

REGISTERED NUMBER: 02358344 (England and Wales)

Strategic Report, Directors' Report and
Financial Statements for the Year Ended 31 December 2014
for
HARLEY-DAVIDSON EUROPE LIMITED

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Contents of the Financial Statements
for the year ended 31 December 2014

	Page
Company information	1
Strategic report	2
Directors' report	4
Statement of directors' responsibilities	5
Independent auditors' report	6
Profit and loss account	7
Balance sheet	8
Notes to the financial statements	9

HARLEY-DAVIDSON EUROPE LIMITED

Company Information
for the year ended 31 December 2014

Directors:	D Bowe R N Lindley
Secretary:	E M Krishok
Registered office:	Oxford Business Park North 6000 Garsington Road Oxford Oxfordshire OX4 2DQ
Registered number:	02358344 (England and Wales)
Auditors:	Ernst & Young LLP Statutory Auditor 400 Capability Green Luton LU1 3LU
Bankers:	The Royal Bank of Scotland N.V. 250 Bishopsgate London EC2M 4AA
Solicitors:	Covington & Burling LLP 265 Strand London WC2R 1BH

HARLEY-DAVIDSON EUROPE LIMITED

Strategic Report
for the year ended 31 December 2014

Principal activity

The principal activity of the company continues to be the importation, distribution and marketing of motorcycles, 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 directly in the UK and Ireland, and through six Limited Risk Distributors appointed to cover the markets of France, Germany and Austria, Italy, Benelux, Switzerland and Spain. These Limited Risk Distributors 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 a network of independent distributors and dealers which are supported from the UK head office.

The directors consider the results to be satisfactory, recognising the continuing volatile economic environment and its impact upon retail behaviour of discretionary spend on premium branded products. 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 company's key performance indicators during the year were as follows:-

	2014 €'000	2013 €'000	Change %
Turnover	573,196	510,055	12
Gross Profit	72,134	65,547	10
Profit before tax	22,487	16,854	33

The increase in turnover was largely driven by a stronger retail environment in Northern Europe and the UK with motorcycle revenues 14% higher than prior year, together with a 7% increase in parts and accessory volumes. Costs continue to be a key focus of effective control.

Principal risks and uncertainties

The company directors monitor risks and uncertainties facing the company. 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 emphasises 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.

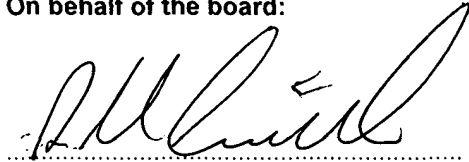
HARLEY-DAVIDSON EUROPE LIMITED

Strategic Report
for the year ended 31 December 2014

Exchange risk

The company is exposed to movements in the Sterling/Euro exchange rate, given that many of the administrative and payroll costs and UK dealer revenues are denominated in Sterling.

On behalf of the board:

A handwritten signature in black ink, appearing to read 'R N Lindley', written over a dotted line.

R N Lindley - Director

Date: 7 September 2015

Directors' Report
for the year ended 31 December 2014

The directors present their report and financial statements for the year ended 31 December 2014.

Dividends

The directors do not recommend the payment of a final ordinary dividend (2013: €Nil). An interim dividend of €35 million was approved and paid during the year.

Directors

The directors shown below have held office during the whole of the period from 1 January 2014 to the date of this report.

D Bowe
R N Lindley

Going concern

The company's business activities, together with factors likely to affect its future development, its financial position, financial risk management objectives and its exposure to price, credit liquidity and cash flow are described in the Strategic Report. The company and group have considerable financial resources with strong existing relationships with both customers and suppliers across different geographical areas. As a consequence the directors believe that the company is well placed to manage its business risk successfully. After making enquiries, the directors have reasonable expectations that the company and the other group members whom the company depends on for supplies, have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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.

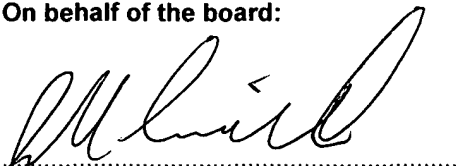
Disclosure of information to the auditors

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 is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

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:



R N Lindley - Director

Date: 7 September 2015

HARLEY-DAVIDSON EUROPE LIMITED

Statement of Directors' Responsibilities for the year ended 31 December 2014

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 Auditors' Report to the Members of
Harley-Davidson Europe Limited

We have audited the financial statements of Harley-Davidson Europe Limited for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statement of directors' responsibilities set out on page five, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic report and the Directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

