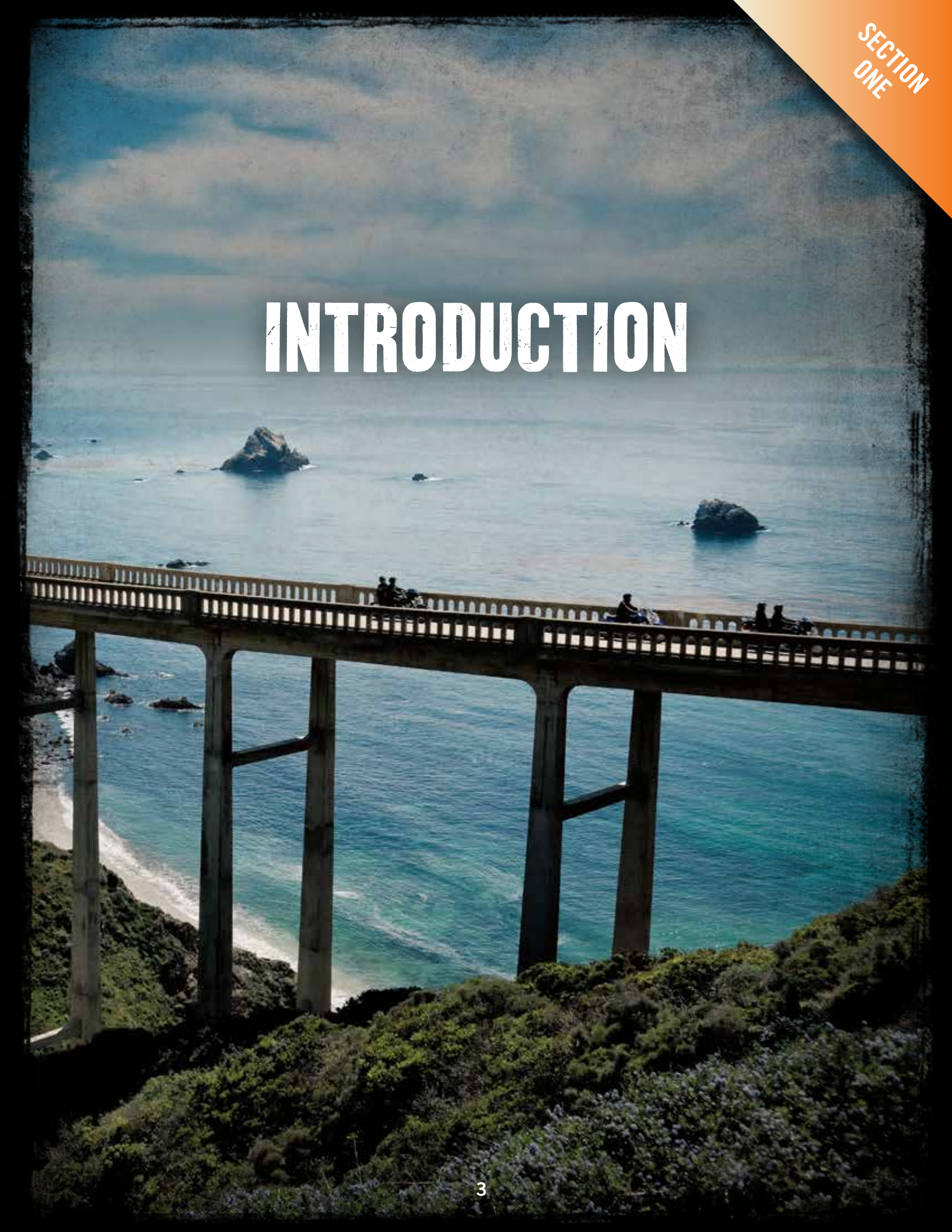
SUSTAINABILITY STRATEGY REPORT

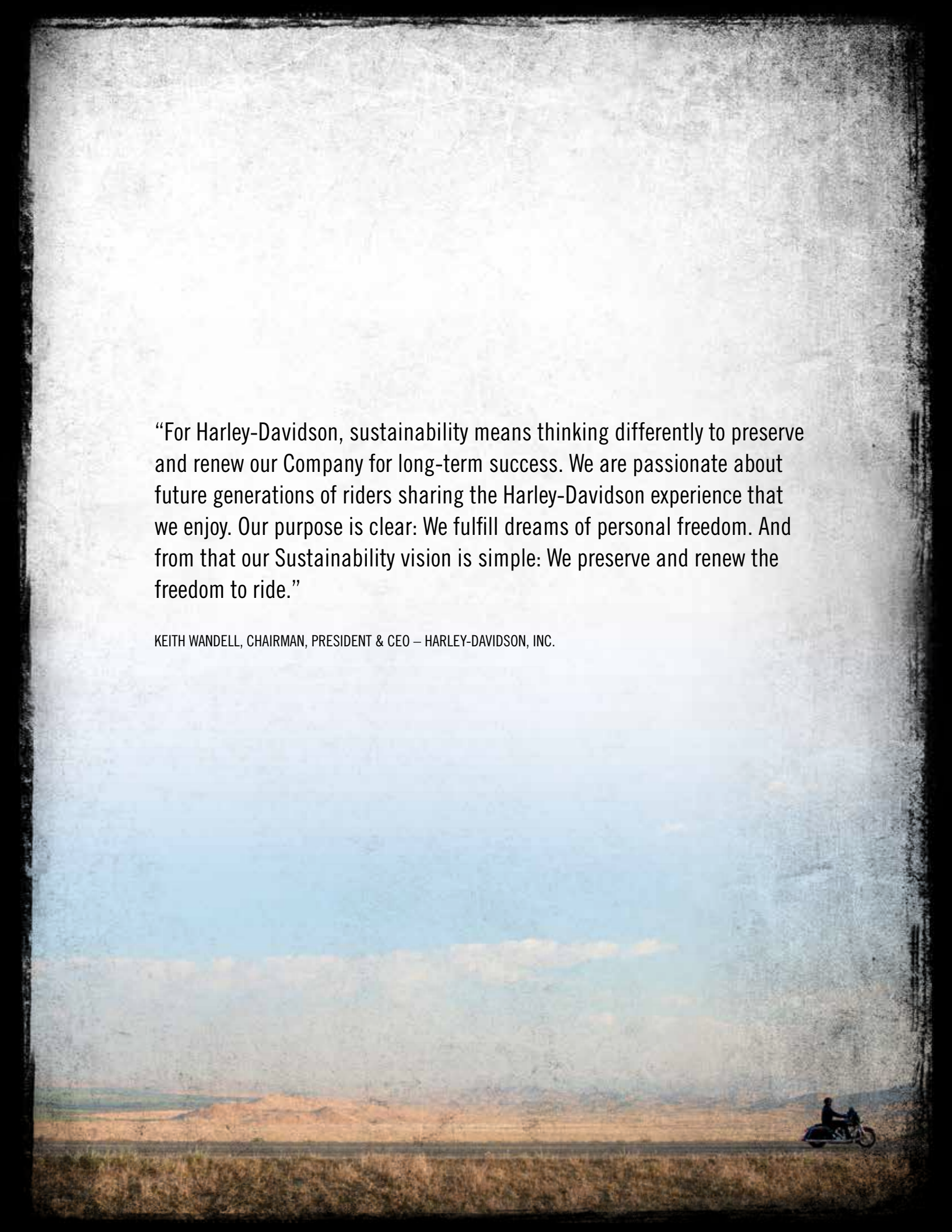
2012

WE PRESERVE AND RENEW THE FREEDOM TO RIDE

CONTENTS



INTRODUCTION



"For Harley-Davidson, sustainability means thinking differently to preserve and renew our Company for long-term success. We are passionate about future generations of riders sharing the Harley-Davidson experience that we enjoy. Our purpose is clear: We fulfill dreams of personal freedom. And from that our Sustainability vision is simple: We preserve and renew the freedom to ride."

KEITH WANDELL, CHAIRMAN, PRESIDENT & CEO – HARLEY-DAVIDSON, INC.

SUSTAINABILITY IS ONE OF OUR FOUR STRATEGIC PILLARS, ALONG WITH GROWTH, LEADERSHIP DEVELOPMENT AND CONTINUOUS IMPROVEMENT.

HARLEY-DAVIDSON SUSTAINABILITY: WE PRESERVE AND RENEW THE FREEDOM TO RIDE

- **We are committed to preserving and renewing our company and experience for future generations of global customers through shared value creation.**
- **We seek ways to improve the quality of life, the strength and vibrancy of local communities, and the health and welfare of our planet.**
- **We ride with our customers and continually find ways to reduce waste, energy consumption and emissions.**
- **We support growing the sport of motorcycling with an emphasis on rider and community safety, preservation of riding destinations around the world, and community development.**

Our sustainability vision encourages all Harley-Davidson[1] employees to understand and embrace the challenge and opportunity of sustainability. We want future generations to enjoy the riding experiences we enjoy, and delivering those experiences means preserving and renewing our brand for the future, just as we have done repeatedly for 110 years.

