



**Wacker Neuson  
Group**

**Non-financial Group statement  
for 2017 issued by Wacker Neuson SE**

March 15, 2018

# Contents

- 1. Introduction ..... 2
  - 1.1 Business model..... 2
  - 1.2 Importance of sustainability at Wacker Neuson..... 3
  - 1.3 Process for determining materiality and stakeholders ..... 3
  - 1.4 The risk assessment process..... 4
- 2. Information to be disclosed ..... 4
  - 2.1 Environmental matters – sustainable product development ..... 4
  - 2.2 Environmental matters – resource consumption..... 6
  - 2.3 Employee-related matters ..... 10
  - 2.4 Respect for human rights within the organization and throughout the supply chain ..... 14
  - 2.5 Anti-corruption ..... 17

## 1. Introduction

### 1.1 Business model

The Wacker Neuson Group is an international group of companies. Wacker Neuson SE directly or indirectly holds shares in 57 affiliates. The company is a European stock corporation (Societas Europaea) with its headquarters in Munich, Germany. It operates as a management holding company with a central management structure and is responsible for strategic Group governance functions. The Group is headed by the Executive Board team, comprising three members who work closely with the Supervisory Board, which is made up of six members. Important decisions on future projects are generally made by management committees. These committees include members of the Executive Board, regional presidents, affiliate managers, central functions and other senior managers. The company's aim is to secure the long-term success of the Wacker Neuson Group and create a lasting increase in company value.

In 2017, the Group generated revenue in the amount of EUR 1.534 billion, which corresponds to a rise of 12.7 percent relative to the previous year, and employed over 5,000 people worldwide.

The Group sources components and raw materials via a global network of suppliers. Qualifying key suppliers is a top priority here as it helps secure the Group's ability to deliver products to customers on time. In 2017, the Group's manufacturing activities were distributed across three sites in Germany, one in Austria, two sites in the US, one in Brazil and one in the Philippines. Wacker Neuson also premanufactures components at a plant in Serbia. A new production facility in China went on stream at the start of 2018.

Products are distributed globally via affiliates, Wacker Neuson sales and service stations and an international dealer network. As a manufacturer of light and compact equipment, the Group offers its customers a portfolio of products that is as broad as it is deep. The light equipment business segment comprises the strategic business fields of concrete technology, compaction and worksite technology. The Group's compact equipment portfolio includes track excavators, mobile excavators, wheel loaders, telescopic handlers and skid steer loaders as well as wheel and track dumpers weighing up to 15 tons. The Group supplements its portfolio with additional services such as repairs, maintenance, spare parts supply, rental (in selected European markets), used equipment sales, leasing, financing, hire purchase and training.

The Group targets its product portfolio at professional users. It distributes its products and services to end customers, dealers and professional rental companies under the three brands WACKER NEUSON, KRAMER and WEIDEMANN. The construction industry is the Group's largest target segment worldwide. Further key target groups include the gardening and landscaping sectors, cities and municipal bodies, the agricultural sector and the recycling and energy industries. The Group is a market leader with many of its products.

External factors that impact on business include economic developments, primarily in the core markets of Europe and North America, and global demand for construction and agricultural equipment. The Group faces tough international competition and is active in a number of cyclical and volatile markets. It regularly monitors relevant leading indicators of potential fluctuations in demand to ensure appropriate measures can be implemented in good time. The Group also has to observe numerous national and international statutory guidelines governing environmental and user protection. Above all, these include provisions regulating exhaust gas emissions and ergonomics as well as noise and vibration-induced impact. The Group has entered into several strategic collaborations with other manufacturers to jointly develop various markets and open up new sales channels. These include alliances with Caterpillar and John Deere.

## 1.2 Importance of sustainability at Wacker Neuson

Sustainability is an integral part of the Group's corporate strategy and is key to securing its long-term financial success. We have set out our sustainability principles in a mission statement which is available on our corporate website.

Demand for energy-efficient products is rising steadily in our and other industries. Our "zero emissions" product line puts us in a unique position here – one we aim to expand in future through continued product development.

Our sustainability management approach enables us to assess the impacts of our value-adding processes on the environment and develop appropriate action plans to conserve available resources as effectively as possible and optimize our energy balance.

Ensuring high levels of employee satisfaction, securing our ability to attract and retain qualified specialists, and developing employees' skills and expertise are top priorities for us. We regularly carry out global employee surveys to gauge levels of employee satisfaction and implement suitable measures.

Framed by our extensive compliance management program, we live a culture of responsible corporate governance through a variety of proactive compliance measures designed to specifically engage employees and suppliers.

## 1.3 Process for determining materiality and stakeholders

### Information disclosed in the non-financial Group statement

This statement includes information necessary for understanding the business development, performance and situation of the Wacker Neuson Group as well as the impacts of its business operations on environmental, employee-related, human rights and compliance, and anti-corruption information to be disclosed. This report was drawn up on the basis of Germany's CSR Directive Implementation Act (CSR-RUG) to ensure compliance with legal requirements. A framework such as the Global Reporting Initiative (GRI) was not therefore applied.

This non-financial Group statement focuses on matters that are extremely important to our business operations at the interface between business interests and the impacts of our activities on the information to be disclosed. Looking at that interplay, we have identified a duty on the part of Wacker Neuson to disclose the following information, and these matters are duly reported on in the following:

- Environmental matters
  - Sustainable product development
  - Resource consumption (energy consumption and emissions)
- Employee-related matters (employee satisfaction, vocational training, skill development and lifelong learning)
- Human rights in the organization and supply chain
- Anti-corruption

### Stakeholders

Key matters are determined by the Executive Board together with managing directors from the production and sales companies and the heads of Group functions in the areas of sustainability, strategy, Group HR, real estate, energy and the environment, compliance and Group procurement. The key sustainability indicators as applied in this report are defined and the relevant figures are gathered

by the central sustainability department in close collaboration with the relevant departments across the Group. The Executive Board is regularly kept up to date on progress and developments in this area.

The CEO is responsible for sustainability and he reports on the Group's performance in this area to the Supervisory Board. All activities relating to sustainability are overseen by a CSR steering committee, which comprises members of the Executive Board as well as managing directors from the production sites and staff from central functions and other departments. This committee meets once a year to discuss the Group's sustainability strategy and approve the sustainability program for the coming year.