John Dervley (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Luton

Date: *10 September 2015*

HARLEY-DAVIDSON EUROPE LIMITED

Profit and Loss Account
for the year ended 31 December 2014

	Notes	2014 €'000	2013 €'000
Turnover	2	573,196	510,055
Cost of sales		(501,062)	(444,508)
Gross profit		72,134	65,547
Distribution costs		(9,324)	(10,201)
Administrative expenses		(40,171)	(38,264)
Operating profit	5	22,639	17,082
Interest receivable and similar income	6	115	66
Interest payable and similar charges	7	(267)	(294)
Profit on ordinary activities before taxation		22,487	16,854
Tax on profit on ordinary activities	8	(4,586)	(4,197)
Profit for the financial year		17,901	12,657

Continuing operations

None of the company's activities were acquired or discontinued during the current year or previous year.

Total recognised gains and losses

The company has no recognised gains or losses other than the profits for the current year or previous year.

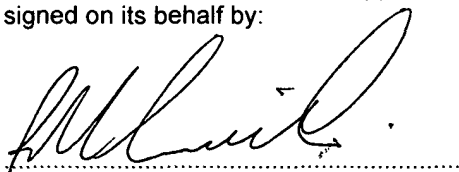
The notes form part of these financial statements

HARLEY-DAVIDSON EUROPE LIMITED (REGISTERED NUMBER: 02358344)

Balance Sheet
31 December 2014

	Notes	2014 €'000	2013 €'000
Fixed assets			
Tangible assets	11	1,902	2,071
Current assets			
Stocks	12	87,355	66,592
Debtors: amounts falling due within one year	13	72,865	75,362
Cash at bank and in hand		27,796	34,524
		<u>188,016</u>	<u>176,478</u>
Creditors			
Amounts falling due within one year	14	(118,621)	(89,771)
Net current assets		<u>69,395</u>	<u>86,707</u>
Total assets less current liabilities		<u>71,297</u>	<u>88,778</u>
Creditors			
Amounts falling due after more than one year	15	(4,651)	(5,189)
Provisions for liabilities	17	(1,793)	(1,637)
Net assets		<u>64,853</u>	<u>81,952</u>
Capital and reserves			
Called up share capital	18	-	-
Reserves	19	31,776	31,776
Profit and loss account	19	33,077	50,176
Shareholders' funds	23	<u>64,853</u>	<u>81,952</u>

The financial statements were approved by the Board of Directors on 7 September 2015 and were signed on its behalf by:



R N Lindley - Director

The notes form part of these financial statements

1. **Accounting policies**

Basis of preparation

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.

Functional currency

The company covers Europe, Middle East and Africa (EMEA) region and sells into the major European markets where the Euro is the domestic currency. Euro denominated transactions represent the majority of all transactions.

Accordingly, the company has adopted the Euro as its reporting currency.

Turnover

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

Revenue from the sale of goods is recognised when sufficient risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

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
Computer equipment and software	- 3 to 4 years

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.

Taxation

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

Warranties for products

Product warranty costs are provided for, based upon the estimated warranty cost per unit sold. Warranty costs for Limited Risk Distributors are also funded by the company.

1. **Accounting policies - continued**

Foreign currency

Transactions denominated in foreign currencies are recorded in the functional 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.

Leased assets

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

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable.

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 €6,000 (per item) will normally be expensed as incurred.

Cash-settled share based payments

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.

HARLEY-DAVIDSON EUROPE LIMITED

Notes to the Financial Statements - continued
for the year ended 31 December 2014

2. Turnover

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

	2014	2013
Class of Business	€'000	€'000
Motorcycle sales	465,224	408,000
Parts and accessories	99,811	93,516
Other (including Harley-Davidson European Rally)	8,161	8,539
	<u>573,196</u>	<u>510,055</u>

Geographical Area

	2014	2013
Turnover by destination	€'000	€'000
United Kingdom and Republic of Ireland	64,732	52,338
Rest of Europe	461,572	421,423
Rest of World	46,892	36,294
	<u>573,196</u>	<u>510,055</u>

Turnover by origin

	2014	2013
United Kingdom	184,194	158,557
Rest of Europe	389,002	351,498
	<u>573,196</u>	<u>510,055</u>

3. Staff costs

	2014	2013
	€'000	€'000
Wages and salaries	12,907	13,374
Social security costs	964	954
Other pension costs	612	560
	<u>14,483</u>	<u>14,888</u>

The average monthly number of employees during the year was as follows:

