Registered No. 2358344

HARLEY-DAVIDSON EUROPE LIMITED

Accounts 31 December 2007

together with directors' and auditors' reports

Registered No. 2358344

Directors

J Ziemer
M Van Der Sande (appointed 9th February 2007 and resigned 28th November 2008)

Secretary

J Brostowitz

Auditors

Ernst & Young LLP
400 Capability Green
Luton
LU1 3LU

Bankers

Barclays Bank PLC
PO Box 729
Eagle Point
1 Capability Green
Luton LU1 3US

Solicitors

Covington & Burling
(Registered Foreign Lawyers and Solicitors - London)
Leconfield House
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Registered office

Oxford Business Park
6000 Garsington Road
Oxford
Oxon. OX4 2DQ

Statement of directors' responsibilities

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 2007.

Principal activity

The principal activity of the company continues to be the importation, distribution and marketing of Motor Cycles, together with the associated parts, accessories and other products under the Harley-Davidson brand and other marks registered by the parent undertaking. For the full year, the area of operation included the UK and Republic of Ireland, most major European markets and parts of the Middle East and Africa.

Review of the business and future developments

Harley-Davidson Europe Limited continues to operate through a branch for sales to the UK and Ireland, and six Commissionaires appointed to cover the markets of France, Germany and Austria, Italy, Benelux, Switzerland and Spain. These Commissionaires are sister companies of Harley-Davidson Europe Limited, with the ultimate parent undertaking being Harley-Davidson Inc.

Except for the above markets, sales to other markets in Europe, the Middle East and Africa are arranged through independent distributors which are supported from the UK head office.

The directors consider the results to be satisfactory. The directors continue to be committed to further expansion of our markets in Europe, the Middle East and Africa, through the development of the dealer network and investment in other sales and marketing activities.

The group's key performance indicators during the year were as follows:-

	2007 £'000	2006 £'000	Change %
Turnover	394,614	337,367	17
Gross Profit	56,519	47,592	19
Profit/(loss) before tax	30,474	23,129	

The increase in turnover was driven by an increase in the volume of motorcycles across Europe as shown by the increase in motor cycle unit sales. There was double digit growth in many markets including Spain, Germany, Italy and the International Direct Markets. Parts and accessory volumes were also significantly up. This increase in volume partly explains the increase in gross profits, but more favourable exchange rates also made a significant contribution. Costs have been effectively controlled so that operating costs have fallen and all of the improvement at gross margin flows down to profit before tax.

The company directors monitor risks and uncertainties facing the group. The main risks are considered to be:-

Competitive risk – The heavyweight motorcycle market is highly competitive. Competition in the heavyweight motorcycle market is based upon a number of factors, including price, quality, reliability, styling, product features, customer preference and warranties. The Company emphasizes quality, reliability and styling in its products and offers a two-year warranty for its motorcycles. The Company sells its products at wholesale and must rely on a network of independent dealers and distributors to manage the retail distribution of its products.

Credit risk – The Company's financial operations are exposed to credit risk on its trade debtors. Credit risk is the risk of loss arising from a failure by a customer to meet the terms of any contract with the Company. Credit losses are influenced by general business and economic conditions, as well as contract terms, customer credit profiles and the new and used motorcycle market. Policies are aimed at minimising such losses through credit monitoring procedures.

Exchange risk - The Company is exposed to market risk from changes in foreign exchange. The Company sells its products internationally, in most cases in Euros, but eliminates the majority of the risk due to purchases from the parent company also being denominated in Euros.

Results and dividends

The profit for the year, after taxation amounted to £21,755,000 (2006: £16,601,000). The directors do not recommend the payment of a final ordinary dividend.

Directors and their interests

The directors who served during the year and subsequently are shown below:

M Van Der Sande (appointed 9th February 2007 and resigned 28th November 2008)
J Ziemer

Payment to suppliers

The company views that disclosure of average creditor days is not meaningful, since 95% of purchases are made from intercompany suppliers.