Harley-Davidson recognizes that corporations today need to be more resourceful and responsible with respect to environmental and social impacts. For our operations, we seek to go beyond environmental compliance to take actions that reduce energy and water consumption, waste generation and related greenhouse gas (GHG) emissions associated with our manufacturing facilities. For purposes of this report, we provide information about our direct (Scope 1-combustion of natural gas and other fuels) and our indirect (Scope 2-electricity) GHG emissions from our U.S. manufacturing plants.

Beyond minimizing the environmental impacts of our manufacturing operations, Harley-Davidson is taking a number of steps to develop a comprehensive approach to sustainability and the transition to a lower-carbon economy. During 2012 we examined our value chain and identified areas of focus for environmental and social sustainability across our entire business. Our integrated approach to embedding sustainability across the company is led by the Corporate Strategy and Sustainability team with oversight from the Sustainability Committee of our Board of Directors.

[1] Harley-Davidson, Inc. is the parent company of Harley-Davidson Motor Company and Harley-Davidson Financial Services. Harley-Davidson Motor Company produces heavyweight custom, cruiser and touring motorcycles and offers a complete line of Harley-Davidson motorcycle parts, accessories, riding gear and apparel, and general merchandise. Harley-Davidson Financial Services provides wholesale and retail financing, insurance, extended service and other protection plans and credit card programs to Harley-Davidson dealers and riders in the U.S., Canada and other select international markets.

SECTION TWO

REDUCING OUR ENVIRONMENTAL IMPACT

Harley-Davidson is continually working to reduce the environmental impact of our manufacturing and other operations, including on-going efforts to reduce waste and increase recycling, and reduce water use and energy consumption. This section highlights a handful of projects in our U.S. facilities in 2012.

