



2004 Annual Report

ABOUT HEAD

Head N.V. is a Dutch company. It listed its ordinary shares on the New York Stock Exchange and Vienna Stock Exchange in September 2000.

We are a leading global manufacturer and marketer of premium sports equipment. We have a strong heritage in sporting goods equipment, having brought the first metal ski to the market in 1951. More recently we introduced the first micro-chip controlled tennis racquets and skis. In keeping with this tradition, we believe our products are highly innovative and technology-driven.

We own some of the best-known and most highly respected brands in the sports equipment market:



The Head brand was established in 1950 after Howard Head invented the first laminated metal ski. It has since been extended to cover a leading range of sports equipment including tennis, squash and racquetball racquets, alpine skis and boots, and snowboards, bindings and boots. Head is currently the number two tennis racquet brand in the world and is one of the top alpine ski and boot manufacturers.



The Penn Company was founded almost 100 years ago and has been making history ever since, introducing the first pressurized ball cans in 1922 and the first fluorescent yellow tennis ball in 1968. Penn was acquired by Head in 1999 and today Penn is the official ball of the Tennis Masters Series and the number one selling tennis ball in the United States. Penn racquetball balls are currently the number one selling racquetball ball worldwide.



Tyrolia is estimated to be the world's number one alpine ski binding producer. Tyrolia has been producing bindings since 1928 and has brought to market innovations such as the first step-in alpine binding in 1962 and the first carving binding in 1996.



Mares was founded in 1949 as one of the first industrial diving companies. Today it is one of the leading dive brands worldwide with particular strengths in regulators and all-in-one diving systems (the H.U.B.). Dacor, founded in 1953 and based in the United States, specializes in scuba equipment.

Our products appeal to a wide range of users from novices to some of the world's top athletes including Andre Agassi, Gustavo Kuerten, Marat Safin, Juan Carlos Ferrero, Johann Grugger and Maria Riesch.

Our products are sold through over 31,000 accounts including pro shops, specialty sporting goods stores and mass merchants in over 80 countries around the world.

For more information, please visit our website: www.head.com

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FINANCIAL HIGHLIGHTS

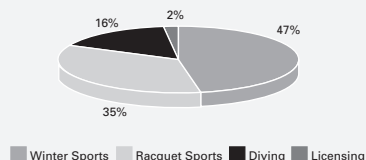
Based on US GAAP

<i>US\$ millions (except margin data)</i>	2000	<i>Year ended December 31,</i>			2004
		2001	2002	2003	
Total revenues ⁽¹⁾	398.6	392.0	387.5	431.2	477.8
Total net revenues ⁽¹⁾	390.7	384.8	380.0	422.3	467.0
Gross profit ⁽¹⁾	163.3	150.8	146.5	156.3	172.7
<i>Margin</i>	41.8%	39.2%	38.6%	37.0%	37.0%
Selling & marketing expense ⁽¹⁾	89.8	94.9	95.1	108.2	118.5
General & administration expense	36.1	36.9	34.2	39.5	42.4
Gain on sale of property	(1.2)	(0.9)	(0.4)	–	(5.7)
Restructuring costs	–	0.8	–	8.4	2.3
Operating income	38.6	19.1	17.8	0.2	15.0
<i>Margin</i>	9.9%	5.0%	4.7%	0.1%	3.2%
Net interest expense	(17.5)	(10.4)	(10.7)	(12.9)	(23.6)
Foreign exchange gain/(loss)	7.5	5.8	(7.4)	(1.1)	(0.6)
Income tax (expense)/benefit	1.9	(4.0)	(2.6)	(0.8)	(27.7)
Extraordinary gain	2.1	–	–	–	–
Net income/(loss)	27.8	9.4	(2.6)	(14.7)	(36.9)

These selected financial highlights should be read in conjunction with our historical consolidated financial statements and accompanying notes included elsewhere in this annual report.

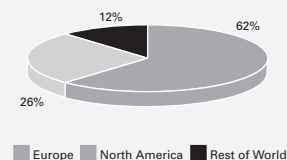
⁽¹⁾ As a result of the application of EITF 01-09 and EITF 00-10, prior period figures differ from those previously provided.

2004 Revenues by Division (2)



(2) Based on total revenues

2004 Revenues by Geography (2)



(2) Based on total revenues

Dear Shareholders,

The Head group experienced a mixed year in 2004. The sporting goods equipment market has continued to be challenging with demand still constrained in many categories and geographic regions, raw material price increases and pricing pressures. We have continued with the implementation of our previously announced restructuring program and have seen the positive effects of these measures impact our results. However the benefits have been partially offset by the impacts of raw material prices and competitive pressures and we will need to continually seek further cost-saving measures to compete effectively in the market.

GROUP RESULTS

Total Group net revenues for 2004 were \$467.0 million representing growth of 11% on 2003's total net revenues of \$422.3 million. The growth is partly a reflection of the continuing strengthening of the euro against the U.S. dollar but also reflects some growth in local currencies among our product categories.

Our reported operating profit of \$15.0 million is \$14.8 million above reported operating profit of \$0.2 million in 2003. However when adjusted for restructuring costs and a one-off gain on the sale of our property in Mullingar, Ireland in 2004, the operating profit increase is only \$3.1 million from an \$8.6 million adjusted operating profit in 2003 to \$11.7 million in 2004.

DIVISIONAL RESULTS

Revenues in our Winter Sports division grew by 18% during 2004 from \$188.8 million in 2003 to \$223.2 million in 2004. This growth was partly due to the strength of the euro against the U.S. dollar, which particularly impacts our Winter Sports sales as three-quarters of our Winter Sports sales are generated in Europe. Revenue growth also came from higher sales volumes for bindings, skis and snowboard equipment and higher sales volumes and prices for our ski boots. We believe that due to generally good snow conditions the worldwide market for winter sports equipment was stable during 2004 and that the popularity of our products helped us to outperform the market.

Revenues in our Racquet Sports division grew slightly from \$166.4 million in 2003 to \$168.0 million in 2004. The small increase in revenues was due to the strength of the euro against the U.S. dollar as we had a difficult year in Racquet Sports with a hard comparison against 2003 when our Liquidmetal technology was launched, combined with a decrease in volumes and prices in tennis balls.

Revenues in our Diving division grew by 14% from \$66.3 million in 2003 to \$75.5 million in 2004. Diving revenues were also benefited by the continuing strength

of the euro against the U.S. dollar as two-thirds of our Diving sales originate in Europe. In addition to the currency impact, revenues were also positively impacted by improved product availability, which led to increased sales volumes.

Revenues from licensing agreements increased from \$9.7 million in 2003 to \$11.1 million in 2004. This resulted from new licensing agreements and also from an increase in the level of revenues from existing contracts.

We have slightly changed the way we present our results so that we now include "Other" revenues and sales deductions in our total net revenue breakdown. Other revenues include amounts billed to customers for shipping and handling. Sales deductions represent incentives to our customers earned after we deliver products. The \$1.8 million increase in sales deductions in 2004 compared to 2003 is mainly due to increased revenues and the strengthening of the euro against the U.S. dollar.

We were saddened during 2004 by the death of Carlo Contini who until earlier in the year had been the general manager of our ski boot division based in Italy. Carlo joined the Head group as the marketing director for Mares in 1990, a position he held until becoming Managing Director of HTM Sport S.p.A. in 1996 and taking charge of the ski boot division. As general manager of the ski boot division, Carlo oversaw the very successful re-branding of San Marco ski boots to the Head brand as well as implementing numerous improvements to our manufacturing processes. Despite Carlo's retirement he was still part of the wider community of Head and will be missed by his many colleagues and friends.

REORGANISATION AND RESTRUCTURING

During 2004 we largely completed the program of reorganisation and restructuring that we implemented during 2003. The main elements of this plan have been:

- The closure of our tennis ball manufacturing facility in Mullingar, Ireland and the transferral of the production to our facility in Phoenix, Arizona
- The closure of our ski boot and diving product manufacturing facility in Tallinn, Estonia and the transferral of production to a newly established facility in Litovel in the Czech Republic
- The consolidation of our U.S. warehouse facilities and centralisation of our U.S. headquarter functions

Whilst we have seen the positive impact of these measures impact our financial statements for 2004 we also recognise that these positive impacts are continually eroded by price, competitive and market

CHAIRMAN'S LETTER TO SHAREHOLDERS

(continued)

pressures and we will need to identify additional projects each year in order to maintain our competitive edge.

NEW PRODUCTS

As in previous years, we have continued to focus on innovation and the development of the next generation of technologically advanced products.

During 2004 we have launched further innovations in our ski boots with the new Worldcup and S-line skiboot ranges that feature a "full custom system". This is an internal wedge that enables the internal shape of the boot to be adapted to the individual foot. In skis we are now offering an integrated all-round ski/binding system for the volume segment of the market with our Cyber C 110 model. This is the first full system integration at this volume price point.

The most significant product launch for our Diving division in 2004 was the Nemo computer. We believe this is the most complete dive computer-watch in the world, offering all functions for dives with or without decompression. For free diving enthusiasts, it also offers a special "free-dive" mode, specially designed to meet the needs of the most demanding deep divers.

In Racquet Sports we brought the Protector series of racquets to the market during 2004. These are specially designed to address the needs of players with tennis elbow and contain the first-ever Electronic Dampening System. Our EDS is different from other dampening systems because it reacts immediately upon ball impact, not after, giving you revolutionary vibration dampening. Combined with a special cushioned grip and string the system reduces stress on the arm and can alleviate pain symptoms for some players with acute tennis elbow.

In March 2005 we also launched our Flexpoint tennis racquet technology. The Flexpoint system is characterised by increased flexibility of the racquet, due to two precisely positioned "control holes" that deliver maximum ball control without losing power. The Flexpoint racquet responds to ball impact like a human hand. It cups the ball, thus extending contact with the strings.

Our Liquidmetal tennis racquet technology that was launched in 2003 has proved to be very successful for our professional endorsees during 2004. Over the past 12 months Head players using Liquidmetal racquets have triumphed at three of the four Grand Slam tennis tournaments. Firstly Anastasia Myskina won the Ladies singles at the French Open, Svetlana Kuznetsova went on to win the Ladies singles at the US Open and then in January 2005 Marat Safin, finalist in the 2004 Australian Open, won the 2005 Australian Open Men's singles event. We are hoping for the same success with Flexpoint!

OUTLOOK FOR 2005

We expect tough trading conditions to continue in the sporting goods equipment industry in 2005 and we also predict that there will be continued pressure on prices and margins across all of our product categories. We know that the Head group's results will be impacted by these conditions and although it is too early in the year to quantify this impact, we expect the Group's operating results for 2005 to be worse than they were for 2004.

This will not cause us to deviate from our strategy of continually developing and launching innovative products across all of our product categories and seeking additional cost-saving measures to try to counteract the market conditions we face.

Sincerely,



Johan Eliasch

Chairman and Chief Executive Officer, Head N.V.
April 2005



Overview:

The Company is a leading global manufacturer and marketer of branded sporting goods serving the skiing, tennis and diving markets. We have created or acquired a portfolio of brands – Head (principally alpine skis, ski boots and snowboard products, tennis, racquetball and squash racquets), Penn (tennis balls and racquetball balls), Tyrolia (ski bindings), Mares and Dacor (diving equipment). Our key products have attained leading market positions and have gained visibility through their use by many of today's top athletes.

