



TRANSFORMING AVIATION



Sustainability Report

MTU AERO ENGINES AG
BUSINESS YEAR 2022

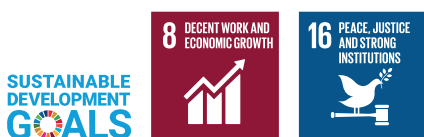
STANDARDS OF ECOLOGICAL & SOCIAL RESPONSIBILITY IN PROCUREMENT

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. This upstream value creation is part of our sustainability management.



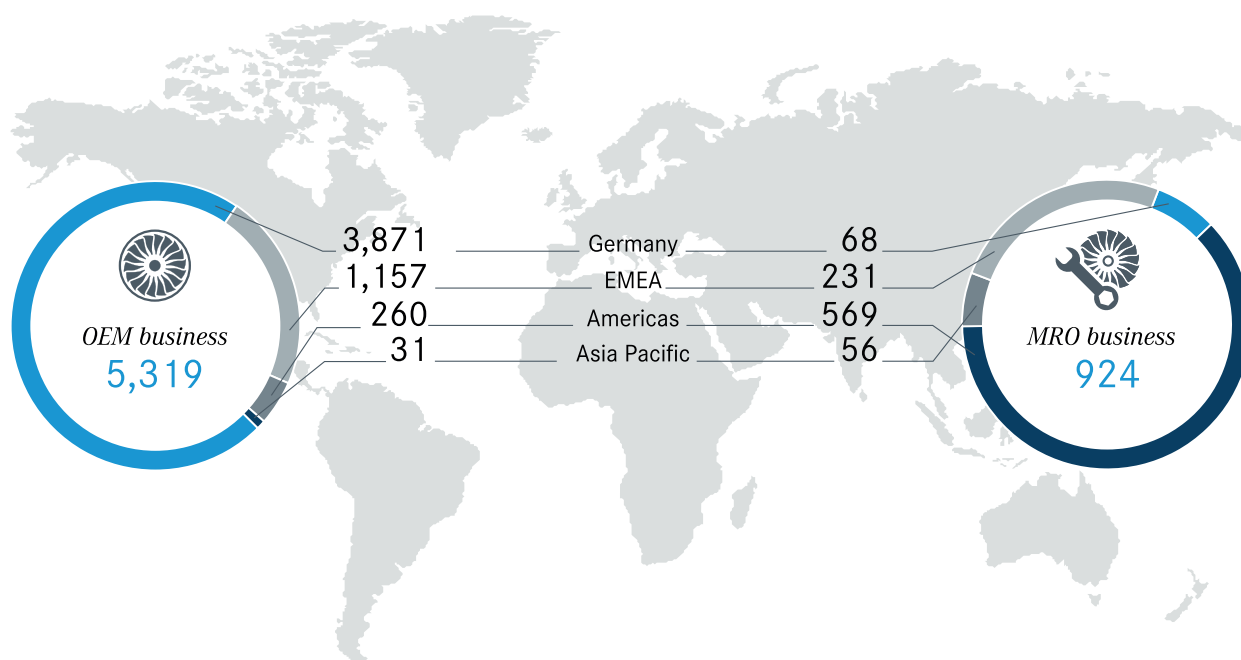
The value added by an MTU product includes important pre-production stages at external suppliers. We seek to create reliable relationships with those suppliers based on mutual trust. In keeping with our claim of sustainable value creation and the expectations of our stakeholders, we uphold certain standards 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 2022, our sites worked with 6,243 suppliers around the world (2021: 5,897). Our supplier base expanded due to growth in the OEM business. Europe is home to 85.3% of the suppliers, with 63.1% of the total number of suppliers located in Germany.