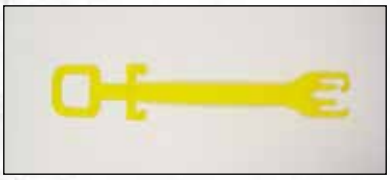
WASTE REDUCTION AND RECYCLING

Harley-Davidson manufacturing facilities aspire to reach zero landfill status. We have established a goal of less than 10% waste to landfill for 2013 for our US manufacturing operations, compared to our performance of less than 13% in 2012. Our efforts in 2012 to achieve this goal included:

Our **Kansas City** vehicle and powertrain assembly facility entered into a waste-to-energy agreement in late 2011 with Systech/LaFarge North America (a national Portland cement manufacturer) in Sugar Creek, Missouri. Wastes approved by Systech are used as fuel in the kilns at the cement manufacturing site and any remaining ash is incorporated into the cement. As of December 2012, all plant trash is also being sent to Systech/LaFarge, which has reduced the plant's amount of waste going to landfill from approximately 20% to less than 6%.

Our **Pilgrim Road** powertrain operations in Menomonee Falls, Wisconsin, reduced waste and diverted more of that waste from landfill in 2012 through both new recycle and re-use streams, resulting in a waste to landfill percentage of 5.9%. Approximately eight pounds per unit (engine) less waste was generated in 2012 than in 2011. This was accomplished in part by using a chip wringer to recover and recycle coolant on-site. Over the year coolant disposal fell 28%.

The Pilgrim Road plant also reduced the amount of trash sent to landfill by 24% through increased recycling. A new container system was introduced that gives clear messaging on where common items should go. As a result, the amount of recycling increased to nearly 10,000 pounds in 2012, with the average amount of mixed recyclables increasing from around 680 lbs per month at the beginning of the year to an average of 800 lbs per month by the end of the year. In addition, the Pilgrim Road facility sent approximately four tons of compostable material from the cafeteria to Growing Power, an urban farm. (And the **Harley-Davidson Museum's** restaurant began purchasing locally grown produce from Growing Power in 2012.)



In 2012, our vehicle operations in **York**, Pennsylvania, expanded the plastics recycling program resulting in an increase of 13.16% or 3.81 tons over 2011 levels. The York facility recycled a total of 32.77 tons of plastic in 2012.

The York facility also began bringing paint sludge to a waste-to-energy facility in 2012. Previously this sludge was stabilized (solidified) and sent to a landfill.

Most significantly, in 2012 we completed the restructuring/consolidation of the York facility. The project eliminated numerous waste streams from our operations. This resulted in the reduction of hazardous waste by 52% or 313 tons, residual waste by 68% or 7,075 tons and universal waste by 44% or 3 tons. Overall waste was reduced by 67% or 7,391 tons.

WATER USE IMPROVEMENTS

In 2012, the **Pilgrim Road** facility reduced water intake by 1,166,000 gallons. The water reductions were the result of the full implementation of a new powder-coat system. (The old system was phased out in spring of 2012.) The new system uses far less water due to a key change: the new system only pulls water when it needs it versus using a continuous flow of water, which spilled unused water down the drain. The new system uses sensors that automatically take water in as needed and shut off the flow when not needed.

In October 2012, the **York** facility implemented a project to redirect the reverse osmosis (RO) system's wastewater from the wastewater treatment plant to the sanitary sewer. It was estimated that the RO system generated between 5 to 10 gpm of wastewater during operation. The flow was originally redirected at about 50% and at year end 100%. The estimated flow during that time frame was approximately 8,000 gpd. This reduced our use of treatment chemicals (sulfuric acid and sodium hydroxide) in the wastewater treatment plant. Based on the volume of treated wastewater, this resulted in an estimated reduction of 4.3 gallons chemicals per day (19%).

ENERGY CONSUMPTION REDUCTIONS

Harley-Davidson's U.S. manufacturing sites establish annual targets for energy consumption and seek year over year improvement. During 2012, activities to reduce our energy consumption included:

The completion of a new powder coat line that uses residual heat from baking ovens to warm the water for the powder coat washers has increased energy efficiency at the **Pilgrim Road** facility. The conversion of the powdercoat operation from two lines to the new single system has reduced natural gas consumption by 32%. In addition, Pilgrim Road also installed a new chilled water system in the first quarter of 2012, and the facility has been diligently repairing compressed air leaks throughout the entire plant.

York vehicle operations successfully shed power during the summer of 2012 to conserve electricity. HVAC units were shut down on peak demand days which conserved electricity during the summer heat. Power shedding of electricity was 0.5 MKw for six hours. This was done on six different days and supported demand management efforts of the local utility.

In addition, changes in the operating parameters for the paint ovens now allows them to be shut off during non-production times (weekends and holidays) saving natural gas usage. This resulted in an average reduction in natural gas consumption of 61.5%.

The York restructuring project noted above also resulted in a reduction in energy use. Electricity was reduced by 54% and natural gas was reduced by 67% comparing 2012 data to 2009 data. (2009 was the last full year prior to restructuring/consolidation activities and 2012 data was the first year of full production after consolidation.)

OTHER PROJECTS

In 2012 the **York** operations continued to reduce air pollutant generating activities on forecasted Air Quality Action Days. Examples include:

- Reduced motorcycle audits by 50% without impacting quality
- Reduced Roll Test miles by 33%
- Limited usage of hand held gasoline-powered equipment

Some general tips provided to employees and contractors on-site on Air Quality Action Days were:

- Refuel vehicles after dark. Avoid spilling gasoline. Stop fueling when pump shuts off automatically. Properly maintain vehicles.
- Conserve energy. Don't overcool homes. Turn off lights and appliances when not in use. Wash clothes and dishes only in full loads.
- Limit daytime driving. Consider carpooling or taking public transportation.
- Limit outdoor activities (lawn mowing or sports) to the evening hours.

The York Communications team provides these announcements via emails and the internal TV system. The Security staff updates Air Quality Actions signs posted at guard gates on Air Quality Action Days.

