Registered No: 00974979

Husqvarna UK Limited

Report and Financial Statements

31st December 2018

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G N Broberg
T Burke

Company Secretary
R Hall

Independent Auditor
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Strategic report for the year ended 31st December 2018

The directors present their strategic report on the company for the year ended 31st December 2018.

Review of the business

Husqvarna UK Limited is an operating subsidiary of Husqvarna Group.

Husqvarna Group is a global leading producer of outdoor power products for forest, park and garden care. Products include chainsaws, trimmers, robotic lawn mowers and ride-on lawn mowers. The Group is also the European leader in garden watering products and a global leader in cutting equipment and diamond tools for the construction and stone industries. Husqvarna UK Limited has two principal activities. Firstly, the Company manufactures grass cutting and garden machinery for the Group for sale both in the UK and internationally. Secondly, the Company sells group products and solutions via UK dealers and retailers to both consumers and professional users of forest and garden and construction equipment. The Group operates via three distinct divisions*: Husqvarna, Gardena and Construction.

Results and performance

The results of the Company for the year, as set out on pages 11 and 12, show a profit on ordinary activities before tax of £3,954,000 (2017: £4,701,000). The shareholders' funds of the Company total £31,493,000. (2017: £27,241,000).

The 2018 results show:-

- Turnover increased by 11.8% with a continued increase in export sales of robotic lawnmowers manufactured in the Aycliffe production facility. However, the operating profit reduced from £5.0m to £4.2m due to adverse foreign exchange movements and an exceptional past service cost of £1.5m in relation to the Defined Benefit Pension Scheme.

The directors are satisfied with the Company's trading performance during the year and with the financial position at the year end.

Business environment

Forest and garden products, which represent the majority of the Company's total sales, are highly seasonal due to end-customer buying patterns. Garden products are mainly used during the spring and summer, which in the northern hemisphere means that sales to group and external customers normally culminates during the second quarter. Demand for forestry products tends to be somewhat higher during the second half of the year.

The increase in sales in 2018, was most notable within the Husqvarna division. The European market for Robotic lawnmowers continued to increase, which had a significant impact on the production demand and output from the UK factory.

Strategic report for the year ended 31st December 2018

Strategy

Husqvarna Group's ambition is market leadership by 2020 in a wider perspective than just market share.

The key Strategic priorities are: Continued Operational Excellence; Profitable growth for all three divisions; Innovative products and solutions; Multi-channel distribution; and Growth in emerging markets.

Following the focus on and successful execution of the margin improvement in recent years, stronger emphasis will be placed on profitable growth.

Husqvarna Group operates on the principle of having strong, focused and empowered divisions with all of the functions needed to drive business towards their desired goals.

Group strategic functions design the strategic framework to ensure alignment across the three divisions and to secure important synergies, for example, in sourcing, logistics, information systems and technology. The two divisions in forest and garden (Husqvarna & Gardena), and the Construction Division each have different business models with their own distinct end-user target groups, strategies and offerings.

Divisions

The **Husqvarna Division** is a global leader in forest, park and garden products and solutions used by professionals and prosumers. This leadership is built on a deep understanding of customer needs and requirements. The division's strengths include a broad and competitive product range, global distribution through dealer partnerships built over many years, innovation capability and strong brand recognition. Market positions are strong in several areas including professional handheld products and robotic lawn mowers.

Gardena is the number one watering brand in Europe. It is recognized for its high quality and market-leading product innovation and design. There are many opportunities to leverage the business by expanding core product segments geographically and by expanding Gardena's offering in core markets.

The **Consumer Brands** * Division possesses a broad and strong product offering, a portfolio of well-recognized brands, long-standing retail relationships and a solid market share position. Being part of the Husqvarna Group gives competitive advantages such as access to industry-leading technology, innovation and scale. By leveraging strategic focus including relentless operational excellence and cost-out activities, the division has the opportunity to turn around its financial performance.

The **Construction Division** is a global leader in machinery and diamond tools for the construction and stone industries. Its foundation is built on product and technology leadership ensured by high investment levels in user-centred product development to offer professional users the most efficient and powerful solutions in market. Products and solutions are distributed globally in all relevant sales channels.