### **Reporting scope and profile**

All figures in this statement refer to the year 2017. In most cases, we have also provided comparable values from 2016 to show the underlying trend. The reporting period corresponds to the calendar year (January 1 through December 31). Where key indicators refer to individual entities rather than the Group as a whole, this is indicated in the report.

## **1.4 The risk assessment process**

### **Risk management**

Within the framework of this non-financial statement, the objective of the risk management system is to identify and assess risks arising from the company's business activities that could impact the environmental, social and employee-related, human rights, and anti-corruption and bribery information to be disclosed. The main priority here is to find out what risks our business operations, business relationships, products and services pose in relation to the information to be disclosed. For the first time in 2017, Wacker Neuson thus explicitly asked all Group members to provide a non-financial assessment of the risks posed by its business operations in relation to environmental, social and employee-related matters, respect for human rights and the prevention of corruption and bribery. The risks facing the Group were evaluated on the basis of risk probability and risk exposure.

In summary, the Group did not identify any risks to be disclosed.

## **2. Information to be disclosed**

### **2.1 Environmental matters – sustainable product development**

#### **Sustainability starts at the product development stage**

Wacker Neuson is aware of its responsibility to develop an environmentally sound and safe portfolio of products. As a global supplier of light and compact equipment, the Group has to observe numerous national and international laws governing environmental and user protection. Stricter emissions regulations require that machine manufacturers reduce levels of nitrogen oxides (NOx) and carbon monoxide (CO) as well as particulate emissions produced by diesel and gasoline engines in non-road mobile machinery, which also includes construction and agricultural equipment. Regulations are most stringent in our core markets of Europe and the US. That is one of the reasons why the future focus of our development departments will lie on products enabling us to cut exhaust gas emissions further.

Europe is our most important market, accounting for more than 70 percent of Group revenue. The Group has identified significant growth potential here with conventional products and, increasingly, with machines powered by alternative drive technologies. Electromobility is an integral part of our Strategy 2022 and is also hardwired into our technology roadmap for the coming years. Wacker Neuson is one of the first manufacturers worldwide to offer a broad portfolio of electrically powered – and therefore completely emissions-free – construction equipment in the shape of its "zero emissions" product line. These products offer enhanced protection for users and the environment, for example, in residential areas where noise and exhaust emissions are critical issues. They are also perfect for inside work, for

example, in tunnels and in redevelopment projects where work has to be carried out alongside daily activities/operations.

### **Legal standards**

The Group must comply with statutory emissions standards. As such, it will continue to focus its R&D efforts on compliance with even more stringent environmental regulations governing combustion engine emissions. In addition to this, the Group approved and introduced an internal energy and environment policy and an internal evaluation checklist for assessing noise, dust and exhaust gas emissions back in 2013. Our “zero emissions” product line takes our commitment here to the next level, enabling us to offer solutions that eliminate work-related emissions altogether while at the same time cutting energy and operating costs for our customers.

### **Targeted expansion of the “zero emissions” product line**

We aim to develop products that deliver outstanding quality and are also kind to the environment. To this end, Wacker Neuson aims to expand its “zero emissions” product line in the medium term and offer an alternative emissions-free solution in every one of its core product groups. These products will be developed to align with market and user needs. The Group has developed a dedicated visual branding concept for equipment in its “zero emissions” range and adds the letter “e” to the product names.

In 2017, this range included several zero-emissions solutions in our core product groups:

- The two battery-powered rammers AS 30e and AS 50e in the compaction business field have already received multiple awards from external organizations, including the 2015 European Rental Award (sustainable rental product of the year) and the 2016 EuroTest Prize.
- The dual power 803 mini excavator in the excavation technology business field has won a number of awards including the Innovation Prize (gold) at the Intermat 2015 international trade show and the Green Innovation award (gold) at the UK’s Plantworx exhibition in 2015.
- The DT10e electric track dumper in the material handling business field.
- The WL20e electric wheel loader from Wacker Neuson in the material handling business field was awarded gold in the newcomers’ competition at the demopark+demogolf 2015 exhibition in Eisenach, Germany.
- The 5055e electric wheel loader from Kramer in the material handling business field took first place in the bauma Innovation Prize 2016.

### **Cross-factory innovation team defines focus areas for development**

Focus areas for research and development are defined and steered centrally by the Group in order to drive innovation. Expert committees at our various sites work with the coordinating central function Corporate Technology, Standardization & Design to define and implement uniform, cross-factory processes and overarching Group standards.

Our innovation process is guided by a clear technology and/or project roadmap, which outlines development projects for the coming years. An international committee comprising the Executive Board and representatives from sales, technology and production meets once a quarter to approve new development projects from the global product portfolio and monitor the progress of current projects. Environmental criteria are an integral part of the specification process for new products, ensuring that these demands are incorporated early on in the development process. The Group also works with universities and research institutes on specific projects related to topics such as drive technologies. The research and development departments at the individual production sites use these collaborations to develop new products and models.

We take a proactive approach to protecting our innovative products and processes against unauthorized imitations. The Group holds a number of patents and industrial designs for its “zero emissions” product line.

### **Numerous initiatives implemented**

New emissions standards in recent years have already significantly reduced the negative impact of construction equipment on the environment. The Group continuously checks whether its product portfolio meets current legal regulations and modifies it accordingly. Independently of these activities, Wacker Neuson has made a conscious decision to expand its range of environmentally sound products and services.

The new battery-powered, zero-emissions AP1850e vibratory plate was one of the most important innovations of 2017. This single direction vibratory plate is the only battery-powered plate on the market and will be launched at the Intermat trade show in Paris in April 2018.

In 2017, the Wacker Neuson Group implemented its research and development strategy, aimed at integrating the “voice of the customer” at an early stage into product concept and development discussions even more systematically. The findings from early customer engagement are channeled into development projects. The battery runtimes of products in the “zero emissions” line, for example, were improved in 2017 in connection with model update efforts.

The Group plans to roll out further measures for sustainable product development. This includes the development of new control systems for optimizing drive technologies in our machines. Functions such as energy-saving modes reduce fuel consumption and improve energy efficiency. We cannot provide details on future product developments in this report for competitive reasons. The Group is currently selectively increasing development investment into electromobility.

