

NOTE 1 ACCOUNTING AND VALUATION PRINCIPLES

Basis of preparation

The consolidated financial statements of Husqvarna AB (publ.) are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. As required by IAS 1, entities within Husqvarna apply uniform IFRS rules as defined in the Husqvarna Accounting Manual. The policies set out below have been consistently applied to all years presented. Additional information is disclosed on the basis of the standard RFR 1.1 of the Swedish Financial Reporting Board.

The Parent Company's financial statements have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's standard RFR 2.1.

Principles applied for consolidation

Husqvarna applies the purchase method to account for acquisitions of subsidiaries not under common control, whereby the assets, liabilities and contingent liabilities in a subsidiary on the date of acquisition are valued at fair value to determine the acquisition value to the Group. If the cost of the business combination exceeds the fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognized as goodwill. If the fair value of the acquired net assets exceeds the cost of the business combination, Husqvarna reassesses the identification and measurement of the acquired assets. Any excess remaining after that reassessment is recognized immediately in the income statement. The consolidated income for the Group includes the income statements for the Parent Company and its directly and indirectly owned subsidiaries after:

- elimination of intra-group transactions and unrealized intra-group profits in stock, and
- depreciation and amortization of acquired surplus values.

Definition of Group companies

The financial statements include Husqvarna AB and all companies in which the Parent Company has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than 50% of the voting rights referring to all shares and participations.

The following applies to acquisitions of companies not under common control and to divestments:

- Companies acquired are included in the consolidated income statement as of the date on which Husqvarna gains control.
- Companies divested are included in the consolidated income statement up to and including the date on which Husqvarna loses control.

No companies have been divested during the year.

Transactions with minority interests are treated as transactions with external parties to the Group. Disposals to minority interests result in gains and losses recorded in the income statement. Acquisitions from minority interests result in goodwill, corresponding to the difference between the consideration paid and the acquired portion of the carrying value of the net assets in the subsidiary.

At year-end 2008, the Group comprised 152 operating units, and 118 companies.

Associated companies

Associates are companies over which Husqvarna has significant influence but not control, generally accompanied by a shareholding of between 20% and 50% of the voting rights. Investments in associated companies have been reported according to the equity method. Husqvarna's share of income after tax in an associated company is reported in the income statement. Husqvarna's investments in associates are of operational nature which is the reason the result is reported as part of the operating income. Investments in an associated company are initially reported at cost, increased or decreased to recognize Husqvarna's share of the profit or loss of that associated company after the date of acquisition. When Husqvarna's share of losses in an associate equals or exceeds the value of its interest in that associate, Husqvarna does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Gains or losses on transactions with associated companies, if any, have been recognized in relation to the Group's participating interest in the associate.

Related party transactions

All transactions with related parties are carried out on an arm's length basis.

Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

The financial statements are presented in SEK, which is the Parent Company's functional currency and the presentation currency of the Husqvarna Group.

The balance sheets of foreign subsidiaries have been translated into SEK at year-end rates. Income statements have been translated at average rates for the year. On consolidation, exchange differences arising from the translation of net investments in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Segment reporting

Husqvarna's primary segments (business areas) are based on the different business models for end-customers, consumers and professional users, which form the basis for identifying the predominant source and nature of risks and the differing rates of return facing the Group. The secondary segments are based on Husqvarna's sales per geographical market.

The segments are responsible for the operating result and the net assets used in their operations, whereas net financial income/expense and taxes as well as net debt and equity are not reported per segment. The operating results and net assets of the segments are consolidated using the same principles as for the total Group. The segments consist of separate legal units as well as divisions in multi-segment legal units where a certain amount of allocation of costs and net assets is carried out. Operating costs not included in the segments are shown under Husqvarna's common costs, which mainly include costs for Husqvarna's corporate functions.

Transactions between segments are carried out on strictly commercial terms, applying arm's length principles.

ACCOUNTING AND VALUATION PRINCIPLES

Revenue recognition

Sales are recorded net of VAT (Value-Added Tax), specific sales taxes, returns and trade discounts. Revenues arise almost exclusively from sales of finished products. Sales are recognized when the significant risks and rewards associated with ownership of the goods have been transferred to the buyer and the Group retains neither a continuing right to dispose of the goods, nor effective control of those goods and when the amount of revenue can be measured reliably. This means that sales are recorded when the goods have been placed at the disposal of the customers in accordance with agreed terms of delivery. Revenues from services are recorded when the service, such as product repairs, has been performed.