With a broad product offering marketed mainly from middle to high price points, the Company supplies sporting equipment and accessories to all major distribution channels in the skiing, tennis and diving markets, including pro shops, specialty sporting goods stores and mass merchants. Head N.V.'s products are sold through over 31,000 customers in over 80 countries and target sports enthusiasts of varying levels of ability and interest ranging from the novice to the professional athlete. The Company's strongest presence has traditionally been in Europe, and in recent years the Company has built market share in the United States, the next largest market for the Company's products after Europe.

Over the last 55 years, we believe we have earned a reputation as a leading developer and manufacturer of innovative, high-quality and technologically advanced sporting equipment. Our focus continues to be our core products of skiing, tennis and diving equipment. In order to expand market share and maximize profitability, we have increased our emphasis on marketing and new product development, leveraging further our brands, global distribution network and traditional strength in manufacturing, and we have initiated a program to reduce our fixed costs and streamline our organizational structure.

We generate revenues in our principal markets by selling goods directly to retail stores and to a lesser extent, by selling to distributors. We also receive licensing and royalty income. As many of our goods, especially Winter Sports goods, are shipped during a specific part of the year, we experience highly seasonal revenue streams. Following industry practice, we begin to receive orders from our customers in the Winter Sports division from March until June, during which time we book approximately three quarters of our orders for the year. We will typically begin shipment of skis, boots and bindings in July and August, with the peak shipping period occurring in October and November. At this time, we will begin to receive re-orders from customers, which constitute the remaining quarter of our yearly orders. Re-orders are typically shipped in December and January. Racquet Sports and Diving product revenues also experience seasonality, but to a lesser extent than Winter Sports revenues.

Market Environment

Although the 2004/2005 winter sports season experienced a late start in all geographic markets, good snow conditions helped the sales recover. The Japanese market continued to decline, suffering from a continued difficult economic environment, which leads us to expect that the Japanese market will show further decline. Apart from additional potential sales in Eastern Europe and in China, we expect growth in the worldwide ski market to be stable. The snowboard market suffered more strongly from the late start in the winter sports season, and we expect the market for snowboard products to decline by approximately 10%.

While the tennis market in the US showed some growth in 2004, due to bad weather conditions during the summer of 2004 the European tennis market declined. Retailers in many markets reported higher than average inventories, reflecting a reduction in purchases for the second half of the year. Tennis racquet sales volume in Japan remained stable. Growth in the US market for tennis balls was stable during 2004, while in Europe the market for tennis balls experienced a decline from bad weather conditions.

Growth in the overall market for diving equipment is expected to be flat in the US and declining in Europe, due to less travel worldwide to dive centers and resorts and, correspondingly, fewer purchases of equipment. However, the market in Southeast Asia experienced fair growth. In the past, we have increasingly focused on the Japanese and Chinese markets and have established dedicated area managers and implemented marketing initiatives. Our strategy in the Japanese and Chinese markets is to improve product availability and customer satisfaction.

We operate in a multi-currency environment and are subject to currency translation risk and, to a lesser extent, currency transaction risk, principally between the euro and U.S. dollar. Currency translation risk arises because we measure and record the financial condition and results of operations of each of our subsidiaries in their functional currency and then translate these amounts into U.S. dollars, our reporting currency. The functional currency of our European operations is the euro. Fluctuations in the value of the euro with respect to the U.S. dollar have had, and may continue to have, a significant impact on our financial condition and results of operations. We are subject to currency transaction risk whenever one of our subsidiaries enters into a transaction using a currency other than its functional currency. We reduce this risk, however, by seeking to match our revenues and costs, as well as assets and liabilities, in each currency.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL STATEMENTS AND RESULTS OF OPERATIONS

(continued)



Results of Operations:

The following table sets forth certain consolidated statements of operations data.

	For the Years Ended 31 December,	
(in thousands)	2003	2004
REVENUES		
Total net revenues	\$422,331	\$467,014
Cost of sales	266,023	294,360
Gross profit	156,308	172,653
Gross margin	37.0%	37.0%
Selling & marketing expense	108,193	118,511
General & administrative expense (excl. non-cash compensation expense)	38,847	41,883
Non-cash compensation expense	654	555
Gain on sale of property	—	(5,650)
Restructuring costs	8,368	2,347
Operating income	245	15,008
Interest expense	(13,999)	(25,699)
Interest income	1,050	2,121
Foreign exchange loss	(1,103)	(606)
Other expense, net	(18)	(97)
Income tax expense	(832)	(27,661)
Net loss	\$(14,657)	\$(36,935)

Total Net Revenues. For the twelve months ended December 31, 2004, total revenues increased by \$44.7 million, or 10.6%, to \$467.0 million from \$422.3 million in 2003. This increase was mainly due to the strengthening of the euro against the U.S. dollar as well as a positive development of the sales in our winter sports and diving divisions.

	For the Years Ended 31 December,	
(in thousands)	2003	2004
Product category:		
Winter Sports	\$188,768	\$223,211
Racquet Sports	166,417	168,037
Diving	66,322	75,453
Licensing	9,702	11,059
Total Revenues	\$431,209	\$477,759
Other revenues	1,394	1,326
Sales Deductions	(10,272)	(12,071)
Total net revenues	\$422,331	\$467,014

Winter Sports revenues for the twelve months ended December 31, 2004 increased by \$34.4 million, or 18.2%, to \$223.2 million from \$188.8 million in 2003. This increase was due to the strengthening of the euro against the U.S. dollar, higher sales volumes for bindings, skis and snowboard equipment and higher sales volumes and prices for our ski boots.

Racquet Sports revenues for the twelve months ended December 31, 2004 increased by \$1.6 million, or 1.0%, to \$168.0 million from \$166.4 million in 2003. This increase resulted mainly from the strengthening of the euro against the U.S. dollar. Although sales volumes and prices for our tennis racquets remained stable we faced a decrease in sales volumes and prices for our tennis balls.

Diving product revenues for the twelve months ended December 31, 2004 increased by \$9.1 million, or 13.8%, to \$75.5 million from \$66.3 million in 2003. This results mainly from increased sales volumes due to better product availability and the strengthening of the euro against the U.S. dollar.

Licensing revenues for the twelve months ended December 31, 2004 increased by \$1.4 million, or 14.0%, to \$11.1 million from \$9.7 million in 2003 mainly due to increased revenues from existing contracts and from new licensing agreements.

Other revenues include amounts billed to customers for shipping and handling.

Sales deductions for the twelve months ended December 31, 2004 increased by \$1.8 million, or 17.5%, to \$12.1 million from \$10.3 million in 2003 mainly due to increased revenues and the strengthening of the euro against the U.S. dollar.

Gross Profit. For the twelve months ended December 31, 2004, gross profit increased by \$16.3 million to \$172.7 million from \$156.3 million in 2003 due to increased revenues. Gross margin remained stable at 37.0% in 2004 compared to the comparable 2003 period.

Selling and Marketing Expense. For the twelve months ended December 31, 2004, selling and marketing expense increased by \$10.3 million, or 9.5%, to \$118.5 million from \$108.2 million in 2003. The increase was due mainly to the strengthening of the euro against the U.S. dollar, which adversely impacted our predominantly euro denominated costs. In addition, our variable distribution costs increased due to higher sales.

General and Administrative Expense. For the twelve months ended December 31, 2004, general and administrative expense (excluding non-cash compensation expense) increased by \$3.0 million, or 7.8%, to \$41.9 million from \$38.8 million in 2003. The increase was due mainly to the strengthening of the euro against the U.S. dollar, which adversely impacted our predominantly euro denominated costs.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL STATEMENTS AND RESULTS OF OPERATIONS**
(continued)



Non-Cash Compensation Expense. We recorded \$0.7 million in the twelve month period ended December 31, 2003 and \$0.6 million in the twelve month period ended December 31, 2004 as non-cash compensation expense due to the grant of stock options under our stock option plans of 1998 and 2001, and the resulting amortization expense.

Gain on sale of property. We recorded a gain from the sale of our premises in Ireland of \$5.7 million in the twelve month period ended December 31, 2004.

Restructuring Costs. We recorded restructuring costs of \$2.3 million in the twelve month period ended December 31, 2004 consisting of dismissal and transfer costs in connection with the closing of our production facility in Mullingar, Ireland and our plant in Tallinn, Estonia (see Note 25). In comparison, in 2003 we incurred \$8.4 million in the twelve month period ended December 31, 2003 to implement a cost reduction program.

Operating Income. As a result of the foregoing factors, for the twelve months ended December 31, 2004, operating income increased by \$14.8 million to \$15.0 million from \$0.2 million in 2003.

Interest Expense. For the twelve months ended December 31, 2004 interest expense increased by \$11.7 million or 83.6% to \$25.7 million from \$14.0 million in 2003. This increase was mainly due to the following: write-off of the capitalized debt issuance costs of \$3.2 million relating to our former 10.75% senior notes, which were repaid with proceeds from our new 8.5% senior notes in January 2004; the premium of \$4.4 million for the early redemption of the 10.75% senior notes and the higher interest expenses due to increased debt of the group. The strength of the euro against the U.S. dollar further impacted these predominantly euro denominated expenses.

Interest Income. For the twelve months ended December 31, 2004 interest income increased by \$1.1 million to \$2.1 million from \$1.1 million in the comparable 2003 period. This increase was due mainly to higher cash on hand as well as due to the strengthening of the euro against the U.S. dollar.

Foreign Exchange Loss. For the twelve months ended December 31, 2004, we recorded a foreign currency exchange loss of \$0.6 million, compared to a loss of \$1.1 million in 2003.

Other Expense, net. For the twelve months ended December 31, 2004, other expense, net increased by \$0.08 million to a net expense of \$0.1 million from \$0.02 million in 2003.

Income Tax Expense. For the twelve months ended December 31, 2004, income tax expense increased by \$26.8 million to \$27.7 million from \$0.8 million in 2003. This increase in income tax expense is mainly due to a reduction in the Austrian tax rate which led to a decrease in deferred tax assets resulting from tax losses carried forward of \$24.9 million (see Note 20).

Net Loss. As a result of the foregoing factors, for the twelve months ended December 31, 2004, the Company had net loss of \$36.9 million, compared to net loss of \$14.7 million in 2003.

Liquidity and Capital Resources:

For the twelve months ended December 31, 2004, cash generated from operating activities decreased by \$9.6 million, or 55.1% to \$7.8 million from \$17.3 million in 2003. This decrease is mainly the result of the higher net loss in 2004. We increased our cash position with a portion of the net proceeds from our newly issued 8.5% senior notes due 2014. We used part of the proceeds from the 8.5% senior notes to redeem at a premium our outstanding 10.75% senior notes due 2006, certain other long-term debts, and \$29.7 million of originally classified as short-term borrowings and reclassified as long-term debt, as of December 31, 2003. In addition, we used part of these proceeds, together with cash from operation and cash from sale of our premises in Ireland to purchase property, plant and equipment of \$23.2 million. Finally, we used \$13.6 million to purchase available for sale marketable securities.

As of December 31, 2004, we had \$2.5 million in available unused credit facilities and reported \$59.6 million cash on hand.

