# Annual Report 2008

**About Head**

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

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

| | |
|---|---|
| HEAD | 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, paddle and racquetball racquets, tennis balls, tennis footwear, badminton products, alpine skis, ski bindings and ski boots, and snowboards, bindings and boots, and helmets. We believe Head it is currently the number two tennis racquet brand and the number three alpine ski brand in the world. |
| Penn | 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 we believe the number one selling tennis ball in the United States. Penn racquetball balls are currently the number one selling racquetball ball worldwide. |
| Tyrolia | 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 | 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.). |

Our products appeal to a wide range of users from novices to some of the world's top athletes including Richard Gasquet, Andrew Murray, Novak Djokovic, Ivan Ljubicic, Svetlana Kuznetsova, Victoria Azarenka, Patty Schnyder, Amelie Mauresmo, Hermann Maier, Bode Miller, Didier Cuche, Marco Büchel, Patrick Staudacher, Maria Riesch, Elisabeth Görgl, Sarka Zahrobska, Jon Olsson and Gianluca Genoni.

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

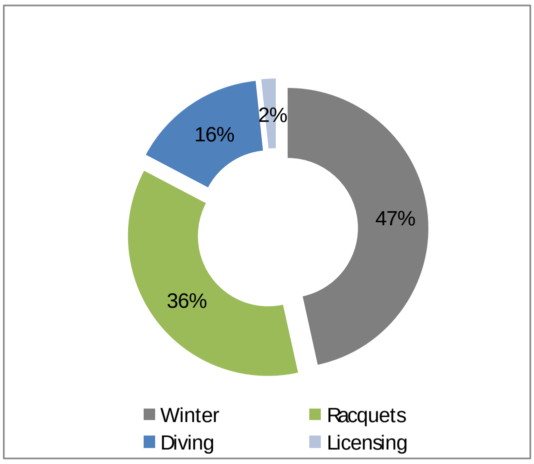
## Contents

**Financial Highlights**
**Based on IFRS:**

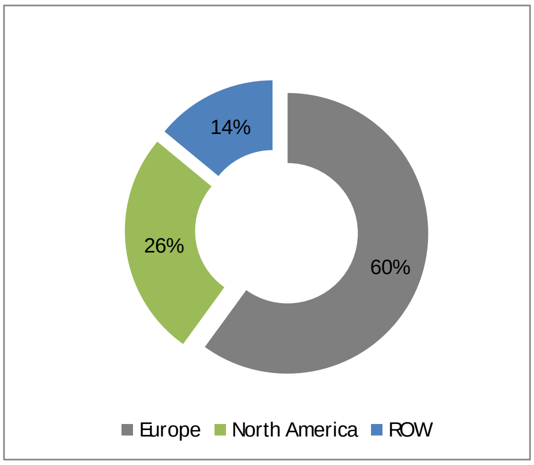
| | Year Ended December 31, | | |
|---|---|---|---|
| *EUR millions (except margin data)* | 2008 | 2007 | 2006 |
| Total revenues | 335.7 | 329.5 | 377.5 |
| Total net revenues | 326.0 | 321.0 | 366.8 |
| Gross profit | 123.1 | 124.1 | 144.2 |
| *Margin* | *37.8%* | *38.7%* | *39.3%* |
| Selling & marketing expense | 93.2 | 94.3 | 92.9 |
| General & administration expense | 29.6 | 30.1 | 30.3 |
| Share based compensation (income)/expense | (5.3) | (0.2) | 1.8 |
| Restructuring costs | 4.3 | 2.0 | - |
| Operating profit/(loss) | 1.9 | (0.7) | 20.0 |
| *Margin* | *0.6%* | *(0.2%)* | *5.4%* |
| Net interest (expense) | (11.8) | (10.5) | (10.8) |
| Foreign exchange gain/(loss) | 0.1 | 0.3 | (0.3) |
| Income tax (expense) | 0.1 | (0.2) | (4.5) |
| Profit (loss) for the year | (9.7) | (11.2) | 4.4 |

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

**2008 Gross Revenues by Division**




**2008 Gross Revenues by Geography**



## Chairman's Letter to Shareholders

Dear Shareholders,

During 2008 we continued our restructuring programs and focused on our brand appeal in the market. The positive results of the winter sports division was without doubt in part due to our investment in a world class race team to strengthen the brands image and create market leading positions through sought after products.
Our tennis division managed to grow sales on a constant currency basis even though the weather was against us in Europe. Our already great Head pro player team was further strengthened by the signing of Djokavic in Jan 2009 giving us 2 of the top 5 players in the world.
Diving continued to perform well in 2008, although towards the end of the year we saw a decline in sales and to a greater extent bookings as the impact of the global economic crisis started to be felt by this division due especially to its link to travel and the discretionary nature of the products.
Despite the issues we will face in 2009, we remain committed to continue to develop the value of our brands whilst endeavoring to keep our costs low and our products sought after.

### Group Results

Total Net Revenues for the year ended December 31, 2008 increased by €5.0 million, or 1.6%, to €326.0 million from €321.0 million in the comparable 2007 period. The increase of winter sport and diving sales was partly offset by the decreased sales of our racquet sport.

Our reported operating profit of €1.9 million in 2008 improved by €2.6 million compared to the operating loss of €0.7 million reported in 2007. When adjusted for one-time restructuring costs (€4.3 million in 2008 and €2.0 million in 2007) and excluding the non-cash compensation income (€5.3 million in 2008 and €0.2 million in 2007), the operating profit would have decreased by €0.3 million to a profit of €0.9 million for the year.

### Divisional Results

Winter Sports revenues for the twelve months ended December 31, 2008 increased by €15.8 million, or 11.3%, to €156.4 million from €140.5 million in the comparable 2007 period. This increase was due to higher sales volumes of skis, ski boots and helmets and better mix of all of our winter sports products compared to the 2007 period. We believe that this increase was due primarily to the success of our ski racing sponsorship campaign rather than as a result of better snow conditions in the 2007/2008 winter season compared to the 2006/2007 winter season. The strengthening of yen against the euro also positively affected our sales
Racquet Sports revenues for the twelve months ended December 31, 2008 decreased by €8.4 million, or 6.5%, to €121.4 million from €129.8 million in the comparable 2007 period. This decrease was due to the strengthening of the euro against the U.S. dollar and the British pound as well as unfavorable product mix partially offset by higher sales volumes of balls and sales from our newly introduced tennis footwear.
Diving revenues for the twelve months ended December 31,2008 increased by €0.5 million, or 1.0%, to €52.4 million from €51.8 million in the comparable 2007 period. This increase was mainly driven by the introduction of new advanced products but

negatively affected by the strengthening of the euro against the U.S. dollar and the British pound and the negative economic conditions.
Licensing revenues for the twelve months ended December 31, 2008 decreased by €1.7 million, or 23.3%, to €5.6 million from €7.3 million in the comparable 2007 period due primarily to our decision not to renew our licensing agreement with Sports Authority in the United States, and the impact of exchange rates.

**Reorganisation and Restructuring**

During 2008 our restructuring program continued, the main projects carried out in the year were as follows:

- In our diving division, medium range products, including fins and buoyancy control devices have been transferred from Italy to our new plant in Bulgaria which became operational in October 2008. The new plant achieves lower production costs and higher production flexibility.
- In 2007, we started a reorganization of our ski production. By transferring some production currently based in Kennelbach, Austria, to Budweis in the Czech Republic, where we use a computerized manufacturing system, we have improved our labour productivity. This program will be largely complete in 2009.
- Since January 2007, we have been transferring production from our US tennis ball plant in Pheonix, Arizona to our new tennis ball facility in Shenzen, China. In 2008 we made the decision to shut the US tennis ball plant and manufacture all of our tennis balls in the plant in China - this became effective on the 5th March 2009.

**Outlook for 2009**

We expect that our revenues for the first quarter of 2009 at constant currency have declined by more than 10%.

Visibility of revenues for the full year ahead is even more limited. In particular, we are unable to determine whether the current downturn in the sporting goods industry will abate. However, our current expectation is that our 2009 revenues will be lower than our 2008 revenues. Such a decline, combined with the large cash costs of our interest expense, our capital expenditures and our having begun 2009 with less cash than at the same period in 2008, will result in us having to manage our working capital more aggressively particularly during the third and fourth quarters of this year. To the extent such actions are insufficient to fund our working capital requirements, we could be required to generate additional cash or secure additional credit facilities.

Sincerely,

Johan Eliasch
*Chairman and Chief Executive Officer, Head N.V.*
*April 2009*

## DIRECTORS' REPORT

December 31, 2008

### Business and Strategy

**The Company:**
The Company is a leading global manufacturer and marketer of branded sporting goods serving the skiing, racquet sports and diving markets. We have created or acquired a portfolio of brands — *Head* (principally alpine skis, ski boots, bindings and snowboard products and tennis, racquetball and squash racquets, tennis balls, tennis footwear and badminton products), *Penn* (tennis balls and racquetball balls), *Tyrolia* (ski bindings) and *Mares* (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 to middle to high price points, we supply sporting equipment and accessories to all major distribution channels in the skiing, racquet sports and diving markets, including pro shops, specialty sporting goods stores and mass merchants. Our products are sold through over 31,000 customers in over 85 countries and target sports enthusiasts of varying levels of ability and interest ranging from the novice to the professional athlete. Our strongest presence has traditionally been in Europe, and we have been successful in building market share in the United States, the next largest market for our products after Europe, as well as in Japan.

Over the last six decades, the Company has become one of the world's most widely recognized developers and manufacturers of innovative, high-quality and technologically advanced sporting equipment. The Company's focus continues to be its core products of skiing, racquet sports and diving equipment. In order to expand market share and maximize profitability, the Company's strategy includes an emphasis on marketing and new product development, leveraging further its brands, global distribution network and traditional strength in manufacturing and the Company continuously seeks means for reducing its fixed costs.