The company agrees terms and conditions for its business transactions with third party suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to made himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' report (continued)

Re-appointment of auditors

The company has passed an elective resolution to dispense with the holding of annual general meetings and the obligation to appoint auditors annually. Ernst & Young LLP, as the present auditors, have been re-appointed for successive years whilst this election remains in force.

On behalf of the board

James Ziemer

J Ziemer
Director
14 April 2009

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Harley-Davidson Europe Limited

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst + Young LLP

Ernst & Young LLP

Registered Auditor

Luton

17 April 2009

Profit and loss account

For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Turnover	2	394,614	337,367
Cost of sales		(338,095)	(289,775)
Gross profit		56,519	47,592
Distribution costs		(9,090)	(8,018)
Administrative expenses		(17,056)	(16,050)
Operating profit	5	30,373	23,524
Investment income	3	1,634	545
Interest payable and similar charges	4	(1,533)	(940)
Profit on ordinary activities before taxation		30,474	23,129
Tax on profit on ordinary activities	7	(8,719)	(6,528)
Profit on ordinary activities after taxation, being profit for the year	15,16	21,755	16,601

The accompanying notes are an integral part of this profit and loss account.

The results were derived from continuing activities.

There were no recognised gains or losses other than the profit of £21,755,000 (2006: £16,601,000) attributable to the shareholders for the year ended 31 December and the reserve credit for share-based payment programs of £ 27,000 (2006: £ 164,000).

Balance sheet
31 December 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Tangible assets	8	2,201	2,559
Current assets			
Stocks	9	42,345	32,513
Debtors: Amounts falling due within one year	10	43,349	35,290
Cash at bank and in hand		47,345	22,961
		133,039	90,764
Creditors: Amounts falling due within one year	11	(75,268)	(55,318)
Net current assets		57,771	35,446
Total assets less current liabilities		59,972	38,005
Creditors: Amounts falling due after one year	12	(112)	(297)
Provisions for liabilities	13	(4,057)	(3,660)
		55,803	34,048
Capital and reserves			
Called-up share capital	14	-	-
Capital reserve	15	20,000	20,000
Profit and loss account	15	35,803	14,048
Equity shareholders' funds	16	55,803	34,048

Signed on behalf of the Board on 14 April **2009**

James Ziemer

J Ziemer
Director

The accompanying notes are an integral part of this balance sheet.

Notes to the accounts

1 Accounting policies

A summary of the principal accounting policies is set out below.

a) Basis of preparation and change in accounting policy

The accounts have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

Under FRS1 (revised 1996) Cash Flow Statements, Harley-Davidson Europe Limited is not required to prepare a cash flow statement.

b) Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life, as follows:

Short leasehold improvements	- Shorter of 5 years or remaining useful life
Fixtures, fittings and equipment	- 5 years
Motor vehicles	- 4 years
Computer equipment and software	- 3 to 4 years

c) Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value. Provision is made for obsolete, slow-moving and defective items where appropriate.

d) Warranties for products

Product warranty costs are provided for, based upon the estimated warranty cost per unit sold.

e) Turnover

Turnover comprises the value of sales (excluding VAT and trade discounts) of goods and services in the normal course of business.

f) Taxation

UK Corporation tax is provided at amounts expected to be paid (or recovered) based on tax rates and laws enacted or substantially enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less, or to receive more, tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

g) Leased assets

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

h) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

i) Pension costs

The company operates a defined contribution pension scheme. The company contributes to a personal pension scheme for one director of the company. Contributions are charged to the profit and loss account as they become payable.

j) Software consulting fees

Software and related costs will normally only be capitalised as part of a major systems project. The direct cost of purchased software for a major project will be capitalised. In the context of a major implementation, the third party fees and consultancy costs related to the definition of requirements, supplier selection, development, training and implementation of systems software will be capitalised.

All internal costs associated with definition of requirements, selection of software, development, training and implementation of systems software will be expensed as incurred.