	2014	2013
Sales and administration	<u>128</u>	<u>127</u>

HARLEY-DAVIDSON EUROPE LIMITED

Notes to the Financial Statements - continued
for the year ended 31 December 2014

4. Directors' emoluments

Directors' remuneration was as follows:

	2014 €'000	2013 €'000
Emoluments	803	1,306
Long Term Incentive Payments	109	121
Contributions to money purchase pension plan	79	62
	<u>991</u>	<u>1,489</u>

Pensions

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

	2014	2013
Money purchase schemes	<u>2</u>	<u>2</u>

Highest paid director

The total amount payable in respect of emoluments was €603,000 (2013: €1,063,000). The total amount payable in respect of long term incentive payments was €109,000 (2013: €121,000). Company pension contributions of €53,000 (2013: €59,000) were made to a money purchase pension scheme on their behalf.

5. Operating profit

The operating profit is stated after charging:

	2014 €'000	2013 €'000
Depreciation	992	961
Exchange (gain)/loss	(884)	818
Operating lease rentals		
- land and buildings	688	657
- motor vehicles	173	132
Auditors' remuneration		
- audit fees	124	108
- non-audit fees	16	29
Warranty expenses	<u>7,394</u>	<u>6,419</u>

6. Interest receivable and similar income

	2014 €'000	2013 €'000
Interest receivable and similar income	<u>115</u>	<u>66</u>

7. Interest payable and similar charges

	2014 €'000	2013 €'000
Bank interest	23	15
Interest payable - intercompany	<u>244</u>	<u>279</u>
	<u>267</u>	<u>294</u>

HARLEY-DAVIDSON EUROPE LIMITED

Notes to the Financial Statements - continued
for the year ended 31 December 2014

8. Taxation

Analysis of the tax charge

The tax charge on the profit on ordinary activities for the year was as follows:

	2014 €'000	2013 €'000
Current tax:		
UK corporation tax	4,132	4,011
Deferred tax	454	186
Tax on profit on ordinary activities	<u>4,586</u>	<u>4,197</u>

UK corporation tax has been charged at 21.50% (2013 - 23.25%).

Factors affecting the tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2014 €'000	2013 €'000
Profit on ordinary activities before tax	<u>22,487</u>	<u>16,854</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21.500% (2013 - 23.250%)	4,835	3,919
Effects of:		
Expenses not deductible for tax purposes	97	148
Capital allowances in excess of depreciation	(88)	(51)
Other timing differences	(110)	(28)
Adjustments in respect of prior periods	<u>(602)</u>	<u>23</u>
Current tax charge	<u>4,132</u>	<u>4,011</u>

Factors that may affect future tax charges

Legislation was enacted during 2013 to reduce the standard rate of UK Corporation Tax to 21% from 1 April 2014 and to 20% from 1 April 2015. Since this had been enacted by the balance sheet date, the deferred tax balances have been calculated at 20%.

9. Dividends

	2014 €'000	2013 €'000
Ordinary shares of GBP 1 each		
Interim	<u>35,000</u>	<u>-</u>

HARLEY-DAVIDSON EUROPE LIMITED

Notes to the Financial Statements - continued
for the year ended 31 December 2014

10. Deferred tax

	2014 €'000	2013 €'000
The provided deferred tax asset is as follows:		
Capital allowances in advance of depreciation	93	175
Other short-term timing differences	692	1,064
	<u>785</u>	<u>1,239</u>

The movement in the deferred tax asset in the year is as follows:

	€'000
At 1 January 2014	1,239
Deferred tax charged to the profit and loss account	454
	<u>785</u>
At 31 December 2014	<u>785</u>

11. Tangible fixed assets

	Improvements to property €'000	Fixtures and fittings €'000	Computer equipment €'000	Totals €'000
Cost				
At 1 January 2014	4,338	2,939	2,459	9,736
Additions	1	113	709	823
Disposals	-	(80)	(279)	(359)
	<u>4,339</u>	<u>2,972</u>	<u>2,889</u>	<u>10,200</u>
At 31 December 2014	<u>4,339</u>	<u>2,972</u>	<u>2,889</u>	<u>10,200</u>
Depreciation				
At 1 January 2014	3,215	2,641	1,809	7,665
Charge for year	362	185	445	992
Eliminated on disposal	-	(80)	(279)	(359)
	<u>3,577</u>	<u>2,746</u>	<u>1,975</u>	<u>8,298</u>
At 31 December 2014	<u>3,577</u>	<u>2,746</u>	<u>1,975</u>	<u>8,298</u>
Net book value				
At 31 December 2014	<u>762</u>	<u>226</u>	<u>914</u>	<u>1,902</u>
At 31 December 2013	<u>1,123</u>	<u>298</u>	<u>650</u>	<u>2,071</u>