The Company generates revenues in its principal markets by selling goods directly to retail stores and to a lesser extent, by selling to distributors. It also receives licensing and royalty income. As many of its goods, especially Winter Sports goods, are shipped during a specific part of the year, the Company experiences highly seasonal revenue streams. Following industry practice, the Company begins to receive orders from its customers in the Winter Sports division from March until June, during which time the Company books approximately three quarters of its orders for the year. The Company 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, the Company will begin to receive re-orders from customers, which constitute the remaining quarter of its yearly orders. This re-orders inflow may last, depending on the course of weather into the first quarter of the next year. Racquet Sports and Diving product revenues also experience seasonality, but to a lesser extent than Winter Sports revenues. Revenue from sales is generally recognized at the time of shipment.

**Strategy:**
Our overriding strategy continues to be the development of innovative products across all of the markets in which we operate. Our business strategy is to capitalize on our competitive strengths in order to increase revenues while improving cash flow and profitability through market share expansion, new product introductions and cost reductions.

*Expand Market Share.* We continue to focus on expanding our market share, particularly in the United States and Japan, by developing innovative products such as our *Head Microgel* and *Cross Bow* racquets and strong-selling products such as the *Mares Liquid Skin* mask and the new branded *Head* tennis balls.

*Rapidly Develop and Launch New Products.* We intend to continue our tradition of product innovation and development by identifying new product opportunities and moving quickly to launch these products successfully. After we identify a new product opportunity, we rely on our in-house research and development department and the manufacturing facilities available to us to produce the desired product concept. Thereafter, through a combination of our integrated marketing program, high brand awareness and global distribution organization efficiency we are able to introduce the new products to the market rapidly. Recent examples of this approach are our *Head Intelligence* and *Head* Liquidmetal skis and snowboards and *Head Cross Bow* and *Microgel* tennis racquets. The Company spent €9.2 million and €10.5 million for the year ended December 31, 2008 and 2007, respectively on research and development.

*Continued cost management*. In July 2005, we signed an agreement for the establishment of a company in the British Virgin Islands. The business venture was established to found a company in China which manufactures tennis balls exclusively for sale to us, and will become the exclusive tennis ball production company we operate globally follow the closing of the Phoenix tennis ball plant. Manufacturing began in January 2007. In 2007, we finalized a restructuring program to reduce production capacity for diving products in Italy and transferred production to Eastern Europe and the Far East. In 2008 we completed a new factory in Bulgaria, and transferred some diving production from Italy to this facility. In 2009, we plan to finalize the transfer of parts of the ski production from our site in Kennelbach, Austria, to our site in České Budejovice, Czech Republic, to benefit from lower personnel costs. We will outsource parts of the production for diving equipment and close a diving equipment production facility in Italy to gain flexibility and reduce fixed costs.

We are investigating additional cost savings. Where we are confident that quality and proprietary technology will not be compromised, we intend to look for and secure further arrangements to manufacture our products in low-cost regions. We aim to decrease our overhead costs as we identify and implement new measures, such as additional relocation of production plants and outsourcing arrangements.

**Industry overview:**

We define the winter sports market as the market for alpine skis, ski boots and bindings, snowboard equipment and protection equipment. We estimate that there are approximately 50 million skiers and 8 million snowboarders active worldwide and that the market for winter sports equipment in 2008 was approximately €912 million at the wholesale level, consisting of €307 million for skis, €145 million for bindings, €210 million for boots and €250 million for snowboard equipment. The ski market consists predominantly of Europe, North America and Asia, with Europe constituting approximately 55% of the world market in 2008, the United States and Canada approximately 32% and Japan approximately 9%. The snowboard market is led by North America, followed by Europe and then Japan.

Ski sales have traditionally been the primary component of the winter sports market, with trends in ski sales directly affecting sales of bindings, ski boots and other ski accessories.

The market for skis, however, has undergone a transformation in the past 15 to 20 years by declining from an estimated 6.5 million pairs sold per year worldwide in the late 1980's to approximately 4.1 million pairs sold in 2006. In 2008, approximately 3.1 million pairs were sold. The reduction in ski sales resulted primarily from a shift in preference among some consumers from skiing to snowboarding in the early 1990's, an absence of significant product innovation, except for the introduction of the carving ski in 1996, and the severe decline in the Japanese market. The dramatic decline in 2007 resulted from the very bad snow conditions worldwide during the 2006/2007 season, since then the market did not recover. In the last years, the snowboard market developed into a new form of winter sport, and the market increased from 0.8 million boards sold in 1995 to a peak of 1.6 million in 2000 and 1.2 million in 2006. In 2008, 1.0 million boards were sold due to very bad snow conditions worldwide during the 2006/2007 season.

The ski bindings market declined from approximately 5.9 million pairs sold per year in the early 1990's to approximately 4.1 million in 2006. In 2008, 3.1 million pairs were sold. The ski boot market increased from 3.6 million pairs sold in 2003 to 4.0 million pairs in 2006. In 2007, the market collapsed to 2.8 million pairs of ski boots and slightly improved in 2008 to 2.9 million pairs sold.

The ski and snowboard industries have faced pricing pressures because of the market decline and, to a lesser extent, as a result of the increasing concentration of sales to sporting goods specialty chains, resulting in consolidation within the industry as weaker brands are acquired or go out of business. The ability of a manufacturer to offer packages of skis, bindings and boots has become more important.

Carving skis have proved popular with skiers. Carving is designed to capture the feel of snowboarding with greater control and allows for turns to be executed at high speed, making skiing easier for skiers of all abilities. Based on our market knowledge and experience we observed that these features made skiing more fashionable for all groups, that carving will continue to dominate the category at the expense of traditional skis and that some snowboarders will shift to carving skis. Industry observers also believe that growth in carving skis has helped to stabilize the overall ski market in the early 2000’s, thereby partially offsetting the declining industry trend. New trends like the Park & Pipe skis, skiercross skis and fat off-piste (freeride) skis show the vitality of the sport. Products targeted specifically at women have become an important factor in sporting goods in general, and are becoming an important factor in winter sports products in particular.

We define the racquet sports market as the market for tennis, squash, badminton and racquetball racquets, accessories and footwear and for tennis balls and racquetball balls. We estimate that the market for tennis racquets in 2008 was approximately 9.8 million units, with a value of approximately €280 million at wholesale level. Based on information currently available in 2008, we assume the global tennis racquet market has been stable in unit sales but declined by 7% in value compared to 2007. Fluctuations of currencies have had a major impact in the decline of the market.

We estimate that worldwide sales of tennis balls was approximately €180 million at the wholesale level in 2008, with approximately 24 million dozen tennis balls sold. The United States and Europe each represented more than 25% of the 2008 world market. In 2008, we estimate that the global market for tennis balls was flat in units but declined in value compared to 2007, as a result of declining prices in Europe and currency fluctuations. Market developments in both tennis racquets and balls in revenue were negatively impacted by the strengthening of the euro as sales in weaker currencies translated into fewer euros.

We define the diving market as the market for diving equipment, wetsuits, dry suits and diving accessories. We estimate the worldwide wholesale market at the end of 2008 was approximately €450 million. We believe that the overall diving market was declining in the second half of 2008 by approximately 10% due to the weakening economy and declining worldwide consumer demand.

The diving industry is fragmented with well over 30 brands. While there are various companies which produce a number of diving products, Mares is the only company which designs and manufactures a complete line of products under one trademark.

**Business development**

*Winter Sports.* The winter season 2007/2008 had much better snow conditions in most parts of the world compared to the prior winter season. Visits to ski resorts where increasing again. This, however, did not result in increased retail sales of winter sports equipment for the 2007/2008 season. As retailers had reduced their pre-season bookings significantly for the 07/08 season we experienced however higher re-orders from January through March 2008 compared to 2007. The Winter 2008/2009 started with very good snow conditions in Europe and in some parts of the US but with late snow in Japan. Retailers in Europe report a growing winter sports equipment business mainly driven by accessories (helmets) but also by ski boots. Ski sales in Europe are reported to be flat until year end compared to 2007. We believe that the ongoing trend towards rental equipment is responsible for more demand on ski boots than skis. For 2009, we expect in Europe an increased demand for helmets and ski boots and a flat market for skis. To which extend the economy will influence the pre season bookings can not be foreseen at the moment. In the US and in Japan we got from the trade reports on declining markets. For the US SIA has reported a decline by 17% on winter sports equipment until year end and Japanese retailers report declines between 10% and 15% until year end. In these markets we forecast declining pre season bookings for 2009 especially for skis and bindings.

*Racquet Sports*. The tennis market, along with the broader economy, is impacted by the turmoil in the financial market and consumers concerned with their jobs and facing a decline of their disposable income due to rising costs in many areas became very reluctant to buy new tennis equipment. Also poor weather conditions in many parts of the world during the second quarter of 2008 contributed to lower sales. For the first six months of 2008, the tennis racquet market in Europe declined by approximately 8% and in the US by approximately 4.3%. We assume an acceleration of this decline in the third quarter of 2008. For tennis balls, the US market for the first half of 2008 was flat compared to the same period in 2007. The European market faced its first double digit decline since many years (12.2%) during the same period. For the third quarter 2008, we believe that tennis ball sales declined in all major regions as the overall economy took a turn to the worst.

*Diving.* After a flat year in 2006, the worldwide diving market showed growth in the United States and Europe in 2007 while Asia remained flat. In 2007, Mares continued its positive trend of 2006 and increased its market shares principally as a result of new advanced products, improved operations and strong performances by the United States and European sales teams. Worldwide diving markets have been flat during the first half of 2008 and were declining by approximately 10% in the second half of the year. The worldwide economic crisis accelerated the lowering of global consumer demand, now with dealers and some distributors getting in financial difficulties. Nevertheless, Mares continued its positive trend of 2007 and, we believe, increased its market shares principally as a result of new advanced products, improved operations and strong performances by the European sales teams.

**Profitability**

**Income statement:**

The excellent snow in central Europe, the impact of cost cutting measures implemented in response to the economic downturn and the non cash share based compensation income resulted in the group making a small operating profit for the year. The uncertainties that we saw in the market in autumn last year have begun to impact our results.

Total net revenues increased by €5.0 million, or 1.6%, to €326.0 million from €321.0 million in the comparable 2007 period. The increase of winter sport and diving sales was partly offset by the decreased sales of our racquet sport.