MTU suppliers 2022 by region

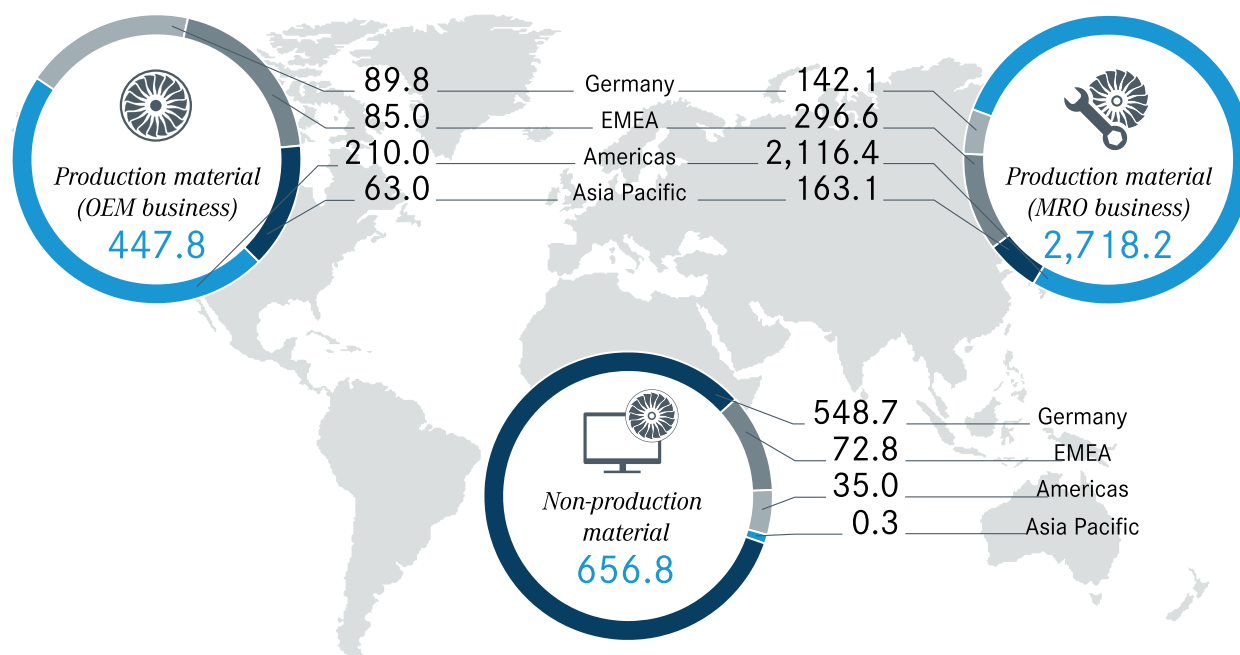


GRI 102-9: Supplier base for production material and non-production material for OEM (new and spare parts) and MRO (commercial maintenance) segments: EMEA = Europe (excluding Germany), the Middle East and Africa; Americas = North, Central and South America plus the Caribbean; Asia Pacific = East Asia, Southeast Asia, Australia and Oceania; excluding MTU Maintenance Serbia (operations started end of 2022)

Purchasing volume

Purchasing volume totaled some EUR 448 million for production materials in the OEM business. Due to production activities, this was above the level in 2021 (EUR 325.5 million). In the MRO business, too, capacity utilization pushed up the purchasing volume for production materials year over year to a total of EUR 2.7 billion (2021: EUR 2.0 billion). Non-production material expenses amounted to EUR 656.8 million for the OEM and MRO business (2021: EUR 659.5 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.

Purchasing volume 2022 by region (in EUR m)



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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 → [More information about the measures we take regarding conflict minerals in raw material purchasing](#). For commercial engine modules, the average proportion of sourced parts lies between 48% for Poland and 68% for Germany (in the military sector, the figure is some 60%).

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 86% in Germany and 60% 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 of Conduct is informed by the [ten principles of the UN Global Compact](#) and sets out social and environmental standards, respect for human rights and integrity in business conduct with a ban on corruption and bribery. 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 production sites including MTU Maintenance Serbia and of MTU Maintenance Canada and MTU Aero Engines North America, meaning it covers 93.2% of the entire purchasing volume for 2022. MTU rolled out a new Code of Conduct in 2023, which imposes more stringent requirements on suppliers with regard to human rights issues. [For more information, see Human rights in the supply chain](#)

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 REACH 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, and how they have developed, are presented in detail under → [Human rights and conflict minerals in the supply chain](#).

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 [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 prior 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 1,388 new suppliers (2021: 938), or 22.2% of the total (2021: 15.9%). 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. As part of an in-house project, we have set up suitable measures and an IT tool for the ESG assessment of suppliers (ESG = environmental, social, governance).

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.

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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 signatory of 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](#) MTU also 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 must commit to compliance with the Code of Conduct, which is based on the [ten principles of the UN Global Compact](#), which in turn are derived from international initiatives and conventions for the protection of human rights. The Code of Conduct requires suppliers to observe and uphold human rights and to ensure that they are not complicit in any human rights violations. That includes 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.

New Code of Conduct rolled out starting in 2023

Germany's Act on Corporate Due Diligence Obligations in Supply Chains (LkSG) took effect for MTU Aero Engines AG in 2023. In the reporting year, an interdisciplinary project team prepared the implementation of the specifications. In the course of this, MTU's revised Code of Conduct for Suppliers has been in force starting in 2023. On the topic of human rights, this also formulates requirements for appropriate payment, occupational health and safety, and environment-related topics such as the handling of hazardous substances and waste, as well as expectations regarding environmental protection and climate action.

Risk analysis and monitoring of sustainability performance

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 compiled by the 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 implemented an ESG (environmental, social, governance) assessment tool and began rolling it out. A pilot for OEM suppliers on sustainability performance monitoring was launched. MRO also conducts a supplier evaluation twice a year for suppliers of the German sites.

Throughout this process, we again in 2022 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.

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 smelter and refiner lists](#)). 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 2022, it discovered nothing to indicate that MTU components contain conflict minerals.

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UNGC: 1-6

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