SECTION THREE

IMPROVING OUR SOCIAL IMPACT

IMPROVING OUR SOCIAL IMPACT

Through The Harley-Davidson Foundation, corporate giving and employee volunteer activities, we seek to create positive social impact in the areas of education, health and the environment in communities that are home to H-D operations and to expand the reach and impact of customers and dealers.

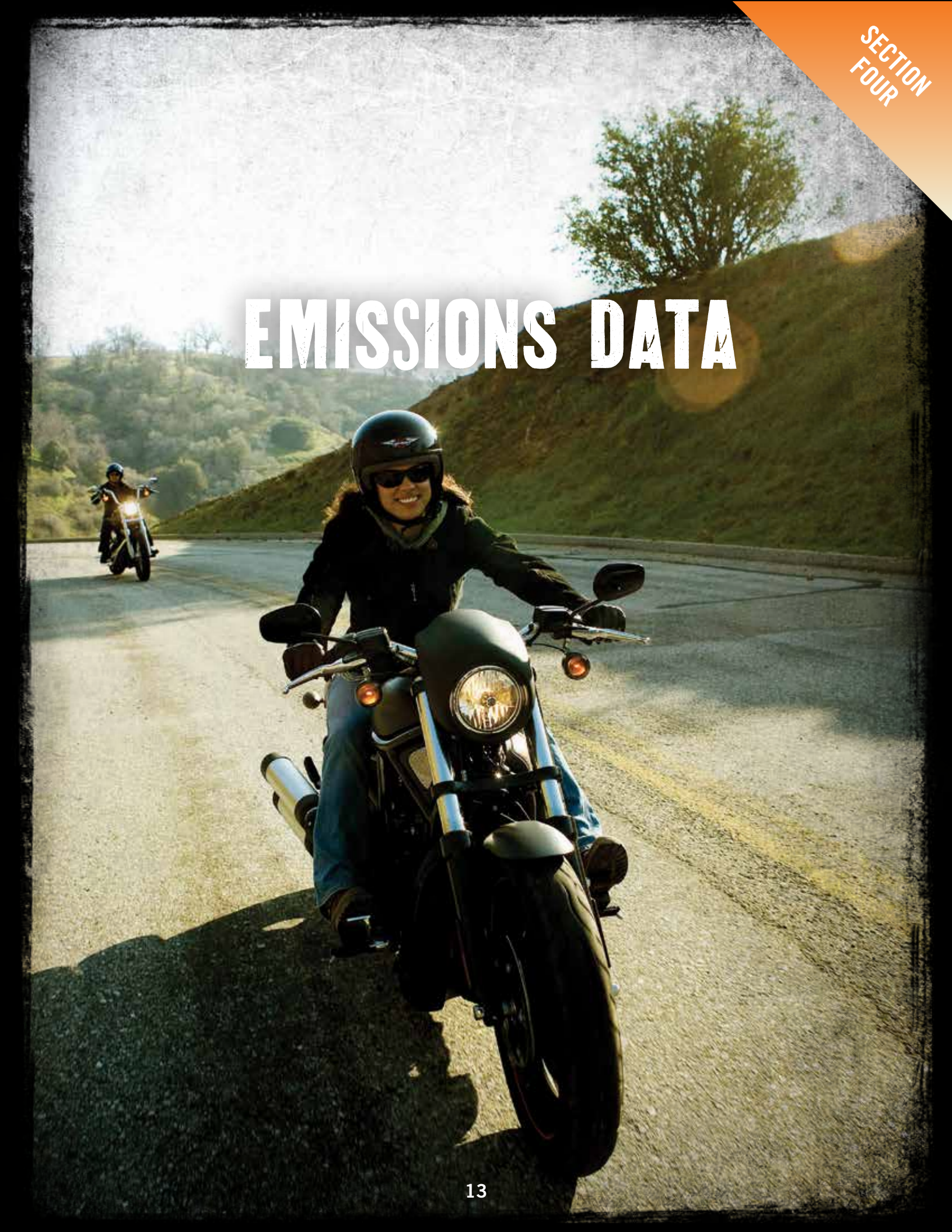
In support of these focus areas, Harley-Davidson's 2012 corporate charitable giving topped $4.5 million in grants and merchandise. Among the recipients:

- Milwaukee-based New Threads of Hope received more than $1 million in discontinued apparel and accessories to be distributed among various agencies throughout southeastern Wisconsin.
- United Way of Greater Milwaukee received $284,000 toward its outreach and support programs.
- As part of a four-year, $1 million grant, Disabled American Veterans received $250,000 to help support Harley's Heroes, a program to help veterans secure their military benefits.
- A portion of the proceeds from the sale of Harley-Davidson's Pink Label Collection of apparel and accessories goes to breast cancer organizations, totaling nearly $200,000 in 2012.
- Milwaukee Habitat for Humanity received a $200,000 grant for its Neighborhood Revitalization Initiative focused on the Washington Park area (near our corporate headquarters).