12. Stocks

	2014 €'000	2013 €'000
Motorcycles	73,635	52,189
Parts and accessories	13,720	14,403
	<u>87,355</u>	<u>66,592</u>

HARLEY-DAVIDSON EUROPE LIMITED

Notes to the Financial Statements - continued
for the year ended 31 December 2014

13. Debtors: amounts falling due within one year

	2014	2013
	€'000	€'000
Trade debtors	34,875	27,998
Amounts owed by group undertakings	36,210	45,025
Other debtors	344	718
Deferred Tax	785	1,239
Prepayments	651	382
	<u>72,865</u>	<u>75,362</u>

14. Creditors: amounts falling due within one year

	2014	2013
	€'000	€'000
Trade creditors	2,305	3,576
Amounts owed to group undertakings	94,838	68,425
Corporation Tax	2,125	2,389
Other taxes and social security costs	674	714
Accruals and deferred income	18,679	14,667
	<u>118,621</u>	<u>89,771</u>

15. Creditors: amounts falling due after more than one year

	2014	2013
	€'000	€'000
Cash settled share-based payments	<u>4,651</u>	<u>5,189</u>

16. Operating lease commitments

The following operating lease payments are committed to be paid within one year:

	Land and buildings		Other operating leases	
	2014	2013	2014	2013
	€'000	€'000	€'000	€'000
Expiring:				
Within one year	-	-	26	27
In two to five years	703	655	133	125
	<u>703</u>	<u>655</u>	<u>159</u>	<u>152</u>

17. Provisions for liabilities

	2014	2013
	€'000	€'000
Other provisions		
Warranty provision	<u>1,793</u>	<u>1,637</u>

HARLEY-DAVIDSON EUROPE LIMITED

Notes to the Financial Statements - continued
for the year ended 31 December 2014

17. Provisions for liabilities - continued

	Other provisions €'000
Balance at 1 January 2014	1,637
Provided during year	7,394
Utilised during year	(7,238)
Balance at 31 December 2014	<u>1,793</u>

18. Called up share capital

Allotted, issued and fully paid:		Nominal value:	2014	2013
Number:	Class:		€	€
100	Ordinary	GBP 1	<u>136</u>	<u>136</u>

19. Reserves

	Profit and loss account €'000	Reserves €'000	Totals €'000
At 1 January 2014	50,176	31,776	81,952
Profit for the year	17,901	-	17,901
Dividends	(35,000)	-	(35,000)
At 31 December 2014	<u>33,077</u>	<u>31,776</u>	<u>64,853</u>

20. Pension commitments

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 €612,000 (2013: €560,000). At the balance sheet date €94,000 was accrued (2013: €130,000).

21. 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.

22. 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.

HARLEY-DAVIDSON EUROPE LIMITED

Notes to the Financial Statements - continued
for the year ended 31 December 2014

23. Reconciliation of movements in shareholders' funds

	2014 €'000	2013 €'000
Profit for the financial year	17,901	12,657
Dividends	(35,000)	-
Net (reduction)/addition to shareholders' funds	(17,099)	12,657
Opening shareholders' funds	81,952	69,295
Closing shareholders' funds	64,853	81,952

24. Cash settled share-based payments

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

Stock appreciation rights and restricted stock units

The company has a stock compensation plan under which it may grant equity awards including Stock Appreciation Rights (SARs) and Restricted Stock Units (RSUs).

SARs granted under the Plan vest rateably over a three year period with the first 33.33% vesting one year after the date of grant. SARs are settled in cash upon exercise. 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.

RSUs issued under the plan vest over three years and 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 2014:

	SARs No.	RSUs No.
Beginning	99,561	40,633
Granted	9,463	17,160
Cancelled/Transferred	4,730	(7,021)
Vested & exercised	(20,347)	(17,250)
Outstanding	<u>93,407</u>	<u>33,522</u>
Period-end weighted-average fair value of awards granted during the period	\$14	\$66

The fair value of SARs is determined using a lattice-based valuation model. The following weighted-average assumptions were used to determine the fair value of SARs as of the end of the period.

	2014	2013
Expected term	3.7 - 5.4	3.5 - 4.3
Expected volatility	25% - 31%	24% - 32%
Expected dividend yield	1.7%	1.2%
Risk free interest rate	0.0% - 2.3%	0.1% - 3.0%

Expected volatility is based on a weighted average of implied and 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 grant date.