Interest income is recognized on a time-proportion basis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

Government grants

Government grants relate to financial grants from governments, public authorities and similar local, national, or international bodies. These are recognized when there is a reasonable assurance that Husqvarna will comply with the conditions attaching to them and that the grants will be received. Government grants relating to assets are included in the balance sheet as deferred income and recognized as income over the useful life of the assets. Government grants relating to expenses are recognized in the income statement as a deduction of such related expenses.

Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred.

Taxes

Taxes include current and deferred taxes with application of the liability method, meaning that deferred tax assets and liabilities are accounted for on all differences between the carrying amount of assets and liabilities in the balance sheet and the tax base. Deferred taxes are calculated using enacted or substantially enacted tax rates. Taxes incurred by Husqvarna are affected by appropriations and other taxable (or tax-related) transactions in the individual Group companies. They are also affected by the utilization of tax losses carried forward referring to previous years or to acquired companies. This applies to both Swedish

and foreign Group companies. Deferred tax assets on tax losses and temporary differences are recognized to the extent it is probable that they will be utilized in future periods. Deferred tax is not provided for on temporary differences arising on investments in subsidiaries and associates where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred tax assets and deferred tax liabilities are shown net when they refer to the same taxation authority and when a company or a group of companies, through tax consolidation schemes, etc., has a legally enforceable right to set off tax assets against tax liabilities.

Monetary assets and liabilities in foreign currency

Monetary assets and liabilities denominated in foreign currency are valued at year-end exchange rates and the exchange-rate differences are included in the income statement, except when deferred in equity for the effective portion of qualifying net-investment hedges.

Intangible fixed assets

Goodwill

Goodwill is reported as an indefinite life intangible asset with an unlimited useful life at cost less accumulated impairment losses.

The value of goodwill is continuously monitored, and is tested annually for impairment or more regularly if there is an indication that the asset might be impaired. Goodwill is allocated to the cash generating units that are expected to benefit from the business combination.

Trademarks

Trademarks are reported at cost after any accumulated amortization and accumulated impairment. All trademarks with limited useful lives are amortized on a straight-line basis during the useful life, estimated at 10 years. The trademark GARDENA is reported as an intangible asset with unlimited useful life. No other trademarks are identified as having unlimited useful lives.

Product development expenses

Husqvarna capitalizes certain development expenses for new products provided that the level of certainty as to their future economic benefits and useful lives is high. An intangible asset is only recognized to the degree that the product is sellable on existing markets and that resources exist to complete the development. Only expenditure, which is directly attributable to the new product's development, is recognized. Capitalized development costs are amortized over their useful lives, ranging between 3 to 5 years. The assets are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired.

Other intangible assets

Other intangible assets include patents, licenses, computer software, customer relations and other rights. These assets are recognized at acquisition cost and are amortized on a straight-line basis over their estimated useful lives. The estimated useful life recognized for computer software is 3 years. Patents, mainly recognized in connection with acquisitions, have an estimated useful life in the range of 10 to 13 years. Husqvarna has recognized customer relations with an estimated useful life between 5–12 years.

Property, plant and equipment

Property, plant, and equipment are reported at historical cost less accumulated depreciation, adjusted for any impairment charges. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will be captured by the Group and are of material value. All other repairs and maintenance costs are charged to the income statement during the period in which they are incurred. Land is not depreciated as it is considered to have an unlimited useful life. Depreciation is based on the following estimated useful lives:

Buildings and land improvements	10–40 years
Plant and machinery	3–15 years
Other equipment	3–10 years

The Group assesses the estimated useful lives at each balance sheet date as well as whether there is any indication that any of the company's fixed assets are impaired.

Impairment of long-lived assets

If there is an indication of impairment the Group estimates the recoverable amount of the asset. The

recoverable amount is the higher of an asset's fair value less cost to sell and value in use. An impairment loss is recognized by the amount by which the carrying amount of an asset exceeds its recoverable amount. The discount rates used reflect the cost of capital and other financial parameters in the country or region in which the asset is in use. For the purposes of assessing impairment, assets are grouped in cash-generating units, which are the smallest identifiable group of assets generating cash inflows that are substantially independent of the cash inflows from other assets or group of assets. The Group's cash generating units are Consumer North America, Consumer Rest of the world – Dealers, Consumer Rest of the world – Masstrade, Commercial Lawn and Garden, Forestry and Construction.

