

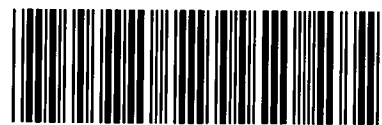
Registered number: 02358344

# **HARLEY-DAVIDSON EUROPE LIMITED**

## **Directors' Report and Financial Statements**

**For the year ended 31 December 2017**

TUESDAY



A08 \*A7F78L3T\* 25/09/2018 #20  
COMPANIES HOUSE

## **HARLEY-DAVIDSON EUROPE LIMITED**

### **Company Information**

<b>Directors</b>	C Thieme M D McAllister
<b>Registered number</b>	02358344
<b>Registered office</b>	Oxford Business Park North 6000 Garsington Road Oxford Oxfordshire OX4 2DQ United Kingdom
<b>Independent auditors</b>	Ernst & Young LLP Statutory Auditor Apex Plaza Forbury Road Reading RG1 1YE
<b>Bankers</b>	The Royal Bank of Scotland N.V. 250 Bishopsgate London EC2M 4AA
<b>Solicitors</b>	Covington & Burling LLP 265 Strand London WC2R 1BH

# **HARLEY-DAVIDSON EUROPE LIMITED**

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## HARLEY-DAVIDSON EUROPE LIMITED

### Strategic Report For the year ended 31 December 2017

#### 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:-

	2017	2016	Change
	€'000	€'000	%
Turnover	608,607	646,641	(6)
Gross Profit	68,767	72,808	(6)
Profit before tax	19,933	20,155	(3)

The year-over-year decline in revenue was driven by a reduction in motorcycle unit sales of 2%, and further reduced by a greater mix of sales of lower priced motorcycles, owing to the strategic introduction and focus on new lower displacement product segments. Furthermore, the 2016 comparator was a year with a particularly strong mix of higher priced, higher displacement motorcycles, owing to the strategic focus and product introductions of that year and prior.

The parts and accessories product areas achieved a modest 1% growth in year-over-year revenues, whilst the smaller Motorclothes segment saw a 1% decline in revenues.

In addition to the above, Profit before tax was impacted by €4.9m owing largely to the weakening of key sales receivables currencies during the year including GBP, South African Rand and Russian Rubles.

Costs continue to be a key focus of effective control and following Global organisational design and alignment activities during 2016, including a one-time severance related restructuring cost of €1,965,000, operating expenditures are lower than 2016 by 7% in 2017.

## HARLEY-DAVIDSON EUROPE LIMITED

### Strategic Report (continued) For the year ended 31 December 2017

#### European Union tariffs

The European Union has enacted tariffs on various U.S.-manufactured products, including Harley-Davidson motorcycles. These tariffs, which became effective June 22, 2018, were imposed in response to the tariffs the U.S. imposed on steel and aluminium exported from the EU to the U.S.

Consequently, EU tariffs on Harley-Davidson motorcycles exported from the U.S. have increased from 6% to 31%. Harley-Davidson expects these tariffs will result in an incremental cost of approximately €1,900 (\$2,200) per average motorcycle exported from the U.S. to the EU.

Harley-Davidson believes the tremendous cost increase, if passed onto its dealers and retail customers, would have an immediate and lasting detrimental impact to its business in the region, reducing customer access to Harley-Davidson products and negatively impacting the sustainability of its dealers' businesses. Therefore, Harley-Davidson will not raise its manufacturer's suggested retail prices or wholesale prices to its dealers to cover the costs of the retaliatory tariffs. Harley-Davidson, Inc. has begun to explore various cost reduction strategies to be able to absorb and/or mitigate the impact of these duty increases going forward.

#### 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.

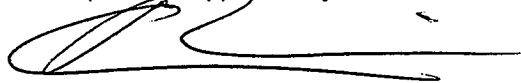
##### Exchange risk

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.

##### Political risk

The United Kingdom's pending exit from the European Union continues to be of principal interest to the company. The company continues to take an active interest in the development of political policy in this area; assessing and planning for a range of options that may present themselves in differing scenarios in the future.

This report was approved by the board and signed on its behalf.