*During 2018, the Group has taken the decision to combine the Consumer Brands division in to the Gardena division in Europe and Asia and in to the Husqvarna division for North America. This will enable the Group to increase focus and efforts on its future premium product and service offerings under the core brands of Husqvarna and Gardena.

Strategic report for the year ended 31st December 2018

Key performance indicators ('KPIs')

Husqvarna Group manages its operations on a divisional basis and not at a local country level. From a UK perspective, the company aims to maintain a strong net asset position on the Statement of Financial Position and an operating profit. The net assets position at 31 December 2018 was £31,493,000 (2017: £27,241,000) and the company made an operating profit of £4,184,000 in 2018 (2017: £5,035,000).

Principal risks and uncertainties

Husqvarna UK Limited faces operational and financial risks related to its business operations as well as the financing thereof. The Company also has other external risks such as changes in legislation and regulations that can affect the business.

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls which are in line with Husqvarna Group guidelines. Compliance with regulation, legal and ethical standards is a high priority for the Company; the finance department take on an important oversight role in this regard.

Operational risks

The Companies long-term profitability depends, among other things, on the ability to successfully develop, launch and market new products. Other critical factors for profitability include flexible, cost-efficient manufacturing of products while achieving the desired level of quality, and rational management of fluctuations in the process of ram materials and components.

Principal operational risks for the Company include:

Weather conditions – Demand for products is dependent on the weather. Unexpected or unusual weather conditions in specific areas of regions can affect sales either adversely or positively.

Competition and Markets - Husqvarna operates in competitive markets, most of which are relatively mature, which means that underlying demand is relatively stable under normal economic conditions. Price competition is intense, particularly for entry price point consumer products in the UK retail market.

Seasonality – seasonal variations and weather conditions can lead to short term fluctuations in demand and price competition, as supply may be greater or lesser than demand.

Raw material and components – The UK manufacturing operations are affected by fluctuations in the prices of raw materials and components. The most important raw materials being plastics and electronic components.

The Company's **Financial Risks** are managed on the basis of the Company's financial and credit policies. The Company's principal financial instruments comprise cash, cash equivalents and loans. Other financial assets and liabilities, such as trade creditors, trade debtors and intercompany balances, arise directly from the Company's operating activities.

The main financial risks associated with the Company's financial assets and liabilities are set out below.

Interest rate risk – The Company invests surplus cash in a floating rate interest yielding back deposit account and has access to a floating rate interest bearing overdraft facility. Term loans are entered into at floating interest rates. The Company interest income and expenses are therefore affected by movements in interest rates. The Company does not undertake any hedging activity. Group facilities are also used where possible to reduce risk.

Strategic report for the year ended 31st December 2018

Credit risk - The Company's credit risks are managed on the bases of standardised credit ratings, active monitoring of credits and routines for follow-up of trade receivables. Provisions for doubtful trade receivables are continuously monitored. The Company also utilises credit insurance to reduce the credit risk.

Liquidity risk – The Company aims to mitigate liquidity risk by managing cash generated from its operations.

Currency exposure – The Company has risk from short-term effects of currency exchange rate fluctuations on its foreign currency denominated sales and purchases. Hedging of foreign currency exposure is mainly centralised to Group treasury in Sweden.

Pension commitments – The Company provides pension arrangements to employees through a defined benefit scheme (the Husqvarna UK Limited Pension Scheme). The scheme closed to future accrual in 2011 and new employees are catered for through a defined contribution scheme. The value of the assets and liabilities depend primarily on trends for share prices and interest rates. Factors affecting the pension obligation include changes in the assumptions, such as discount rate, life expectancy and expected salary increases. The pension scheme is accounted for in the Company's financial statements in accordance with FRS102. For more information on pension, see note 22.

Future developments

The commercial environment in which the Company operates remains highly competitive. The company is closely monitoring the potential impacts, if any, of the recent Brexit developments. This will be considered in the context of a Global business and not solely the impacts in the UK operating units.

In the coming year we expect to see growth domestically and further growth in group export sales. We will continue to develop our relationships with existing customers and to generate new business where possible.