Classification of financial assets

Husqvarna classifies its financial assets according to the following categories: financial assets at fair value through profit or loss; loans and receivables; and available-for-sale financial assets. The classification depends on the purpose for which the investment was acquired. Management determines the classification of investments at initial recognition and reviews this designation at each reporting date.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling the asset in the short-term or if the asset is designated as belonging to this category by management. Derivatives are categorized as held for trading and presented under derivatives in the balance sheet, unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets with the exception of maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade receivables in the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets as financial assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and measurement of financial assets

Regular purchases and sales of investments (financial assets) are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the right to receive cash flows from the investments have expired or have been transferred and when the Group has transferred substantially all of the risks and rewards of ownership. Available-for-sale financial assets and financial assets recognized at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method less provision for impairment. Realized and unrealized gains and losses arising from changes in the fair value of the category "Financial assets at fair value through profit or loss" are included in the income statement in the period in which they arise and are reported as part of the operating result. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities and reported as operating income.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by utilizing different valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are of substantially the same type and nature, discounted cash flow analysis, and option-pricing models refined to reflect the issuer's specific circumstances.

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement are not reversed through the income statement.

Leasing

A finance lease is a lease that transfers substantially all of the risks and rewards associated with ownership of an asset. Title may or may not be eventually transferred. Assets under finance leases in which the Group is a lessee are recognized in the balance sheet and the future leasing payments are recognized as loan. Expenses for the period correspond to the depreciation of the leased asset and interest cost of the loan. Finance leases are capitalized at the inception of the lease at the lower amount of either the fair value of the leased property or the present value of the minimum lease payments. The leased assets are depreciated over their estimated useful lives. If no reasonable certainty exists that the lessee will obtain ownership by the end of the lease term, the assets are fully depreciated over the shorter period of either the lease term or the useful life of the assets.

Apart from finance leases all other leases are categorized as operating leases. The payments made under operating leases are recognized in the income statement on a straight-line basis over the leasing period.

The Group rents certain production facilities, warehouses and office premises as well as certain office equipment under leasing agreements. Most leasing agreements in the Group are operating leases.

Inventories

Inventories and work in progress are valued at the lower amount of cost and the net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to execute the sale at market value. The value of inventories is determined by using the weighted average cost formula. Gains and losses previously deferred in equity on hedged forecast transactions are also included in the initial measurement cost of the inventory. Appropriate provisions have been made for obsolescence.

Trade receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that Husqvarna will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The change in the amount of the provision is recognized in selling expense.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank deposits and other short-term highly liquid investments with maturities of three months or less.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Where the effect of the time value of money is material, the amount recognized is the present value of the estimated expenditures.

Provisions for warranties are recognized at the date of sale of the products covered by the warranty and are calculated on the basis of historical data for similar products.

Restructuring provisions are recognized when the Group has adopted a detailed formal plan for the restructuring and has either started the implementation of the plan or communicated its main features to those affected by the restructuring.

Pensions and other post-employment benefits

Pensions and other post-employment benefit plans are classified as either defined contribution plans or defined benefit plans.

Under a defined contribution plan, the Company pays fixed contributions into a separate entity and will have no legal obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits. Contributions are expensed when they are due.

All other pensions and other post-employment benefit plans are defined benefit plans. The Projected Unit Credit Method is used to measure the present value of the obligations and costs. The calculations are made annually using actuarial assumptions determined close to the balance sheet date. Changes in the present value of obligations due to revised actuarial assumptions and differences between the expected and actual

return on plan assets are treated as actuarial gains or losses. Actuarial gains or losses are amortized over the employees' expected average remaining working lifetime in accordance with the corridor approach.

Net provisions for post-employment benefits in the balance sheet represent the present value of the Group's obligations at year-end less the market value of plan assets, unrecognized actuarial gains and losses and unrecognized past-service costs.

Borrowings

Borrowings are initially recognized at fair value net of transaction costs incurred. After initial recognition, borrowings are valued at amortized cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Accounting of derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either hedges of highly probable forecast transactions (cash-flow hedges), or hedges of net investments in foreign operations.

When hedges are entered into the Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as the Group's risk-management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at the hedging inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair-value hedge

Changes in the fair value of derivatives that are designated and which qualify as fair-value hedges are recorded as financial items in the income statement, along with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortized to profit or loss over the period of maturity. Currently there are no fair-value hedges in the Group.

Cash-flow hedge

The effective portion of change in the fair value of derivatives that are designated and qualify as cash-flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement as financial items.

Amounts accumulated in equity are reversed and recognized in the income statement in the periods in which the hedged item will affect profit or loss (for instance when the forecast sale which is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial item (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Net investment hedge

Hedges of net investments in foreign operations are treated similarly to cash-flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity; the gain or loss relating to the ineffective portion is recognized immediately in the income statement as financial items.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of, or in the event of a partial disposal.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement as financial items.