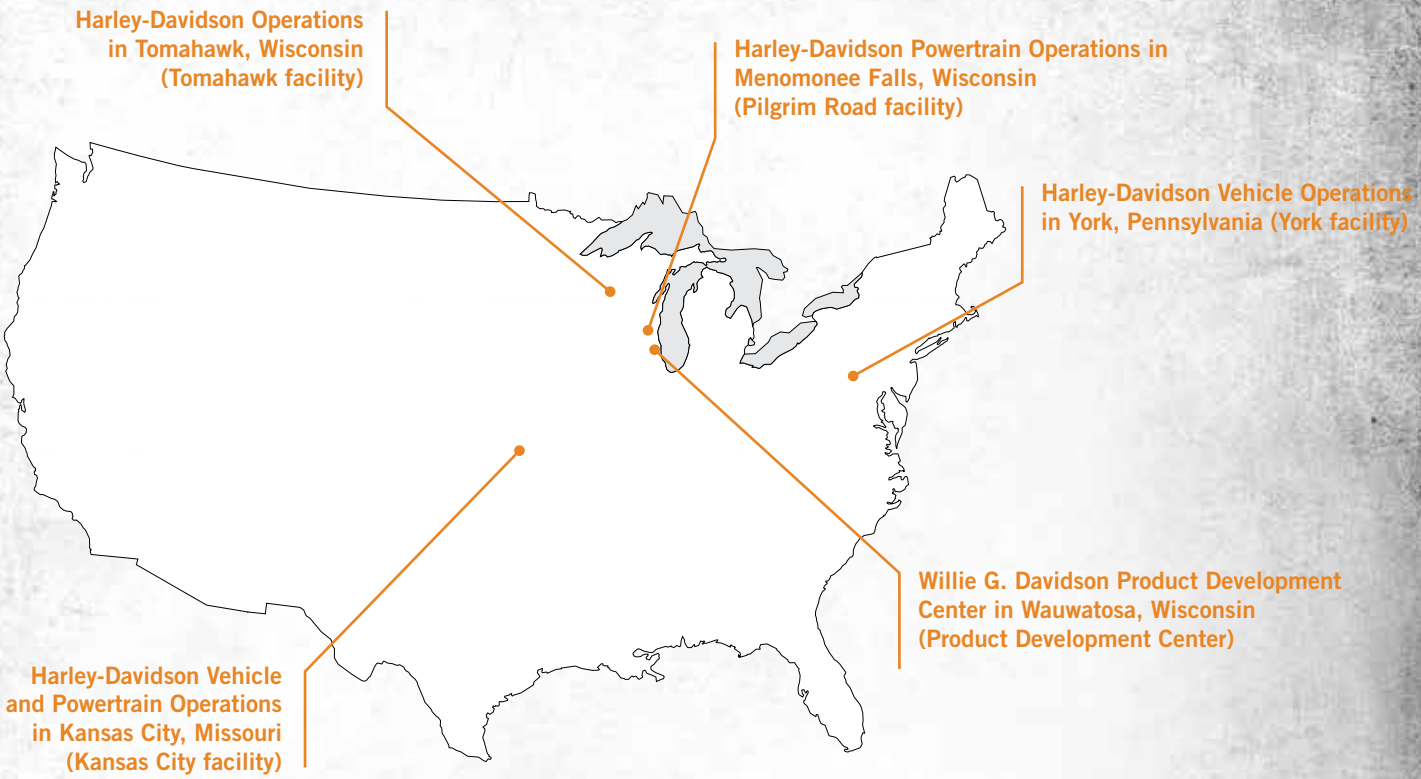
Additionally, since 1980, the Harley-Davidson family of customers, dealers, suppliers and employees has raised more than $84.2 million to aid research and program services for children and adults with muscular dystrophy. The funds raised support life-saving research, comprehensive medical care for children and adults with neuromuscular disease, and MDA summer camps.

SECTION FOUR

EMISSIONS DATA



HARLEY-DAVIDSON MOTOR COMPANY OPERATES FOUR U.S. MANUFACTURING FACILITIES AND ONE RESEARCH AND DEVELOPMENT FACILITY, AS OF DECEMBER 31, 2012:



These facilities manufacture motorcycle engines, transmissions and components and perform final assembly. They range in size from approximately 100,000 square feet at the Tomahawk facility to almost 1,000,000 square feet at the Pilgrim Road facility. (Harley-Davidson also operates two low-volume assembly facilities in Brazil and India.)

The majority of GHG emissions associated with Harley-Davidson operations are related to energy use at these U.S. facilities (natural gas and electricity). The combined consumption of energy at these facilities resulted in approximately 36,987 metric tons of direct (Scope 1) GHG emissions in 2012 – 5,165 metric tons less than 2011. In addition, these facilities used 183,569,322 KWH of electricity, which corresponds to124,782 metric tons CO_2e of indirect (Scope 2) GHG emissions – 5,736 metric tons less than 2011.

Harley-Davidson is continually working to reduce the environmental impact of its manufacturing facilities, including ongoing efforts to reduce waste generation, water and energy use and associated GHG emissions. As part of this effort, Harley-Davidson Motor Company has compiled Scope 1 GHG data for the years 2004 through 2012 for our manufacturing facilities.[2]

[2] Harley-Davidson previously owned facilities associated with Buell Motorcycle Company. These operations were closed in late December 2009 and are included in the GHG data through 2009. International facilities are not yet included in the GHG data.