CONSOLIDATED BALANCE SHEETS

<i>(in thousands, except share data)</i>	December 31,	
	2003	2004
Assets:		
Cash and cash equivalents	\$ 41,312	\$ 59,600
Restricted cash	2,842	6,418
Accounts receivable, net of allowance for doubtful accounts of \$15,822 and \$16,591	195,998	211,400
Inventories, net	78,644	91,884
Assets held for sale	2,556	2,155
Prepaid expense and other current assets	17,764	24,194
Total current assets	339,116	395,653
Marketable securities	2,826	2,950
Property, plant and equipment, net	76,694	85,064
Intangible assets	16,536	16,536
Goodwill	3,700	3,700
Deferred income taxes	92,060	78,912
Other non-current assets	6,653	4,705
Total assets	\$537,586	\$587,520
Liabilities and Stockholders' Equity:		
Accounts payable	\$ 39,468	\$ 40,660
Accrued expenses and other current liabilities	51,892	59,417
Short-term borrowings	37,490	39,883
Current portion of long-term debt	3,392	3,305
Total current liabilities	132,241	143,264
Long-term debt	143,951	199,520
Other long-term liabilities	19,669	27,785
Total liabilities	295,861	370,569
Minority interest	9	9
Commitments and contingencies (see Note 17)		
Stockholders' Equity:		
Ordinary shares: EUR 0.20 par value; 39,820,677 shares issued	7,067	7,067
Additional paid in capital	137,909	143,807
Treasury stock at cost: 2,421,235 and 3,600,775 shares	(5,485)	(10,766)
Retained earnings	53,084	16,149
Accumulated other comprehensive income	49,142	60,686
Total stockholders' equity	241,716	216,942
Total liabilities and stockholders' equity	\$537,586	\$587,520

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS



<i>(in thousands, except share data)</i>	For the Years Ended December 31,		
	2002	2003	2004
Revenues:			
Product revenues	\$379,089	\$421,507	\$466,701
Licensing revenues	8,398	9,701	11,059
Total revenues	387,487	431,208	477,759
Other revenues (see Note 2)	1,246	1,394	1,326
Sales deductions (see Note 2)	(8,783)	(10,272)	(12,071)
Total net revenues	379,949	422,331	467,014
Cost of sales	233,402	266,023	294,360
Gross profit	146,547	156,308	172,653
Selling and marketing expense	95,082	108,193	118,511
General and administrative expense (excluding non-cash compensation expense)	32,524	38,847	41,883
Non-cash compensation expense	1,632	654	555
Gain on sale of property (see Note 25)	(443)	—	(5,650)
Restructuring costs (see Note 25)	—	8,368	2,347
Operating income	17,753	245	15,008
Interest expense	(11,677)	(13,999)	(25,699)
Interest income	940	1,050	2,121
Foreign exchange loss	(7,387)	(1,103)	(606)
Other income (expense), net	387	(18)	(97)
Income (loss) from operations before income taxes	15	(13,825)	(9,274)
Income tax benefit (expense):			
Current	(2,410)	(2,278)	(2,504)
Deferred	(220)	1,446	(25,156)
Income tax expense	(2,630)	(832)	(27,661)
Net loss	\$ (2,615)	\$ (14,657)	\$ (36,935)
Earnings per share—basic			
Net loss	(0.07)	(0.40)	(1.02)
Earnings per share—diluted			
Net loss	(0.07)	(0.40)	(1.02)
Weighted average shares outstanding			
Basic	37,356	36,285	36,198
Diluted	37,356	36,285	36,198

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<i>(in thousands, except share data)</i>	Ordinary Shares		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount					
Balance at December 31, 2001	37,779,377	\$7,067	\$135,435	\$ —	\$75,590	\$ (5,732)	\$212,359
Dividend paid	—	—	—	—	(5,233)	—	(5,233)
Stock-based compensation	—	—	1,632	—	—	—	1,632
Purchase of treasury stock (see Note 19)	(1,247,050)	—	—	(3,046)	—	—	(3,046)
Repurchase of shares from exercised options	—	—	167	(1,288)	—	—	(1,121)
Proceeds from executed option	11,212	—	3	—	—	—	3
Net loss	—	—	—	—	(2,615)	—	(2,615)
Other comprehensive income:							
Unrealized losses on marketable securities (net of tax of \$65)	—	—	—	—	—	(138)	(138)
Unrealized gain on derivatives instruments (net of tax of \$54)	—	—	—	—	—	640	640
Reclassification adjustment for derivative gains recorded in net loss (net of tax of \$506)	—	—	—	—	—	(1,488)	(1,488)
Foreign currency translation adjustment	—	—	—	—	—	28,832	28,832
Comprehensive income							25,231
Balance at December 31, 2002	36,543,539	7,067	137,237	(4,334)	67,741	22,114	229,824
Stock-based compensation	—	—	654	—	—	—	654
Purchase of treasury stock (see Note 19)	(577,775)	—	—	(1,151)	—	—	(1,151)
Proceeds from executed option	56,790	—	17	—	—	—	17
Net loss	—	—	—	—	(14,657)	—	(14,657)
Other comprehensive income:							
Unrealized losses on marketable securities (net of tax of \$16)	—	—	—	—	—	(33)	(33)
Unrealized gain on derivatives instruments (net of tax of \$558)	—	—	—	—	—	1,083	1,083
Reclassification adjustment for derivative gains recorded in net loss (net of tax of \$295)	—	—	—	—	—	(572)	(572)
Foreign currency translation adjustment	—	—	—	—	—	26,550	26,550
Comprehensive income	—	—	—	—	—	—	12,370
Balance at December 31, 2003	36,022,554	7,067	137,909	(5,485)	53,084	49,142	241,716
Stock-based compensation	—	—	555	—	—	—	555
Changes of treasury stock as consequence of consolidation of Stichting Head Option Plan	—	—	6,729	(6,729)	—	—	0
Proceeds from executed option (see Note 19)	197,348	—	(1,385)	1,448	—	—	63
Net loss	—	—	—	—	(36,935)	—	(36,935)
Other comprehensive income:							
Unrealized gains on marketable securities, (net of tax of \$24)	—	—	—	—	—	98	98
Unrealized gain on derivatives instruments (net of tax of \$120)	—	—	—	—	—	360	360
Reclassification adjustment for derivative gains recorded in net loss (net of tax of \$195)	—	—	—	—	—	(585)	(585)
Foreign currency translation adjustment	—	—	—	—	—	11,671	11,671
Comprehensive loss	—	—	—	—	—	—	(25,390)
Balance at December 31, 2004	36,219,900	\$7,067	\$143,807	\$(10,766)	\$16,149	\$60,686	\$216,942

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS



<i>(in thousands)</i>	For the Years Ended December 31,		
	2002	2003	2004
Operating Activities:			
Net loss	\$ (2,615)	\$(14,657)	\$(36,935)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,946	19,239	19,261
Amortization and write-off of debt issuance cost and bond discount	1,092	1,232	3,570
Impairment (see Note 25)	—	2,625	—
Provision (release) for leaving indemnity and pension benefits	883	(348)	444
Restructuring costs (see Note 25)	—	4,800	(4,882)
(Gain) loss on sale of property, plant and equipment	(774)	85	(5,471)
Non cash compensation expense	1,632	654	555
Deferred tax (benefit) expense	220	(1,446)	25,156
Changes in operating assets and liabilities:			
Accounts receivable	2,657	(12,058)	(2,437)
Inventories	9,101	13,755	(5,231)
Prepaid expense and other assets	1,494	3,071	1,604
Accounts payable, accrued expenses and other liabilities	(6,356)	390	12,154
Net cash provided by operating activities	23,279	17,342	7,789
Investing Activities:			
Purchase of property, plant and equipment	(20,746)	(16,914)	(23,175)
Proceeds from sale of property, plant and equipment	2,105	258	7,907
Purchase of marketable securities	(164)	(39)	(13,663)
Maturities of marketable securities	—	141	169
Net cash used for investing activities.	(18,804)	(16,554)	(28,762)
Financing Activities:			
Change in short-term borrowings, net	(2,853)	1,419	(31,271)
Proceeds from long-term debt, net of discount	16,592	1,656	164,005
Payment of debt issuance cost	—	—	(1,749)
Payments on long-term debt	(4,340)	(1,249)	(91,629)
Purchase of treasury stock	(3,046)	(1,151)	—
Payments to repurchase shares from exercised options	(1,121)	—	—
Proceeds from exercised options	3	17	63
Dividend paid	(5,233)	—	—
Change in restricted cash	—	(2,699)	(2,982)
Net cash provided by (used for) financing activities	2	(2,007)	36,437
Effect of exchange rate changes on cash and cash equivalents	10,994	4,932	2,824
Net increase in cash and cash equivalents	15,470	3,714	18,288
Cash and cash equivalents at beginning of period	22,128	37,598	41,312
Cash and cash equivalents at end of period	\$37,598	\$41,312	\$ 59,600
Supplemental Cash Flow Information:			
Cash paid for interest	\$10,736	\$12,597	\$ 16,760
Cash paid for income taxes	\$ 1,747	\$ 1,340	\$ 2,802

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Business

Head N.V. ("Head" or the "Company") was incorporated in Rotterdam, Netherlands, on August 24, 1998. With effect from this date, Head Holding Unternehmensbeteiligung GmbH ("Head Holding") merged with a wholly owned subsidiary of the Company in a transaction treated as a merger of entities under common control and accounted for on an "as if pooling" basis.

Head conducts business in Europe (primarily in Austria, Italy, Germany, France, Switzerland, the Netherlands and the United Kingdom), North America, and Asia (primarily Japan).

Note 2—Summary of Significant Accounting Policies

A summary of significant accounting policies used in the preparation of the accompanying consolidated financial statements is as follows:

Basis of Presentation

The Company and its subsidiaries maintain their accounting records in accordance with their local regulations and have made certain adjustments to these records to present the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America. In addition, the Company publishes its statutory financial statements in accordance with Dutch corporate regulations.

Principles of Consolidation

The consolidated financial statements of Head include the accounts of all majority-owned subsidiaries and entities over which the Company has financial and operating control and variable interest entities in which the Company has determined it is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents comprise of cash and short-term, highly liquid investments with an original maturity of three months or less.

Restricted Cash

Restricted cash comprises of deposits pledged as collateral on outstanding lines of credit. The amounts are collateralized with one financial institution and earn interest while in deposit.

Inventories

Inventories are stated at the lower of cost or market with cost being determined on a first-in first-out basis (FIFO).

Marketable Securities

Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-

maturity and reported at amortized cost. Debt and equity securities held principally for selling in the near term are classified as trading and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity or trading are classified as available-for-sale and are reported at fair value, with unrealized gains and losses reported in other comprehensive income.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Additions and improvements that extend the useful lives of the plant and equipment and replacements, major renewals, and betterments are capitalized. The cost of maintenance, repair and minor renewals are expensed as incurred. When plant and equipment is retired or otherwise disposed, the cost and related accumulated depreciation are removed from the related accounts, and any gain or loss on disposition is recognized in earnings. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The Company's buildings are depreciated over a period of 10-48 years and machinery and equipment is depreciated over a period of 2-20 years.

Impairment

The Company accounts for impairments in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). The Company reviews for impairment whenever events or changes in circumstances indicate that the carrying amount of the long-lived asset may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized in the consolidated statements of operations for the difference. The Company's review involves comparing current and future cash flows to the carrying value of the assets. Long-lived assets to be disposed of, if any, are reported at the lower of their carrying amount or fair value less cost to sell. The Company recorded an impairment charge of zero, \$2.6 million and zero, for the years ended December 31, 2002, 2003, and 2004, respectively.

Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted SFAS 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 requires that goodwill and intangible assets with an indefinite life are no longer amortized, but instead are tested for impairment at least annually (fourth quarter), or more frequently if events and changes in circumstances indicate that the carrying value may not be recoverable. SFAS 142 prescribes a two-phase process for impairment testing of goodwill. First, each reporting unit's (which generally represents one level below an operating segment)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)



carrying value is compared to its fair value to determine if an impairment exists. Second, where the reporting unit's carrying value exceeds its fair value, an impairment loss is recognized to the extent that the goodwill carrying value exceeds the reporting unit's implied goodwill, which is calculated as the difference between the reporting unit's fair value and the fair value of the reporting unit's recognized and unrecognized assets and liabilities. The impairment test for indefinite-lived intangible assets requires that an impairment loss be recognized equal to the excess of its carrying value over its fair value. The Company has goodwill and identified intangible assets comprising of trademarks with an indefinite life. For the years ended December 31, 2002, 2003 and 2004, no impairment charges were recognized for goodwill or indefinite lived intangible assets.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of a sale arrangement exists, delivery has occurred, the sales price is fixed and determinable, and collectibility is reasonably assured. These criteria are generally met when finished products are shipped to the customers and both title and the risks and rewards of ownership are transferred, or services have been rendered and accepted.

Revenues from licensing agreements are recognized over the license term for the fixed license revenue portion and based on underlying customer sales once minimum contractual sales volumes are met for the variable license revenue portion.

Provisions are recorded for estimated product returns at the time revenues are recognized.

Payment terms differ depending on the customer (large distributors, small shops), product line (winter sports is a very seasonal business, as are racquet sports and diving, though to a lesser extent than winter sports), country (payment terms vary in accordance with local practices throughout the world) and past experiences with customers. It is our normal procedure to agree terms of transactions, including payment terms (60 to 180 days), with customers in advance.

Shipping and handling costs

The Company classifies all amounts billed to customers for shipping and handling as other revenues and all shipping and handling costs as selling and marketing expense in the consolidated statement of operations. For the years ended December 31, 2002, 2003, and 2004, the Company incurred shipping and handling costs of \$9.6 million, \$10.5 million, and \$12.3 million, respectively.

Sales deductions

The Company accrues for customer discounts based upon an estimated refund obligations and classifies all sales incentives, which are earned by our customers subsequent to delivery of our product, including cash discounts for volume rebates and other than cash consideration, such as credits that our customer can apply against trade amounts owed to us as sales deductions.

Translation of Foreign Currency

Finished goods sales to customers in Austria, Italy, Germany, Japan, France, Switzerland, Canada, Spain, Netherlands, United Kingdom and the United States of America are generally billed in local currency. The local currency is the functional currency of the subsidiaries in these countries. Foreign currency (functional currency) assets and liabilities are translated into U.S. dollars (the reporting currency) at the exchange rate on the balance sheet date, with resulting translation adjustments recorded in other comprehensive income. Revenues and expenses are translated at average rates prevailing during the year. Foreign exchange gains and losses arising from transactions denominated in a currency other than the functional currency are included in income. The effect of exchange rate changes on intercompany transactions of a long-term investment nature are included in other comprehensive income. Head N.V. has a functional currency of the Euro.

Financial Instruments

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities, as amended" ("SFAS 133"). SFAS 133 requires that the Company record all derivatives on the balance sheet at fair value. The Company uses derivative instruments, specifically foreign exchange forwards and option contracts, to hedge the foreign exchange risk related to its forecasted and firmly committed foreign currency denominated cash flows. On the date on which a derivative contract is transacted, the Company designates the derivative as a hedging instrument as either a fair value hedge or a cash flow hedge. Changes in derivative fair values that are designated, effective and qualify as fair value hedges are recognized in earnings as offsets to the related earnings effects of changes in fair value of related hedged assets, liabilities and firm commitments attributable to the hedged risk. Changes in derivative fair values that are designated, effective and qualify as cash flow hedges will be deferred and recorded as a component of accumulated other comprehensive income (AOCI) until the hedged transactions affect earnings, at which time the deferred gains and losses on the derivative designated as cash flow hedges are recognized in earnings, and classified in accordance with

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

the classification of the hedged item. The Company excludes the time value component of the derivatives' change in fair value from the assessment of hedge effectiveness. The Company enters into hedging relationships to limit the foreign exchange rate risk for periods generally not to exceed one year. The Company does not utilize financial instruments for trading or speculative purposes.

Research and Development Costs

Research and development costs are expensed as incurred and are reflected in costs of sales in the statements of operations. The Company incurred research and development expense in the amount of \$11.0 million, \$13.6 million and \$15.5 million for the years ended December 31, 2002, 2003 and 2004, respectively.

Advertising Costs

Advertising costs are expensed as incurred and are reflected in selling and marketing expense in the consolidated statements of operations. The Company incurred advertising costs of \$32.8 million, \$36.9 million and \$39.4 million for the years ended December 31, 2002, 2003 and 2004, respectively.

Stock-Based Compensation

The company accounts for its stock option plan using the fair value method in accordance with SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Under the fair value recognition provisions of SFAS 123, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term of stock options, the expected volatility of our stock, expected dividends, and risk-free interest rates.

Debt Issuance Costs

Debt issuance costs are capitalized and amortized over the term of the debt using the effective interest rate method.

Pension and postretirement benefits

The Company accounts for the costs of pension plans and postretirement benefits in accordance with SFAS 87, "Employers' Accounting for Pensions" ("SFAS 87") and SFAS 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" ("SFAS 106"), respectively.

Fair Value Disclosure

The carrying value of the Company's financial instruments approximates fair value at December 31, 2003 and 2004. The carrying amounts reported in the consolidated balance sheet for cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and short-term

borrowings approximate fair value due to the short maturity of these instruments and the floating interest rates of the short-term borrowings. The carrying amounts of marketable securities are equal to fair value based on quoted market prices at December 31, 2003 and 2004 (see Note 7).

The carrying value of the Company's senior notes and other long-term debt approximates fair value based on current rates offered and quoted market price of debt with similar terms.

Income Taxes

The Company utilizes the liability method of accounting for deferred income taxes whereby deferred tax assets and liabilities are recognized to reflect the future tax consequences attributable to temporary differences between the financial reporting bases of existing assets and liabilities and their respective tax bases. With the exception of Head Holding Unternehmensbeteiligung GmbH, all of the Company's Austrian subsidiaries are included in a consolidated Austrian federal income tax return. Separate provisions for income taxes have been prepared for the Company's other subsidiaries. Deferred taxes are calculated by using the prevailing tax rates.

The Company provides a valuation allowance for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

Computation of Net Loss per Share

Net loss per share is computed under SFAS 128, "Earnings per Share" ("SFAS 128"). Basic net loss per share is computed by dividing the net loss for the period by the weighted average number of ordinary shares outstanding during the period. Shares held by The Stichting Head Option Plan ("Stichting") are not treated as outstanding for purposes of the loss per share calculation until the related option has been exercised. Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of ordinary shares and potential ordinary shares outstanding during the period. Potential ordinary shares are composed of incremental shares issuable upon the exercise of share options, and are included in diluted net loss per share to the extent such shares are dilutive.

For the years ended December 31, 2002, 2003, and 2004, the weighted average shares outstanding included in basic net loss per share is 37,356,353 shares, 36,285,142 shares, and 36,197,980 shares, respectively. For the years ended December 31, 2002, 2003 and 2004, the number of options that were outstanding but not included in the computation of diluted net loss per share because their effect would have been anti-dilutive was 1,789,490 options, 1,347,773 options, and 1,278,201 options, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Comprehensive income (loss)

Comprehensive income (loss) encompasses net income and changes in the components of accumulated other comprehensive income not reflected in the Company's consolidated statements of operations during the periods presented.

Concentration of business risk

Financial instruments which potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, marketable securities and accounts receivable. The Company places cash with high quality financial institutions. The Company's customers are concentrated in the retail industry however, concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers and their dispersion across many geographic areas. The Company generally performs credit reviews and sometimes obtains credit insurance before extending credit.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant of these estimates are impairments, allowances for doubtful accounts, product warranties and returns, inventory obsolescence and valuation allowances on deferred tax assets. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to be consistent with the current year's presentation.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standard Board ("FASB") issued a revised SFAS No. 123(R), "Share-Based Payment - an Amendment of FASB Statements No. 123 and 95" ("SFAS 123(R)"). SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services or incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments, focusing primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123(R) requires entities to

measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions) and recognize the cost over the period during which an employee is required to provide service in exchange for the award. The Company is required to adopt SFAS 123(R) effective July 1, 2005 and is currently in the process of evaluating the impact of SFAS 123(R).

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Non Monetary Assets - An Amendment of APB Opinion No. 29" ("SFAS 153") which eliminates the exception for non monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non monetary assets that do not have commercial substance. The Company is required to adopt SFAS 153 for non monetary asset exchanges occurring in the first quarter of 2006. The Company is currently in the process of evaluating the impact of SFAS 153.

In November 2004, FASB issued SFAS No. 151, "Inventory Costs — an amendment of ARB No. 43, Chapter 4" ("SFAS 151"). This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of abnormal. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently in the process of evaluating the impact of SFAS 151.

In December 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132(R)"). The provisions of that Statement do not change the measurement and recognition provisions of SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS 132(R) replaces SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," and requires additional disclosures pertaining to plan assets, benefit obligations, key assumptions, and the measurement date. This standard is effective for domestic plans for the reporting period ending after December 15, 2003 (and June 15, 2004 for

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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disclosure of estimated future benefit payments) and for foreign plans and non-public entities for interim periods ending after December 15, 2003 and for years ending after June 15, 2004. The Company has adopted this standard and has provided the required disclosures.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46) "Consolidation of Variable Interest Entities, an interpretation of ARB 51". In December 2003, the FASB issued FIN 46R, "Consolidation of Variable Interest Entities," which amended FIN 46. FIN 46R was effective immediately for arrangements entered into after January 31, 2003, and became effective January 1, 2004 for all arrangements entered into before February 1, 2003. FIN 46R requires existing unconsolidated variable interest entities ("VIEs") to be consolidated by their primary beneficiary. The primary beneficiary of a VIE is a party that absorbs a majority of the entity's expected losses or receives a majority of its expected residual returns, or both, as a result of holding variable interests, which are the ownership interests, contractual interests, or other pecuniary interests in an entity that changes with changes in the fair value of the entity's net assets excluding variable interests. Prior to FIN 46R, the Company included an entity in its consolidated financial statements only if it controlled the entity through voting rights. The adoption of FIN 46 and FIN 46R did not have a material impact on our financial position or result of operations.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). EITF 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material impact on the Company's consolidated financial statements.

Note 3—Accounts Receivable

Accounts receivable consist of the following (in thousands):

	December 31,	
	2003	2004
Trade debtors	\$198,110	\$ 215,588
Other receivables	13,710	12,404
Allowance for doubtful accounts	(15,822)	(16,591)
Accounts receivable, net	\$195,998	\$211,400

Note 4—Inventories

Inventories consist of the following (in thousands):

	December 31,	
	2003	2004
Raw materials and supplies	\$21,545	\$25,296
Work in process	9,388	11,187
Finished goods	63,865	73,354
Provisions	(16,154)	(17,953)
Total inventories, net	\$78,644	\$91,884

Note 5—Assets Held for Sale

During December of 2003, the Company transferred all of its manufacturing operations in Tallinn, Estonia, which manufacture ski boots and certain diving products, to our plant in Litovel in the Czech Republic. As of December 31, 2003 the Company had the intention to sell its property in Estonia therefore the Company reclassified the \$2.6 million facility as held for sale in accordance with SFAS 144. In October 2004, the Company entered into a lease agreement for this property and therefore reclassified the \$2.6 million asset from held for sale to property, plant and equipment. Additionally, the Company recorded an additional \$0.1 million of depreciation expense on this facility which would have been recognized had the asset been continuously classified as held for use.