Share-based compensation

IFRS 2 is applied for the share-based compensation programs granted in 2006, 2007 and 2008. The instruments granted are shares and options. Husqvarna classifies its share-based compensation programs as equity-settled programs, which means that the cost of the granted instruments' fair value at grant date is

recognized over the vesting period. The fair value of the instruments is the market value at grant date, adjusted for the discounted value of future dividends which employees will not receive. At each balance sheet date, the Group revises the estimates of the number of instruments that are expected to vest. Husqvarna recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, the Group provides for employer contributions expected to be paid in connection with the share-based compensation programs. The costs are charged to the income statement over the vesting period. The provision is periodically revalued on the basis of the fair value of the instruments at each closing date.

Cash flow

The cash-flow statement has been prepared according to the indirect method.

PARENT COMPANY'S ACCOUNTING AND VALUATION PRINCIPLES

The accounting principles described above are applied by the Parent Company Husqvarna AB with only a few exceptions and additions. Husqvarna Group applies IAS 19 Employee Benefits while the Parent Company applies the principles of FAR's recommendation No 4 "Accounting of pension liabilities and pension costs". The differences are described in Note 19 Employees and employee benefits.

In addition to the depreciation described above in Property, Plant and Equipment, the Parent Company reports additional fiscal depreciation, permitted by Swedish tax law, as appropriations in the income statement. In the balance sheet, these are included in untaxed reserves.

Investments in associated companies are reported at historical cost.

Group contributions are reported in accordance with UFR 1 (Swedish Financial Reporting Board). Group contributions paid or received to reduce the Group's tax burden are reported directly against retained earnings, after adjustment for the current tax.

NEW ACCOUNTING PRINCIPLES AS FROM 2008

The IASB has issued interpretations and amendments to standards applicable for Husqvarna as from 2008.

IFRIC 11, "IFRS 2 – Group and treasury share transactions", provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example options over a parent's share) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group's financial statements.

NEW ACCOUNTING PRINCIPLES FROM 2009 AND ONWARDS

The following standards, amendments and interpretations have not yet come into effect. The Group has or is in the process of evaluating the complete effect of the implementation of these standards.

IAS 1 Presentation of Financial Statements (Revised). The revised standard will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Husqvarna will apply IAS 1 (Revised) from 1 January 2009. Husqvarna has decided to present the income statement and the statement of comprehensive income separately.

IFRS 8, Operating segments. The interpretation is effective for financial years, beginning on or after 1 January 2009. The standard addresses the division of the Company's operations into different segments. According to the standard, the Company is to base this division on its internal reporting structure and is to determine the reportable segments on the basis of this structure. Husqvarna has evaluated this standard and it will have no impact on the Group's reportable segments.

IFRS 2 (Amendment). "Share-based payment" effective from 1 January 2009. The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations whether by the entity or by other parties, should receive the

same accounting treatment. The Group will apply IFRS2 (Amendment) from 1 January 2009. It is not expected to have a material impact on the Group's accounts.

IAS 23, Borrowing costs (Revised). The main change from the previous version is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to prepare for use or sale. As mentioned above, Husqvarna currently expenses borrowing costs for such assets as they arise. Husqvarna will therefore change accounting policy and capitalize borrowing costs as part of the cost of such assets. The standard is effective for financial years beginning on or after 1 January 2009.

IFRIC 14, IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction. IFRIC 14 addresses three issues: how entities should determine the limit placed by IAS 19, Employee Benefits, on the amount of a surplus in a pension plan they can recognize as an asset: how a minimum funding requirement affects that limit; when a minimum funding requirement creates an onerous obligation that should be recognized as a liability in addition to that otherwise recognized under IAS 19.

IAS 27 (Revised). "Consolidated and separate financial statements", (effective from 1 July 2009). The revised standard requires the effects of all transactions with noncontrolling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IFRS 3 (Revised). "Business combinations" (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

SIGNIFICANT ACCOUNTING POLICIES AND UNCERTAINTY FACTORS IN ESTIMATED VALUE

Use of estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in order to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

The discussion and analysis of Husqvarna's results of operations and financial position are based on Husqvarna's financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The preparation of these financial statements requires management to apply certain accounting methods and policies that may be based on difficult, complex or subjective judgments. Management applies estimates on the basis of experience and assumptions determined to be reasonable and realistic based on the related circumstances. The application of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at balance sheet date and also affects the reported amounts of net sales and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions. Summarized below are those accounting policies that require more subjective judgment from management in making assumptions or estimates regarding the effects of matters that are inherently uncertain.