Winter Sports increased by €15.8 million, or 11.3%, to €156.4 million from €140.5 million in the comparable 2007 period. This increase was due to higher sales volumes of skis, ski boots and helmets and better mix of all of our winter sports products compared to the 2007 period. The strengthening of yen against the euro also positively affected our sales.

Racquet Sports decreased by €8.4 million, or 6.5%, to €121.4 million from €129.8 million in the comparable 2007 period. This decrease was due to the strengthening of the euro against the U.S. dollar and pound as well as unfavorable product mix partially offset by higher sales volumes of balls and sales from our newly introduced tennis footwear.

Diving revenues increased by €0.5 million, or 1.0%, to €52.4 million from €51.8 million in the comparable 2007 period. This increase was mainly driven by the introduction of new advanced products but negatively affected by the strengthening of the euro against the U.S. dollar and pound and the negative economic conditions.

Licensing decreased by €1.7 million, or 23.3%, to €5.6 million from €7.3 million in the comparable 2007 period due to fewer licensing agreements, particularly in the US, and the impact of exchange rates.

Sales deductions consist of 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. Sales deductions increased by €1.2 million, or 14.7%, to €9.7 million from €8.5 million in the comparable 2007 period due to higher sales in the last quarter and promotion sales of close out products during the second quarter 2008.

Cost of Sales. Cost of Sales increased by €6.0 million, or 3.0%, to €202.9 million from 196.9 million in 2007.

- Variable production costs increased by €3.9 million, or 2.4%, to €165.4 million from €161.4 million in 2007 mainly due to increased sales volumes partially offset by lower personnel expenses and the strengthening of the euro against the U.S. dollar.

- Fixed production costs increased by €3.3 million, or 13.1%, to €28.3 million from €25.0 million in 2007 due to additional cost for the tennis ball production facility in China partially offset by lower personnel expenses and other cost resulting from various restructuring programs.

- Research and development expenses decreased by €1.2 million, or 11.7%, to €9.2 million from €10.5 million in 2007.

Gross Profit. Gross profit decreased by €0.9 million to €123.1 million from €124.1 million in the comparable 2007 period. Gross margin decreased to 37.8% in 2008 from 38.7% in the comparable 2007 period. This decrease was due to increased raw material and energy prices as well as unfavorable product mix in Racquet Sports.

Selling and Marketing Expense. Selling and marketing expense decreased by €1.2 million, or 1.2%, to €93.2 million from €94.3 million in the comparable 2007 period. Lower warranty and departmental selling expenses as well as the strengthening of the euro against the U.S. dollar more than offset higher advertising costs for our sponsored professional ski racers, our newly introduced badminton products and tennis footwear.

General and Administrative Expense. General and administrative expense decreased by €0.5 million, or 1.7%, to €29.6 million from €30.1 million in the comparable 2007 period. This decrease is mainly due to currency impact.

Restructuring Costs. In 2008, we recorded €4.3 million of restructuring expenses consisting of re-movement cost in relation to the transfer of parts of the ski production from our site in Kennelbach, Austria to our site in Budweis, Czech Republic and shifting of tennis ball production from our site in Phoenix, USA to our site in Shenzhen, China.

Share-Based Compensation Income. The liability relating to the Stock Option Plans recorded on our balance sheet is depending on our share price. For the year ended December 31, 2008, we recorded €5.3 million of non cash share-based compensation income for our Stock Option Plans as the share price declined over this period, compared to €0.2 million of non cash share-based compensation income in the comparable 2007 period.

Other Operating Income, net. Other operating income, net decreased by €1.0 million, to €0.5 million from €1.4 million in the comparable 2007 mainly due to a release of an environmental accrual for our Estonian premises in 2007 and foreign currency exchange losses in 2008.

Operating Profit (Loss). As a result of the foregoing, an operating profit of €1.9 million was recorded compared to an operating loss of €0.7 million in 2007.

Interest Expense. For the year ended December 31, 2008, interest expense increased by €0.4 million, or 2.9%, to €13.0 million from €12.6 million in the comparable 2007 mainly due to an increase in short-term borrowings.

Interest and Investment Income. Interest and investment income decreased by €0.9 million, or 44.0% to €1.2 million from €2.1 million in the comparable 2007 period. This decrease was due to lower cash and cash equivalents.

Income Tax Benefit (Expense). For the year ended December 31, 2008, the income tax benefit was €0.1 million, an increase of €0.3 million compared to an income tax expense of €0.2 million in the comparable 2007 period. This increase resulted from higher taxable losses before share-based compensation income as this income has no tax effect.

Profit (Loss) for the Year. As a result of the foregoing factors, we reported a loss of €9.7 million, compared to a loss of €11.2 million in 2007.

**Financing:**

Payments from our customers are our principal source of liquidity. Additional sources of liquidity include our credit facility, financing under capital lease arrangements and vendor financing. The cash provided by these sources has a variety of uses. Most importantly, we must pay our employees and vendors for the services and materials they supply. Additional uses include capital expenditures, development of new products, payment of interest, extension of credit to our customers, and other general funding of our day-to-day operations.

Cash used for operating activities increased by €2.2 million to €4.9 million compared to cash used for operating activities of €2.7 million in the comparable 2007 period which was mainly due to lower gross profit. Our operative cash requirements and purchases of property, plant and equipment (net of proceeds) of €14.0 million were financed by sales of marketable securities and cash on hand.

As of December 31, 2008, we had €160.0 million of total debt, consisting of €111.9 million of 8.5% senior notes due 2014, €12.3 million long-term obligations under a sale-leaseback agreement and a mortgage agreement due 2017, €8.6 million other long-term debt comprising secured loans in Italy, Japan and the Czech Republic and a liability against our venture partner of €2.6 million. In addition, we used lines of credit with several banks in Austria, France, Canada and Japan of €24.7 million.

As of December 31, 2008, we had €17.1 million cash on hand and €0.5 million restricted cash and €6.2 million available-for-sale financial securities (predominantly money market funds) which are restricted. In addition, we had €2.6 million available credit lines.

We believe that our current level of cash on hand, future cash flows from operations, and our Senior Notes and other facilities are sufficient to meet our operating needs for the foreseeable future.

### Research and Development

We believe that we are an industry leader in the development of innovative and technologically advanced sports equipment. Our research and development groups identify consumer needs and shifts in consumer preferences in order to develop new product ideas and concepts to satisfy such needs or preferences. We believe that our high level of expertise is evident in all our product lines.

### Capital Expenditures

A significant amount of our annual capital expenditure goes to maintenance of current facilities including the molds, tools and equipment. Some product lines change annually as new products are introduced, while others are in use for several years. In 2007, we announced the transfer of parts of the ski production from our site in Kennelbach, Austria, to our site in Budweis, Czech Republic. In addition, we began the construction of a new diving manufacturing plant in Bulgaria which was completed by the middle of 2008. In 2008 and 2007, we spent approximately €14.2 million and €13.7 million, respectively, on facilities and equipment maintenance (upkeep, replacement and/or improvement). We expect to spend approximately €20.8 million on investment in property, plant and equipment, including expenditures for maintenance of our facilities and equipment, and €27.4 million on research and development, in the 2009 to 2011 period. We expect that these expenses will be financed through our operating cash flow. These expenses will be primarily for the design and manufacturing of products that are scheduled to be introduced and existing products which we expect to continue selling during the period.

### Employees

As of December 31, 2008, we employed 2,366 people worldwide compared to 2,216 at the end of 2007. The increase reflects the transfer of ski production from Austria to Czech Republic and our tennis ball production site in China.

***Employees by categories:***

| | For the Years ended December 31, | |
|---|---|---|
| | 2008 | 2007 |
| Manufacturing | 1,553 | 1,360 |
| Engineering and Patent | 103 | 115 |
| Selling and Advertising | 409 | 418 |
| Warehouse | 129 | 137 |
| Business Unit Administration | 172 | 186 |
| Total | 2,366 | 2,216 |

***Employees by geography:***

| | For the Years ended December 31, | |
|---|---|---|
| | 2008 | 2007 |
| Austria | 587 | 619 |
| Italy | 208 | 235 |
| Czech Republic | 480 | 389 |
| Other (Europe) | 289 | 164 |
| USA | 184 | 353 |
| China | 579 | 396 |
| Other | 39 | 60 |
| Total | 2,366 | 2,216 |

We believe that our employee relations are generally good. In Austria, most of our employees are subject to collective labor agreements covering the metal and wood processing industries. Collective labor agreements have also been entered for some employees in other countries.

**Risk Report**

**Industry and business risks:**
The sporting goods industry is highly competitive and includes many regional, national and international companies, some of which have achieved substantial market share. We compete primarily on the basis of product features, brand recognition, quality and price, and the failure to remain competitive could adversely affect our results of operations and financial condition. Some of our competitors offer types of sports products that we do not sell, and some of our competitors are larger and have substantially greater financial and other resources than us. Our success also depends partly on our ability to anticipate and respond quickly to changing merchandise trends, consumer taste and consumer preferences. Any failure to so respond could adversely affect consumer acceptance of our brand names and product lines and could harm our business.

**Economic conditions, weather and other factors beyond our control:**
We and the sporting goods industry in general are dependent on the economies in which we sell our products, and in particular on levels of consumer spending. Economic conditions affect not only the ultimate consumer, but also retailers, our primary direct customers. As a result, our results may be adversely affected by downward trends in the economies in which we sell our products. Adverse weather also can cause a significant

decline in our sales, as in 2007 when the poor snow conditions globally during the 2006/2007 season substantially reduced revenues for our Winter Sports products and negatively impacted our consolidated operating results. In addition, the occurrence of events that adversely affect economies or international tourism, such as terrorism or regional instability, continue to adversely affect leisure travel and related discretionary consumer spending, which can have a particularly negative impact on our diving business.

**Legal risks:**
As of December 31, 2008, we recognized €73.9 million of deferred tax assets, mainly on Austrian tax losses carried forwards. We believe it is more likely than not that these deferred tax assets will be realized. Austria and some other countries allow an unlimited carryover of net operating losses. However, a change in income tax law lowering the applicable tax rate could occur, as it did in 2004 in Austria and in 2007 in Germany, requiring us to write down €20.2 million of our deferred tax assets in 2004 and €1.4 million in 2007. Such a write-down has caused a significant income tax expense and negatively affected our net income, and may occur again in the future.