During 2004, the Company made the decision to sell its distribution warehouse in Italy. In accordance with SFAS 144, this asset, with a net book value of \$2.2 million has been reclassified as held for sale and the Company ceased depreciation on this plant.

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Note 6—Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	December 31,	
	2003	2004
Marketable Securities, short term	\$ 323	\$ 14,556
Deferred tax assets, current	11,262	4,280
Patents and royalties	2,804	2,351
Advertising	899	1,043
Other	2,476	1,965
Total prepaid expenses and other current assets	\$17,764	\$24,194

Note 7—Marketable Securities

Marketable securities consist of the following (in thousands):

	December 31,	
	2003	2004
Available-for-Sale		
Austrian government debt securities	\$ 137	\$ —
Corporate debt securities	410	432
Cash bonds	—	13,772
Other securities	2,602	3,302
Total Marketable securities available-for-sale	3,149	17,506
Less: Short-term portion	(323)	(14,556)
Total Long-term marketable securities	\$2,826	\$2,950

Note 7—Marketable Securities (continued)

The following table is a summary of the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individually securities have been in a unrealized loss position, at December 31, 2004.

(in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other securities	—	—	1,655	(139)	1,655	(139)
Total temporarily impaired securities	\$—	\$—	\$1,655	\$(139)	\$1,655	\$(139)

Note 7—Marketable Securities (continued)

Maturities of debt securities are as follows (in thousands):

	December 31, 2004
Mature within 1 year	\$ 432
Mature between one year and five years	—
Mature between five years and ten years	—
Mature after ten years	—
Total Marketable securities	\$432

Marketable securities with a maturity of less than one year are included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

Note 8—Property, Plant and Equipment

Property, plant and equipment consist of the following (in thousands):

	December 31,	
	2003	2004
Land	\$ 4,490	\$4,576
Buildings	36,214	33,021
Machinery and equipment	164,013	185,599
	204,718	223,195
Less: Accumulated depreciation	(128,024)	(138,130)
Total Property, plant and equipment, net	\$76,694	\$85,064

For the year ended December 31, 2002, 2003, and 2004, the Company recorded depreciation expense of \$15.9 million, \$19.2 million, and \$19.3 million, respectively.

Our total proceeds on the sale of property and equipment were \$2.1 million, \$0.3 million and \$7.9 million resulting in a gain of \$0.8 million, a loss of \$0.1 million and a gain of \$5.5 million for the years ended December 31, 2002, 2003 and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2004, respectively. As of December 31, 2002 and 2004, \$0.4 million and \$5.7 million of these gains pertain to plant sales and are reflected as gain on sale of property on the consolidated statements of operations as these gains represent gains on the sale of operating activities. All other gains (losses) are included in other income (expense), net in the accompanying consolidated statements of operations.

Note 9—Goodwill and Intangible Assets

Effective January 1, 2002, the Company adopted SFAS 142. Upon adoption of SFAS 142 the Company ceased amortization of purchased goodwill and trademarks, which were determined to be indefinite-lived. The Company completed the transitional impairment tests for goodwill and indefinite-lived intangibles as of January 1, 2002, and the annual impairment test, in the fourth quarter of 2003 and 2004, as required by SFAS 142. Based upon the assessment, the Company determined that goodwill and trademarks are not impaired; therefore no impairment charge was recorded.

At December 31, 2003 and 2004, the Company recorded identified intangible assets consisting of trademarks with a book value of \$16.5 million. Also, the Company recorded goodwill of \$3.7 million at December 31, 2003 and 2004.

Note 10—Fair Value of Financial Instruments

The Company uses derivative instruments, specifically foreign exchange forwards and option contracts, to hedge the foreign exchange risk related to its forecasted and firmly committed foreign currency denominated cash flows.

The Company recorded the change in fair market value of derivatives related to cash flow hedges to AOCI of \$1.1 million and \$0.4 million, net of tax, for year ended December 31, 2003 and 2004, respectively, all of which is expected to be reclassified to earnings during the next twelve months. The time value component excluded from effectiveness testing was not material for the periods presented.

For the year ended December 31, 2003 and 2004, the Company reclassified a gain from AOCI to earnings of \$0.6 million and \$0.6 million, net of tax, respectively.

The following table provides information regarding the Company's foreign exchange forward and option contracts as of December 31, 2003 and 2004. The fair value of the foreign currency contracts represent the amount the Company would receive or pay to terminate the contracts, considering first, quoted market prices of comparable agreements, or in the absence of quoted market prices, such factors as interest rates, currency exchange rates and remaining maturity.

(in thousands)	December 31, 2003		
	Contract amount	Carrying value	Fair value
Forward foreign exchange contracts	\$11,997	\$811	\$811
Foreign exchange option contracts	\$ 1,870	\$ 86	\$ 86

(in thousands)	December 31, 2004		
	Contract amount	Carrying value	Fair value
Forward foreign exchange contracts	\$37,610	\$716	\$716

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions. The Company links all derivatives that are designated as hedging instruments in foreign currency cash flow hedges to forecasted transactions or firm commitments. In accordance with the provision of SFAS 133, the Company assesses, both at the inception of each hedge and on an on-going basis, whether the derivatives that are designated in hedging qualifying relationship are highly effective in off-setting changes in fair values or cash flows of hedged items. When it is determined that a derivative is no longer highly effective as a hedge, the Company discontinues hedge accounting prospectively.

The counterparties to the foreign currency contracts are major international banks. Such contracts are generally for one year or less.

Note 11—Short-Term Borrowings

Short-term borrowings consist of the following (in thousands):

	December 31, 2003	2004
Lines of credit	\$37,490	\$39,883

In the second quarter of 2001, the Company's subsidiaries entered into a new financing agreement providing multiple revolving credit lines with the "Österreichische Kontrollbank" ("OEKB") which were renegotiated in 2003, in the total amount of €15.0 million (\$20.4 million) secured by all Austrian trade receivables. As of December 31, 2004, the fair value of trade receivables that serve as collateral for our revolving credit lines was \$72.3 million. In addition, the Company used lines of credit with several banks in Austria, Canada and Japan of \$19.5 million and had \$2.5 million unused credit lines. The weighted average interest rate on outstanding short-term borrowings was 3.2% and 2.7% as of December 31, 2003 and 2004, respectively.

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Note 12—Accounts Payable

Accounts payable consist of the following (in thousands):

	December 31,	
	2003	2004
Accounts payable—trade	\$24,123	\$27,042
Salaries and wages	2,172	2,153
Customs duties	1,469	134
Fiscal authorities	3,697	3,392
Social institutions	1,626	1,354
Prepayments	949	1,401
Other	5,432	5,184
	\$39,468	\$40,660

Note 13—Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	December 31,	
	2003	2004
Employee compensation and benefits	\$ 9,568	\$10,984
Allowances, credit notes	6,507	8,551
Product warranties	3,103	4,627
Advertising	2,718	2,235
Legal, auditing and consulting fees	2,423	3,305
Fiscal authorities	2,794	2,633
Commissions	4,199	4,611
Accrued interest	4,442	6,665
Restructuring	4,800	—
Accrued Expenses	4,567	5,523
Freight and duties	3,069	1,370
Litigation	137	3,835
Other	3,565	5,078
	\$51,892	\$59,417

Note 14—Long-Term Debt

Long-term debt consists of the following (in thousands):

	December 31,	
	2003	2004
Senior notes	\$82,925	\$171,843
Other long-term debt	64,417	30,982
Total long-term borrowings	147,342	202,826
Less current portion	(3,392)	(3,305)
Long-term portion	\$143,951	\$199,520

Senior Notes

On July 15, 1999, one of the Company's wholly-owned subsidiaries, Head Holding issued €100.0 million of senior notes. The notes bore interest of 10.75% per annum, which was payable semi-annually and was to mature in total on July 15, 2006. Among other restrictions, the notes included certain restrictive terms regarding investments, distributions and incurrence of additional indebtedness by the Company.

On January 5, 2000, a registration statement for the exchange of the original 10.75% senior notes for new 10.75% senior notes was made effective by the U.S. Securities Exchange Commission (SEC). On February 9, 2000, this Exchange Offer was consummated. In October 2000, the Company repurchased €30.9 million of its senior notes in a series of transactions using part of the proceeds of the Company's initial public offering. In July 2002, the Company repurchased another €3.6 million of its senior notes. At December 31, 2003, the Company had €65.5 million (\$82.9 million) of senior notes outstanding.

In January 2004, one of the Company's subsidiaries issued €135.0 million of 8.5% unsecured senior notes due 2014, guaranteed by the Company and certain of its subsidiaries. The notes are listed on the Luxembourg Stock Exchange. With the proceeds from the sale, all of the Company's outstanding 10.75% senior notes due 2006 were redeemed. The total redemption payment was €70.1 million of which €3.5 million represents the redemption premium. In addition, the Company used a portion of the remaining proceeds to repay €25.8 million of other outstanding debt.

In June 2004, the Company repurchased the equivalent of €5.5 million of its 8.5% senior notes for €5.0 million (\$5.9 million) and realized a gain of \$0.4 million. As a result of this transaction, the Company wrote-off \$0.07 million of debt issue costs. At December 31, 2004, the Company had €126.2 million (\$171.8 million) of senior notes outstanding.

As of December 31, 2003, €25.1 million (\$31.8 million) short-term loans were reclassified to long-term debt due to the Company's intention to refinance them with senior notes. The remainder of the proceeds is used for working capital and general corporate purposes.

Sale-Leaseback Transaction

The Company entered into an agreement on June 28, 2002, whereby it sold land and building to an unrelated bank and leased it back over a 15 year term. The proceeds of this sale were €10.6 million. The Company has the obligation to purchase the property back after 15 years for €8.2 million. The Company may also repurchase the property at its option from the first until the tenth year of the arrangement for the present value of the future lease payments and the remaining residual value.

The Company is also required to pay the bank a monthly deposit of €0.01 million, which will be repaid to the Company, plus interest of 6.7%, at the time of repurchase.

Because of the Company's continuing involvement, this transaction has been accounted for as a financing such that the Company has recorded €10.6 million of cash and long-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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term borrowings at the inception date of this agreement. At December 31, 2003 and 2004, the remaining obligation under the financing agreement is \$13.2 and \$14.1 million, respectively.

The Company's future minimum lease payments as of December 31, 2004, are as follows:

	December 31, 2004
(in thousands)	
2005	\$ 1,094
2006	1,094
2007	1,094
2008	1,094
2009	1,094
Thereafter	19,320
Total minimum payments	24,790
Amount representing interest	(10,672)
Obligations under financing activity	14,119
Obligations due within one year	(159)
Long-term obligations under financing activity	\$13,960

As of December 31, 2004 the net book value of land and building under the sale-leaseback arrangement consists of the following (in thousands):

	Land	Buildings
Cost	\$ 1,390	\$ 11,423
Less: Accumulated depreciation	—	(9,525)
Net book value	\$ 1,390	\$ 1,898

Mortgage Agreement

In 2002, one of the Company's subsidiaries entered into a mortgage agreement secured by the Penn Phoenix property with an unrelated financial institution of \$4.8 million over a 15 year term at an interest rate of 7.33%. At December 31, 2003 and 2004, the outstanding balance of the mortgage is \$4.5 million and \$4.3 million, respectively.