G A Instone

Director

9 August 2019

Directors' report for the year ended 31st December 2018

The directors present their report and audited financial statements for the year ended 31st December 2018.

Future developments

Likely future developments of the business are dealt with in the strategic report.

Directors

The names of the current directors are listed on page 1. A De Courcy resigned from his position of Director on 1 November 2018. T Burke was appointed as a Director on 1 November 2018.

Directors' indemnities

The Company maintains liability insurance for its directors and officers. Following shareholder approval on 12 June 2006 the Company has also provided an indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. This indemnity was in place during the year and up to the date of signing the financial statements.

Employees

Disabled employees

It is the Company's policy to give due consideration to application for employment from disabled persons, bearing in mind the respective aptitudes and abilities of the applicants concerned. The services of existing employees who become disabled are retained wherever practicable. Training and career development and promotion of disabled persons are as far as possible identical to that of other employees.

Employee involvement

The Company operates its own programme to inform and involve its employees in the Company's operations and business objectives. This includes meetings between local management and employees to allow a free flow of information and ideas. A works council has been established to inform the employees of the business performance and provide updates. The company also operates a bonus scheme for certain individuals.

Financial instruments and risk management

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in the Strategic Report. In particular the Company's exposures to price risk, credit risk and liquidity risk are separately disclosed in the Strategic Report. The Company's exposure to cash flow risk is addressed under the headings of 'Credit risk', 'Liquidity risk' and 'Market risk'.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence and to pay their liabilities as they fall due for the foreseeable future. Accordingly they continue to adopt the going concern basis for the preparation of these financial statements.

Disclosure of information to auditor

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 Company's auditor, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' report for the year ended 31st December 2018

Auditor

Ernst & Young LLP continued to provide audit services to the Company during 2018.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, 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 prepared 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 year. 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 proper 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.

By order of the Board

G A Instone
Director

9 August 2019

Independent auditors' report
to the members of Husqvarna UK Limited

Opinion

We have audited the financial statements of Husqvarna UK Limited (the 'company') for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the related notes 1 to 23, 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" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 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, in the circumstances set out in note 2 to the financial statements, 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.

Independent auditors' report

to the members of Husqvarna UK Limited

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 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 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.

Independent auditors' report

to the members of Husqvarna UK Limited

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, 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.

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.

Ernst & Young LLP

Caroline Mulley (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle upon Tyne

9 August 2019

Income Statement

for the year ended 31st December 2018

	Notes	2018 £000	2017 £000
Turnover	2	230,951	206,497
Cost of sales		(201,056)	(180,129)
Gross profit		29,895	26,368
Distribution costs		(9,898)	(10,146)
Administrative expenses		(14,313)	(11,187)
Exceptional – Pension scheme past service cost	22	(1,500)	-
Operating profit	3	4,184	5,035
Profit on disposal of tangible fixed assets		9	12
Interest payable on group loans		(586)	(494)
Interest receivable and similar income	6	44	26
Other finance income	22	303	122
Profit before taxation		3,954	4,701
Tax on profit	7	(625)	(742)
Profit for the financial year		3,329	3,959

All operations are continuing, and relate to the Company's principal activity.

Statement of Comprehensive Income

for the year ended 31st December 2018

	Notes	2018 £000	2017 £000
Profit for the year		3,329	3,959
Actuarial gain relating to pension asset	22	1,112	4,560
Tax on actuarial gain	7(c)	(189)	(776)
Total comprehensive income for the year		4,252	7,743

Statement of Changes in Equity

for the year ended 31st December 2018

	Share capital £000	*Share premium £000*	*Profit and loss £000*	*Total £000*
At 1st January 2017	10,791	1,419	7,288	19,498
Total comprehensive income for the year	-	-	7,743	7,743
Dividend paid	-	-	-	-
At 31st December 2017	10,791	1,419	15,031	27,241
At 1st January 2018	10,791	1,419	15,031	27,241
Total comprehensive income for the year	-	-	4,252	4,252
Dividend paid	-	-	-	-
At 31st December 2018	10,791	1,419	19,283	31,493

