle East and Africa; Americas = North, Central and South America plus the Caribbean; Asia Pacific = East Asia, Southeast Asia, Australia and Oceania; excluding MTU Maintenance Serbia (location under construction)

Purchasing volume

Purchasing volume totaled some EUR 325.5 million for production materials in the OEM business. Due to production activities, this was below the previous year's level (2020: EUR 467 million). For the MRO business, we procured production material worth EUR 2 billion, the same level as in the previous year (2020: EUR 2.1 billion). Non-production material expenses amounted to EUR 659.5 million for the OEM and MRO business (2020: EUR 549 million). By and large, we were able to source production and non-production material for the OEM business at our own discretion. By contrast, MRO purchasing volume for spare parts and repair work is subject to strict requirements imposed by the relevant OEMs. As a result, MTU Maintenance has less room for maneuver in selecting suppliers. The sole exception is MTU Maintenance Lease Services (MLS) in Amsterdam.

Measured by purchasing volume, the Western Europe and North American markets, which are so important generally for the aviation industry, account for the lion's share of MTU's procurement. In the business for new and spare parts, we procure across the entire breadth of the supply chain, from blanks to finished parts. We always source castings and forgings externally, and the same goes for special materials for which MTU has not built up manufacturing expertise, such as electronic control systems. If possible, we source our supplies directly from the manufacturers of blanks or finished parts, whereby the company procures raw materials itself only to a small extent (→ [The measures we take regarding conflict minerals in raw material purchasing](#)). For commercial engine modules, the average proportion of sourced parts lies between 41% for Poland and 64% for Germany.

Purchasing volume 2021 by region (in EUR m)



GRI 102-9: Purchasing volume for OEM (new and spare parts) and MRO (commercial maintenance) segments. EMEA = Europe (excluding Germany), the Middle East and Africa; Americas = North, Central and South America plus the Caribbean; Asia Pacific = East Asia, Southeast Asia, Australia and Oceania; non-production materials excluding MTU Maintenance Canada and MTU Maintenance Serbia (location under construction)

Local value creation is particularly important when purchasing non-production material and services, as is the wide variety of goods and services. We procure many of our non-production materials in the countries in which we operate. The local proportion of the purchasing budget for non-production material, for instance, was 80.6% in Germany and 45.8% in Poland.

Sustainable standards in procurement

We have established a binding [Code of Conduct for Suppliers](#) that is a fixed component of the contracts. The code is informed by the [ten principles of the UN Global Compact](#) and contains the following social and environmental standards: respecting [internationally recognized human rights](#), observing the [International Labour Organisation's \(ILO's\) core labor standards](#), protecting the climate and combating corruption. Each contract signed by a supplier includes the commitment to abide by these principles and to communicate them to subcontractors. The Code of Conduct applies to suppliers of the European manufacturing sites and of MTU Maintenance Canada and MTU Aero Engines North America, and therefore to 96.7% of the entire purchasing volume. Moreover, MTU's General Terms and Conditions of Purchase also contain environmental, social and compliance stipulations. In our General Terms and Conditions of Purchase for our European sites, we also insist on compliance with the EU's RECh chemicals regulation.

Focus on human rights

When managing our suppliers, we place a particularly strong focus on safeguarding the respect of human rights. Our approach and measures are presented in detail under [→ Human rights and conflict minerals in the supply chain](#). We are currently preparing for the forthcoming Act on Corporate Due Diligence Obligations in Supply Chains (LkSG), which will take effect for MTU in Germany starting in 2023.

No violations of the Code of Conduct

Suspicious that the Code of Conduct for Suppliers may have been breached can be reported confidentially to MTU's Compliance Officer. Reports can also be submitted anonymously via the web-based [iTrust](#) system, which is available in several languages. Should a supplier be implicated in charges of corruption, extortion, the granting of undue advantage or the use of child labor in the execution of a contract for MTU, the collaboration agreement will be terminated without notice. If other principles of the Code are violated, the supplier must demonstrate that suitable corrective measures have been initiated and implemented and must guarantee this in writing. MTU reserves the right to carry out on-site audits to verify compliance with the Code of Conduct. No accusations of possible breaches of the Code of Conduct were reported or registered during the period under review. Nor were there any complaints about suppliers. Therefore, as in previous years, no supplier partnership was terminated because of sustainability violations, confirmed cases of corruption or other complaints. This also applies to human rights aspects [→ Human rights in the supply chain](#).

Risk management and assessment

We believe partnerships based on trust are key to sustainable supplier management. For this reason, we seek out long-term relationships with our suppliers. In the OEM business unit for aircraft engines, for example, a large proportion of the materials and services is based on contracts with a typical term of two or more years. Contractually agreed buffer inventories allow us to respond quickly to fluctuations in demand. In the reporting year, MTU worked with 938 new suppliers (2020: 960), or 15.9% of the total (2020: 16.5%). All suppliers are vetted before being accepted into MTU's supply chain. This process includes a binding supplier disclosure and contractual undertaking to comply with the Code of Conduct. MTU's engine leasing business, Amsterdam-based MLS, has its own separate but similar process. To cover environmental aspects, we request proof of certification to standards such as ISO 14001. Using periodic evaluations, we regularly review existing suppliers, including with respect to their ISO 14001 certification. Once approved, suppliers must regularly demonstrate their ISO 9001 compliance for quality management via re-certifications. In connection with the establishment of the new MTU site in Serbia, a process was defined for screening new suppliers there with regard to corruption risks. Reviews during the reporting period did not reveal any indications of corrupting behavior. We present our analysis of risks relating to human rights in the supply chain in this report under [→ Human rights in the supply chain](#).