Other long-term debt

Other long-term debt comprises secured loans in Austria, Italy and the Czech Republic outstanding with several banks. The weighted average interest rate on outstanding borrowings was 2.7% and 2.6% as of December 31, 2003 and 2004, respectively. Borrowings mature at various dates through 2009. At December 31, 2003 and 2004, the remaining outstanding long-term debt is \$14.9 million and \$12.5 million, respectively.

Maturities of long-term debt

Aggregate maturities of long-term debt are as follows (in thousands):

	December 31, 2004
2005	\$ 3,305
2006	2,831
2007	2,905
2008	2,844
2009	2,348
Thereafter	188,592
	\$202,826

Note 15—Other Long-Term Liabilities

Other long-term liabilities consist of the following (in thousands):

	December 31, 2003	2004
Accrued benefit cost	\$18,565	\$20,403
Deferred income	—	5,351
Other	1,104	2,031
Total other long-term liabilities	\$19,669	\$27,785

Note 16—Pension and Other Postretirement Benefit Plans

The Company funds leaving indemnities and pension liabilities paid to employees at some Austrian and other European locations. The indemnities are based upon years of service and compensation levels and are generally payable upon retirement or dismissal in some circumstances, after a predetermined number of years of service. The Company maintains sufficient assets to meet the minimum funding requirements set forth by the regulations in each country.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The table below shows the obligations and funded status as of December 31, 2003 and 2004 (in thousands):

	Pension benefits		Other benefits	
	2003	2004	2003	2004
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 8,301	\$10,392	\$14,318	\$ 16,595
Service cost	541	395	1,643	2,413
Interest cost	444	241	456	423
Plan amendments	(22)	—	—	—
Actuarial loss (gain)	(268)	(21)	138	222
Benefit payments	(275)	(5,108)	(2,808)	(2,636)
Translation adjustment	1,671	326	2,849	1,315
Benefit obligation at end of year	10,392	6,225	16,595	18,330
Change in plan assets				
Fair value of plan assets at beginning of year	4,490	5,730	—	—
Actual return on plan assets	201	—	—	—
Employer contribution	185	63	—	—
Benefit payments	(57)	(5,158)	—	—
Plan participants' contributions	114	6	—	—
Asset transferred out	(10)	—	—	—
Translation adjustment	808	(96)	—	—
Fair value of plan assets at end of year	5,730	545	—	—
Funded status	4,661	5,681	16,595	18,330
Unrecognized net actuarial gain	(849)	(750)	(2,109)	(2,659)
Unrecognized prior service cost	96	124	—	—
Unrecognized net transition obligation	56	(0)	—	0
Translation adjustment	(81)	(124)	(277)	(268)
Net amount recognized	\$3,884	\$4,930	\$14,210	\$15,404

Amounts recognized in the statement of financial positions consists of (in thousands):

	Pension benefits		Other benefits	
	2003	2004	2003	2004
Other assets	\$ (404)	\$ —	\$ —	\$ —
Accrued benefit cost	4,355	4,999	14,210	15,404
Accumulated other comprehensive income	(67)	(69)	—	—
Net amount recognized	\$3,884	\$4,930	\$14,210	\$15,404

Accrued benefit cost are included in the balance sheet line item "Other long-term liabilities" on the consolidated balance sheets. The Company expects to make insignificant amounts of employer contributions during 2005.

The accumulated benefit obligation for all defined pension benefits is \$9.3 million and \$5.0 million at December 31, 2003 and 2004, respectively. As of December 31, 2003 and 2004 pension plans with an accumulated benefit obligation excess of plan assets consist of the following (in thousands):

	December 31,	
	2003	2004
Projected benefit obligation	\$884	\$1,016
Accumulated benefit obligation	699	832
Fair Value of plan assets	465	545

The Company's assets consist of equity funds at December 31, 2003 and 2004.

As of December 31, 2003 and 2004, the components of net periodic benefit costs consists of the following (in thousands):

	Pension benefits		Other benefits	
	2003	2004	2003	2004
Service cost	\$541	\$395	\$1,643	2,413
Interest cost	444	241	456	423
Expected return on plan assets	(306)	11	—	—
Amortization of transition asset	(3)	—	—	—
Amortization of prior service cost	(22)	—	—	—
Recognized actuarial loss	14	3	264	100
Net periodic benefit cost	\$668	\$651	\$2,363	\$ 2,936

As of December 31, 2003 and 2004 the weighted average assumptions used to determine benefit obligations are as follows:

	Pension benefits		Other benefits	
	2003	2004	2003	2004
Discount rate	5.0%	4.5%	5.0%	5.0%
Rate of compensation increase	3.0%	2.3%	3.0%	3.0%

As of December 31, 2003 and 2004 the weighted average assumptions used to determine net periodic benefit cost are as follows:

	Pension benefits		Other benefits	
	2003	2004	2003	2004
Discount rate	4.7%	4.4%	5.0%	5.3%
Expected long-term return on plan assets	5.3%	2.1%	—	—
Rate of compensation increase	2.7%	2.4%	3.0%	3.0%

The expected rate of return on plan assets is based upon the present rate of return and is expected to be stable.

Note 17—Commitments and Contingencies

Operating Leases

The Company leases certain office space, warehouse facilities, transportation and office equipment under operating leases which expire at various dates through 2012. Rent expense was approximately \$3.1 million, \$3.6 million and \$4.1 million for the years ended December 31, 2002, 2003 and 2004, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Future minimum payments under non-cancellable operating leases with initial or remaining lease terms in excess of one year are as follows as of December 31, 2004 (in thousands):

	December 31, 2004
2005	\$ 5,015
2006	4,422
2007	3,879
2008	3,090
2009	2,557
Thereafter	3,076
	\$22,040

Litigation

From time to time the Company and its subsidiaries are involved in legal proceedings, claims and litigation arising in the ordinary course of business. In the opinion of management it is not possible to reasonably estimate the outcome of current legal proceedings, claims and litigation. However, management believes that the resolution of these matters will not materially affect the Company's financial position.

The Company accrued \$3.8 million for suits with several parties including competitors, customers for past receipts, former employees, suppliers and licensees.

Product Warranties

The Company sells certain of its products to customers with a product warranty that provides repairs at no cost to the customer or the issuance of credit to the customer. The length of the warranty term depends on the product being sold, but ranges from one year to two years. The Company accrues its estimated exposure to warranty claims based upon historical warranty claim costs as a percentage of sales multiplied by prior sales still under warranty at the end of any period. Management reviews these estimates on a regular basis and takes actual product performance and field expense profiles into consideration to adjust the warranty provisions.

Included in accrued expenses and other current liabilities are product warranties that have a probable likelihood of loss and are estimated based on weighted prior year experiences for recognized revenues. For the years ended December 31, 2003 and 2004, accruals for warranties have developed as follows (in thousands):

	December 31, 2003	2004
Balance at the beginning of the period	\$2,484	\$3,103
Reclassification	—	65
Current year provision	2,859	4,779
Settlements made during the period	(2,707)	(3,717)
Reversal	(25)	—
Translation adjustment	492	397
Balance at the end of the period	\$3,103	\$4,627

Note 18—Accumulated Other Comprehensive Income Balance

The following table shows the components of AOCI:

	For the Year Ended December 31, 2004				
(in thousands)	Foreign Currency Translation Adjustment	Unrealized Gains on Derivative Instruments	Minimum Pension Liabilities	Unrealized Loss on Securities	Accumulated Other Comprehensive Income
Beginning balance	\$48,753	\$592	\$(67)	\$ (137)	\$ 49,142
Current-period changes	11,664	(225)	—	98	11,537
Translation Adjustment	—	53	(3)	(42)	8
Ending balance	\$60,417	\$420	\$ (69)	\$ (81)	\$ 60,686

Note 19—Shareholders' Equity

The Company is a Naamloze Vennootschap ("N.V."), a limited liability company under Dutch law. The registered capital of a N.V. is in the form of shares which represent negotiable securities. The minimum registered and authorized capital requirement is €225,000 (approximately \$0.3 million) and the minimum paid in capital requirement for a N.V. is €45,000 (approximately \$0.06 million).

At December 31, 2003 and 2004, 39,820,677 shares were issued, respectively.

Dividends

The Company declared and paid a dividend of €0.14 (approximately \$0.13) per share during the year ended December 31, 2002. In 2003 and 2004, due to the current economic environment the Company did not consider it prudent to pay a dividend.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Treasury Stock

On May 28, 2002, the Board of Management's authority to repurchase shares representing up to 10% of the Company's issued share capital was extended until November 28, 2003. Pursuant to this resolution between August 15, 2002 and October 21, 2002 the Company purchased 1,247,050 shares of treasury stock at the prevailing price in the total amount of \$3.0 million.

Pursuant to resolutions which were approved on May 20, 2003 the Board of Management is authorized to buy back a maximum of 30% of the Company's issued share capital during a period of 18 months, although the Company will not hold more than 10% of the Company's issued shares at any time. For the year ended December 31, 2003, the Company has purchased 577,775 shares of treasury stock at the prevailing price in the total amount of \$1.2 million.

On May 26, 2004, the Board of Management was granted the authority to repurchase shares representing up to 30% of the Company's issued share capital during a period of 18 months, although the Company will not hold more than 10% of the Company's issued shares at any time.

As of December 31, 2003 and 2004, the Company issued 2,421,235 and 3,600,775 shares of treasury stock, respectively, of which 1,179,540 was held by the Stichting at December 31, 2004.

Stichting

The Stichting Head Option Plan (the "Stichting") is a Dutch foundation, the Board of which is Head Sports Holdings N.V., an entity that is ultimately controlled by Johan Eliasch and his family members. The Stichting holds, votes, and receives dividends on certain of the Company's ordinary shares. In conjunction with the Company's option plans (see Note 24), the Stichting also issues depository receipts to option holders, upon exercise of the option. Holders of depository receipts are entitled to dividends paid on the Company's shares and to proceeds on the sales of their shares upon request to the Stichting. However, such holders have no voting rights.

On May 25, 2001, Head N.V. transferred 2,041,300 shares, with an original cost of \$10.6 million, to the Stichting. The Stichting will use these shares to fulfill the Company's obligations under the Head Tyrolia Mares Group Executive Stock Option Plan 1998 ("Plan 1998"). The Stichting intends to remit proceeds from the exercise of employee stock options to the Company. Such shares have been recorded as a reduction of the Company's equity.

In 2002, option holders exercised 607,622 options under "Plan 1998". The Company repurchased certain of these shares via the Stichting at a market price of \$1.3 million.

In 2003, 56,790 options under Plan 1998 were exercised at a price between \$0.29 and \$0.31 per share. In 2004, option holders exercised 197,348 options under "Plan 1998" at a price between \$0.32 and \$0.35 per share.

As of December 31, 2003 and 2004, the Stichting held 1,376,888 and 1,179,540 treasury shares, respectively. As of January 1, 2004, in accordance with FIN 46R "Consolidation of Variable Interest Entities" the Company consolidated the Stichting, as the Company was considered the primary beneficiary of the Stichting, a variable interest entity. As a result of consolidating the Stichting shares held by the Stichting at December 31, 2004 are presented as treasury stock, in the consolidated balance sheets. Prior to the consolidation of the Stichting, the value of the treasury shares held by the Stichting are reflected as additional paid in capital on the consolidated balance sheets.