Statement of Financial Position

as at 31st December 2018

	Notes	*2018* *£000*	*2017* *£000*
Fixed assets			
Intangible assets	8	149	44
Tangible assets	9	30,512	18,562
Investments	10	1,070	1,070
		31,731	19,676
Current assets			
Stocks	11	29,321	29,166
Debtors	12	36,189	27,613
Cash at bank and in hand		3,623	2,618
		69,133	59,397
Creditors: amounts falling due within one year	13	(62,552)	(42,258)
Net current assets		6,581	17,139
Total assets less current liabilities		38,312	36,815
Creditors: amounts falling due after more than one year	13	(17,573)	(18,065)
Provisions for liabilities	14	(3,188)	(2,329)
Net assets excluding pension asset		17,551	16,421
Pension asset	22	13,942	10,820
Net assets		31,493	27,241
Capital and reserves			
Called up share capital	18	10,791	10,791
Share premium account	19	1,419	1,419
Profit and loss account	19	19,283	15,031
Total shareholders' funds		31,493	27,241

The financial statements on pages 11 to 29 were approved by the Board and signed on its behalf by:

G A Instone
Director

9 August 2019

Notes to the financial statements for the year ended 31st December 2018

1. Accounting policies

Statement of compliance

Husqvarna UK Limited is a private limited liability company , limited by shares, incorporated in England. The Registered Office is Preston Road, Aycliffe Industrial Park, Newton Aycliffe, County Durham, DL5 6UP.

The company's financial statements have been prepared in compliance with FRS 102.

In these financial statements, the company has applied the exemptions available under FRS 102 in respect of the following disclosures:

– the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv)

– the requirements of Section 7 Statement of Cash Flows

– the requirements of Section 11 Basic Financial Instruments paragraphs 11.39 to 11.48A and Section 12 paragraphs 12.22 to 12.29

– the requirements Section 33.7 and 33.1A Related Party Disclosures

– the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23The group in which the results of the Company are consolidated is Husqvarna AB.

Consolidated financial statements are available from Husqvarna AB, Investor Relations, Box 30224, SE 104 25, Stockholm, Sweden.

Group financial statements are not prepared as permitted under section 400 of the Companies Act 2006 and these financial statements present information about the Company as an individual undertaking and not about its group.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards.

The accounting principles used to prepare the financial statements are based on historical cost, unless stated otherwise.

The financial statements are prepared in GBP sterling, to the nearest £'000, which is the functional currency of the company.

Judgements and key sources of estimation uncertainty

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date, and the amounts reported for revenues and expenses during the period.

However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements and estimates have had the most significant effect on the financial statements:

- Pension benefits
The costs of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in note 22.

- Provisions:

Provision is made for the estimated liability for repairing or replacing products under warranty. Further details are given in note 14.

Notes to the financial statements for the year ended 31st December 2018

1. Accounting policies (continued)

Other Significant Accounting Policies

Revenue recognition

Turnover consists of the invoiced amounts of goods, all of which are from one continuing activity, after deducting returns, discounts allowed and value added tax. Revenue is recognised on despatch of goods, or at the point at which it has performed all obligations in relation to the revenue earned .

Research and development

Research expenditure is written off in the year in which it is incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Company is expected to benefit. This period is between three and five years. Provision is made for any impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Investments

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

Other intangible fixed assets

Other intangible assets comprises of software which is recognised at acquisition cost and amortised on a straight line basis over its useful economic life of 7 years.

Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Purchase cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land which is not depreciated, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Freehold property –	over 40-50 years
Leasehold property –	over 10 years
Plant and machinery–	over 2-40 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	–purchase cost on a first-in, first-out basis.
Work in progress and finished goods	– cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. This also includes, where necessary, a provision for slow moving, obsolete and defective stock.

Notes to the financial statements for the year ended 31st December 2018

1. Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short term deposits with an original maturity date of three months or less.

Short term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the income statement.

Leasing commitments

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Share based payments

Certain employees participate in the ultimate parent undertaking's long term incentive scheme. The fair value of the options granted is recharged to the UK company and is recognised as an expense in the income statement. The fair value of the shares is the market value at grant date, adjusted for the discounted value of future dividends which employees will not receive.