### **Further measures planned**

In 2017, the Group came closer to achieving its goal of offering a genuine, zero-emissions alternative solution in every one of its core product groups. Other products are currently in development, underscoring our commitment to further reducing the environmental impact of our machines when in use.

The Group has set up a dedicated website for its “zero emissions” product line to provide even more customers with information on these solutions. The website also features customer stories describing how different zero-emissions equipment is deployed in real-life work scenarios.

## **2.2 Environmental matters – resource consumption**

### **Energy consumption and emissions**

Consuming natural resources has an impact on the environment. Our Group also bears responsibility for these environmental effects, resulting, for example, through higher imports of raw materials to manufacture the products we sell. Wacker Neuson uses its energy and environment management system to assess the effects of its value-adding processes on the environment (within the limits of its own systems) and to develop improvement measures. Our aim is to conserve the available resources to the greatest possible extent, focusing on the implementation of processes that are as energy- and resource-efficient as possible in production, sales, logistics and administration. Cutting electricity and heat consumption saves energy and money, which, in turn, reduces the share of energy in total costs.

### **Concrete goals for energy consumption and emissions intensity**

To improve energy efficiency, the Group set itself the target in 2016 of reducing energy consumption (in MWh) at its certified sites by 9 percent by 2020 relative to the baseline year of 2015. Given that energy consumption and greenhouse gas emissions are closely linked to output at our production sites, we believe it makes sense for a company on a rapid growth path to focus on energy intensity (energy consumption in relation to revenue)<sup>1</sup> and greenhouse gas intensity (CO<sub>2</sub> emissions in relation to revenue)<sup>1</sup> rather than absolute energy consumption. As a result, we committed to reducing greenhouse gas intensity by 3 percent by the end of 2017 (relative to the baseline year of 2015).

<sup>1</sup> Definition of energy consumption in MWh and/or greenhouse gas intensity: Tons of CO<sub>2</sub> at all certified locations divided by revenue attributed to each location. Goals do not apply to US companies.

These two goals were broken down between the sites incorporated in the management system and adapted to the specifics of each site. The sites in question are the Group headquarters in Germany, all German and Austrian production and sales sites and the European logistics center in Germany. We are setting new goals for energy intensity and greenhouse gas intensity for 2022 within the framework of the Group's strategy.

#### **Internal guidelines strengthen commitment to energy efficiency**

The Wacker Neuson Group made a commitment to implementing a Group-wide energy and environmental policy back in 2014. The central energy and environment management team maintains a register of legal regulations that details any changes to laws governing energy and the environment. The team updates this twice a year and informs the respective sites about changes. We have also produced a Group-wide energy and environmental management manual that contains procedural requirements and overarching regulations governing workflows and processes in the Group.

Wacker Neuson has introduced a car policy at our German and Austrian sites, outlining a number of guidelines including the use of energy-efficient vehicles. Our aim here is to reduce CO<sub>2</sub> emissions per vehicle.

We factor energy efficiency criteria into our purchasing decisions, for example when we procure production equipment. This has a long-term effect on energy consumption.

#### **Central energy and environment team guides and supports local sites**

A steering committee works with local management to regularly monitor targets for increasing energy efficiency and reducing CO<sub>2</sub> emissions.

Energy and environment management officers are responsible for a range of tasks at the local sites. They identify scope for optimization, communicate this to management on site and to the central energy and environment management team, gather consumption values, develop measures and report regularly on developments at their sites. Internal cross audits are also carried out to ensure knowledge is shared across the Group. The central energy and environment management team coordinates the global energy and environment management system at Group level and prepares a summary of the results for the Executive Board, which then meets to discuss this topic every six months.

All sites regularly report their consumption of electricity, water, heating energy and fuel as well as the amount of waste produced to the central energy and environment management team. Energy-saving ideas play a particularly important role in modifications to buildings and these initiatives are coordinated by the Corporate Real Estate department.

At the beginning of 2014, we started to gradually roll out an integrated energy and environment management system in compliance with the EN ISO 14001 and EN ISO 50001 standards. During the year under review, the energy and environment management system was implemented at a total of 72 sites. This corresponds to more than 80 percent of our value-adding processes at production sites across the Group. The system's effectiveness was evaluated by external auditors and successfully certified for the fourth time. The auditors made suggestions for improvement but did not find deviations from the standards at any of the sites. As such, all Group sites that have implemented the energy and environment management system were re-certified in February 2018 (matrix certification). The energy and environment management system at our production, sales and administrative site and logistics center in the US has not yet been certified. Energy consumption at these sites was included in the data collected in 2016 and 2017.

#### **Appropriate measures raise awareness of environmental issues among employees and improve energy efficiency across the company**

Investments in building technology and manufacturing equipment have improved the environmental footprint of our production activities and increased energy efficiency throughout the Group in recent years.



In 2017, we switched to energy-saving LED lighting at several sites, including Korbach, where we replaced lights in the assembly hall and spray facility. Due to the brightness of the LED lights, the same level of illumination can be achieved with fewer bulbs. In addition to this, an automatic timing system was installed for lighting in the assembly hall, spray facility and logistics station in order to achieve long-term energy savings.

In 2017, we converted spray facilities at selected production sites to high-efficiency pumps – yet another example of our Group’s commitment to the environment. We were also able to significantly reduce the number of compressed air leaks by purchasing an ultrasonic leak detector and incorporating regular leak checks into our maintenance activities.

In addition to this, we are communicating more actively with our employees about energy and the environment in order to raise awareness around the importance of energy efficiency. The introduction of an employee suggestion scheme at our certified sites gives all employees the opportunity to contribute to sustainability at our company and submit their own environmental and energy proposals.

We are also planning to implement suitable data collection points at our sites to increase transparency, improve the quality of data we collect and, ultimately, optimize energy management. These data collection points will enable us to carry out detailed analyses of energy consumed, for example, by manufacturing equipment. We will also be able to break down energy consumption between administration and production areas. The concept will be initially piloted at the Korbach plant. In addition, it will enable us to track other indicators and improve how we manage individual sites.