.....  
**C Thieme**  
Director

Date: 20.09.2018

## **HARLEY-DAVIDSON EUROPE LIMITED**

### **Directors' Report For the year ended 31 December 2017**

The directors present their report and the financial statements for the year ended 31 December 2017.

#### **Results and dividends**

There were no dividends in 2017 (2016: €NIL).

On 31st January 2018 the directors proposed and declared a dividend of €38,000,000 representing €380,000 per ordinary share.

#### **Directors**

The directors who served during the year were:

C Thieme  
M D McAllister

#### **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 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 auditors**

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

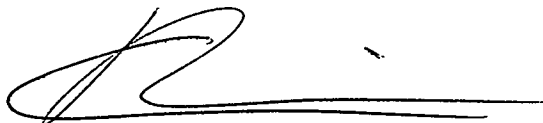
#### **Auditors**

Under section 487(2) of the Companies Act 200, Ernst & Young LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

**HARLEY-DAVIDSON EUROPE LIMITED**

**Directors' Report (continued)  
For the year ended 31 December 2017**

This report was approved by the board and signed on its behalf.



.....  
**C Thieme**

Director

Date:

20.09.2018

## **HARLEY-DAVIDSON EUROPE LIMITED**

### **Directors' Responsibilities Statement For the year ended 31 December 2017**

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 for the Company's financial statements 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 to 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.

The company is committed to ensuring our operations and supply chains are free from involuntary labor and human trafficking. This commitment applies to all Harley-Davidson Europe Limited employees, officers and directors as well as all individuals and entities doing business with and for Harley-Davidson Europe Limited.



## **HARLEY-DAVIDSON EUROPE LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Harley-Davidson Europe LIMITED**

#### **Opinion**

We have audited the financial statements of Harley-Davidson Europe Limited for the year ended 31st December 2017 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31st December 2017 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.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the

## **HARLEY-DAVIDSON EUROPE LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Harley-Davidson Europe LIMITED (continued)**

work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

#### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

#### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## HARLEY-DAVIDSON EUROPE LIMITED

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Harley-Davidson Europe LIMITED (continued)

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Use of our report

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 auditor's 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.



David Brown (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Reading

Date: 21-09-2018

# HARLEY-DAVIDSON EUROPE LIMITED

## Statement of Comprehensive Income For the year ended 31 December 2017

	Note	2017 €000	2016 €000
Turnover	3	608,607	646,641
Cost of sales		(539,840)	(573,833)
<b>Gross profit</b>		<b>68,767</b>	<b>72,808</b>
Distribution costs		(13,092)	(11,473)
Administrative expenses		(35,596)	(41,061)
<b>Operating profit</b>	6	<b>20,079</b>	<b>20,274</b>
Interest receivable and similar income	7	172	132
Interest payable and expenses	8	(318)	(251)
<b>Profit before tax</b>		<b>19,933</b>	<b>20,155</b>
Tax on profit	10	(3,367)	(3,970)
<b>Profit for the financial year</b>		<b>16,566</b>	<b>16,185</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>16,566</b>	<b>16,185</b>

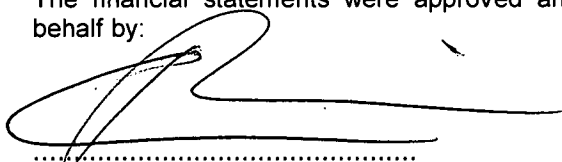
The notes on pages 12 to 26 form part of these financial statements.