Notes to the financial statements for the year ended 31st December 2018

1. Accounting policies (continued)

Pensions

The company operates a defined benefit pension scheme with a defined contribution underpin which is funded by contributions made by the company and employees.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. When a settlement or curtailment occurs, the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement during the period in which it occurs.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, at the start of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Re-measurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest) are recognised immediately in other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit and loss in subsequent periods.

The defined net benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the benefits are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

For defined contribution schemes, contributions are recognised in the income statement in the period in which they become payable.

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to one continuing activity, as stated in the directors' report.

An analysis of turnover by geographical market is given below:

	2018	*2017*
	£000	*£000*
United Kingdom	90,964	94,501
Continental Europe	139,733	111,937
Rest of World	254	59
	230,951	206,497

Notes to the financial statements for the year ended 31st December 2018

3. Operating profit

This is stated after charging/(crediting):

	2018	2017
	£000	*£000*
Auditors' remuneration - audit services	38	38
Depreciation of owned tangible assets	3,601	2,674
Amortisation of intangible assets	21	15
Operating lease rentals – land and buildings	421	366
– plant and machinery	694	564
Net loss on foreign currency translation	2,226	741
Hire of equipment	94	93
Inventory recognised as an expense	180,310	168,181

4. Staff costs

	2018	*2017*
	£000	*£000*
Wages and salaries	14,431	13,451
Social security costs	1,582	1,412
Other pension costs (note 22)	1,008	1,044
	17,021	15,907

The average monthly number of employees and directors on service contracts during the year was made up as follows:

	2018	*2017*
	Number	*Number*
Management & Administration	208	191
Production	171	162
	379	353

The company also recognised an expense of £194,000 (2017: £245,000) for recharges from the ultimate parent company for employees participating in the Group's Long term incentive plan.

Notes to the financial statements for the year ended 31st December 2018

5. Directors' emoluments

	2018 £000	2017 £000
Aggregate remuneration in respect of qualifying services	545	641
Aggregate amounts receivable under Long Term Incentive Plans	133	130
Value of Company pension contributions to defined contribution schemes	12	59

	2018 No.	2017 No.
Members of defined contribution pension scheme	2	1
Members of defined benefit pension scheme	2	1

The emoluments of the highest paid director were £344,000 (2017: £505,000), including £6,000 (2017: £34,000) contributions to a defined contribution pension scheme. The highest paid director received shares under the Group's Long Term incentive Plan.

6. Interest receivable and similar income

	2018 £000	2017 £000
Interest from group undertakings	44	26
	44	26

Notes to the financial statements for the year ended 31st December 2018

7. Tax

(a) Tax on profit

The tax charge is made up as follows:

	2018 £000	2017 £000
Current tax:		
UK corporation tax on the profit for the year	-	78
Adjustments in respect of previous years	(48)	(203)
Total current tax	(48)	(125)
Deferred tax:		
Origination and reversal of timing differences	769	892
Effect of changes in tax rate on opening liability	(81)	(104)
Adjustments in respect of prior periods	(15)	79
Total deferred tax (note 7(c))	673	867
Tax on profit (note 7(b))	625	742

(b) Factors affecting current tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2017 – 19.25%). The differences are explained below:

	2018 £000	2017 £000
Profit before tax	3,954	4,701
Profit multiplied by standard rate of corporation tax in the UK of 19% (2017 – 19.25%)	751	905
Effects of:		
Expenses not deductible for tax purposes	2	65
Other changes	16	-
Adjustments in respect of previous periods	(63)	(124)
Effect of changes in tax rate on opening liability	(81)	(104)
Total tax for the year (note 7(a))	625	742

(c) Deferred tax

The deferred tax liability recognised in the balance sheet is as follows:

	2018 £000	2017 £000
Depreciation different to capital allowances	(53)	324
Other short term timing differences	50	4
Deferred tax on pension asset	(2,370)	(1,839)
Total deferred tax liability	(2,373)	(1,511)

Notes to the financial statements for the year ended 31st December 2018

7. **Tax** (continued)

	£000
Deferred tax liability at 1 January 2018 (note 14)	1,511
Deferred tax charge to the income statement (note 7(a))	769
Adjustment in respect of previous period (note 7(a))	(15)
Effect of changes in tax rate on opening liability (note 7(a))	(81)
Deferred tax charge to other comprehensive income	189
Deferred tax liability at 31st December 2018 (note 14)	2,373

Other than the losses relating to a previous trade of the company of £ 4,886,000 (2017: £4,914,000), the Company has recognised its deferred tax asset in full as the directors believe that taxable profits will be available in the foreseeable future against which the deferred tax asset can be utilised.