## **Non-financial performance indicators**

### **Sources of energy**

The Wacker Neuson Group mainly sources its energy from non-regenerative supplies (for example, natural gas). We also use district heating at our site in Munich to cover around 30 percent of our energy requirements there. In addition, fuel oil is used at selected sites (for example at our plant in Korbach/Diemelsee). However, it only plays a minor role in the energy mix overall. Our spray facilities and the furnaces for our powder coating facilities are the biggest energy consumers at our production sites. Vertical integration also has an impact on energy consumption at our production sites, with energy consumption increasing with the degree of vertical integration. Our light equipment production sites have a higher degree of vertical integration than our compact equipment factories and so energy consumption is correspondingly higher at these facilities.

### **Fuel**

The Group uses diesel and gasoline for its vehicle fleet and for product quality and field tests, for example. In addition, we fill the tanks of products with a minimum amount of diesel prior to delivery to customers. Compact equipment such as wheel loaders and excavators require more fuel than light equipment. Fuel consumption also includes service vehicles, as well as rental cars used for business trips.

### **Energy consumption and CO<sub>2</sub> emissions**

We record energy consumption and CO<sub>2</sub> emissions at our German and Austrian production sites, the logistics center in Germany, our production, administration and sales sites in the US and at the sales affiliates in Germany and Austria.

#### Total energy consumption in MWh according to energy source

In 2017, the Group consumed 120,373.13 MWh of energy (measurable consumption), which is a 22-percent increase compared with the previous year (2016: 98,463.7 MWh). This increase was fueled by a rise in production and output, which drove up energy consumption primarily at our US sites. Total energy consumption at our certified sites (excluding the US) rose by just 4 percent relative to the previous year. Energy intensity thus improved by 8 percent compared with the previous year.<sup>2</sup>

<sup>2</sup> Excluding companies in the US.

## ENERGY CONSUMPTION IN MWH<sup>3</sup>

IN €

	2017	2016	Change
Fuel consumption	16,991.63	16,801.2	1 %
of which diesel	16,209.43	16,265.0	0 %
of which gas	782.20	536.2	46 %
Electricity consumption	51,640.43	34,731.5	49 %
Natural gas consumption	49,077.72	44,297.7	11 %
Fuel oil consumption	492.77	1,126.5	-56 %
District heating consumption	2,170.59	1,506.9	44 %
<b>Total consumption</b>	<b>120,373.13</b>	<b>98,463.7</b>	<b>22 %</b>

<sup>3</sup> Includes the German and Austrian production sites, the logistics center in Germany, the production, administration and sales sites in the US and the sales affiliates in Germany and Austria.

## Total CO<sub>2</sub> emissions (direct – indirect) in tons

In 2017, the sites for which figures were reported emitted a total of 39,219.63 tons of CO<sub>2</sub> (2016: 29,910.1 tons CO<sub>2</sub>). Energy consumption is expressed in CO<sub>2</sub> equivalents. CO<sub>2</sub> emissions rose 11 percent relative to the previous year during the year under review. CO<sub>2</sub> emissions for the certified locations (excluding the US) increased by 5 percent relative to the previous year and by 7 percent relative to the baseline year, 2015. Greenhouse gas intensity in 2017 was ten percent lower than in the baseline year, 2015.<sup>4</sup> As such, we were able to exceed our target.

<sup>4</sup> Excluding companies in the US.

## CO<sub>2</sub> EMISSIONS IN TONS<sup>5</sup>

IN €

	2017	2016	Change
Natural gas	9,894.07	8,930.4	11 %
Electricity	24,385.79	15,894.4	53 %
Fuel oil	131.45	300.5	-56 %
District heating	256.80	246.1	4 %
Total fuel	4,551.51	4,538.7	0 %
<b>Total emissions</b>	<b>39,219.63</b>	<b>29,910.1</b>	<b>11 %</b>

<sup>5</sup> Includes the German and Austrian production sites, the logistics center in Germany, the production, administration and sales sites in the US and the sales affiliates in Germany and Austria.

37 percent of CO<sub>2</sub> emissions were direct emissions and 63 percent were indirect emissions. Total indirect emissions amounted to 24,642.59 tons of CO<sub>2</sub> (2016: 16,140.6 tons of CO<sub>2</sub>). Total direct emissions came to 14,577.03 tons of CO<sub>2</sub> (2016: 13,769.60 tons of CO<sub>2</sub>).

The direct emissions calculation includes emissions from production processes, testing, spraying, administration and the fleet as well as fossil fuels consumed on site. Indirect emissions include all emissions resulting from electricity and district heating that the Group purchased from external sources. These were calculated with emissions factors for power (Germany/Austria/US) and for district heating.

## Further improvement measures planned

In 2017, we continually improved energy efficiency by identifying energy-saving potential and implementing appropriate measures. The Group experienced strong growth in 2017. This led to a rise in production output at factories and an increase in associated logistics activities, both of which pushed energy consumption and emissions above the previous year's levels. However, the Group was able to achieve its goal of reducing the emissions intensity of greenhouse gases by 3 percent by the end of 2017.

In future, we aim to place even more focus on monitoring and analyzing energy-relevant processes across the Group to identify further energy-saving potential at our largest sites.

## **2.3 Employee-related matters**

### **Employees as a key success factor**

Our employees are key to the success and continued growth of our company. We employ over 5,000 people, 80 percent of whom are based in Europe. It is crucial for the Group that we provide talented young people with the right training, continually develop employees' skills and identify – as early as possible – potential for optimizing workplace ergonomics, occupational health and wellbeing for all of our people.

Our company has experienced strong growth in recent years and we have expanded our market reach significantly at both national and international level. Positive economic trends meant that we were able to increase headcount in all three regions of Europe, the Americas and Asia-Pacific in 2017. In order to maintain and extend our competitive position, we developed and implemented numerous internal projects, restructured several Group functions and made organizational changes in recent years. The resulting changes to workflows, processes and interfaces led to increased workloads for employees in some areas of the Group.

One of the cornerstones of our HR strategy focuses on securing and developing the skills and expertise of our workforce. Employees are facing ever greater challenges at work as a result of technological, procedural and organizational changes. It is important to us at the Wacker Neuson Group that all of our people feel equipped to face these challenges head on.