**HARLEY-DAVIDSON EUROPE LIMITED**  
Registered number:02358344

**Statement of Financial Position**  
**As at 31 December 2017**

	Note	2017 €000	2016 €000
<b>Fixed assets</b>			
Intangible assets	11	-	39
Tangible assets	12	450	510
		<u>450</u>	<u>549</u>
<b>Current assets</b>			
Stocks	13	80,157	80,578
Debtors	14	133,664	118,958
Cash at bank and in hand		26,964	56,389
		<u>240,785</u>	<u>255,925</u>
Creditors: amounts falling due within one year	15	(125,799)	(156,035)
<b>Net current assets</b>		<u>114,986</u>	<u>99,890</u>
<b>Total assets less current liabilities</b>		<u>115,436</u>	<u>100,439</u>
Creditors: amounts falling due after more than one year	16	(765)	(2,363)
Provision for liabilities	18	(2,027)	(1,998)
<b>Net assets</b>		<u><u>112,644</u></u>	<u><u>96,078</u></u>
<b>Capital and reserves</b>			
Called up share capital	19	-	-
Capital reserves		31,776	31,776
Retained earnings		80,868	64,302
		<u><u>112,644</u></u>	<u><u>96,078</u></u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:



.....  
**C Thieme**  
Director

Date: 20.09.2018

The notes on pages 12 to 26 form part of these financial statements.

# HARLEY-DAVIDSON EUROPE LIMITED

## Statement of Changes in Equity For the year ended 31 December 2017

	Reserves €000	Retained earnings €000	Total equity €000
At 1 January 2016	31,776	48,117	79,893
Comprehensive income for the year			
Total comprehensive income for the year	-	16,185	16,185
At 1 January 2017	31,776	64,302	96,078
Comprehensive income for the year			
Total comprehensive income for the year	-	16,566	16,566
At 31 December 2017	31,776	80,868	112,644

Capital reserves represent a capital contribution by the parent company in 1997, in order to support the expansion plans of the company.

## **HARLEY-DAVIDSON EUROPE LIMITED**

### **Notes to the Financial Statements For the year ended 31 December 2017**

#### **1. General information**

Harley-Davidson Europe Limited is a private company, limited by shares, registered in England and Wales. The Company's registered number and registered office address can be found on the Company Information page.

#### **2. Accounting policies**

##### **2.1 Basis of preparation of financial statements**

Harley-Davidson Europe Limited is a company incorporated in the United Kingdom under the Companies Act.

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The financial statements are prepared in Euros which is the functional currency of the Company. As explained in the Directors' Report, the directors believe it appropriate to continue to adopt the going concern basis in preparing the financial statements.

##### **2.2 Financial reporting standard 102 - reduced disclosure exemptions**

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Harley-Davidson Inc. as at 31 December 2017 and these financial statements may be obtained from 3700 W Juneau Avenue, PO Box 653, Milwaukee, WI 53201.

##### **2.3 Turnover**

Turnover comprises the value of sales (excluding VAT and Trade Discounts, relating to retrospective credits accrued or issued in line with performance incentive plans) 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.

##### **2.4 Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

## **HARLEY-DAVIDSON EUROPE LIMITED**

### **Notes to the Financial Statements For the year ended 31 December 2017**

#### **2. Accounting policies (continued)**

##### **2.4 Tangible fixed assets (continued)**

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

##### **2.5 Impairment of non-financial assets**

The Company assessed at each reporting date whether an asset may be impaired. If any indication arises the relevant asset is assessed. If the carrying amount is greater than the recoverable amount, the amount is impaired to profit or loss.

##### **2.6 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.

##### **2.7 Taxation**

Taxation for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised as other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.



## **HARLEY-DAVIDSON EUROPE LIMITED**

### **Notes to the Financial Statements For the year ended 31 December 2017**

#### **2. Accounting policies (continued)**

##### **2.8 Warranties for products**

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

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.

The impact of the time value of money on warranty provisions is not material and therefore the provision is not discounted.

##### **2.9 Foreign currency**

###### **Functional and presentation currency**

The Company's functional and presentational currency is Euros.

###### **Transactions and balances**

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 year end 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 for the financial year.

##### **2.10 Leased assets**

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

##### **2.11 Pensions**

###### **Defined contribution pension plan**

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

The Company operates a defined contribution pension scheme. Contributions are charged to the Statement of Comprehensive Income as they become payable.

## **HARLEY-DAVIDSON EUROPE LIMITED**

### **Notes to the Financial Statements For the year ended 31 December 2017**

#### **2. Accounting policies (continued)**

##### **2.12 Intangible assets**

The costs of acquiring and developing software that is not integral to the related hardware is capitalised separately as an intangible asset. This does not include internal website development and maintenance costs which are expensed as incurred unless representing a commercial advantage leading to future economic benefit. Capitalised software costs include purchases of materials and services and payroll-related costs of employees directly involved in the project.