DIRECT EMISSIONS FROM MANUFACTURING 2004–2012

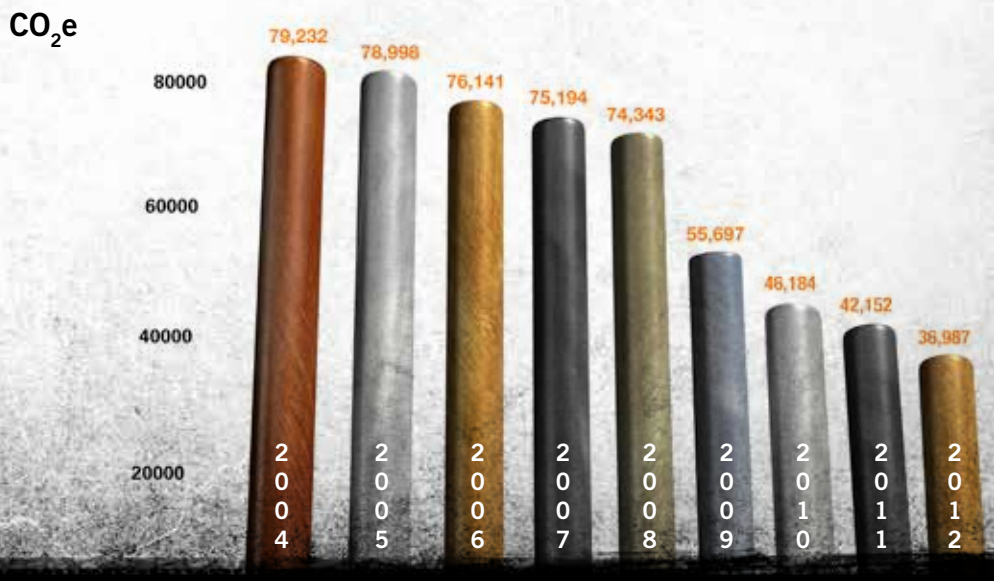
Harley-Davidson follows the GHG Protocol Corporate Standard. The protocol was prepared by a multi-stakeholder partnership of businesses, nongovernmental organizations, governments, and others convened by the World Resources Institute and the World Business Council for Sustainable Development.

Harley-Davidson reports information on emissions of three GHGs: carbon dioxide (CO_2), methane (CH_4), and nitrous oxide (N_2O), all quantified as CO_2 equivalents (CO_2e). Our GHG data consists of direct emission sources (Scope 1) from manufacturing and research and development facilities. As of 2011, we also report our GHG emissions from indirect sources (i.e., purchased electricity (Scope 2)). Indirect value chain emissions from transportation, purchased materials and the like (Scope 3) are not currently evaluated. GHG estimates for emissions from operation of individual motorcycles are also not included in the information reported here.

The primary GHG in our Scope 1 data are CO_2 emissions from combustion of natural gas, gasoline and fuel oil. As shown in Figure 1, Harley-Davidson Motor Company decreased its annual GHG emissions from 79,232 metric tons in 2004 to 36,987 metric tons in 2012. On a per motorcycle basis, we have gone from a high during this timeframe of 0.25 metric tons CO_2e to approximately 0.15 metric tons CO_2e (Scope 1).

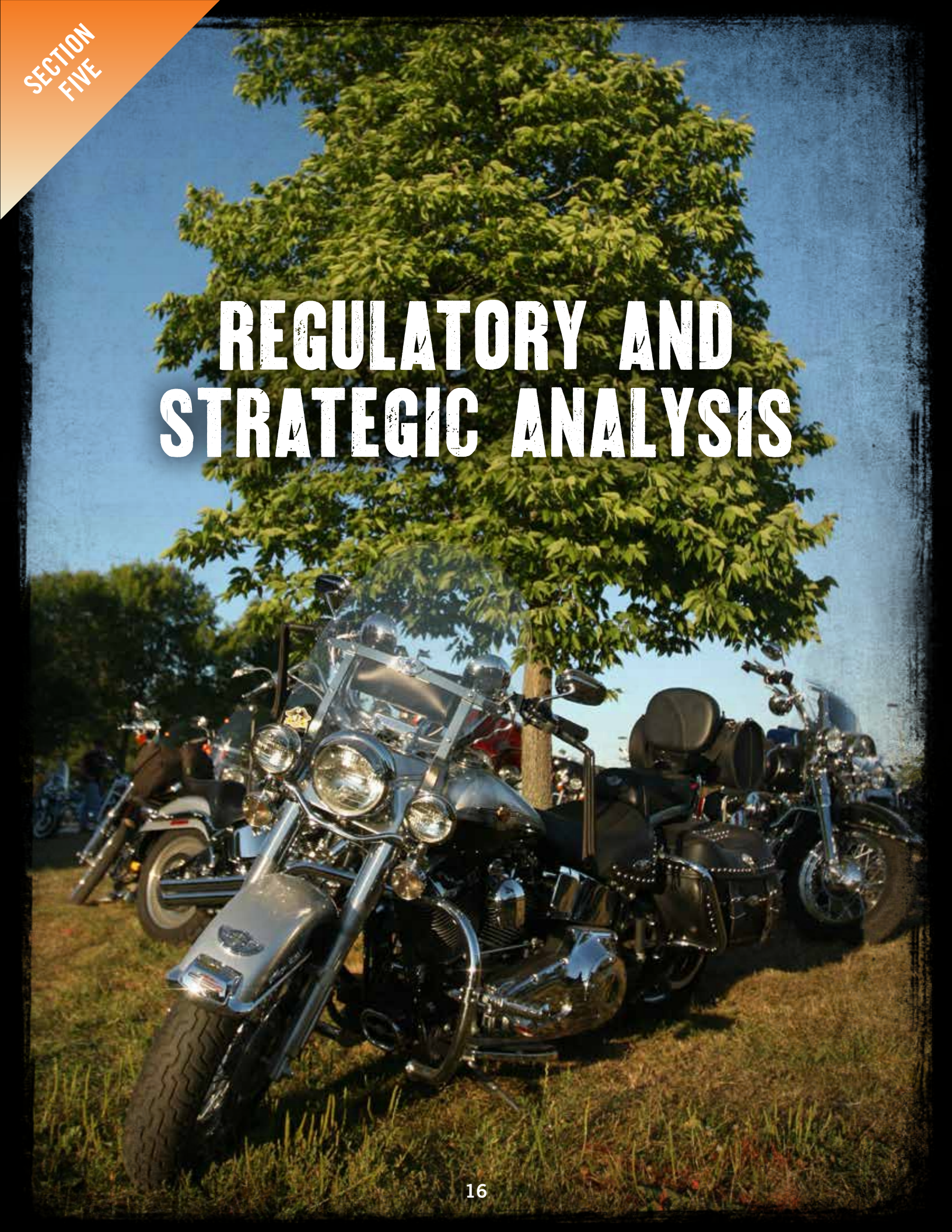
As a result of decreased motorcycle production, Harley-Davidson's energy reduction projects, reductions in the operational footprint at our Wisconsin powertrain operations and York facility, and other factors, GHG emissions have been reduced in our manufacturing operations by a total of 148,160 metric tons over the 2005-2012 time period, as compared to what would have been emitted had Scope 1 GHG emissions remained at 2004 levels.