### **2017 global employee survey**

In November 2017, the Group carried out a global employee survey called "Your opinion counts!". The aim of the survey was to identify the company's strengths and weaknesses and find out exactly what we can do better. The survey was carried out by an external institute, which also compared the results with other companies in the industry, thus providing Wacker Neuson with an objective overview of satisfaction levels among its own employees. This diagnostics tool enables us to measure exactly how issues such as change initiatives affect employee satisfaction. 62 percent of all employees worldwide took part in the survey in the year under review. As such, the results provide a representative view of the mood among employees. The findings were compared with those from the last survey in 2014. Overall, our Group is seen as a very attractive employer. General satisfaction levels were high among employees who took part in the survey – also in comparison with industry peers – and the mood on the whole had improved in comparison with 2014.

### **Concrete goals**

The Group will gradually develop the potential for improvement identified in the employee survey in order to successfully increase employee satisfaction levels in the long term.

We have identified two action items from the survey that we aim to proactively develop in the near future. We want to:

- help employees manage their workloads more effectively, and
- align the development and training of technical/commercial and soft skills more effectively with individual talent and qualification needs.

The Group also aims to increase the participation level in the next global employee survey to over 70 percent.

## **Sustainable employee development**

Our global HR strategy aligns closely with our Strategy 2022. It provides Group-wide guidelines, standards and processes aimed at promoting sustainable growth across the company. Global topics are jointly defined and developed by Group HR and local HR officers. The HR officers carry out tasks at their sites and work closely with specialist and management staff on all HR-related issues. Hence our sustainable employee development activities focus, for instance, on identifying action items at line of business level using tools such as our global employee survey, which Group HR carries out every three years in collaboration with an external partner. Any resulting Group-wide measures are also implemented and managed centrally.

To provide a clearer overview of our activities, we report separately on the two action items *managing workloads* and *individual advancement* in the following sections, detailing our approach to managing and steering these two items in connection with existing and planned initiatives.

### **Internal organization to develop initiatives aimed at managing workloads**

Group HR and the external institute presented the results of the employee survey to the Executive Board and analyzed the findings in detail with all Board members. The findings were then made available to local sites, giving teams there the chance to discuss, introduce and implement these initiatives. Benchmarks between different sites and lines of business are used to identify differences and potential for best practices.

### **Measures to improve workload management**

Workload-related topics will be discussed with the regional locations on an individual basis in Q2 2018. The resulting measures will be implemented in 2018 and recorded in a transparent online action planning tool. Group-wide measures will be decided on the basis of the individual measures. Regular progress updates will be posted on the Group intranet. There are also plans to add two more components to the individual target agreements negotiated by the responsible local managers. The first is to improve the level of employee satisfaction also in relation to workload; and the second is to increase the rate of employee participation in future surveys.

In order to help employees achieve a good work-life balance while also ensuring compliance with the applicable working hours laws, the Group proactively introduced an IT warning system in 2016. Whenever an employee is close to infringing the German Working Hours Act (*Arbeitszeitgesetz*), the system sends an e-mail to alert both the employee and their line manager. If this warning is not heeded or acted upon, the manager will receive a formal warning at the very least, and may be served an official complaint with disciplinary action under labor law.

One of our objectives under the new Strategy 2022 roadmap is to simplify structural and process organizations. Process improvements are expected to reduce complexity at certain locations, ensure smooth workflows and additionally ease employee workloads. The objective of simplifying processes and improving internal networking will be aided by cross-functional teams. Their role will involve streamlining Group interfaces and strengthening collaboration. As an additional measure, the Group's strategic objectives will be broken down to location and line of business levels so that focus areas and priorities can be clearly defined and then suitably communicated to the local employees (Management by Objectives). This will impact the order in which work packages are processed and should help to improve the management of workloads.

A stronger feedback culture overall shall be fostered, with management playing a prominent role in this regard. The regular dialog already established with employees means that management can gauge the current level of employee satisfaction and introduce improvement measures straight away if required. The Group-wide social intranet which went live in February 2018 is already having a positive impact on the corporate culture by improving transparency and promoting communication across the board.

Improvements to occupational health is another action item for Wacker Neuson. Our plan is to expand existing occupational health management services in areas like nutrition, sport and exercise at several locations, and make concerted efforts to ensure employees take breaks from their work.

### **Internal organization for individual talent development measures – vocational training, skill development and lifelong learning**

The Group HR department regularly presents staff development measures and programs to the Executive Board and the local managing directors and plays a joint role in planning the scope of the measures to be implemented. The local HR departments are responsible for managing employee qualification.

The Executive Board is closely involved in the process to select candidates for management skill development, as well as in career planning and the individual advancement of managers in lines one and two below the Executive Board. The members of the Executive Board also play a hands-on role in the PerspACTIVE next-generation manager program by making themselves available to course participants and in some cases acting as their mentor.

When management vacancies need to be filled, our preference is to look for candidates in house. The Executive Board and the Group HR Manager decide on appointments for lines one and two below the Executive Board.

The Group HR department also regularly presents the Executive Board with key indicators on the status of training within the Group.

### **Measures for greater focus on individual talent development**

The development of technical/commercial and soft skills is a key element of our corporate culture. We have laid the foundation for this in recent years with the implementation of our Group-wide HR strategy. The programs it defines for employee and manager development are now well-established and resonate strongly among our people.

The HR training portal on the global intranet offers a range of site-specific training opportunities for employees. The Group's own academies in Europe (Reichertshofen, Germany) and the US are equipped with state-of-the-art training facilities and product testing areas for both theoretical and practical learning experiences. The experienced team of instructors also oversee a wide selection of courses for customers, dealers and other external partners.

In 2013, Wacker Neuson was one of the first companies to sign up for the Think Big training initiative from run by the VDMA (German Engineering Federation). Plans have been formulated to offer one more apprenticeship trade in production for 2018. The aim here is to ensure that specialist staff obtain the qualifications they need for their job at an early stage while also aligning the content of training even more closely to the requirements of the Group.

From 2018 onwards, the teaching content from German apprenticeship programs will increasingly be transferred to our US location of Menomonee Falls, Wisconsin to ensure needs-driven qualification of staff and uniformly high levels of training.

In the year under review, employees were seconded to different locations in order to give them a chance to familiarize themselves with company-internal workflows. One example was the training of a large group of employees from Shanghai in all production-related areas of the Austrian manufacturing plant for excavators. This was done in preparation for the opening of Wacker Neuson's large new excavator production facility in Pinghu at the start of 2018.