These costs are amortised to profit or loss using the straight-line method over their estimated useful lives of three years.

The amortisation period and amortisation method of intangible assets are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed three years.

##### **2.13 Interest Receivable**

Finance income is accounted for on an accruals basis and credited to the Statement of Comprehensive Income when receivable.

##### **2.14 Short term debtors and creditors**

Short term debtors and creditors with no stated interest rate are receivable or payable within one year are recorded at transaction price.

##### **2.15 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 year end 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 year end date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the year end date. Changes in the carrying amount for the liability are recognised in profit or loss for the period.

##### **2.16 Judgements and key sources of estimation uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the year end date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that the actual outcomes could differ from these estimates. The following judgements have had the most significant effect on amounts recognised in the financial statements

**Taxation** - Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing of future taxable profits together with an assessment of future tax planning strategies.

**Provisions** - Management assesses the carrying value of debtors, stock and warranty balances based on past losses, current trading patterns and anticipated future events. Furthermore, management assess the need of providing for ongoing legal disputes on a case by case basis, also incorporating assessments of legal counsel.

## HARLEY-DAVIDSON EUROPE LIMITED

### Notes to the Financial Statements For the year ended 31 December 2017

#### 3. Turnover

An analysis of turnover by class of business is as follows:

	2017 €000	2016 €000
Motorcycle Sales	486,057	525,015
Parts and accessories	114,718	114,023
Other (including Harley-Davidson European Rally)	7,832	7,603
	<u>608,607</u>	<u>646,641</u>

Analysis of turnover by country of destination:

	2017 €000	2016 €000
United Kingdom	71,937	74,387
Rest of Europe	503,282	535,552
Rest of the world	33,388	36,702
	<u>608,607</u>	<u>646,641</u>

#### 4. Employees

Staff costs, including directors' remuneration, were as follows:

	2017 €000	2016 €000
Wages and salaries	7,821	14,147
Social security costs	774	953
Other pension costs	454	616
	<u>9,049</u>	<u>15,716</u>

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

	2017 No.	2016 No.
Sales and administration	<u>105</u>	<u>117</u>

# HARLEY-DAVIDSON EUROPE LIMITED

## Notes to the Financial Statements For the year ended 31 December 2017

### 5. Directors' remuneration

	2017 €000	2016 €000
Directors' emoluments	287	1,893
Directors gains on long term incentive schemes	-	83
Company contributions to defined contribution pension schemes	19	48
	<u>306</u>	<u>2,024</u>

During the year retirement benefits were accruing to 1 director (2016 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of €287,000 (2016 - €1,676,000).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to €19,000 (2016 - €14,000).

### 6. Operating profit

The operating profit is stated after charging:

	2017 €000	2016 €000
Depreciation	393	702
Amortisation of intangibles	39	289
Exchange loss	4,854	954
Operating lease rentals		
- land and buildings	621	708
- motor vehicles	117	198
Auditors' remuneration		
- Audit fees	105	94
- Non-audit fees	-	-
Warranty expenses	7,947	7,829
Restructuring costs	182	1,965
	<u>182</u>	<u>1,965</u>

### 7. Interest receivable and similar income

	2017 €000	2016 €000
Interest receivable and similar income	172	132
	<u>172</u>	<u>132</u>

# HARLEY-DAVIDSON EUROPE LIMITED

## Notes to the Financial Statements For the year ended 31 December 2017

### 8. Interest payable and similar expenses

	2017 €000	2016 €000
Bank interest	189	63
Interest payable - Intercompany	129	188
	<u>318</u>	<u>251</u>

### 9. Restructuring costs

	2017 €000	2016 €000
Exceptional administration items	182	1,965
	<u>182</u>	<u>1,965</u>

The exceptional items in 2016 were restructuring costs which represented one-time severance related costs, in line with a global organisational design and alignment project. Further local restructuring activity took place, on a smaller scale, in 2017 as the organisation continued to align and maximise resource efficiency and effectiveness.