Note 20—Income Taxes

The following table summarizes the significant differences between the Dutch federal statutory tax rate and the Company's effective tax rate for financial statement purposes.

	For the years ended December 31,		
	2002	2003	2004
Dutch statutory tax rate	34.5%	34.5%	34.5%
Tax rate differential	159.1	(0.1)	12.3
Other	26,437.7	(6.9)	(103.3)
Foreign rate differentials	(1,127.7)	0.7	(9.5)
Changes in tax rate in Austria	—	—	(258.1)
Valuation allowance	(7,970.3)	(34.2)	25.9
Effective tax rate	17,533.3%	(6.0)%	(298.3)%

In 2004, the Company's effective tax rate differed from the statutory tax rate in the Netherlands primarily due to a reduction of the Austrian income tax rate from 34% to 25% as of January 1, 2005, which was resolved in May 2004 and led to a reduction of long-term deferred tax assets, mainly on tax losses carried forward of \$24.9 million, and increased income tax expense. Other effects that lead to differences between the Dutch federal statutory rate are caused by withholding taxes, other local taxes and prior year adjustments mainly in Italy, Austria and Canada.

In 2002, the statutory tax rate in the Netherlands differed from the effective tax rate primarily due to significant incremental income tax in Austria and Italy.

Deferred tax assets (liabilities) consist of the following as of December 31, 2003 and 2004 (in thousands):

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	December 31, 2003	2004
Short-term:		
Deferred tax asset:		
Tax loss carried forward	\$4,437	\$2,162
Inventory reserve	5,387	3,190
Reserve for doubtful accounts	2,441	536
Other	3,536	2,627
Total Short-term deferred tax assets	15,800	8,515
Deferred tax liabilities:		
Deferred expenses	\$(1,291)	\$ (274)
Accrued liabilities	(240)	(9)
Other	(3,006)	(3,952)
Total Short-term deferred tax liability	(4,537)	(4,235)
Total Short-term deferred tax asset, net	\$ 11,262	\$4,280

The short-term deferred tax asset, net is classified in prepaid expenses.

	December 31, 2003	2004
Long-term:		
Deferred tax asset:		
Tax loss carried forward	\$130,134	\$112,605
Intangible assets	617	1
Fixed assets	833	1,284
Lease obligations	4,498	3,529
Other	887	919
Total Long-term deferred tax assets	136,969	118,338
Deferred tax liabilities:		
Investments	\$(18,820)	\$(18,059)
Fixed assets	(1,952)	(1,304)
Other	(778)	(870)
Total Long-term deferred tax liability	(21,551)	(20,232)
Valuation allowance	(23,358)	(19,194)
Total Long-term deferred tax asset, net	\$92,060	\$78,912

The Company has net operating loss carryforwards of approximately \$394.5 million and \$437.4 million as of December 31, 2003 and 2004, respectively. These net operating losses were experienced in the following jurisdictions (in thousands):

	December 31, 2003	2004
Austria	\$348,791	\$384,912
Germany	19,184	20,039
Other Europe	4,615	2,469
North America	21,916	29,932
	\$394,506	\$437,352

The table below shows income (loss) before income taxes by geographic region (in thousands):

	For the years ended December 31, 2002	2003	2004
Austria	\$2,420	\$1,497	\$ 4,858
Non-Austria	(2,405)	(15,322)	(14,132)
Total	\$ 15	\$(13,825)	\$(9,274)

In July 1996, commensurate with the European Commission's (EC) decision allowing the contribution received by HTM Sport- und Freizeitgeräte AG (HTM) from Austria Tabak (former owner) as restructuring aid, the EC limited the utilization of certain net operating losses (approximately \$70.5 million as of December 31, 2004). These net operating losses and any related deferred tax asset are not included in the above amounts due to the limitation.

Austria and Germany allow an unlimited carryover of net operating losses, whereas the United States allow 15 year carryovers. The Company recorded a valuation allowance to reduce the deferred tax assets to the amount the Company believes is more likely than not to be realized considering future taxable income and feasible tax planning strategies.

Note 21—Segment Information

The Company operates in one reporting segment, Sporting Goods. The tables below show revenues from external customers and long-lived assets by geographic region based on the location of the Company's subsidiaries (in thousands):

	For the years ended December 31, 2002	2003	2004
Total net revenues from External Customers:			
Austria	\$59,373	\$ 83,179	\$201,309
Italy	60,015	60,172	49,675
Germany	39,487	45,228	0
France	26,961	32,181	33,667
United Kingdom / Ireland	17,690	20,202	17,954
Japan	20,098	21,697	21,670
Other (Europe)	33,545	39,601	20,515
North America	122,780	120,070	122,225
Total net revenues	\$379,949	\$422,331	\$467,014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	December 31,	
	2003	2004
Long-lived assets:		
Austria	\$ 23,539	\$ 28,455
Italy	22,953	20,432
Germany	841	691
France	218	156
United Kingdom / Ireland	3,992	1,723
Japan	1,625	1,711
Other (Europe)	13,063	21,271
North America	30,699	30,863
Total Assets	\$96,930	\$105,301

As of January 2004, we have started to centralize our European distribution organizations for Winter Sports and Racquet Sports products so that Head International GmbH, Austria operates as distributor and invoices directly to our customers in Austria, Germany, Switzerland and Italy.

Sales by product category consist of the following (in thousands):

	For the years ended December 31,		
	2002	2003	2004
Revenues by Product Category:			
Winter Sports	\$144,667	\$188,768	\$223,211
Racquet Sports	168,822	166,417	168,037
Diving	65,600	66,322	75,453
Licensing	8,399	9,702	11,059
Total revenues	387,487	431,209	477,759
Other revenues	1,246	1,394	1,326
Sales deductions	(8,783)	(10,272)	(12,071)
Total net revenues	\$379,949	\$422,331	\$467,014

Note 22—Related Party Transactions

The Company receives administrative services from corporations which are ultimately owned by the principal shareholder of the Company. Administrative expenses amounted to approximately \$1.2 million (€1.2 million), \$3.5 million (€3.1 million) and \$5.6 million (€4.5 million) for the years ended December 31, 2002, 2003 and 2004, respectively. The company provides investor relations, corporate finance, legal and consulting services, and since 2004, internal audit and other services in relation to compliance with the Sarbanes-Oxley Act of 2002.

One of the Company's subsidiaries leased its office building from its general manager. Rental expenses amounted to approximately \$0.1 million, \$0.04 million and \$0.05 million for the years ended December 31, 2002, 2003 and 2004, respectively.

Note 23—Invested Intercompany Loans

As of January 2, 2003 one of the Company's euro-based subsidiaries reclassified non-euro denominated

intercompany accounts receivable to permanently invested intercompany receivables of \$36.1 million and recorded foreign exchange losses of \$6.6 million in other comprehensive income. In December 2004, \$7.0 million of these intercompany accounts receivable were paid to the euro-based subsidiary as a result of the non-euro based subsidiary receiving a windfall of cash as a result of the selling of one of its facility. The Company continues to believe that the remaining \$29.1 million intercompany accounts receivable will not be collected; therefore, continues to classify this as a permanent investment.

Note 24—Stock Option Plans

The Company accounts for its stock options in accordance with SFAS 123. Accordingly, the Company records stock-based compensation expense based on the grant-date fair values of the stock options computed using the Black-Scholes option pricing model. Stock-based compensation expense is recognized over the vesting term of the options and amounted to \$1.6 million, \$0.7 million and \$0.6 million for the years ended December 31, 2002, 2003 and 2004, respectively.

Plan 1998

In November 1998, the Company adopted the Head Tyrolia Mares Group Executive Stock Option Plan 1998 ("Plan 1998"). A total of 2,424,242 options were reserved to be granted under the terms of the Plan 1998. The Plan 1998 provided for grants of stock options to officers and key employees of the Company and its subsidiaries. The exercise price for all stock options granted under the Plan 1998 was fixed at inception of the Plan 1998 and increases at the rate of 10% per annum until the options are exercised. Options generally vest over a period of 4 years and are subject to the Company meeting certain earnings performance targets during this period. Options vested under the Plan 1998 were not exercisable prior to the end of the two year lock-up period following the initial public offering. Options have a maximum term of 10 years. As of December 31, 2004, 145,848 shares were available for grant under the Plan 1998.

The weighted average grant-date fair values using the Black-Scholes option pricing model was \$5.42 and \$8.84 per share for options granted in 1999 and 2000, respectively.

The fair values of options granted during 1999 and 2000 were estimated on the date of grant using the following weighted average assumptions: no dividends; expected volatility of 0% (all options granted prior to IPO); expected terms of 3.6 and 4.0 years, respectively; and risk free interest rates of 5.76% and 6.63%, respectively. The Company has also assumed that all performance targets will be achieved and all options granted will become fully vested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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As of December 31, 2004, the weighted average remaining contractual life of the outstanding stock options is 4.6 years, and 770,528 options are vested and exercisable.

	Exercise Price Less Than Grant Date Stock Fair Value	
	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 1998	1,465,686	\$0.35
Granted	783,620	0.35
Balance, December 31, 1999	2,249,306	0.35
Granted	29,088	0.35
Balance, December 31, 2000 and 2001	2,278,394	0.35
Exercised (see Note 19)	(607,622)	0.35
Balance, December 31, 2002	1,670,772	0.35
Exercised (see Note 19)	(56,790)	0.35
Balance, December 31, 2003	1,613,982	0.35
Exercised (see Note 19)	(197,348)	0.35
Balance, December 31, 2004	1,416,634	\$0.35

At December 31, 2004, stock options representing 770,528 shares are exercisable at price of \$0.35 per share and grant dates ranging from November 1998 to January 2000.

Plan 2001

In September 2001, the Company adopted the Head N.V. Executive Stock Option Plan 2001 ("Plan 2001"). The Plan 2001 provides for grants of stock options to officers and employees of the Company and its subsidiaries. On September 28, 2001, a total of 3,982,068 options were granted under the terms of the Plan 2001. In accordance with SFAS No. 123, the Company records stock-based compensation expense on the grant-date fair values of the stock options computed using the Black-Scholes option pricing model. As of December 31, 2001, the weighted-average fair value of the grant was \$0.77, which was estimated using the following assumptions: no dividends, expected volatility of 28%, expected term of 5.6 years, and risk-free interest rate of 3.6%.

The exercise price for all stock options granted under the Plan 2001 was fixed at inception of the Plan 2001. The vesting period varies from 0 to 6 years. The Chairman and Chief Executive Officer received 1,426,470 options under this grant, which vested immediately. The Company assumes that all options granted will become fully vested. Options have a maximum term of 10 years. As of December 31, 2003 no shares were available for grant under the Plan 2001.

	Exercise Price Greater Than Grant Date Stock Fair Value	
	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2000	0	\$ —
Granted	3,982,068	4.31
Balance, December 31, 2001, 2002, 2003 and 2004	3,982,068	\$4.31

As of December 31, 2004, the weighted average remaining contractual life of the outstanding stock options is 6.7 years, and 1,756,482 options are exercisable under the Plan 2001. At December 31, 2004, stock options representing 1,756,482 shares are exercisable at price of \$4.31 per share and grant date was September 2001.

Note 25—Business Rationalization

Throughout 2003 and 2004 the Company performed various restructuring initiatives. These initiatives consisted of the following:

US facility consolidation

In order to increase utilization of the Company's warehouse facilities and to centralize headquarter functions in 2003, the Company recorded restructuring costs of \$0.4 million consisting of termination benefits incurred for the movement of our US winter sports organization to our US headquarters, the shutdown of current warehouse facilities and, the closing of the office, and other costs associated with the restructuring program. As of December 31, 2003, these restructuring activities were completed.