In order to keep our employees up to speed on the latest technology and methodology developments in their specialist area and ensure that they can deal with changes in the demands placed on them, we

offer them targeted training either with in-house instructors or external further training service providers. Alongside their jobs, employees also have opportunities to complete study programs or further training programs. Wherever possible, the Group provides them with financial and organizational support, for example through flexible and tailored working time models. In the future, efforts will be made to align this support even more closely to individual needs. Employees who demonstrate a sense of initiative and a high level of performance stand to be rewarded with concrete development prospects and individual promotion opportunities. With this in mind, we will also encourage employees and management to engage in closer and more regular dialog.

Alongside the PerspACTIVE program for up-and-coming managers, the Leadership Excellence Program (LEP) is aimed at experienced managers in strategic key positions such as managing directors and heads of Group functions.

In Q2 2018, the RefIACtion development center for middle management should be up and running. The structure was designed so that middle managers or employees in key positions can discover their personal strengths and potential for further development. Participants will be given qualification recommendations and their subsequent progress will be monitored. External validation will help create a more robust process for identifying next-generation managers by making it more structured and transparent.

### **Non-financial performance indicators**

The global employee survey gives us an indication of the extent to which measures aimed at improving employee satisfaction are actually proving effective. One of the factors covered in the survey is employee levels of satisfaction with the ongoing training and lifelong learning opportunities on offer. Our approach therefore uses key indicators to measure our performance in terms of vocational training, ongoing training and lifelong learning.

#### Qualified vocational training<sup>6</sup>

In 2017, the Group provided training for 213 young people in Germany, Austria, Switzerland, the Netherlands and Serbia in industrial, technical and commercial positions (2016: 206). Opportunities were also provided within the framework of practical training programs flanked by studies at technical or vocational colleges. Wacker Neuson is thus easily exceeding the legal requirement in terms of the total number of young people in training positions. The training quota in the year under review for the countries mentioned above was 6.0 percent (2016: 6.2 percent). In 2017, 56 trainees completed their training courses (2016: 54), 55 of whom were subsequently offered positions in the Group (2016: 50). This corresponds to a take-up rate of 98.2 percent (2016: 92.5 percent).

<sup>6</sup> Includes Germany, Austria, Switzerland, the Netherlands and Serbia.

#### Skill development and lifelong learning<sup>7</sup>

In 2017, internal training and further development measures focused on product and service skills. There was excellent uptake of the training programs on offer in Germany and other countries. During the year, 2,113 participants enrolled in the skill development and lifelong learning courses offered by the Wacker Neuson Academy Europe (2016: 1,865 participants). This figure does not include specialist training topics (e.g. failure mode and effects analysis, framework compensation agreements), a range of programs to develop soft skills (e.g. project management and conflict management), and detailed specialization programs for certain departments (e.g. IT, Sales, Service).

<sup>7</sup> Includes participants in the Wacker Neuson Academy Europe (in Reichertshofen).

The PerspACTIVE development program has received a very positive response from our employees and managers. 2017 saw the sixth group embark on the program, with the seventh intake following them in May 2018. PerspACTIVE is an invaluable tool for developing management skills in all departments of the Group. The participants are drawn from different disciplines and locations – an arrangement that

helps to foster a common management culture alongside the upskilling objective. In 2017, 48 high-potential employees took part in this program.<sup>8</sup>

<sup>8</sup> Includes European companies

In 2017, the Leadership Excellence Program (LEP) focused on four modules covering the strategic topics “Organization in Change”, “Result & Business Orientation”, “Strategy & Leadership” and “Innovation & Knowledge Management”. A total of seven 2.5-day courses were organized during the year under review. 50 managers took part in the LEP events.<sup>9</sup>

<sup>9</sup> Includes all Group companies.

### **Gauging levels of employee satisfaction and continued focus on individual talent development**

Regular employee surveys help to establish whether measures implemented are having the desired impact. For example, one objective of the 2014 survey was to improve internal communication. Targeted measures have been implemented since then to keep employees up to date on the latest developments in a timely manner. These include a newsletter and new formats like video podcasts. The results of the most recent survey showed a clear improvement in the “Information and Communication” responses compared with 2014.

Our plan going forward is to organize the survey every second year instead of every three years and to find a way to increase the participation rate. We want to supplement the employee surveys with opinion polls on specific topics such as workload or individual advancement during the year. We will use flash surveys on our global intranet for this.

In a bid to attract talent to our locations from beyond large urban centers, we focus on vocational training for young people. The vocational training offered by the Wacker Neuson Group again received external recognition in 2017. The Group’s trainees also regularly achieve excellent exam results, a fact which underlines the high standards applied in applicant selection and the high quality of the learning content.

A suitable indicator for training and skill development measures per employee is set to be introduced in 2018 and will also include our courses at our academy in the US. We plan to continue our existing employee programs and extend their reach to a wider circle of employees. We are working on a range of measures to identify and develop talent right across our Group.

## **2.4 Respect for human rights within the organization and throughout the supply chain**

We have greatly expanded our international operations in recent years. This means that we are now also active in countries with generally higher risks of human rights violations compared with Europe and North America. Our expansion into such countries and our development of our own local sales and production structures have pushed human rights higher up our list of priorities. Our goal of remaining competitive in the long term has seen us adopt a much more international stance compared to even a few years ago. This also applies to our choice of procurement markets for the purchase of premanufactured parts. Our aim at all times is to protect human rights, both in our internal organization and throughout our supply chain.

### **Prevention remains an important tool for the protection of human rights**

We regard the protection of human rights as a top priority. We have zero tolerance for child, youth or forced labor – either at our own sites or in business relationships with external partners. As a global corporation, Wacker Neuson is keen to ensure that human rights are respected within its sphere of influence. The Group wants to be in a position to expose violations of human rights. In the coming years, we will step up our efforts to raise employees’ awareness of human rights and increase the number of internal employee training events on the topic.

Wacker Neuson expects its suppliers in particular to engage actively with this topic. Only the best suppliers according to our criteria will be systematically included in our global supply network. In this way, we hope to reduce the risk of human rights violations occurring in our supply chain. In countries posing a particularly high risk, we intend to improve the qualification of our suppliers by carrying out regular audits. One of the areas we will focus on is the supplier network for the new compact equipment plant in Pinghu, near Shanghai in China. Production got underway here at the start of 2018 and is set for further expansion.