Some of our products are used in relatively high-risk recreational settings, and from time to time we are named as a defendant in lawsuits asserting product liability claims relating to our sporting goods products. To date, none of these lawsuits has had a material adverse effect on us, and we do not believe that any lawsuit now pending could reasonably be expected to have such an effect. We maintain product liability and general liability insurance coverage. No assurances can be given that such insurance will continue to be available at an acceptable cost or that such coverage will be sufficient to cover one or more large claims, or that the insurers will not successfully disclaim coverage as to a pending or future claim.

Our operations are subject to European Union, United States, Chinese and other national and local laws governing, among other things, water pollution, air pollution, noise pollution and hazardous substance discharges. We believe that our business, operations and facilities have been and are being operated in compliance in all material respects with applicable environmental and health and safety laws. However, the operation of manufacturing plants entails risks in these areas. As a result, we cannot assure you that we will not incur material costs or liabilities. In addition, we could incur significant costs in order to comply with any future European Union, national or local environmental and health and safety laws that may be adopted, or to respond to stricter interpretations or stricter enforcement of existing laws in the future.

**Financial risks:**
The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. For further description of the financial risks, we refer to Note 3: Financial Risk Management in the consolidated financial statements for the year ended December 31, 2008.

## Outlook

**Product Outlook:**
In Winter Sports we see a trend towards the development of specific new segments, such as Freeride, Park & Pipe and products for women. We still see a more pronounced

negative impact in general on the sales of low-end and junior equipment, while high-end models, such as our Supershape models, sold relatively well. For 2009, following the success of our sponsored race team in the 2007/2008 and 2008/2009 winter season, we will concentrate on improving product mix, especially with Race, Supershape and Icon Skis, as well as with the Raptor Boot and the new Vector Boot. We have developed the new Icon line with Torque Tuning Technology specifically designed for European skiers but have also extended the range of Freestyle/Freeride skis targeted more to the North American markets. Because most skis are offered as pre-defined sets including a binding, we offer all Head skis with bindings well coordinated in function and design. The new junior Light Rail system allows for easy boot size adjustment and pre mounting in the shop. For the free market on skis we will continue to offer Tyrolia branded bindings. We continually introduce new technical features for improved performance, safety and comfort such as the integrative solutions with new totally integrated tool free systems such as "Speed Rail"followed by the new "Light Rail" for Junior skis and Women models, innovative new ski designs such as Torque Tuning Technology for the new Icon Ski line. We have developed a completely new Ski boot "Vector" designed for the high performance skier. In ski boots for 2009, we will be focused on developing the i-Type sales and to improve our mix by introducing a new line of high end ski boot called Vector which has been positively received during the introduction activities. In snowboards, where we have renewed our high end range, we plan to maintain our cost efficiency in production and concentrate on improving our product mix. We have also extended and coordinated the range of helmets and protection gear for both the snowboarder and alpine skier.All *Head* products for the winter season 2008/2009 are designed according to the new brand guidelines and already bear the new *Head* Logo and new branding elements.

In Racquet Sports, we launched a new technology, *Cross Bow*, during the second half of 2008. We expect no major changes in tennis balls, but believe that the current pressure on prices and margins will continue. The Company has just entered the tennis footwear business. For the first time consumers could buy new *Head* tennis footwear products at retail in spring of 2008.

In Diving, we are introducing our products in new geographical areas such as Eastern Europe and South Asia. In 2008, the Diving division launched a range of innovations with a focus on performance, fashion and comfort. The diving division's latest product launch is an ultra light weight regulator featuring a second stage made Carbon. Early 2009, we plan to introduce the ICON color display dive computer and a new light weight diving fin.

**Environmental Matters:**
Our operations are subject to European Union, federal, state and local laws, regulations and ordinances relating to the operation and removal of underground storage tanks and the storage, handling, generation, treatment, emission, release, discharge and disposal of various materials, substances and wastes. The nature of our operations exposes us to the risk of claims with respect to environmental matters and we cannot assure you that material costs or liabilities will not be incurred in connection with such claims.

Based on our experience to date, we believe that future cost of compliance with environmental laws, regulations and ordinances, or exposure to liability for environmental claims, will not have a material adverse effect on our business, operations, financial position or liquidity. However, future events, such as changes in existing laws and regulations, or unknown contamination of sites owned or operated by us (including contamination caused by prior owners and operators of such sites), may give rise to additional compliance costs which could have an adverse effect on our operating results and financial condition.

**Circumstances affecting future turnover and profitability:**
As a manufacturer and distributor of branded sporting goods, our revenues are affected by the overall economic trends of our principal geographic markets, mainly Europe, but also the United States and Japan, and related changes in consumer spending on leisure goods. Weather can also affect our revenues. For example, a lack of snow in a particular area in a particular season will result in fewer purchases of skiing and snow boarding equipment and poor weather at a diving location may reduce interest in the sport and related equipment purchases. We believe our global geographic penetration and diversification of sports products help to mitigate any localized adverse impacts from weather. Other factors that can affect our revenues are consumer preferences for renting versus purchasing equipment or based on technical innovations, and the general level of interest in the sports for which we produce equipment. In addition, the rate of leisure travel can affect our revenues as purchases of our equipment are often related to customers traveling to ski and diving destinations.

Most of our revenues are denominated in euro, the functional currency of our European operations, and in 2007 approximately 32% was denominated in U.S. dollars. Our revenues are thus affected by movements in the exchange rate of the U.S. dollar and other currencies against the euro. Our revenues are also affected by fluctuations in the value of the currency in which the products are sold relative to the value of the currencies in which production expenses are incurred. For example, appreciation of the euro against the U.S. dollar may adversely affect the revenues or margins from our products manufactured on an euro-cost basis and sold in the United States if they become less price competitive on a U.S. dollar basis or sell for lower prices on a euro basis, which reduces our margins.

*Factors Affecting Expenses*

We separate our principal expenses into:

- cost of sales;
- selling and marketing expenses;
- general and administrative expenses; and
- interest expense.

The major components of cost of sales are raw materials and payroll and energy expenses related to the manufacturing of our products. Depreciation of our manufacturing equipment and production sites, as well as research and development expenses associated with the development of our products, are also included in this category.

As a result of price increases for oil and steel in the world market, we have faced significant cost increases in plastic components (bindings, ski boots, diving fins), carbon-fibres (racquets), rubber (tennis balls) and metal parts (binding components and ski edges) since 2005. Prices for plastic components continued to increase in 2007 partly driven by the energy price increase. In 2008, rubber prices (tennis and racquetball balls) continued to increase because of the increasing demand in China and the weakness in the U.S. dollar. Towards the end of 2008 rubber and felt prices have started to decline and are in the meantime back to levels experienced in 2005/2006.

Selling and marketing expenses are comprised primarily of advertising expenses (including the sponsorship of professional athletes) and payroll expenses related to the selling department. Also included in this category are commission payments to sales teams. General and administration expenses include warehousing expenses and various administrative costs.

Approximately 80% of our annual capital expenditures are for maintenance of our facilities and equipment, including molds and tools. Some product lines change annually as new products are introduced, while others are in use for several years. In 2008 and 2007, we spent approximately €14.2 million and €13.7 million, respectively, on facilities and equipment maintenance. Historically, these expenditures were financed through our operating cash flow. In 2008, however, due to lower gross profit the main financing source was our cash. We expect our annual capital expenditures to decrease during the next three years due to our restructuring programs and outsourced production.

In connection with ordinary share options granted to officers we have recorded share-based compensation income of approximately €5.3 million and €0.2 million, respectively in 2008 and 2007. As of December 31, 2008, other long-term liabilities with regards to our stock options amounted to approximately €0.5 million. The change in fair value will be recognized as income or expense over the remaining life of the options. Any further stock option grants will result in additional expense being recognized.

Our expenses, as reported in euro, are also affected by movements in the exchange rate of the euro against the currencies of the countries in which we operate. Of our cost of goods sold and other operating expenses, approximately 71% is recorded in euro whereas approximately 28% is recorded in U.S. dollars. Because a portion of our U.S. dollar revenues are generated from products manufactured on a euro-cost basis, the appreciation of the euro against the U.S. dollar has decreased our revenues when translated into euro and negatively impacted our margins.

**Information pursuant to Decree Article 10 Takeover Directive (Besluit artikel 10 Overnamerichtlijn)**

**a) Structure of the capital:**

The total nominal value of our issued share capital is €398,207 and consists of 39,820,677 ordinary shares of €0.01 each.

Our shares have been listed on the New York Stock Exchange and the Vienna Stock Exchange effective from September 28, 2000 in connection with our initial public offering. Effective from March 31, 2008, our shares have been delisted from the New York Stock Exchange.

As of December 31, 2008, 15,929,065 shares were listed on the Vienna Stock Exchange and 4,769,937 shares were registered in the United States. As of March 6, 2009, we have applied to deregister our shares with the SEC.

**b) Restrictions on the transfer of securities:**

The shares are freely transferable.

**c) Significant direct and indirect shareholders:**

Pursuant to the Financial Markets Supervision Act (Wet op het financieel toezicht), the Authority Financial Markets has been notified about the following substantial shareholdings:

Head Sports Holdings N.V., a Netherlands Antilles corporation and its shareholders, controlled by Johan Eliasch and his family members, holds 19,898,766 shares, or approximately 49.97%, of Head N.V.'s issued shares as of December 31, 2008.

Donald Smith & Co., Inc. holds 3,539,900, or 8.9%, of Head N.V.'s issued shares as of December 31, 2008.

As of December 31, 2008 no other person is known to us to hold 5% or more of our issued shares.

**d) Holders of any securities with special control rights:**

All shares carry equal rights.