HARLEY-DAVIDSON MOTOR COMPANY SCOPE 1 GREENHOUSE GAS EMISSIONS



SECTION FIVE

REGULATORY AND STRATEGIC ANALYSIS



Regulation designed to address climate change, particularly GHGs like CO_2, is expected to increase significantly in the next five to 10 years. While regulations at the state, federal and international levels remain in flux, proposed and final regulations have the potential to affect the motorcycle industry.

Notably, in December 2011 at the United Nations sponsored meeting in Durban, South Africa, almost 200 countries agreed to draft a new global emissions treaty by 2015. The three largest emitters of greenhouse gases – the United States, China and India – all agreed to be legally bound to reduce their emissions.

This section describes federal GHG regulations, as well as those in Wisconsin, Pennsylvania and Missouri, where Harley-Davidson has manufacturing facilities. International initiatives, including in the European Union and Japan, are also discussed due to their leading impact on regulatory trends.

FEDERAL GREENHOUSE GAS EMISSIONS REGULATIONS

President Obama has requested that Congress develop a plan to further cut GHG emissions and indicated he will use executive powers alone if it does not. Nonetheless, no federal legislation regulating greenhouse gas emissions has yet been enacted in the U.S. Past proposed bills have contained vehicle performance standards applicable to motorcycles, along with a cap-and-trade system for GHG emissions. Such legislation could require changes to Harley-Davidson's manufacturing facilities. The U.S. EPA has taken direct action to regulate GHG emissions, specifically issuing rules to require permitting of GHG emissions and to restrict GHG emissions from new light-duty vehicles and new power plants (motorcycles are not included within these rules).

U.S. EPA Reporting Rule

In October 2009, the U.S. EPA issued a reporting rule requiring certain sources begin tracking emissions for six GHG pollutants, including carbon dioxide (CO_2), methane (CH_4), and nitrous oxide (N_2O), beginning January 1, 2011, with the first annual reports due to U.S. EPA by March 31, 2012. The rule specifically identified motorcycle manufacturing facilities as subject to the reporting rule on a per facility basis if emissions from stationary fuel consumption sources (e.g., industrial boilers) at a facility are 25,000 metric tons of carbon dioxide equivalent (CO_2e) or more. Currently, no Harley-Davidson facilities exceed this threshold.

Engine emissions reporting was required for CO_2 beginning with model year 2011, with CH_4 added for model year 2012 and N_2O for model year 2013. This reporting is folded into the existing engine emissions certification process under the Clean Air Act (CAA). Engine manufacturers have been tracking CO_2 emissions but were previously not required to report them.

U.S. EPA Endangerment Finding

In December 2009, U.S. EPA's Administrator signed two findings for GHGs—the "Endangerment Finding" and the "Cause and Contribute Finding"—that apply to motor vehicles (including motorcycles). These findings establish the basis for the U.S. EPA's position that GHGs are a threat to public health and welfare. The immediate effect of the findings was minimal, as they imposed no substantive requirements on their own. However, they were the necessary precursor to U.S. EPA regulation of GHG emissions from motor vehicles. Legal challenges to the findings by several states and industry groups were unsuccessful (*Coalition for Responsible Regulation, et al. v. EPA*, 684 F.3d 102 (D.C. Cir. 2012)).

U.S. EPA and NHTSA Tailpipe Rule

Following issuance of the findings, U.S. EPA and the National Highway Traffic Safety Administration (NHTSA) issued a light-duty vehicle rule (the "Tailpipe Rule") that, while not applicable to motorcycles, was the first federal rulemaking regulating GHG emissions. The Tailpipe Rule faced, and overcame, the same challenges as the Endangerment Finding and the Cause and Contribute Finding in *Coalition for Responsible Regulation*. In October 2012 the second phase of the Tailpipe Rule was issued with 2025 targets for light duty vehicles of 150g/km CO_2 and 50mpg. The model underlying this rulemaking is not readily applicable to motorcycles, however, and we will continue to monitor and comment as appropriate on regulatory developments. U.S. EPA data indicate that the contribution of motorcycles to CO_2 from all mobile sources is on the order of 0.1%.

U.S. EPA Tailoring Rule

Due to the definitional structure of the CAA, once GHGs are regulated as pollutants under the mobile source provisions of the CAA, it is U.S. EPA's position that those same "pollutants" are subject to regulation under the permitting requirements for stationary sources. Consequently, all major stationary sources of GHGs (e.g., emissions sources at power plants, manufacturing facilities, etc.) would be subject to permitting obligations, including emission control requirements for new and modified sources. However, U.S. EPA issued a "Tailoring Rule" to significantly increase the applicability thresholds for large sources. (Challenges to the Tailoring Rule were dismissed in *Coalition for Responsible Regulation* on the basis of lack of jurisdiction.) The practical effect of the Tailoring Rule is that new and modified sources will have to continue to assess GHGs as part of their new source review permitting process. This will potentially subject Harley-Davidson's manufacturing facilities to permitting and emissions control requirements at some point in the future.