Depreciation will commence on implementation with all such capitalised costs being written off over 3 years. After implementation, costs associated with additional maintenance of the software will be expensed as incurred. Ongoing purchase of additional software below £5,000 (per item) will normally be expensed as incurred.

k) Share-based payments

Equity settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in reserves.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

The company has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2007.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value using an appropriate option pricing model. Fair value is established initially at the grant date and at each balance sheet date thereafter until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount for the liability are recognised in profit or loss for the period.

2 Turnover

Turnover arises from two principal areas of activity and from three geographical markets.

Class of business	2007 £'000	2006 £'000
Motorcycle sales	328,120	279,897
Parts and accessories	61,617	53,387
Other (including Harley-Davidson European Rally)	4,877	4,083
	394,614	337,367

Geographical area

Turnover by destination	2007 £'000	2006 £'000
United Kingdom and Republic of Ireland	53,947	46,854
Rest of Europe	318,220	270,914
Rest of World	22,447	19,599
	394,614	337,367

Turnover by origin		
United Kingdom	120,069	99,359
Rest of Europe	274,545	238,008
	394,614	337,367

In the opinion of the directors, the disclosure of segmental analysis of profit and net assets would be seriously prejudicial to the interests of the company and hence has not been disclosed.

3 Investment income

	2007 £'000	2006 £'000
Interest receivable and similar income	1,634	545

4 Interest payable and similar charges

	2007 £'000	2006 £'000
On bank loans and overdrafts	19	11
On loans from group companies	1,514	929
	1,533	940

5 Operating profit

Operating profit is stated after charging/(crediting):

	2007 £'000	2006 £'000
Depreciation	678	755
Exchange (gain)/loss	1,392	3,803
Rental income	(112)	(112)
Operating lease rentals		
- land and buildings	517	517
- motor vehicles	61	33
Auditors' remuneration		
- audit fees	88	75
- non-audit fees	29	45

6 Staff costs

Employee costs during the year amounted to:

	2007 £'000	2006 £'000
Wages and salaries	4,641	5,077
Social security costs	486	618
Other pension costs	438	210
	5,565	5,905

Included in wages and salaries is a total expense of share-based payments of £139,000 (2006: £461,000) of which £27,000 (2006: £ 164,000) arises from transactions accounted for as cash settled share-based payment transactions.

The average monthly number of persons employed by the company during the year was as follows:

	2007 Number	2006 Number
Sales and administration	77	72

Directors' remuneration was as follows:

	2007 £'000	2006 £'000
Emoluments	202	282
Contributions to money purchase pension plan	-	17
	202	299

6 Staff costs (continued)

Pensions

The number of directors who were members of company pension schemes during the year was as follows:

	2007 Number	2006 Number
Money purchase schemes	-	1

Highest paid director

The amounts in respect of the highest paid director are as above. The other director is employed by Harley-Davidson Inc. and is remunerated by that company.

7 Tax on profit on ordinary activities

a) Analysis of tax charge in the year

The tax charge is made up as follows:	2007 £'000	2006 £'000
Current tax		
UK Corporation tax at 30%	9,292	2,341
Tax (over)/under-provided in previous years	(698)	-
Total current tax (7b)	8,594	2,341
Deferred tax		
Origination and reversal of timing differences	125	4,187
Tax on profit/(loss) on ordinary activities	8,719	6,528

7 Tax on profit on ordinary activities (continued)

b) Factors affecting the charge for the year

The tax assessed on the profit/(loss) on ordinary activities for the period is different from the standard rate of corporation. tax in the UK of 30.00% (2006: 30.00%). The differences are reconciled below:

	2007 £'000	2006 £'000
Profit on ordinary activities before taxation	30,474	23,129
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 30% (2006: 30%)	9,143	6,938
Expenses not deductible for tax purposes	317	(460)
Depreciation in excess of capital allowances	(189)	(16)
Other timing differences	21	-
Tax losses utilised in period	-	(4,121)
Adjustments in respect of prior periods	(698)	-
Total current tax	8,594	2,341

c) Factors that may affect future tax charges

The company has trading losses of approximately £Nil (2006: £Nil) which are available for offset against future trading profits arising from the same trade.