**e) System of control of employee share scheme:**

In November 1998, the Company adopted the Head Tyrolia Mares Group Executive Stock Option Plan 1998 ("Plan 1998"). The Plan 1998 provided for grants of stock options to officers and key employees of the Company and its subsidiaries. A total of 2,424,242 options were reserved to be granted under the terms of the Plan 1998. 2,278,394 options have been granted and 2,143,978 options were exercised as at December 31, 2008 and all others are exercisable. No further options will be granted under the 1998 Plan. The Chairman and Chief Executive Officer is eligible to receive all options issued under the Plan 1998 that do not vest to current participants. So far he received 838,622 options.

In September 2001, the Company adopted the Head N.V. Executive Stock Option Plan 2001 ("Plan 2001"). The Plan 2001 provided for grants of 3,982,068 stock options to officers and employees of the Company and its subsidiaries. Out of the 3,982,068 options which are vested and exercisable as of December 31, 2008 the Chairman and Chief Executive Officer received 1,426,470 options under this grant, which vested immediately. In addition, he received further options in the amount of 564,564, which did not vest to other participants.

In May 2005, at the annual general meeting the shareholders approved the Head N.V. Executive Stock Option Plan 2005 ("Plan 2005"). The Plan 2005 provides for grants of 3,874,691 stock options to certain officers and key employees of the Company and its subsidiaries which will vest in 2009. As at December 31, 2008, 205,345 options were available for grant under the Plan 2005 and no options are currently exercisable.

**f) Restrictions on voting rights:**

There are no restrictions on voting rights.

**g) Agreements between shareholders known to the company and which may result in restrictions on the transfer of securities and/or voting rights:**

As far as known to Head N.V., there is no agreement involving a shareholder of Head N.V. that could lead to a restriction of the transferability of shares or of voting rights on shares.

**h) Rules governing the appointment and replacement of board members and the amendment of articles of association:**

We have established a Dutch foundation, the Stichting Head Option Plan (the "Stichting"), the Board of which is controlled by Head Sports Holdings N.V. and Johan Eliasch jointly. Head Sports Holdings N.V. is an entity that is controlled by Johan Eliasch and his family members. The Stichting's sole corporate body is its Board; it does not have any members or shareholders. The Stichting has the power to nominate all members of the Management Board, appoint one-third of the Supervisory Board and nominate the remaining members of the Supervisory Board. The other members of the Supervisory Board are appointed by our shareholders at a general shareholders' meeting from a list of nominees drawn up by the Stichting. Members of the Management Board are also appointed by our shareholders at a general shareholders' meeting from a list of nominees drawn up by the Stichting. Members of the Supervisory Board and of the Management Board as appointed by the general shareholders' meeting may be suspended or removed from the Supervisory Board at any time by a majority vote of our shareholders at a general meeting of shareholders. However, any suspension or removal not proposed by the Stichting may only be decided at a general shareholders' meeting by a resolution adopted by a two-thirds majority vote.

A resolution of our general shareholders' meeting to amend our articles of association can only be adopted upon a proposal of the Management Board, after approval of the Supervisory Board, and requires a special majority (two-thirds majority vote).

**i) Power of Board Members, in particular to issue or buy back shares:**

As a public limited company organized under the laws of The Netherlands, our business is carried out primarily by a Management Board and by executive officers appointed by our Management Board.

Our Management Board is overseen by a Supervisory Board consisting of at least three members, which also oversees the more general course of our business. Our Supervisory Board may agree, with the approval of the Management Board, that specific Management Board resolutions are subject to the Supervisory Board's approval. No resolutions are specified in our articles of association that require Supervisory Board approval.

On May 28, 2008, the Board of Management was granted the authority by our general shareholder's meeting (i) to repurchase shares representing up to 30% of our issued share capital during a period of 18 months (until November 28, 2009), although we will not hold more than 10% of our issued shares at any time, (ii) to cancel such shares which have been repurchased and are held by us (until November 28, 2009) and (iii) to issue shares and/or grant rights to subscribe for shares as well as to limit or exclude the right of pre-emption in relation to such shares being used or rights being granted (until May 28, 2013), up to a maximum of shares/rights as the authorised capital permits.

**j) Significant agreements to which the Company is a party and which alter or terminate upon a change of control of the company:**

On January 29, 2004 one of Company's affiliates issued Senior Notes in an aggregate amount of € 135,000,000 which bear interest at the rate of 8 ½% per year. The notes will mature on February 1, 2014.

In the event a third party person or group becomes the owner, directly or indirectly, beneficially or of record of shares presenting more than 50% of the aggregate ordinary voting power represented by the issued and outstanding share capital of the Company, Company or the issuer of the Senior Notes shall make an offer to the holders of the notes to purchase all notes then outstanding at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest.

**k) Agreements between the Company and its board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a take over bid:**

There are no agreements between Head N.V. and its board members or other employees providing for compensation in case of resignation without valid reason or in consequence of a take over bid.

## Supervisory Board Report

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

| Name | Age | Title |
|---|---|---|
| Jurgen Hintz | 67 | Chairman of the Supervisory Board and Audit Committee |
| Viktor Klima | 61 | Member of the Supervisory Board and Audit Committee |

The supervisory board has adopted corporate governance principles as a framework for the governance of the Company, which are available on the investor relation section of the Company's website www.head.com.

In 2008, the Supervisory Board performed all duties assigned to it by law and by the Company's Articles of Association. During the year, six meetings were held in the presence of the Management Board. In addition the Management Board regularly informed the Supervisory Board about the course of business and the financial situation of the Company.

*Audit Committee*
In 2008, the audit committee met four times. All meetings were attended by the CEO and the CFO. The audit committee discussed quarterly, half-year and full year results. One meeting was attended by the external auditor PwC Wirtschaftsprüfung GmbH. The audit committee discussed with the Company's external auditor 2007 annual results. It also reviewed press releases and related analyst presentations, as well as management's assessment of internal control over financial reporting. The audit plan 2008 was discussed with PwC Wirtschaftsprüfung GmbH and the audit fee proposal for 2008 approved. The Company's cash position and estimated impacts of the financial crises was discussed.

The Supervisory Board conducts an annual self-evaluation to determine whether it and the Audit Committee are functioning effectively.

**Remuneration Policy**

Remuneration and further conditions of employment for Members of the Management Board are determined by the Supervisory Board in consultation with the Chairman of the Management Board. Remuneration can comprise of a fixed contribution, a variable element and stock options. The variable element, when used, is based on the profitability of the Company as reported in its audited financial statements and is based on targets that are set individually with each member of the Management Board. Any grants of options to Members of the Management Board will be submitted to the General Meeting of Shareholders for their approval. For detailed information on remuneration and stock options see Note 22 of the consolidated financial statements.

**Controls and Procedures**

**Disclosure controls and procedures:**
Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) have concluded that, for the 12 months ended December 31, 2008, our disclosure controls and procedures were effective. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of such controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Acknowledging this, we have designed our disclosure controls and procedures to provide such reasonable assurance.

**Management's annual report on internal control over financial reporting:**
Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management (with the participation of the CEO and the CFO) conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of

Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the internal control over financial reporting was effective as of December 31, 2008.

There were no changes in our internal controls over financial reporting during the year ended December 31, 2008 identified in connection with the evaluation thereof by our management, including the Chief Executive Officer and Chief Financial Officer, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company, as a non-accelerated filer, to provide only management's report in the Company's annual report for the year ended December 31, 2008.

**Corporate Governance**

As a Dutch company listed on both the Vienna Stock Exchange and until March 2008 listed on the NYSE, we have to consider different corporate governance systems. On December 9, 2003 a corporate governance code ("Dutch CGC") was presented which became effective to Dutch listed companies as per the financial year beginning on or after January 1, 2004. The Dutch CGC specifically states that a company may choose to not comply with certain of its provisions if the deviation is explained to and approved by the general meeting of shareholders. In Austria a voluntary self-regulatory Code of Corporate Governance was drafted in October 2002, which provides corporations with a framework for the management and control of enterprises. This Code of Corporate Governance recommends Austrian stock listed companies to voluntarily adhere to such Code or parts of it. We are listed on the Vienna Stock Exchange, but as a Dutch company we are not subject to such Code's recommendations. Since we are not listed in the Netherlands, it seemed appropriate to focus on specifically the NYSE and SEC rules on corporate governance. Therefore, at our annual general meeting in 2004 we asked our shareholders to approve that we apply the NYSE and SEC rules of corporate governance and not specifically the rules of the Dutch CGC. Our shareholders approved such proposal.

Since March 2008, the Company is no longer listed in New York, and is not listed in the Netherlands, but has much stronger connections to Austria, it seems appropriate to focus on specifically the Austrian rules on corporate governance. The Austrian corporate governance rules are more appropriate not only because of Head N.V.'s listing in Vienna, but also one of Head N.V.'s major subsidiaries, HTM Sport- und Freizeitgeräte AG ("HTM AG"), a company which is incorporated under Austrian law, issued senior notes which are listed on the Luxembourg Stock Exchange. In accordance with the rules of the Transparency Directive and its implementation in Austria, HTM AG has also selected to follow the laws and regulations of Austria. In the interest of our shareholders and bondholders to focus on one set of rules applicable to all group companies, rather than following a set of different, sometimes contradicting rules, we had asked at our annual general meeting in 2008 our shareholders to approve the application of the Austrian Code of Corporate Governance. This code was updated in June 2007 to reflect advancements in corporate governance practice in Europe. Our shareholders approved of such decision.

We believe that by complying with the Austrian Code of Corporate Governance, and our current internal Code of Conduct setting out general standards for ethical behavior, we should also meet many of the recommendations of the Dutch Code of Corporate Governance. Our Corporate Governance Guidelines as well as an explanation for those provisions of the Austrian Code of Corporate Governance from which we deviate are posted on our website www.head.com, section "Investor Relations".

### Delisting from the NYSE and Deregistering from the SEC

At our Annual General Meeting in May 2005, our shareholders authorized the Management Board to apply for a delisting from the New York Stock Exchange and terminate the "Common Share Agreement" between us and The Bank of New York as U.S. transfer agent and registrar. Our shareholders also authorized our deregistration from the SEC, if permitted under applicable rules. The present costs of compliance with the requirements of the Sarbanes-Oxley Act ("SOX") have had an impact on our operating results.