Our objective in the medium term is to ensure that 80 percent of the volume of goods we purchase from suppliers to manufacture our products is covered under our code of conduct for suppliers to the extent that these suppliers confirm their compliance with the code. One of the stipulations of the code of conduct is that suppliers must observe human rights. The Group plans to implement a supplier relationship management tool to meet its objectives in this area.

### **Establishment of guidelines for preventing human rights violations**

As part of its long-term effort to prevent human rights violations, the Wacker Neuson Group introduced a code of conduct for employees in 2014, followed by a version for suppliers in 2015 (see the Anti-corruption section).

The Group has set up an online reporting system called "Tell-it" to make it easier for employees and external partners like customers and suppliers to report suspected human rights violations.

We have summarized our human rights principles in our "Preventing human rights violations in the Wacker Neuson Group and its supply chain" statement, which is available on our website.

### **A ready-to-respond compliance and audit system**

An established Group-wide compliance management system reduces the risk of human rights violations by employees in the organization, whether on the basis of standard reporting processes, tip-offs via the reporting system, or employee training and events (see also the description of the compliance organization in the Anti-corruption section).

Our Group procurement is managed uniformly in a matrix structure that stretches across all production locations and global commodity groups. It reports to the Executive Board on a quarterly basis. Supplier auditing falls under the remit of the procurement department. Dedicated employees liaise with suppliers and help them evolve along the entire pathway from selection and appointment through to series production. The protection of human rights is also very much a priority in this process.

The local procurement departments in conjunction with the supplier management department also carry out local audits using common assessment standards defined at Group level. An internal guideline containing standard assessment criteria forms the basis for the qualification of potential and existing suppliers. This allows supplier performance at operational level to be viewed, compared and measured. All decisions on whether to work with a supplier are preceded by an appraisal; most suppliers are scrutinized with respect to their performance on factors like the environment, working conditions, and the protection of human rights (freedom of assembly, exclusion of child labor, etc.). The results of these appraisals are regularly submitted to the head of Group procurement. The Supplier Nomination Committee decides whether to accept or reject a supplier. The Executive Board and the technical managing directors of the sites are also members of this committee (depending on the order volume). If a human rights violation occurs in our Group's supply chain, we will not nominate the supplier and will not consider them for future projects. In some cases, action plans will also be drawn up to eliminate supplier shortcomings in the long term.

### **Greater awareness of human rights within the organization**



Part of compliance training involves raising employees' awareness of compliance risks and the need to respect the applicable legal regulations, which also indirectly encompass the protection of human rights. All employees around the world are bound by our code of conduct (see Anti-corruption section).

The central department responsible for sustainability organized a webinar on the subject of human rights for all Group companies in October 2017. The main topics covered were protection of human rights, data security, safeguarding the personal rights of employees, occupational health and safety, and information on working hours legislation and the minimum wage (particularly relevant for temporary staff).

### **Supply chain regularly scrutinized to ensure human rights are being respected**

Our internal decision matrix for new suppliers and our audit system have been in place since 2013. We use both main audits and audit checks to find out if our suppliers are violating any human rights. Our establishment of a purchasing office in China means that our own staff can work more closely and more intensively with the local procurement market and carry out appropriate supplier audits. The regular audits conducted by this office include scrutiny of human rights performance, including that of suppliers with whom we already have established business relationships.

In 2018, we plan to introduce a supplier management software system. As well as managing contracts and individual agreements with partners, the software will have a feature whereby suppliers have to confirm their compliance with our code of conduct for suppliers – and thus confirm that they are respecting human rights (confirmation of compliance).

### **Non-financial performance indicators**

Given that the specific prevention of human rights violations is a high priority for our Group, we investigate whether violations have taken place within our organization and/or among existing and potential suppliers.

#### Number of complaints about violations of human rights within the organization

In 2017, our Group received no complaints about violations of human rights; nor were there any suspected violations.

#### Number of supplier audits

During the year under review, 34 potential suppliers were audited for the first time as part of the supplier audit process, which included scrutiny of their human rights performance. 23 of these were potential suppliers in high-risk countries like China (2016: 26). In 2017, no violations of human rights by suppliers were identified.

An additional check was carried out on 50 existing suppliers in 2017 in respect of their labor practices and human rights performance (2016: 49). No instances of child/youth labor or of forced/compulsory labor were detected in 2017. Two suppliers were, however, found to have violated labor practices. In both cases, a binding action plan to eliminate the cause of the violation was agreed as a prerequisite for continuing the business relationship.

#### Number of complaints about human rights factors in the supply chain

In 2017, there were no complaints about suppliers with existing business relationships in respect of violations or suspected violations of human rights.

### **Additional measures to mitigate risks**

Within our Group, we rely on prevention to ensure compliance with human rights. Where required, internal processes are continuously optimized to further mitigate the risk of human rights being violated. In our supplier auditing, we will focus more strongly in the future on existing and potential suppliers from the Asia-Pacific region as we expand our local production facility in China.

The introduction of the supplier management software that requires an automatic supplier confirmation will bring us closer to our aim of covering 80 percent of the volume of goods we purchase under our code of conduct.

We plan to continue to hold annual webinars on the topic of human rights aimed at the managing directors of our sites around the world.

## **2.5 Anti-corruption**

The continued growth and expanding international footprint of our Group have made an effective compliance system indispensable in recent years. The system incorporates suitable processes to prevent and combat bribery in areas within the Group's sphere of influence. Furthermore, the corporate culture embraced by corporate management and employees alike helps to actively prevent ethical irregularities at Wacker Neuson, reinforce a spirit of mutual support and respect across the Group, and foster a stronger sense of identification among employees with the company.

### **Definition of anti-corruption objectives**

The Group has a zero-tolerance attitude to corruption. This means that incidents of corruption must be identified at an early stage and that preventive anti-corruption measures that are as effective as possible must be implemented. The Group intends to step up its anti-corruption activities in high-risk countries. Further compliance and anti-corruption training and information events will be held around the world to further raise awareness of this issue. In addition to basic training for all employees and managers, detailed audience-specific compliance training will be introduced in the medium term. The Group is keen to systematically increase the number of employees who have received compliance training as a percentage of the total workforce. Preventing corruption in the supply chain is another priority for the Group.