d) Deferred tax note (provided)

	Deferred tax asset £ '000
At 01 January 2007	(651)
Profit and loss account	205
Adjustments in respect of prior years	(80)
Deferred tax asset	(526)

7 Tax on profit on ordinary activities (continued)

The provided deferred asset is as follows:	2007 £'000	2006 £'000
Decelerated capital allowances	506	561
Other timing differences	20	90
Deferred tax asset	526	651
Undiscounted net deferred tax liability/(asset)	526	651
Discount	-	-
Discounted net deferred tax liability/(asset)	526	651

8 Tangible fixed assets

	Short leasehold improvements £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Computer equipment and software £'000	Total £'000
Cost					
Beginning of year	2,236	1,863	25	4,829	8,953
Additions	170	29	-	124	323
Disposals	-	-	(25)	(569)	(594)
End of year	2,406	1,892	0	4,384	8,682
Depreciation					
Beginning of year	667	1,321	19	4,387	6,394
Charge	169	188	4	317	678
In respect of disposals	-	-	(23)	(568)	(591)
End of year	836	1,509	0	4,136	6,481
Net book value					
Beginning of year	1,569	542	6	442	2,559
End of year	1,570	383	0	248	2,201

9 Stocks

	2007 £'000	2006 £'000
Motorcycles	34,752	25,975
Parts and accessories	7,593	6,538
	42,345	32,513

10 Debtors

	2007 £'000	2006 £'000
Amounts falling due within one year:		
Trade debtors	31,073	22,133
Amounts owed by group undertakings	9,868	11,305
Deferred tax asset (note 7d)	526	651
Other debtors	482	329
Prepayments and accrued income	1,400	872
	43,349	35,290

11 Creditors: Amounts falling due within one year

	2007 £'000	2006 £'000
Trade creditors	1,437	1,509
Amounts owed to group undertakings	55,998	40,421
Corporation tax	3,522	1,401
Other taxes and social security costs	440	496
Accruals and deferred income	13,871	11,491
	75,268	55,318

12 Creditors: Amounts falling due after one year

	2007 £'000	2006 £'000
Cash settled share-based payment	112	297
	112	297

13 Provisions for liabilities

	2007 £'000	2006 £'000
Movement in warranty provision during the year is as follows:		
At beginning of year	3,660	3,301
Utilised in the year	(4,194)	(3,399)
New provision in the year	4,591	3,758
	4,057	3,660

14 Called-up share capital

	2007 £	2006 £
Authorised		
Ordinary shares of £1 each	100	100
Allotted, called-up and fully-paid		
Ordinary shares of £1 each	100	100

15 Reserves

	Capital Reserve £'000	Profit and loss account £'000
At beginning of year	20,000	14,048
Profit for the year	-	21,755
At end of year	20,000	35,803

16 Reconciliation of shareholders' funds

	2007 £'000	2006 £'000
Profit for the year	21,728	16,601
Reserve (debit)/credit for share based payments	27	164
Net addition to/(reduction in) shareholders' funds	21,755	16,765
Opening shareholders' funds	34,048	17,283
Closing shareholders' funds	55,803	34,048

17 Share-based payments

The details reported below under FRS 20 relate to stock options, restricted stock units (RSUs) and stock appreciation rights (SARs) granted by the parent company, Harley-Davidson Inc, to officers and other management employees of this company for services rendered to this company.

Stock compensation plan

Options granted under a stock compensation plan (Plan) which was approved by the shareholders of Harley-Davidson Inc in April 2004, have an exercise price equal to the fair market value of the underlying stock at the date of grant and vest rateably over a four-year period with the first 25% becoming exercisable one year after the date of grant. The options expire 10 years from the date of grant.

The fair value of equity-settled share options granted is estimated at the date of grant using a lattice-based option valuation model, taking into account the terms and conditions upon which the options are granted.

The following table lists the inputs of the model used for the year ended 31 December 2007.