We will intensify our assessment and review of suppliers with regard to sustainability requirements in the future. To this end, we have initiated an in-house project to identify suitable measures and tools and then manage their rollout and implementation.

To raise awareness of sustainability standards in the supply chain, we regularly provide purchasers with training on professional compliance matters and on the [MTU Code of Conduct](#), which applies to all the company's employees and prohibits corruption, bribery, the granting of undue advantage, and anti-competitive behavior. Our purchasers are also trained on the Code of Conduct for Suppliers. In addition, we offer special corporate responsibility training, including bespoke training for purchasing departments.

By practicing sustainable supplier management, we can help achieve the following Sustainable Development Goals:



→ [Learn more about our contribution to the SDGs of the UN's 2030 Agenda](#)

Services & tools

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GRI: 102-9, 102-10, 103-2, 103-3, 204-1, 205-3, 308-1, 308-2, 407-1, 408-1, 409-1, 412-3, 414-1, 414-2

UNGC: 1-5, 8

DOING OUR DUE DILIGENCE

Human rights in the supply chain

We respect human rights and are committed to seeing that they are also upheld in upstream value creation activities. Our aim is to prevent the violation of human rights in the supply chain.

We are conscious of our responsibility as a company with global operations, and aim to carry out our due diligence with regard to human rights. As a participant in the UN Global Compact, MTU fully respects the internationally proclaimed human rights set out in the United Nations' Universal Declaration of Human Rights and applies that to the supply chain as well. In particular, we pursue the goal of preventing human rights violations that could affect employees (zero-tolerance principle). [Read more at Employees](#) However, our respect for human rights by no means stops at our plant gates. MTU expects its suppliers to uphold human rights and create fair working conditions.

Code of Conduct for Suppliers

The Code of Conduct for Suppliers applies to upstream value creation activities. Our suppliers are obligated to uphold this Code of Conduct, which is informed by the [ten principles of the UN Global Compact](#) and the [core labor standards of the International Labour Organisation \(ILO\)](#). The Code requires suppliers to observe and uphold human rights and to ensure that they are not complicit in any human rights violations. In addition, it calls for compliance with labor standards regarding the freedom of association, the right to collective bargaining, the prohibition of forced and child labor, the equality of remuneration regardless of gender, and equal treatment of employees. And finally, we require our suppliers to apply the Code to their subcontractors and reserve the right to terminate any contract with a supplier using child labor to manufacture products supplied to MTU, without prior notice. → [MTU's Code of Conduct for Suppliers](#)

Established reporting procedures are in place to ensure that we can systematically follow up on all complaints or reports of human rights infringements. Employees and external stakeholders can make reports to the Compliance Officer as a confidential contact point in the Group, or anonymously via the web-based [iTrust reporting system](#) available in multiple languages. This applies to all human rights concerns. → [See Compliance for information about handling reports](#)

In the reporting period, no reports of suppliers violating the Code of Conduct regarding human rights were submitted. Furthermore, no supplier relationships were terminated due to sustainability shortcomings with regard to human rights.

Risk analysis carried out regularly

We regularly conduct a risk analysis of suppliers to the sites in Germany, Poland and Canada as well as the MTU Aero Engines North America subsidiary. The risk analysis takes into account MTU-specific product groups and the countries they are sourced from. It incorporates the findings of the [Global Slavery Index der Walk Free Foundation](#), which evaluates countries regarding forced and child labor and legal frameworks, among others. This risk analysis is integrated into the existing risk process for suppliers. In the next step, we plan to audit key suppliers to check their compliance with sustainability criteria. To this end, MTU has investigated an IT solution available on the market and decided to implement it in 2022.

Throughout this process, we again in 2021 identified no supplier that poses a significant risk as regards child, forced or compulsory labor, or at which the freedom of association or right to collective bargaining could be compromised. MRO also conducts a supplier evaluation twice a year for suppliers of the German sites.

Conflict minerals: Transparency about raw materials used

We take various steps to safeguard the respect of human rights in the supply chain. This applies especially to the procurement of certain raw materials known as conflict minerals: for example, tantalum, tin, tungsten and gold, which can be found in some of our engine components. These minerals can cause problems in procurement because they are sometimes mined in Central African countries, where the profits are used to finance armed conflicts that commit human rights violations. MTU strives for a sustainable and transparent value chain that excludes the use of conflict minerals. The company never deliberately purchases conflict minerals, but they can find their way into production or pre-production at the various levels of the global supply chain. According to the provisions of the Dodd-Frank Act applicable to companies listed on stock exchanges in the United States, our American partners and customers require that we disclose the origin of minerals used in our components and limit our sources to certified mining companies and primary-alloy producers ([Conformant smelters and refiners list](#)). In turn, MTU demands that its relevant suppliers should specify the origin of such minerals, in order to ensure that the value chain contains only conflict-free raw materials. The general terms and conditions and contract provisions require suppliers to provide information about the source of minerals in accordance with the EICC/GeSi Conflict Minerals Reporting Template.

When MTU requested information from suppliers in 2021, it discovered nothing to indicate that MTU components contain conflict minerals.

Outlook

Germany's Act on Corporate Due Diligence Obligations in Supply Chains (LkSG) will take effect for MTU in 2023. In the reporting year, we reviewed the requirements and drew up a timetable for properly complying with the relevant requirements in a timely fashion.

By respecting human rights along the supply chain, we can help achieve the following Sustainable Development Goals:



→ [Learn more about our contribution to the SDGs of the UN's 2030 Agenda](#)

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