Asset impairment

All assets with long useful lives, including goodwill, are evaluated for impairment yearly or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its recoverable amount on the basis of the best information available. Different methods have been used for this evaluation, depending on the availability of information. When available, market value has been used and impairment charges have been recorded when this information has indicated that the carrying amount of an asset is not recoverable. If market value has not been available fair value has been estimated by using the discounted cash flow method based on expected future results. Differences in the estimation of expected future results and the discount rates used may result in different

asset valuations.

Long-lived assets, excluding goodwill and other intangible assets with indefinite lives, are depreciated on a straight-line basis over their estimated useful lives. Useful lives for property, plant, and equipment are estimated between 10–40 years for buildings, 3–15 years for plant and machinery and technical installations and 3–10 years for other equipment. The carrying amount for property plant, and equipment within the Group amounted to SEK 5,035m. The carrying amount for goodwill and other intangible assets at year-end amounted to SEK 11,577m. Under the current business environment management do not believe that any reasonable changes in the key assumptions on which the cash-generating units recoverable amounts are based upon would result in the carrying amounts exceeding the recoverable amounts. However a future market decline could possibly lead to an impairment situation.

Deferred taxes

In the preparation of the financial statements, Husqvarna estimates income tax for each of the taxing jurisdictions in which Husqvarna operates as well as any deferred taxes based on temporary differences. Deferred tax assets, which primarily relate to tax loss carry-forwards and temporary differences, are recognized in those cases in which future taxable income is expected to allow for the recovery of those tax assets. Changes in assumptions in the projection of future taxable income as well as changes in tax rates, may result in significant differences in the valuation of deferred taxes. As of 31 December 2008, Husqvarna recognized a net amount of SEK 901m as deferred tax liabilities. Tax loss carry-forwards and other deductible temporary differences of SEK 2,039m have not been included in computation of deferred tax assets.

Trade receivables

Trade receivables are reported net of allowance for doubtful receivables. The net value represents the amount expected to be received. These expectations are based on circumstances known at balance sheet date. Despite the present financial situation, Husqvarna has not seen any significant increase in customer defaults. However, the Group's credit rating model shows somewhat lower credit rating of the Groups's customers. An increase in defaults or changes in financial situation of a significant customer could lead to different valuations. The total provision for doubtful accounts at year end was SEK 137m and the trade receivables, net of provision amounted to SEK 4,184m.

Pensions and other post-employment benefits

The Group sponsors defined benefit pension plans for certain of its employees in certain countries. Pension calculations are based on assumptions concerning expected return on assets, discount rates, inflation, mortality, future salary increases etc. Changes in assumptions directly affect the service costs, interest costs and expected return on asset components of the expense. Gains and losses arising when actual returns on assets differ from expected returns, and when actuarial liabilities are adjusted due to changes in assumptions, are allocated over the expected average remaining working life of the employees using the corridor approach. The average expected return on assets used in 2008 was 6,3%, which is based on historical results. During 2008 the actual return on assets was SEK –103m. In 2009 this will lead to an increase in the Group's pension costs of approximately SEK 11m. The average discount rate used to estimate liabilities at the end of 2007 and the calculation of expenses during 2008 was 5,1%. A decrease of 0,5% in this rate would have increased the service cost component of the expense by approximately SEK 7m.

Restructuring

During 2008 Husqvarna announced a restructuring program. The total charge against operating income was SEK 316m of which SEK 52m were paid in 2008. The charges are calculated on the basis of detailed plans for activities that are aimed at reducing the Group's fixed cost structure.

Claims reserves

Husqvarna maintains third-party insurance coverage and is insured through wholly-owned insurance subsidiaries (captives) as regards a variety of exposures and risks, such as property damage, business interruption and product liability claims. Claims reserves in the captives, mainly for product liability claims, are calculated on the basis of a combination of case reserves and reserves for claims incurred but not reported. Actuarial calculations are undertaken to assess the adequacy of the reserves based on historical loss development experience, benchmark reporting and payment patterns. These actuarial calculations are based on several assumptions and changes in these assumptions may result in significant differences in the valuation of the reserves.

Contingent liabilities

The Group is involved in various disputes arising from time to time in its ordinary course of business. Husqvarna estimates that none of the disputes in which Husqvarna is presently involved in or that have been settled recently have had, or may have, a material effect on Husqvarna's financial position or profitability. However the outcome of complicated disputes is also difficult to foresee, and it cannot be ruled out that the disadvantageous outcome of a dispute may result in a significantly adverse impact on the Group's results of operations and financial position.