(d) Tax relating to items charged or credited to other comprehensive income

	2018 *£000*	*2017* *£000*
Tax on actuarial gain	(189)	(776)

(e) Factors that may affect future tax charges

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017. Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 6 September 2016). There include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted rates and reflected in these financial statements.

Notes to the financial statements for the year ended 31st December 2018

8. Intangible assets

	Software & Development costs £000
Cost:	
At 1st January 2018	4,872
Additions	126
At 31st December 2018	4,998
Accumulated amortisation:	
At 1st January 2018	4,828
Provided during the year	21
At 31st December 2018	4,849
Net book amount:	
At 31st December 2018	149
At 31st December 2017	44

The amortisation of development costs is included within cost of sales in the income statement.
The amortisation of software is included within Administrative expenses

Notes to the financial statements for the year ended 31st December 2018

9. Tangible fixed assets

	Assets under construction £000	Freehold property £000	Short leasehold property £000	Plant and machinery £000	Total £000
Cost or valuation:					
At 1st January 2018	6,233	11,369	619	55,950	74,171
Additions	15,293	171	7	391	15,862
Disposals	-	-	-	(1,433)	(1,433)
Transfers to group companies	-	-	(25)	(1,338)	(1,363)
Transfers	(8,415)	-	-	8,415	-
At 31st December 2018	13,111	11,540	601	61,985	87,237
Accumulated depreciation:					
At 1st January 2018	-	6,799	430	48,380	55,609
Provided during the year	-	356	55	3,190	3,601
Disposals	-	-	-	(1,426)	(1,426)
Transfers to group companies	-	-	-	(1,059)	(1,059)
At 31st December 2018	-	7,155	485	49,085	56,725
Net book amount:					
At 31st December 2018	13,111	4,385	116	12,900	30,512
At 31st December 2017	6,233	4,570	189	7,570	18,562

Plant and machinery includes a net book value of £210,000 for office equipment and fixtures and fittings (2017: £109,000).

10. Investments

	Shares in group Companies £000
Cost:	
At 1st January 2018 and 31 December 2018	3,691
Impairment:	
At 1st January 2018 and 31 December 2018	2,621
Net book amount:	
At 31st December 2018	1,070
At 31st December 2017	1,070

Notes to the financial statements for the year ended 31st December 2018

10. Investments (continued)

Details of the principal subsidiary companies, in which the Company holds at least 20% of the nominal value of any class of share capital, are as follows:

The directors believe that the book value of the investments is supported by their underlying net assets.

Name of Company	*Country of incorporation*	*Proportion held*	*Nature of business*
Linoakley (301) Limited	UK	100%	Non-trading
Gardena UK Limited	UK	100%	Non-trading

All shares held are classed as ordinary shares. The registered office of the above companies is the same as Husqvarna UK Limited.

11. Stocks

	2018 £000	*2017 £000*
Raw materials	15,919	13,882
Finished goods	13,402	15,284
	29,321	29,166

The difference between purchase price or production cost of stocks and their replacement cost is not considered to be material.

12. Debtors

	2018 £000	*2017 £000*
Trade debtors	10,565	11,979
Amounts owed by group undertakings	22,315	13,502
Other debtors	2,131	1,175
Prepayments and accrued income	457	523
Corporation tax recoverable	721	434
	36,189	27,613

The due date of amounts owed by group undertakings is within one month and there is no security attached.