These discussions have led the Supervisory Board and the Management Board to decide on delisting our shares from the NYSE, which became effective as of March 31, 2008. In March 2009 we filed with the United States Securities and Exchange Commission (the "SEC") a Form 15F to terminate our registration and reporting obligations under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). The termination of registration under the Exchange Act is expected to become effective 90 days after the filing of the Form 15F unless earlier withdrawn by the Company or denied by the SEC.

### Private Exchange Offer and Consent Solicitation Relating to the Company's 8.5 % Senior Notes due 2014

On April 21, 2009, the Company announced a private exchange offer to exchange its outstanding €135.0 million 8.5 % Senior Notes due 2014 for its new 10% Senior Secured Notes due 2014. The purpose of the exchange offer is to reduce the Company's overall indebtedness and related interest expense. The exchange offer will expire on May 22, 2009.

Eligible holders of existing senior notes who validly tender on or prior to May 11, 2009, will receive €350 aggregate principal amount of the new notes for each €1,000 principal amount of existing notes exchanged. Eligible holders who validly tender after the early tender date will receive €300 aggregate principal amount of the new notes (the "Exchange Offer Consideration") for each €1,000 principal amount of Existing Notes exchanged. In addition, on the settlement date, accrued and unpaid interest will be paid in cash on all properly tendered and accepted existing notes. The Company may terminate or withdraw the Exchange Offer at its sole discretion, at any time and for any reason. The Company expects costs of €1.9 million to incur in relation to the exchange offer

Amsterdam, April 24, 2009

| | | |
|---|---|---|
| Johan Eliasch<br>Chief Executive Officer | Ralf Bernhart<br>Chief Financial Officer | George Nicolai<br>Managing Director |

## HEAD N.V. AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS

| | Note | | As of December 31, 2008 | | 2007 |
|---|---|---|---|---|---|
| | | | *(in thousands)* | | |
| **ASSETS:** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment, net | 5, 6 | € | 61,300 | € | 59,879 |
| Intangible assets | 5, 7 | | 11,146 | | 10,509 |
| Goodwill | 5, 7 | | 2,643 | | 2,882 |
| Available-for-sale financial assets | 10, 16 | | -- | | 608 |
| Deferred income tax assets | 21 | | 63,027 | | 61,137 |
| Trade receivables | 9, 16 | | 1,662 | | 1,726 |
| Other non-current assets | 16, 22 | | 4,793 | | 4,174 |
| Total non-current assets | | | 144,571 | | 140,915 |
| **Current assets** | | | | | |
| Inventories, net | 8 | | 77,120 | | 75,265 |
| Trade and other receivables | 9, 16 | | 130,790 | | 130,272 |
| Prepaid expense | | | 2,089 | | 2,376 |
| Available-for-sale financial assets | 10, 16 | | 6,194 | | 10,230 |
| Cash and cash equivalents | 16, 28 | | 17,643 | | 30,264 |
| Total current assets | | | 233,836 | | 248,407 |
| Total assets | | € | 378,407 | € | 389,322 |
| **EQUITY:** | | | | | |
| Share capital | 12 | € | 398 | € | 398 |
| Other reserves | 12 | | 111,489 | | 111,489 |
| Treasury shares | 12 | | (7,119) | | (7,119) |
| Retained earnings | | | 30,960 | | 40,699 |
| Fair Value and other reserves including cumulative translation adjustments (CTA) | 20 | | (9,694) | | (12,450) |
| Total equity | | | 126,034 | | 133,017 |
| **LIABILITIES:** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | 15, 16 | | 132,955 | | 133,163 |
| Retirement benefit obligations | 18 | | 14,643 | | 15,157 |
| Other long-term liabilities | 17, 23 | | 6,141 | | 11,993 |
| Total non-current liabilities | | | 153,739 | | 160,313 |
| **Current liabilities** | | | | | |
| Trade and other payables | 13 | | 57,880 | | 60,709 |
| Income tax liabilities | | | 1,221 | | 883 |
| Borrowings | 15, 16 | | 27,039 | | 21,600 |
| Provisions | 14 | | 12,493 | | 12,801 |
| Total current liabilities | | | 98,634 | | 95,993 |
| Total liabilities | | | 252,373 | | 256,306 |
| Total liabilities and equity | | € | 378,407 | € | 389,322 |

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

## HEAD N.V. AND SUBSIDIARIES
## CONSOLIDATED INCOME STATEMENTS

| | Note | | For the Years Ended December 31, 2008 | | 2007 |
|---|---|---|---|---|---|
| | | | *(in thousands, except per share data)* | | |
| Total net revenues | 5 | € | 326,030 | € | 320,992 |
| Cost of sales | 25 | | 202,899 | | 196,911 |
| Gross profit | | | 123,131 | | 124,080 |
| Selling and marketing expense | 25 | | 93,167 | | 94,319 |
| General and administrative expense | 25 | | 29,560 | | 30,062 |
| Restructuring costs | 14, 25 | | 4,299 | | 2,033 |
| Share-based compensation income | 23, 25 | | (5,341) | | (218) |
| Other operating income, net | 25 | | (458) | | (1,430) |
| Operating profit (loss) | | | 1,905 | | (686) |
| Interest expense | 16 | | (12,954) | | (12,592) |
| Interest and investment income | 16 | | 1,159 | | 2,069 |
| Foreign exchange gain | 16 | | 92 | | 287 |
| Loss before income taxes | | | (9,798) | | (10,922) |
| Income tax benefit (expense): | | | | | |
| Current | | | (1,209) | | (1,201) |
| Deferred | | | 1,268 | | 969 |
| Income tax benefit (expense) | 21 | | 59 | | (232) |
| Loss for the year | | € | (9,738) | € | (11,154) |
| Earnings per share-basic | | | | | |
| Loss for the year | 29 | € | (0.26) | € | (0.31) |
| Earnings per share-diluted | | | | | |
| Loss for the year | 29 | € | (0.26) | € | (0.31) |

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

## HEAD N.V. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Note | Attributable to equity holders of the Company | | | | | | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | | Ordinary Shares | | Other Reserves | Treasury Shares | Retained Earnings | Fair Value and Other Reserves/ CTA | |
| | | Shares | Amount | | | | | |
| | | *(in thousands, except share data)* | | | | | | |
| Balance at January 1, 2007 | | 36,219,902 € | 7,964 € | 115,838 € | (12,307) € | 51,853 € | (7,462) € | 155,888 |
| Sale of treasury shares | 12 | 50,908 | -- | (147) | 297 | -- | -- | 150 |
| Capital repayment | 12 | -- | (7,566) | 415 | -- | -- | -- | (7,151) |
| Exercise of options, equity-based | 12, 23 | 838,622 | -- | (4,618) | 4,891 | -- | -- | 273 |
| Loss for the year | | -- | -- | -- | -- | (11,154) | -- | (11,154) |
| Changes in fair value and other reserves including CTA: | | | | | | | | |
| Unrealized loss on available-for-sale financial assets (net of tax of €86) | 20 | -- | -- | -- | -- | -- | (342) | (342) |
| Unrealized loss on cash flow hedges (net of tax of €30) | 11, 20 | -- | -- | -- | -- | -- | (101) | (101) |
| Reclassification adjustment for derivative losses recorded in net income (net of tax of €78) | 11, 20 | -- | -- | -- | -- | -- | 244 | 244 |
| Foreign currency translation adjustment | 20 | -- | -- | -- | -- | -- | (4,790) | (4,790) |
| Total recognised income and expense in 2007 | | -- | -- | -- | -- | (11,154) | (4,989) | (16,143) |
| Balance at December 31, 2007 | | 37,109,432 € | 398 € | 111,489 € | (7,119) € | 40,699 € | (12,450) € | 133,017 |
| Loss for the year | | -- | -- | -- | -- | (9,738) | -- | (9,738) |
| Changes in fair value and other reserves including CTA: | | | | | | | | |
| Unrealized loss on available-for-sale financial assets (net of tax of €223) | 20 | -- | -- | -- | -- | -- | (667) | (667) |
| Reclassification adjustment for derivative gains recorded in net loss (net of tax of €48) | 11, 20 | -- | -- | -- | -- | -- | (144) | (144) |
| Foreign currency translation adjustment | 20 | -- | -- | -- | -- | -- | 3,567 | 3,567 |
| Total recognised income and expense in 2008 | | -- | -- | -- | -- | (9,738) | 2,756 | (6,982) |
| Balance at December 31, 2008 | | 37,109,432 € | 398 € | 111,489 € | (7,119) € | 30,960 € | (9,694) € | 126,034 |

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

**HEAD N.V. AND SUBSIDIARIES**
**CONSOLIDATED CASH FLOW STATEMENTS**

| | Note | For the Years Ended December 31, 2008 | 2007 |
|---|---|---|---|
| | | *(in thousands)* | |
| **OPERATING ACTIVITIES:** | | | |
| Loss for the year | | € (9,738) | € (11,154) |
| Adjustments to reconcile net profit (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 6, 7 | 15,117 | 13,251 |
| Amortization and write-off of debt issuance cost and bond discount (interest expense) | | 433 | 401 |
| Impairment | 7 | -- | 11 |
| Release for leaving indemnity and pension benefits | 18 | (630) | (573) |
| Restructuring | 14 | 837 | 1,930 |
| Gain on sale of property, plant and equipment | 6 | (9) | (296) |
| Share-based compensation income | 23 | (5,341) | (218) |
| Deferred income | 17 | (754) | (863) |
| Interest expense | 16 | 12,521 | 12,191 |
| Interest income | 16 | (1,161) | (2,031) |
| Tax expense | 21 | 1,209 | 1,201 |
| Deferred tax benefit | 21 | (1,268) | (969) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 9 | 2,109 | 16,514 |
| Inventories | 8 | 636 | (12,183) |
| Prepaid expense and other assets | | (346) | (647) |
| Accounts payable, accrued expenses and other liabilities | 13, 14 | (5,576) | (2,755) |
| Interest paid | | (12,265) | (13,878) |
| Tax paid | | (669) | (2,657) |
| Net cash used for operating activities | | (4,895) | (2,724) |
| **INVESTING ACTIVITIES:** | | | |
| Purchase of property, plant and equipment | 6 | (14,227) | (13,742) |
| Proceeds from sale of property, plant and equipment | 6 | 239 | 2,097 |
| Purchases of available-for-sale financial assets | 10 | (64) | (8,169) |
| Sale of available-for-sale financial assets | 10 | 3,820 | 17,055 |
| Interest received | | 1,033 | 2,084 |
| Net cash used for investing activities | | (9,199) | (674) |
| **FINANCING ACTIVITIES:** | | | |
| Change in short-term borrowings, net | 15 | 4,324 | (113) |
| Payments on long-term debt | 15 | (2,412) | (2,546) |
| Proceeds from other long-term obligations | 15 | 428 | 222 |
| Proceeds from exercised options, share-based | 12 | -- | 273 |
| Sale of treasury shares | 12 | -- | 150 |
| Capital repayment | 12 | -- | (7,151) |
| Change in restricted cash | | 1,994 | 696 |
| Net cash provided by (used for) financing activities | | 4,335 | (8,468) |
| Effect of exchange rate changes on cash and cash equivalents | | (869) | (803) |
| Net decrease in cash and cash equivalents | | (10,628) | (12,669) |
| Cash and cash equivalents, unrestricted at beginning of period | | 27,782 | 40,451 |
| Cash and cash equivalents, unrestricted at end of period | | € 17,155 | € 27,782 |