### 10. Taxation

	2017 €000	2016 €000
<b>Corporation tax</b>		
Current tax on profits for the year	3,143	3,977
<b>Total current tax</b>	<u>3,143</u>	<u>3,977</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	224	(7)
<b>Total deferred tax</b>	<u>224</u>	<u>(7)</u>
<b>Taxation on profit on ordinary activities</b>	<u>3,367</u>	<u>3,970</u>

# HARLEY-DAVIDSON EUROPE LIMITED

## Notes to the Financial Statements For the year ended 31 December 2017

### 10. Taxation (continued)

#### Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 €000	2016 €000
Profit on ordinary activities before tax	19,933	20,155
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	3,837	4,031
<b>Effects of:</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	(30)	13
Capital allowances for year in excess of depreciation	(40)	-
Adjustments to tax charge in respect of prior periods	(400)	(74)
<b>Total tax charge for the year</b>	<b>3,367</b>	<b>3,970</b>

#### Factors that may affect future tax charges

The main rate of corporation tax was reduced to 19% with effect from 1 April 2017. The rate will reduce further to 17% from 1 April 2020. This rate reduction was substantively enacted on 6 September 2016 so deferred tax has been recognised at 17% at 31 December 2017.

# HARLEY-DAVIDSON EUROPE LIMITED

## Notes to the Financial Statements For the year ended 31 December 2017

### 11. Intangible fixed assets

	Computer software €000
<b>Cost</b>	
At 1 January 2017	1,214
At 31 December 2017	<u>1,214</u>
<b>Amortisation</b>	
At 1 January 2017	1,175
Charge for the year	39
At 31 December 2017	<u>1,214</u>
<b>Net book value</b>	
At 31 December 2017	<u>-</u>
At 31 December 2016	<u>39</u>

# HARLEY-DAVIDSON EUROPE LIMITED

## Notes to the Financial Statements For the year ended 31 December 2017

### 12. Tangible fixed assets

	Improvements to property €000	Motor vehicles €000	Fixtures and fittings €000	Computer equipment €000	Total €000
<b>Cost</b>					
At 1 January 2017	4,339	20	3,060	1,318	8,737
Additions	21	10	55	147	233
Disposals	(2)	(3)	(904)	(210)	(1,119)
At 31 December 2017	<u>4,358</u>	<u>27</u>	<u>2,211</u>	<u>1,255</u>	<u>7,851</u>
<b>Depreciation</b>					
At 1 January 2017	4,339	10	2,871	1,007	8,227
Charge for the year on owned assets	1	8	95	189	293
Disposals	(2)	(3)	(904)	(210)	(1,119)
At 31 December 2017	<u>4,338</u>	<u>15</u>	<u>2,062</u>	<u>986</u>	<u>7,401</u>
<b>Net book value</b>					
At 31 December 2017	<u>20</u>	<u>12</u>	<u>149</u>	<u>269</u>	<u>450</u>
At 31 December 2016	<u>-</u>	<u>10</u>	<u>189</u>	<u>311</u>	<u>510</u>

### 13. Stocks

	2017 €000	2016 €000
Motorcycles	64,256	66,582
Parts and accessories	15,901	13,996
	<u>80,157</u>	<u>80,578</u>
	2017 €000	2016 €000
Cost of stocks recognised as an expense (included in cost of sales)	520,975	533,840
Including: - write-down of stocks to net realisable value	<u>1,156</u>	<u>1,183</u>



# HARLEY-DAVIDSON EUROPE LIMITED

## Notes to the Financial Statements For the year ended 31 December 2017

### 14. Debtors

	2017 €000	2016 €000
Trade debtors	37,494	36,155
Amounts owed by group undertakings	93,880	81,067
Other debtors	1,064	415
Prepayments and accrued income	922	793
Deferred taxation	304	528
	<u>133,664</u>	<u>118,958</u>