Notes to the financial statements for the year ended 31st December 2018

13. Creditors

(a) Amounts falling due within one year

	2018	*2017*
	£000	*£000*
Bank overdraft	1,451	-
Trade creditors	26,264	17,931
Amounts owed to group undertakings	28,520	17,331
Other creditors	198	343
Tax and social security	172	395
Accruals and deferred income	5,947	6,258
	62,552	42,258

(b) Amounts falling due after more than one year

	2018	2017
	£000	£000
Amounts owed to group undertakings	17,000	18,065
Other creditors	573	-
	17,573	18,065

The non-trading amounts owed to group undertakings have interest attached of LIBOR 3 month + a spread of 1.5145%.

14. Provisions for liabilities

	Deferred tax	*Customer warranties*	*Other*	*Total*
	£000	*£000*	*£000*	*£000*
At 1 January 2018	1,511	706	112	2,329
Utilised	-	(671)	(82)	(753)
Charged	862	738	12	1,612
	2,373	773	42	3,188

Warranties - Provision is made for the estimated liability to repair or replace products under warranty, for which the period of utilisation is one year.

Other – Provision largely relates to the expected costs of waste and battery recycling. The provision is expected to be utilised within 12 months.

Notes to the financial statements for the year ended 31st December 2018

15. Commitments under operating leases

At 31st December, the Company had total commitments under non-cancellable operating leases as set out below:

	2018		2017	
	Land and buildings *£000*	*Other* *£000*	*Land and buildings* *£000*	*Other* *£000*
Within one year	185	508	227	219
Later than one year and not later than five years	228	713	545	481
	413	1,221	772	700

16. Contingencies

There were no contingent liabilities at 31st December 2018 (2017 – none).

17. Related party transactions

The company has not disclosed transactions with other Group companies or key management personnel, as it has taken advantage of the exemption contained within FRS 102.33.1A and FRS 102.33.7, on the grounds that the company is a wholly owned subsidiary.

18. Issued share capital

		2018		2017
Allotted, called up and fully paid	*Number*	*£000*	*Number*	*£000*
Ordinary shares of £1 each	10,790,984	10,791	10,790,984	10,791

19. Reserves

Profit and loss account

This records cumulative profit and loss less and distributions of dividends.

Share premium account

This reserve records any premium arising on the issue of share capital.

20. Off balance sheet commitments

The company enters into operating lease arrangements for the hire of buildings as these arrangements are a cost effective way of obtaining the short term benefits of these assets. The company lease rental expense is disclosed in note 3 and the commitments under these arrangements are disclosed in note 15. There are no other material off-balance sheet arrangements.

21. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £3,343,000 (2017 – £5,922,000).

Notes to the financial statements for the year ended 31st December 2018

22. Pension commitments

The Company provides pension arrangements to full time employees through a defined benefit scheme (the Husqvarna UK Limited Pension Scheme) and the related costs are assessed in accordance with the advice of independent, professionally qualified actuaries. The Scheme is closed to new entrants and all future benefit accrual.

The valuation used for FRS102 disclosures has been based on the most recent full actuarial valuation, which was conducted as at 31st December 2015 by Aon Hewitt. The present value of the defined benefit obligation was measured using the projected unit credit method.

	2018	*2017*	*2016*
	%	%	%
Main assumptions:			
Rate of increase to pensions in payment pre 2001 pensions	3.6	3.6	3.6
Rate of increase to pensions in payment 2001-05 pensions	3.1	3.1	3.1
Rate of increase to pensions in payment post 2005 pensions	2.2	2.2	2.2
Discount rate	2.9	2.5	2.7
RPI Inflation assumption	3.2	3.2	3.2
CPI Inflation assumption	2.1	2.1	2.1
	Years	Years	Years
Post retirement mortality			
Current pensioners at 65 – male	20.7	20.8	21.0
Current pensioners at 65 – female	22.7	22.7	23.1
Future pensioners at 65 – male	22.5	22.8	23.3
Future pensioners at 65 – female	24.6	24.7	25.5

The pension scheme has not invested in any of the company's own financial instruments nor in properties or other assets used by the company.