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

## HEAD N.V.
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 – General information

Head N.V. ("Head" or the "Company") was incorporated in Rotterdam, Netherlands, on August 24, 1998. The address of its registered office is Rokin 55, 1012 KK Amsterdam, the Netherlands. The Company's ordinary shares are listed on the Vienna Stock Exchange ("HEAD") and registered with the SEC (U.S. Securities and Exchange Commission).

On March 6, 2009 the Company filed with the United States Securities and Exchange Commission (the "SEC") a Form 15F to terminate its registration and reporting obligations under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). The termination of registration under the Exchange Act is expected to become effective 90 days after the filing of the Form 15F unless earlier withdrawn by the Company or denied by the SEC.

The Company is a global manufacturer and marketer of branded sporting goods serving the skiing, tennis and diving markets. The Company has created or acquired a portfolio of brands – Head (principally alpine skis, ski boots, ski bindings and snowboard products, tennis, racquetball and squash racquets, tennis balls, tennis footwear and badminton products), Penn (tennis balls and racquetball balls), Tyrolia (ski bindings), Mares and Dacor (diving equipment).

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

These consolidated financial statements were approved by the Board of Directors on February 24, 2009.

### Note 2 - Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

*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 International Financial Reporting Standards ("IFRS") as adopted by the EU. The consolidated financial statements have been prepared under the historical cost convention and fair value accounting for available-for-sale financial assets and derivatives.

*Standards, amendment and interpretations effective in 2008*

IAS 39 (Amendment), "Financial instruments: Recognition and measurement" and IFRS 7, "Financial instruments: Disclosures" - Reclassification of Financial Assets. The amendment to the standard permits reclassification of some financial instruments out of the fair-value-through-profit-or-loss category and out of the available-for-sale category. In the event of reclassification, additional disclosures are required under IFRS 7. This amendment does not have an impact on the Company's financial statements as no such reclassification took place.

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

IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction", provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Company's financial statements, as the Company is not subject to any minimum funding requirements.

*Standard and Interpretation early adopted by the Company*

IFRS 8, "Operating segments" (effective from January 1, 2009). IFRS 8 replaces IAS 14 "Segment Reporting" and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Company applied IFRS 8 retrospectively which did not result in a change in reporting segment. The reported segment is consistent with the internal reporting provided to the chief operating decision-maker.

*Interpretations effective in 2008 but not relevant*

The following interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2008 but are not relevant to the Company's operations:

- IFRIC 12, "'Service concession arrangements"
- IFRIC 13, "Customer loyalty programmes".

*Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company*

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2009 or later periods, but the Company has not early adopted them:

- IFRS 2 (Amendment), "Share-based Payment" (effective from January 1, 2009). The amendment to the standard clarifies the terms "vesting conditions" and "cancellations". The Company will apply IFRS 2 (Amendment) from January 1, 2009, but is not expected to have a material impact on the Company's financial statements.

- IFRS 3 (Revised), "Business Combinations" and IAS 27 (Amendment) "Consolidated and Separate Financial Statements". IFRS 3 is applicable from periods beginning on or after July 1, 2009. The revised standard requires business combinations to be accounted for as acquisitions and gives greater transparency. The Company will apply IFRS 3 (Revised) and IAS 27 (Amendment) prospectively to all business combinations from January 1, 2010.
- IAS 1 (Revised), "Presentation of financial statements" (effective from January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement. The Company will apply IAS 1 (Revised) from January 1, 2009.
- IAS 23 (Amendment), "Borrowing costs" (effective from January 1, 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Company will apply IAS 23 (Amendment) prospectively to the capitalization of borrowing costs on qualifying assets from January 1, 2009.
- IAS 32 (Amendment) "Financial Instruments: Presentation", and IAS 1 (Amendment) "Presentation of financial statements" – "Puttable financial instruments and obligations arising on liquidation" (effective from January 1, 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Company will apply the IAS 32 and IAS 1 (Amendment) from January 1, 2009, but is not expected to have any impact on the Company's financial statements.
- IAS 39 (Amendment), "Financial instruments: Recognition and measurement". The amendment clarifies how the existing principles underlying hedge accounting should be applied in two particular situations:
  (a) a one-sided risk in a hedged item, and
  (b) inflation in a financial hedged item.
  Entities are required to apply the amendment retrospectively for annual periods beginning on or after July 1, 2009. The Company will apply IAS 39 (Amendment) from July 1, 2009 retrospectively but is not expected to have any impact on the Company's financial statements.

The following amendments are part of the IASB's annual improvement project published in May 2008:

- IFRS 5 (Amendment), "Non-current assets held for sale and discontinued operations" (and consequential amendment to IFRS 1, "First-time adoption") (effective from July 1, 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Company will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from January 1, 2010.
- IAS 1 (Amendment), "Presentation of financial statements" (effective from January 1, 2009). The amendment clarifies that some rather than all financial assets and liabilities

classified as held for trading are examples of current assets and liabilities respectively. The Company will apply the IAS 1 (Amendment) from January 1, 2009. It is not expected to have an impact on the Company's financial statements.

- IAS 19 (Amendment), "Employee benefits" (effective from January 1, 2009). The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
  The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
  The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
  IAS 37, "Provisions, contingent liabilities and contingent assets", requires contingent liabilities to be disclosed, not recognized. IAS 19 has been amended to be consistent. The Company will apply the IAS 19 (Amendment) from January 1, 2009.
- IAS 23 (Amendment), "Borrowing costs" (effective from January 1, 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 "Financial instruments: Recognition and measurement". The Company will apply IAS 23 (Amendment) from January 1, 2009. It is not expected to have an impact on the Company's financial statements.
- IAS 28 (Amendment), "Investments in associates" (and consequential amendments to IAS 32, "Financial Instruments: Presentation" and IFRS 7, "Financial instruments: Disclosures") (effective from January 1, 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, e.g. goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Company will apply the IAS 28 (Amendment) to impairment tests related to investment in subsidiaries and any related impairment losses from January 1, 2009.
- IAS 36 (Amendment), "Impairment of assets" (effective from January 1, 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from January 1, 2009.
- IAS 38 (Amendment), "Intangible assets" (effective from January 1, 2009). The amendment clarifies that an entity is required to recognize an expense with respect to advertising and promotional activities when it receives services or, in the case of a supply of goods, when it receives access to those goods. As the Company's current accounting policy is in line with this amendment, the application does not have an impact on the Company's financial statements.

*Interpretations to existing standards that are not yet effective and not relevant for the Company's operations*

The following interpretations and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2009 or later periods but are not relevant for the Company's operations:

- IAS 20 (Amendment), "Accounting for government grants and disclosure of government assistance" (effective from January 1, 2009).
- IFRIC 15, "Agreements for construction of real estates" (effective from January 1, 2009).
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", effective for annual periods beginning on or after October 1, 2008, provides guidance on accounting for the hedge of a net investment in a foreign operation.
- IFRIC 17 "Distributions of Non-cash Assets to Owners" is applicable from periods beginning on or after July 1, 2009 and shall standardize practice in the accounting treatment of distribution of non-cash assets to owners.
- IFRIC 18 "Transfers of Assets from Customers" (effective from July 1, 2009) provides additional guidance on the accounting for transfers of assets from customers.

The following amendments are part of the IASB's annual improvement project published in May 2008:

- IAS 16 (Amendment), "Property, plant and equipment" (and consequential amendment to IAS 7, "Statement of cash flows") (effective from January 1, 2009).
- IAS 27 (Amendment), "Consolidated and separate financial statements" (effective from January 1, 2009).
- IAS 28 (Amendment), "Investments in associates" (and consequential amendments to IAS 32, "Financial Instruments: Presentation" and IFRS 7, "Financial instruments: Disclosures") (effective from January 1, 2009). IAS 29 (Amendment), "Financial reporting in hyperinflationary economies" (effective from January 1, 2009).
- IAS 31 (Amendment), "Interests in joint ventures" (and consequential amendments to IAS 32 and IFRS 7) (effective from January 1, 2009).
- IAS 38 (Amendment), "Intangible assets", (effective from January 1, 2009). IAS 40 (Amendment), "Investment property" (and consequential amendments to IAS 16) (effective from January 1, 2009). IAS 41 (Amendment), "Agriculture" (effective from January 1, 2009).
- Minor amendments to IAS 20 "Accounting for government grants and disclosure of government assistance" and IAS 29, "Financial reporting in hyperinflationary economies" IAS 40, "Investment property" and IAS 41, "Agriculture"(not addressed above).

*Consolidation*

a) Subsidiaries
The consolidated financial statements of Head include the financial statements of all majority-owned subsidiaries and entities over which the Company has financial and operating control and special purpose entities in which the Company has determined it is the main beneficiary. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

b) Associates
Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Company's share of its associates' post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. When the Company's share of loss in an associate equals or exceeds its interest in the associate, the Company does not recognized further losses, unless it has incurred obligations or made payments on behalf of the associate.