### **Embedding a compliance culture beyond company boundaries**

Wacker Neuson introduced a code of conduct for employees in 2014. As well as setting out the principles of company ethics and the conduct expected in the workplace, it also provides guidelines on preventing corruption. The code of conduct was translated into eleven languages and distributed to all our employees worldwide. The code of conduct is given to every new hire. It is accessible to employees on the Group intranet and to the general public on the Group website. All employees are bound by the code of conduct. Management is expected to lead by example on this issue, recognizing their responsibility as leaders and actively upholding the values of the code of conduct.

Wacker Neuson also expects its suppliers to abide by the compliance principles set out in its code of conduct for suppliers. We regard compliance with these principles as a prerequisite for creating lasting business relationships built on a solid foundation of trust. This guideline is also available on the Group website. Local audits evaluating suppliers' adherence to compliance principles are also carried out in the form of rapid plant assessments (see section on human rights in the supply chain).

An internal donations policy sets out uniform donation guidelines for all Group companies. It also provides for detailed, central monitoring of how funds are spent.

The Group intends to publish an internal guideline on anti-trust law and competition law in 2018 to support Group-wide compliance with the applicable regulations in these areas. Anti-trust law and competition law are already established components of compliance training.

### **Compliance system with international reach**

Compliance is organized as a central function and the guidelines are also drafted centrally. The regional presidents (line one below the Executive Board and responsible for the respective region) act as regional

compliance officers. Their duties include overseeing various compliance measures and organizing compliance training relating to anti-corruption for employees. They report compliance-related information directly to the Chief Compliance Officer, who in turn reports directly to the CEO.

A Compliance Committee made up of representatives from internal auditing, legal and compliance (and, if required, human resources and IT), decide on the course of action if there is a suspicion of non-compliance. The Chief Compliance Officer submits reports annually and on an ad-hoc basis to the Executive Board and once a year to the Supervisory Board.

The regional presidents and the managing directors of the production sites and sales affiliates submit written compliance reports to the Chief Compliance Officer every six months. This reporting is supplemented by a compliance audit of all affiliates in the form of a self-disclosure report which is submitted to the Chief Compliance Officer. Indications of actual or suspected violations are thoroughly examined on an ad-hoc basis, and acted upon without delay.

Another measure introduced by the Group has been the setting up of an Anti-Fraud Committee. It is composed of the heads of internal auditing, compliance, IT security and treasury. The Anti-Fraud Committee meets on a quarterly basis or as the need arises. It is responsible for averting and dealing with possible fraud attempts or external attacks – for example in payment transactions – and for issuing warnings and information to employees. The anti-fraud tools used include automated processes, IT security measures, guidelines and pro-active communication with employees. Employees report information on fraud attempts to the Anti-Fraud Committee for analysis.

#### **Roll-out of further measures planned**

In 2017, training and information events were organized to further raise employees' awareness of compliance matters. Anti-corruption and anti-fraud measures are established components of our compliance training. The process for selecting the employees and managers who most need the compliance training is based on risk occurrence probability; in most cases, sales, purchasing and administrative staff are selected.

A key element of the onboarding process involves presenting all new staff with our code of conduct. Whenever vacancies for key positions such as managing directors are filled, the new managers are directly briefed by the Chief Compliance Officer as part of their orientation process, with a particular focus on anti-corruption measures. In addition, the Group plans to introduce computer-based compliance training for employees in 2018, which will initially mainly be used for basic training, although training for particular target groups will follow at a later date.

In 2014, we set up an online reporting system called "Tell-it" as a line of communication for reporting possible violations of policy or the law affecting companies of the Wacker Neuson Group. "Tell-it" can be used by employees, business partners, customers and other third parties. It can be accessed 24 hours a day from anywhere in the world via the company website and users are assured of confidentiality. The system is directly monitored by the Chief Compliance Officer. Immediate action is taken if there is any suspicion of non-compliance.

In 2017, the compliance department carried out a risk classification of Group companies by country in accordance with Transparency International's Corruption Perceptions Index. The ranking shows that the risks posed in countries like Russia and Mexico are generally very high. The Group intends to step up its anti-corruption measures in such countries.

Audits are carried out on both potential and existing suppliers to detect (potential) cases of corruption in the supply chain (see section on human rights). If a corruption incident occurs in our Group's supply chain, we will not nominate the supplier and will not consider them for future projects.

#### **Non-financial performance indicators**

Preventing corruption is a specific priority of the Group, which is why we record any cases of corruption within the organization or at a supplier. We also record the number of employees who participated in targeted compliance training in the year under review.

Number of substantiated cases of corruption (within the organization)

In 2017, no confirmed cases of corruption were reported to the compliance department.

Number and percentage of employees with compliance training (including anti-corruption training)

Since 2013, around 40 percent of our employees across the Group received training on this issue. The percentage of the total workforce in Europe was 41 percent, the corresponding figure in the Americas region was 36 percent, and in Asia-Pacific it was 45 percent. In 2017, 229 employees (ten in Europe, 125 in the Americas and 94 in Asia) attended classroom-based training and information events which included briefings about anti-corruption. The Chief Compliance Officer provided direct training for eight individuals in particular positions of trust (managers and sensitive departments) in 2017.

Number of suppliers with substantiated cases of corruption

There were no substantiated cases of corruption in the supply chain in 2017.

**Increased awareness of issues**

The Executive Board and the Supervisory Board were again satisfied in 2017 that the Group's monitoring system is fit for purpose in its ability to identify compliance risks. The processes implemented and measures introduced to prevent corruption and identify cases of corruption are effective. Even though no cases of corruption were reported during the year under review, the fact that the "Tell-it" reporting website has been viewed (by users looking for information) over 4,000 times from the date it went live up until December 31, 2017 proves that a large number of people are aware of this online platform.

Employees worldwide are familiar with the Wacker Neuson code of conduct. The code's stipulations are binding for all employees; a clause to this effect has been included in all employment contracts since 2016. A large proportion of our employees have been informed about the topic of compliance to date and the level of awareness is high.

Munich, March 15, 2018

Wacker Neuson SE, Munich, Germany

The Executive Board

Martin Lehner

CEO

Alexander Greschner

CSO

Wilfried Trepels

CFO