Additionally, the Company shut down its US warehouse for diving products. Upon discontinuing use of the facility the Company expensed \$0.4 million for excess rent as of December 31, 2003. This restructuring process was finalized in January 2004.

Ireland facility closure

To improve utilization of the Company's production capabilities, in 2003 the Company announced the closing of its tennis ball production facility in Mullingar, Ireland and the transfer of these operations to its existing, under-utilized plant in Phoenix, Arizona. In 2003 the Company recognized costs totaling \$7.0 million relating to this program consisting of an impairment of \$2.6 million and employee severance costs of \$4.4 million.

In March 2004, the Company closed its tennis ball production facility in Mullingar, Ireland and recognized \$1.6 million relating to this program mainly consisting of cost for decommissioning and clearance of the plant. In September 2004, the Company sold its property in

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**
(continued)



Mullingar, Ireland for €5.7 million (\$6.9 million) with a gain of €4.7 million (\$5.7 million).

Estonia facility closure

Starting in 2003, the Company has transferred all of its manufacturing operations in Tallinn, Estonia, which manufacture ski boots and certain diving products, to our plant in Litovel, Czech Republic and expensed \$0.6 million and \$0.7 million as of December 31, 2003 and 2004,

respectively. In October 2004, the Company entered into a lease agreement with respect to the property in Tallinn, Estonia.

The Company has largely completed the restructuring program during 2004 and expect annual cost savings as a result of the program to be realized beginning in 2005 to 2006.

As of December 31, 2004, restructuring costs and accruals for restructuring costs consist of the following (in thousands):

	Employee termination benefits	Excess rent	Other related restructuring program costs	Total restructuring charges and other related restructuring program costs
Ireland facility closure	\$ —	\$ —	\$1,640	\$ 1,640
Estonia closure	—	—	707	707
Total restructuring costs	\$ —	\$ —	\$2,347	\$2,347
Accrual for restructuring costs				
Balance as of January 1, 2004	\$ 4,420	\$380	\$ —	\$ 4,800
Incurred	—	—	(2,347)	2,347
Paid	(4,502)	(380)	(2,347)	(7,228)
Translation adjustment	82	—	—	82
Balance as of December 31, 2004	\$ —	\$ —	\$ —	\$ —

Note 26—Long-Term Contracts

In July 2004, Head signed a new long-term supplier contract for tennis, squash and racquetball racquets effective April 1, 2005 to renew business relations with an existing supplier. The agreement will automatically extend after the agreed expiration date, December 31, 2009, if neither of the two parties cancel. This agreement contains a lease that will be accounted for in accordance with EITF 01-08.

In October 2004, the Company entered into a lease agreement effective January 1, 2005 with respect to the property in Tallinn, Estonia. The lessee has a purchase option to be executed within two years with paid usufruct fees to be credited against the purchase price.

In November 2004, Head received a prepayment of \$5.7 million pertaining to a licensing agreement commencing on April 1, 2005 through December 31, 2009. The Company reflected the short-term portion of this prepayment as accounts payable and the long-term portion as other long-term liabilities on the consolidated balance sheets. The balance represents the minimum license fee for 5 years discounted by an annual interest rate of 1.5%.

**REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders
of Head N.V.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Head N.V. and its subsidiaries at December 31, 2003 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with generally accepted accounting principles in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit

includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 2 to the consolidated financial statements, Head N.V. adopted Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Intangible Assets," effective January 1, 2002.

PwC Wirtschaftsprüfung AG
Vienna, Austria
April 14, 2005

**LIST OF SIGNIFICANT (DIRECT AND INDIRECT)
PARTICIPATIONS AT DECEMBER 31, 2004**



	Domicile	Proportion of Issued capital held
Head Holding Unternehmensbeteiligung GmbH	Austria	100.0%
HTM Sport- und Freizeitgeräte AG	Austria	100.0%
Head Sport AG	Austria	100.0%
Head International GmbH	Austria	100.0%
Head Tyrolia GmbH	Austria	100.0%
Head Technology GmbH	Austria	100.0%
Tyrolia Technology GmbH	Austria	100.0%
Head Tyrolia Sports Canada Inc.	Canada	100.0%
Head Sport s.r.o.	Czech Republic	100.0%
OÜ HTM Sport Eesti	Estonia	100.0%
Head Tyrolia Sports S.A.	France	100.0%
Head Germany GmbH	Germany	100.0%
HTM Sports S.p.A.	Italy	100.0%
HTM Sports Japan KK	Japan	99.6%
HTM Head Tyrolia Mares Iberica S.L.	Spain	100.0%
Head Switzerland	Switzerland	100.0%
Head UK Ltd.	UK	100.0%
HTM USA Holdings Inc.	USA	100.0%
Head USA Inc.	USA	100.0%
Penn Racquet Sports Inc.	USA	100.0%

LISTING DETAILS

Our ordinary shares are listed on the New York Stock Exchange “HED” and the Vienna Stock Exchange “HEAD”.

The chart below shows the high and low market prices of our ordinary shares each month on each exchange since January 2004:

	NYSE (amounts in dollars)		Vienna Stock Exchange (amounts in euros)	
	High	Low	High	Low
January 2004	3.54	2.45	3.10	1.82
February 2004	3.38	2.97	2.80	2.50
March 2004	3.39	3.02	2.75	2.55
April 2004	3.37	3.00	2.70	2.51
May 2004	3.17	2.90	2.65	2.15
June 2004	3.14	2.94	2.50	2.21
July 2004	3.11	3.02	2.53	2.33
August 2004	3.15	2.40	2.58	2.15
September 2004	3.15	2.40	2.38	2.15
October 2004	3.03	2.81	2.45	2.30
November 2004	3.72	2.94	2.85	2.35
December 2004	3.93	3.32	3.20	2.50
January 2005	3.80	3.51	3.18	2.73
February 2005	4.40	3.69	3.50	2.85
March 2005	3.80	3.40	2.99	2.65

HEAD N.V. FINANCIAL REPORTING AND CONFERENCE CALL CALENDAR 2005

First Quarter 2005 12 May 2005

Second Quarter 2005 11 August 2005

Third quarter 2005 10 November 2005

The Company will release the results prior to the opening of the Vienna Stock Exchange and the conference calls will be held at 4pm Central European time (10am New York time). Conference call details will be distributed at least one week prior to each scheduled event and posted on our website.

In addition, Head files its financial results electronically with the SEC's EDGAR databases.

The Company archives financial results, conference call presentations and press releases on the Investor Relations page of its website.

PRINCIPAL OFFICE

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For additional information please visit our website at
www.head.com

ANNUAL MEETING

The Annual General Meeting of shareholders of the Company will be held on Wednesday 25 May, 2005 at 13.00 hours local time at the Sheraton Amsterdam Airport Hotel, Schiphol Boulevard 101, 1118 BG Amsterdam, The Netherlands. The statutory accounts of the Company based on Dutch GAAP are available at the principal office of the Company.

CORPORATE GOVERNANCE

As a Dutch company listed on both the Vienna Stock Exchange and the NYSE, we must consider different corporate governance systems, namely the Dutch corporate governance code, the Austrian voluntary self regulatory Code of Corporate Governance and the NYSE and SEC rules on corporate governance.

The Supervisory Board has therefore adopted a set of corporate governance principles as a framework for the governance of the Company. These guidelines should be interpreted in the context of all applicable (Dutch, US and Austrian) laws and the Company's articles of association and are not intended to create legally binding obligations. A copy of these corporate governance principles is available to download from the Investor Relations section of our website.

A copy of our current internal Code of Conduct setting out general standards for ethical behaviour is also available to download from the Investor Relations section of our website.

INVESTOR ENQUIRIES

Analysts, investors, media and others seeking financial and general information, please contact:

Clare Vincent
Tel: (44) 20 7499 7800
Fax: (44) 20 7491 7725
E-mail: headinvestors@aol.com

20-F STATEMENT

Anyone wishing to obtain a copy of the Company's full annual report (20-F) for the year ended 31 December 2004 may do so on request from the Investor Relations department or alternatively the document is available for download from the Investor Relations section of our website.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. The words "anticipates", "believes", "estimates", "expects", "plans", "intends" and similar expressions are intended to identify these forward-looking statements, but are not the exclusive means of identifying them. These forward-looking statements reflect the current views of our management and are subject to various risks, uncertainties and contingencies which could cause our actual results, performance or achievements to differ materially from those expressed in, or implied by, these statements. These risks, uncertainties and contingencies include, but are not limited to, the following:

- competitive pressures and trends in the sporting goods industry;
- our ability to introduce new and innovative products;
- cyclical and economic condition of and anticipated trend in the industries we currently serve;
- our ability to acquire and integrate businesses;
- our ability to fund our future capital needs; and
- general economic conditions.

Actual results and events could differ materially from those contemplated by these forward-looking statements as a result of factors ("cautionary statements") such as those described above. In light of these risks and uncertainties, there can be no assurance that the results and events contemplated by the forward-looking statements contained in this report will in fact transpire. You are cautioned not to place undue reliance on these forward-looking statements. We do not undertake any obligation to update or revise any forward-looking statements. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements.

CORPORATE DIRECTORY

SUPERVISORY BOARD

The Supervisory Board is responsible for overseeing our Management Board and the general course of affairs of our business. Our Supervisory Board currently has three members, whose names and details are set forth below.

Name	Age	Title
William S. Cohen	64	Member of the Supervisory Board
Viktor Klima	57	Member of the Supervisory Board
Jurgen Hintz	63	Member of the Supervisory Board

MANAGEMENT BOARD AND EXECUTIVE OFFICERS

Our amended articles of association provide for a Management Board (the "MB") that is charged with our management under the general supervision of the Supervisory Board. Our Management Board currently has four members, whose names and details are set forth below along with those of our Executive Officers.

The day-to-day running of the Company is overseen by our Executive Committee (the "EC"), which reports to the Management and Supervisory Boards. The names and details of the Executive Committee and other senior executive officers are also set forth below.

Name	Age	Title
Johan Eliasch	43	Chairman of MB, Chief Executive Officer and Chairman of EC
Ralf Bernhart	53	Member of MB, Chief Financial Officer and Member of EC
George F. Nicolai	52	Member of MB
Robert van de Voort	49	Member of MB
Klaus Hotter	49	Executive Vice President, Winter Sports Division (Managing Director Head Sport AG) and Member of EC
Georg Kröll	56	Executive Vice President, Licensing Division (Managing Director Head Sport AG) and Member of EC
Robert Marte	51	Executive Vice President, Racquet Sports Division (Managing Director Head Sport AG) and Member of EC
Stefano di Martino	39	Managing Director, Diving Division (Managing Director of HTM Sport S.p.A.) and Member of EC
Edgar Pöllmann	60	Executive Vice President, Operations (Managing Director of HTM Sport- und Freizeitgeräte AG) and Member of EC
Gerald Skrobaneck	39	Vice President, Operations (Managing Director of Head Sport AG) and Member of EC
Clare Vincent	36	Head of Corporate Finance and Member of EC
Jacques Altimani	58	Vice President, European Distribution (Managing Director of Head International GmbH)
Dave Haggerty	47	President, Penn Racquet Sports Inc.
Kevin Kempin	46	Vice President, Sales/Marketing Racquet Sports U.S. and Penn Worldwide



HEAD
SNOWBOARDS

Tyrolia

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