	2007
Expected average term (in years)	5.1
Expected volatility	21% - 24%
Weighted average volatility	22%
Expected dividend yield	1.4%
Risk-free interest rate	4.7% - 5.1%

There were no equity settled share options granted to employees of the company during 2007.

17 Share-based payments (continued)

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The company has taken advantage of the transitional provisions of FRS 20 in respect of equity settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2007. Therefore the reported staff costs merely reflect stock option programmes since that date.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2007		2006	
	No.	WAEP	No.	WAEP
Outstanding at 1 January	77,214	28.52	200,132	28.52
Granted during the year	-	-	-	-
Forfeited	(25,332)	29.25	(1,978)	27.35
Exercised	(14,817)	32.79	(120,940)	36.20
Outstanding at 31 December	37,065	26.95	77,214	28.52
Exercisable on 31 December	25,410		18,595	

Included in the closing balance are options over 2,580 (2006: 2,580) shares respectively that have not been recognised in accordance with FRS 20 as the options were granted before 7 November 2002. These options have not been subsequently modified and are therefore not required to be accounted for in accordance with FRS 20.

17 Share-based payments (continued)

Stock appreciation rights and restricted stock units

The company has a stock compensation plan under which it may grant equity awards including Restricted Stock Units (RSUs) and Stock Appreciation Rights (SARs). The SARs granted under the Plan vest rateably over a four-year period with the first 25% vesting one year after the date of grant. SARs are settled in cash upon vesting. The cash payment at settlement for each SAR is equal to the difference between the market price of one share of Harley-Davidson, Inc. common stock on the date vested and the market price on the date of grant. The company maintains a liability for all unvested SARs.

RSU's issued under the plan generally vest over 4 years with certain of the shares subject to accelerated vesting should the company meet certain performance conditions. RSUs are settled in cash upon vesting. The cash payment at settlement for each RSU is equal to the market price of one share of Harley-Davidson, Inc common stock. The company maintains a liability for all unvested RSUs and dividend equivalents are paid on all unvested RSUs.

The following table includes award activity during 2007:

	SARs	RSUs
	No.	No.
Beginning	38,956	7,700
Granted	23,032	12,817
Cancelled/Transferred	(14,811)	(3,869)
Vested & exercised	(9,734)	-
Outstanding	37,443	16,618
Period-end weighted-average fair value of awards granted during the period	$11	$47

17 Share-based payments (continued)

The fair value of SAR's is determined using the Black-Scholes options pricing model. The following weighted-average assumptions were used to determine the fair value of SARs as of the end of the period.

	2007
Expected term	2.5
Expected volatility	22.2%
Expected dividend yield	1.4%
Risk free interest rate	4.9%

Expected volatility is based on the historical volatility of Harley-Davidson, Inc. common stock.

The fair value of RSUs is equivalent to the market price of Harley-Davidson, Inc. common stock on the measurement date.

The expense recognised for equity settled share-based payments during the year to 31 December 2007 is £ 27,000 and total liabilities related to equity settled share-based payments is £ 521,000 as at 31 December 2007.

18 Guarantees and other financial commitments

a) Lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Operating leases which expire				
- within one year	-	-	19	-
- within two to five years	-	-	37	51
- in more than five years	547	517	-	-
	547	517	56	51

b) Pensions

The company operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions charged to the profit and loss account amounted to £438,212 (2006: £209,569). At the balance sheet date £Nil was accrued (2006: £Nil) pending a final decision on pension arrangements for senior management who wished to contribute to a state pension scheme of another EU member state.

19 Related party transactions

The company has taken advantage of the exemption available under paragraph 3(c) of Financial Reporting Standard No 8: Related Party Disclosures and accordingly has not disclosed transactions with members of the Harley-Davidson Inc. group. There are no other related party transactions.

20 Ultimate holding company

The ultimate holding company is Harley-Davidson Inc., incorporated in the state of Wisconsin, USA, which heads up the largest group in which the results of the company are consolidated. The consolidated accounts of this company are available to the public and may be obtained from 3700 W Juneau Avenue, PO Box 653, Milwaukee, WI 53201.