The assets and liabilities of the scheme and the expected rate of return at 31st December are:

		2018		*2017*		*2016*
	Percentage of plan assets	*Value*	*Percentage of plan assets*	*Value*	*Percentage of plan assets*	*Value*
	%	*£000*	*%*	*£000*	*%*	*£000*
Equities	33.3	39,663	35.6	44,828	46.5	57,813
Government bonds	56.5	67,239	54.2	68,265	53.1	66,063
Others	10.2	12,137	10.2	12,840	0.4	511
Total market value of assets		119,039		125,933		124,387
Present value of scheme liabilities		(105,097)		(115,113)		(121,531)
Pension surplus		13,942		10,820		2,856

The surplus at 31 December 2018, has been recognised as the company would be entitled to a refund if the scheme was in surplus when all benefits had been paid.

Notes to the financial statements for the year ended 31st December 2018

22. Pension commitments (continued)

An analysis of the defined benefit cost for the year ended 31st December is as follows:

	2018 *£000*	*2017* *£000*
Past service cost	(1,500)	-
Administrative expenses	(292)	(217)
Net charge in arriving at operating profit	(1,792)	(217)
Interest on pension scheme assets	3,125	3,256
Interest on pension scheme liabilities	(2,822)	(3,134)
Total other finance income	303	122
Amount recognised in the statement of comprehensive income:		
Actuarial (losses)/gains on pension scheme assets	(7,761)	6,140
Experience (losses)/gains arising on scheme liabilities	(365)	512
Gain/(loss) arising from changes in assumptions underlying the present value of scheme liabilities	9,238	(2,092)
Actuarial gain recognised in the statement of comprehensive income	1,112	4,560

The company contributes to a defined contribution scheme for its employees. Contributions to the scheme amounted to £1,008,000 (2017: £1,044,000) for the year, of which £33,000 (2017: £33,000) were outstanding at the year end, and included in *other creditors* (note 13).

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The post-retirement mortality assumptions allow for expected increases in longevity.

The directors also acknowledge their responsibilities for ensuring that actuarial assumptions are suitably updated to reflect changing economic conditions, and they confirm that the 31st December 2018 assumptions have been carefully reviewed with the actuary.

On 30th September 2011, the Scheme closed to future accrual and also removed early retirement terms for active and deferred members.

Notes to the financial statements for the year ended 31st December 2018

22. Pension commitments (continued)

Changes in the present value of the defined benefit obligations are analysed as follows:

	2018 £000	2017 £000
Opening defined benefit obligation	115,113	121,531
Interest cost on pension scheme liabilities	2,822	3,134
Benefits paid	(5,466)	(11,133)
Actuarial (gain)/loss	(8,872)	1,581
Past service cost	1,500	-
Closing defined benefit obligation	105,097	115,113

Changes in the fair value of plan assets are analysed as follows:

	2018 £000	2017 £000
Opening fair value of plan assets	125,933	124,387
Return on plan assets	(7,761)	6,140
Admin expenses	(292)	(217)
Total contributions – Employer	3,500	3,500
Benefits paid	(5,466)	(11,133)
Interest income on pension scheme assets	3,125	3,256
Closing fair value of plan assets	119,039	125,933

The last actuarial valuation was at 31 December 2015. It was agreed that the Company will pay contributions fixed at £3.5m per annum.

In agreeing the assumptions used in the calculation of the present value of the pension scheme liabilities under FRS102, the directors acknowledge the high degree of judgement involved, and the sensitivity of the calculations to a change in assumptions. The directors also acknowledge their responsibilities for ensuring that actuarial assumptions are suitably updated to reflect changing economic conditions, and they confirm that the 31 December 2018 assumptions have been carefully reviewed with the actuary. Decreasing the discount rate by 0.5% would have the impact of increasing the scheme's liabilities by approximately 11%. Increasing the inflation rate by 0.5% would have the impact of increasing the scheme's liabilities by approximately 4% A one year increase in life expectancy would have the impact of increasing the scheme's liabilities by approximately 4%.

Notes to the financial statements for the year ended 31st December 2018

23. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Husqvarna Holdings AB, which is incorporated in Sweden.

The ultimate parent undertaking and controlling party, which is also the parent undertaking of the smallest and largest group of companies for which group financial statements are drawn up and of which the Company is a member, is Husqvarna AB which is incorporated in Sweden. Group financial statements are available on request from Husqvarna AB, Investor Relations, Box 30224, SE 104 25, Stockholm, Sweden.