### 15. Creditors: Amounts falling due within one year

	2017 €000	2016 €000
Bank overdrafts	21	-
Trade creditors	3,774	4,962
Amounts owed to group undertakings	104,955	132,866
Corporation tax	952	2,241
Other taxation and social security	1,311	1,269
Accruals and deferred income	14,786	14,697
	<u>125,799</u>	<u>156,035</u>

### 16. Creditors: Amounts falling due after more than one year

	2017 €000	2016 €000
Cash settled share-based payments	765	2,363
	<u>765</u>	<u>2,363</u>

### 17. Deferred taxation

	2017 €000
At 1 January 2017	528
Prior year adjustments	(9)
Temporary differences	(215)
<b>At 31 December 2017</b>	<u><b>304</b></u>

# HARLEY-DAVIDSON EUROPE LIMITED

## Notes to the Financial Statements For the year ended 31 December 2017

### 17. Deferred taxation (continued)

The deferred tax asset is made up as follows:

	2017 €000	2016 €000
Accelerated capital allowances	164	162
Other short-term timing differences	140	366
	<u>304</u>	<u>528</u>

### 18. Provisions for liabilities

	2017 €000	2016 €000
Warranty provision	2,027	1,998
	<u>2,027</u>	<u>1,998</u>
		Other provisions €000
Balance at 1 January 2017		1,998
Initial provision : 2017 sales		1,944
Released : 2017 sales		(481)
Released : prior years sales		(1,434)
		<u>2,027</u>

All new motorcycles are sold with a two year manufacturer's warranty as standard. A provision is recognised at the point of sale, reflecting the average expected costs to fulfil the warranty obligations, based on management assessment of past claims and current expectations. The provision is released to the SOCI on a straight line basis over 24 months, with warranty expenses incurred charged to the SOCI in offset. Parts, accessories and Motorclothes products also derive warranty obligations and are accounted for in a corresponding way.

### 19. Share capital

	2017 €	2016 €
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	<u>136</u>	<u>136</u>

## HARLEY-DAVIDSON EUROPE LIMITED

### Notes to the Financial Statements For the year ended 31 December 2017

#### 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 Statement of Comprehensive Income amounted to €454,000 (2016: €616,000). At the Year-end €52,000 was accrued (2016: €79,000).

#### 21. Leasing agreements

At 31 December 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 €000	2016 €000
Not later than 1 year	800	476
Later than 1 year and not later than 5 years	2,318	2,735
	<u>3,118</u>	<u>3,211</u>

#### 22. 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.

#### 23. Related party transactions

The Company has taken advantage of the exemption available under section 33.1a of FRS 102: Related Party Disclosures and accordingly has not disclosed transactions with wholly owned members of the Harley-Davidson Inc. group. There are no other related party transactions.

# HARLEY-DAVIDSON EUROPE LIMITED

## Notes to the Financial Statements For the year ended 31 December 2017

### 24. Cash settled share-based payments

The details reported below 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. No SARs were granted in 2017.

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 2017 and 2016:

	SARs No. 2017	RSUs No. 2017	SARs No. 2016	RSUs No. 2016
Outstanding at the beginning of the year	38,128	46,747	102,776	32,817
Granted during the year	-	10,406	0	33,417
Cancelled/Transferred during the year	(12,566)	(24,034)	0	(3,078)
Vested & exercised during the year	(19,008)	(13,205)	(64,648)	(16,409)
<b>Outstanding at the end of the year</b>	<b>6,554</b>	<b>19,914</b>	<b>38,128</b>	<b>46,747</b>
Period-end weighted-average fair value of awards granted during the period	N/A	\$51	N/A	\$58

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.

	2017	2016
Expected Term	5.7	5.2 - 5.7
Expected volatility	28% - 31%	28% - 31%
Expected dividend growth rate	2.9%	2.4%
Risk-free interest rate	1.3% - 2.5%	0.5% - 2.6%

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.

## **HARLEY-DAVIDSON EUROPE LIMITED**

### **Notes to the Financial Statements For the year ended 31 December 2017**

#### **25. Post balance sheet events**

On 31st January 2018 the directors proposed and declared a dividend of €38,000,000 representing €380,000 per ordinary share.