STATE GREENHOUSE GAS EMISSIONS INITIATIVES

Harley-Davidson operates manufacturing facilities in three states – Wisconsin, Missouri and Pennsylvania.

Wisconsin

On December 28, 2012, U.S. EPA published a proposed rule revising, in two key respects, Wisconsin's State Implementation Plan (SIP) under the Clean Air Act. First, the rule would approve revisions to Wisconsin's Prevention of Significant Deterioration (PSD) program to establish emissions thresholds consistent with the Tailoring Rule. Second, the rule defers until July 21, 2014, the application of the PSD permitting requirements to CO_2 emissions that are generated from bioenergy and biogenic stationary sources.

While Wisconsin is a member of the Midwest Greenhouse Gas Reduction Accord, the only outcome of that Accord has been a model cap-and-trade rule released in 2010 that would apply to sources emitting more than 25,000 metric tons of CO_2e. Wisconsin's only regulatory requirement is for facilities emitting 100,000 tons or more per year of CO_2 to report those emissions to the Wisconsin Department of Natural Resources. No Harley-Davidson facilities exceed this threshold.

Missouri

Missouri did not sign the Midwest Greenhouse Gas Reduction Accord, and has not considered greenhouse gas regulations or legislation.

Pennsylvania

In past years, Pennsylvania has pursued several means of regulating GHG emissions. In 2008, it enacted the Pennsylvania Climate Change Act requiring reports on the impact of climate change as well as any economic opportunities presented by reduction of GHG emissions. In 2009, pursuant to the Climate Change Act, the Pennsylvania Department of Environmental Protection (PADEP) released its Final Climate Change Action Plan, which establishes a statewide greenhouse gas inventory and identifies 52 specific work plans (recommendations) to mitigate greenhouse gases 30% below 2000 levels by the year 2020. Some of these work plans propose implementation of best management practices to improve energy efficiency for natural gas and electricity consumption within the industrial sector. As these work plans wind their way through the regulatory process, they have the potential to subject Harley-Davidson's manufacturing facility to permitting and emissions control requirements at some point in the future.

Pennsylvania is also an "official observer" of the Regional Greenhouse Gas Initiative (RGGI), a cooperative effort by several Northeast and Mid-Atlantic States to reduce CO_2 emissions through development of a regional cap-and-trade program, initially applying only to electric power generating facilities.

INTERNATIONAL DEVELOPMENTS

Harley-Davidson motorcycles are sold worldwide and international regulations impact our business. The European Union (EU) and some Latin American countries have promulgated and are in the process of implementing CO_2 efficiency and fuel consumption on-vehicle labeling regulations. Also, CO_2 outputs for motor vehicles in grams per kilometer (g/km) are linked to taxation and registration requirements in Spain.

On November 30, 2012, the European Parliament and the Council of the European Union reached an agreement on the approval of new regulations establishing GHG labeling (CO_2 emissions and fuel consumption) and more stringent emissions targets for motorcycles. Under the new regulations, the emissions limits established under the Euro IV legislation will become applicable in 2016 for new type approvals and 2017 for all vehicles, and the Euro V limitations will become applicable by 2020 for all new type approvals and 2021 for all vehicles. Several other markets, including China, India and other Asian and Latin American markets are now actively considering following or adapting to the direction established by the European Union.

Japan's End-of-Life Vehicle (ELV) Recycling Law came into force in January 2005. Under this law, automobile manufacturers are responsible for recovery, recycling and appropriate disposal with respect to automobile shredder residue, air bags, fluorocarbons and hazardous materials. However, the ELV Recycling Law does not cover motorcycles. Harley-Davidson Japan, a subsidiary of Harley-Davidson Inc., voluntarily launched a motorcycle recycling program in October 2005. The program was the first of its kind in the automobile and motorcycle industries and is at no cost to the consumer. The EU also has an ELV directive applicable to automobiles, and we anticipate that motorcycles will ultimately be included in recycling and end-of-life directives in the EU and other countries in the future. This will also mandate an appropriate labeling system for plastics, metals and materials that are readily recyclable.

COMMERCIAL RISKS AND CHALLENGES

Because the implementation of a specific CO_2 regulation could occur in combination with additional reductions in currently regulated tailpipe emissions (hydrocarbons and NOx for example), rigorous technical challenges emerge for vehicle manufacturers. Therefore, additional development and research are required to find ways to simultaneously improve efficiency and reduce CO_2 and other emissions. This may require motorcycle manufacturers to develop and adapt the types of advanced technologies that are often employed in the automotive sector. However, as CO_2 emission standards become more rigorous, potential changes to the products themselves could become more significant requiring new and innovative motorcycle designs.

Concerns over climate change are expected to ultimately lead to regulation of lower tailpipe emission limits for motorcycles. In addition, energy security and availability and its related costs affect all aspects of Harley-Davidson's manufacturing operations, including our supply chain. This has an adverse effect on the cost to manufacture motorcycles. We have several facilities with rich histories (some more than 50 years old) in Wisconsin and Pennsylvania that are located in cold weather areas. We have implemented numerous improvements at these facilities to reduce energy use and associated operating costs.

Physical risks to our business operations as identified by the Intergovernmental Panel on Climate Change and other expert bodies include scenarios such as sea level rise, extreme weather conditions and resource shortages. Extreme weather may disrupt the production and supply of natural gas, a fuel necessary for the manufacture of our motorcycles. Supply disruptions raise market rates and jeopardize the continuity of our manufacturing production. Harley-Davidson has taken numerous steps to minimize the risk of production interruptions.