*Segment Reporting*

An operating segment is consistent with the internal reporting provided to the chief operating decision-maker, the Company's Chief Executive Officer. Decisions regarding strategy, resources, financing, capital investments and insurance are made on the basis of the Company's performance based on its consolidated operating results and consolidated balance sheet; and liquidity planning is based on the Company's consolidated cash flows.

*Foreign Currency Translation*

a) Functional and presentation currency
Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in euros, which is the Company's functional and presentation currency.

b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the

income statement. The effect of exchange rate changes on intercompany transactions of a long-term investment nature are recognized in equity as a component of fair value and other reserves/CTA.

Foreign exchange gains and losses that result from financing and investing activities are presented in the income statement within "Foreign exchange gain (loss)". All other foreign exchange gains and losses are presented in the income statement within "Other operating income, net".

c) Group companies
The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates prevailing during the year.
- All resulting exchange differences on equity items are recognized as a separate component of equity.

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

*Property, Plant and Equipment*

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Additions and improvements that extend the useful lives of the plant and equipment and replacements, major renewals, and betterments are capitalized and depreciated over the remaining useful life of the asset. 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 and impairment losses 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 30-50 years, building improvements are depreciated over a period of 10-25 years and machinery and equipment is depreciated over a period of 2-20 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 6 and 14).

*Goodwill and Other Intangible Assets*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Other intangible assets comprise of trademarks with an indefinite useful life which are carried at cost less accumulated impairment losses and land use rights with a useful life of 50 years, which are carried at cost less accumulated amortization and impairment losses. Amortization of land use rights is calculated using the straight-line method.

Goodwill and other intangible assets with an indefinite useful life are allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which trademarks and goodwill arose.

*Impairment of Non-Financial Assets*

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Impairment losses on goodwill are not reversed. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

*Financial Assets*

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Financial assets are recognized at trade date. Management determines the classification of its financial assets at initial recognition and reevaluates this designation at every reporting date.

a) Financial assets at fair value through profit or loss
Derivatives are categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets ("Other non-current assets"). Loans and receivables are classified as "trade and other receivables" in the balance sheet (see Note 9).

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

Available-for-sale financial assets and financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are initially and subsequently carried at amortized cost using the effective interest method. Changes in the fair value of available-for-sale financial assets are recognized in equity.

When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement in "Interest income".

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in the income statement.

The accounting policy for trade and other receivables follows on the next page.

*Derivative Financial Instruments and Hedging Activities*

The Company records all derivatives on the balance sheet at fair value. The Company uses derivative instrument, specifically foreign exchange forward and option contracts, to hedge the foreign exchange risk related to forecasted foreign currency denominated cash flows.

Until 2008, the Company designated the derivative as a hedging instrument (cash flow hedge) on the date on which a derivative contract was transacted. Changes in derivative fair values that were designated effective and qualified cash flow hedges were deferred and recorded as a component of fair value and other reserves/CTA until the hedged transactions affected earnings; at which time the deferred gains and losses on the derivative designated as cash flow hedges was recognized in earnings and classified in accordance with the classification of the hedged item. The Company excluded the time value component of the derivatives' change in fair value from the assessment of hedge effectiveness.

The Company documented at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also documented its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative instruments used for hedging purposes and movements on the hedging reserve in equity are disclosed in Note 20. The full fair value of a hedging derivative was classified as a non-current asset or liability if the remaining hedge item is more than 12 months, and as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months.

The Company enters into hedging relationships to limit the foreign exchange rate risk for periods generally not to exceed one year. Until 2007, for those financial instruments that did not qualify for hedge accounting, the Company recognized the changes in the fair value of the instruments in the income statement ("Foreign exchange gain (loss)"). In 2008, the Company recognized all changes in the fair value of the instruments in the income statement ("Foreign exchange gain (loss)"). The Company does not utilize financial instruments for trading or speculative purposes.

*Inventories*

Inventories are stated at the lower of cost and net realizable value. Cost being determined on a first-in first-out basis ("FIFO"). The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

*Trade and Other Receivables*

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognized in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

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), country (payment terms vary in accordance with local practices throughout the world) and past experiences with customers. It is the Company's normal procedure to agree terms of transactions, including payment terms (60 to 180 days), with customers in advance. In the rental business the Company agrees to payment terms over one year and classifies those long-term trade receivables as non-current assets in the consolidated balance sheet.

*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. Bank overdrafts are shown within "Borrowings" in current liabilities on the balance sheet.

*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.

*Borrowings*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

*Borrowing Costs*

Borrowing costs are not capitalized but expensed when incurred.

*Current and Deferred Income Tax*

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefits through future taxable profits is probable.

*Employee Benefits*

(a) Retirement benefit obligations

The Company operates various pensions and other employee benefits schemes. The schemes are partly funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Company has both defined benefit and defined contribution plans. A defined contribution plan is a plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. A defined benefit plan is a plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

For defined contribution plans, the Company pays contributions to publicly or privately administered insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

(b) Share-based compensation

The Company operates a number of share-based compensation plans. The plans are treated either as equity-settled or cash-settled. The change in fair value of the employee services received in exchange for the grant of the options is recognized in share based compensation expense with a corresponding entry to equity for the equity-settled plan and to other long-term liabilities for cash-settled plans. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. Non-market vesting conditions are included in assumptions about the number of options that were vested.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

*Provisions*

Provision for restructuring costs and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions consist mainly of employee termination payments. Provisions are not recognized for future operating losses.

The Company provides for the estimated cost of product warranties and product returns at the time revenue is recognized and the Company has a constructive obligation. Warranty provision is established based on the Company's best estimates of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Product return provisions are based on our historical experiences.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

*Revenue Recognition*

The Company recognizes revenue when significant risks and rewards of ownership of the goods are transferred to the buyer.  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.

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.  Prepayments received on long-term licensing agreements are recognized in other long-term liabilities.

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

*Sales deductions*

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

*Interest Income*

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the carrying amount is reduced to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

*Leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in non-current borrowings. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

*Research and Development Costs*

Research costs are recognized as costs when incurred. Development costs for changes in design are short term and recognized as cost when they are incurred. Development cost for new products are capitalized if they meet the criteria for recognition as an intangible asset. The Company did not capitalize any development costs.

*Earnings per share*

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares (see Note 12).

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Company has one category of dilutive potential ordinary shares: share options, equity-settled under the Plan 1998 (see Note 23). For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

## Note 3 – Financial Risk Management

### Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

As a consequence of the issuance of the Company's 8.5% senior notes the Company is limited in its ability to:
- incur debt;
- pay dividends;
- repurchase capital stock or make investments, loans and advances;
- sell or transfer assets;
- create liens;
- enter into sale and leaseback transactions;
- engage in various transactions with affiliates; and
- undergo various kinds of merger transactions.

If the Company fails to comply with these restrictions, its obligation to repay the senior notes may be accelerated.

a) Market Risk

*Currency Risk*
The Company operates in a multi-currency environment in which a portion of its revenues and expenses are denominated in currencies other than the euro. The Company is, as a result, subject to currency translation risk and, to a lesser extent, currency transaction risk. Currency translation risk arises because the Company measures and records the financial condition and results of operations of each of its subsidiaries in their functional currency and then translates these amounts into the reporting currency, the euro. The Company incurs transaction risk when one of its subsidiaries enters into a transaction using a currency other than its functional currency, although the Company reduces this risk by seeking, when possible, to match its revenues and costs in each currency. The Company also hedges part of its firm commitments for sales to Japan, Switzerland, United Kingdom and Canada through forward contracts and options with Austrian and Italian banks. Accordingly, shifts in currency exchange rates, particularly between the euro and the U.S. dollar, may adversely affect our results of operations. The table below shows the European Central Bank exchange rates for euro for those currencies that mainly influence the Company's results:

| 1 Euro = | December 31, 2008 | 2007 |
|---|---|---|
| USD | 1.3917 | 1.4721 |
| CHF | 1.4850 | 1.6547 |
| GBP | 0.9525 | 0.7334 |
| JPY | 126.1400 | 164.9300 |
| CAD | 1.6998 | 1.4449 |
| CSK | 26.8750 | 26.6280 |
| CNY | 9.4956 | 10.7524 |

Due to the marginal foreign currency risk the Company does not disclose further sensitivities.

*Price Risk*

The Company is exposed to marketable securities price risk because of marketable securities held by the Company and classified on the consolidated balance sheet as available-for-sale. To manage its price risk arising from marketable securities, the Company diversifies its portfolio. Due to the marginal price risk the Company does not disclose further sensitivities.

*Cash flow and fair value interest rate risk*

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company operates with several international banks and does not have a lead bank.
The Company's interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's main external financial source arises from its 8.5% senior notes. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. During 2008 and 2007, the Company's borrowings at variable rate were denominated in euro, Japanese yen, Canadian dollar and Czech koruna.

b) Credit Risk

Financial instruments which potentially subject the Company to significant concentrations of credit risk consist primarily of cash, 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.

c) Liquidity Risk

The Company's liquidity needs arise principally from working capital requirements, capital expenditures, asset acquisitions and the semi-annual interest payment on its 8.5% senior notes in January and July. Given the nature of winter sports, and to a lesser extent racquet sports and diving, the Company's operating cash flow and working capital needs are highly seasonal. The Company's need for cash is greater in the third and fourth quarters when cash generated from operating activities, together with draw downs from the Company's bank lines, proceeds from sales of marketable securities, are invested in inventories and receivables. In October, the Company signed an agreement with Austrian banks for additional short-term working capital lines of €8.0 million available until December 31, 2008. Historically, the Company's primary sources of liquidity have been cash provided from operating activities, proceeds from the issuance of debt and equity securities and borrowings under various credit facilities available to the Company's subsidiaries.

The Company uses major international banks to deposit its cash and cash equivalents.

The Company believes that its cash flow from operations together with credit lines will be adequate to meet the anticipated requirements for working capital, capital expenditures and scheduled interest payments.

**Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

**Fair value estimation**

The fair value of financial instruments traded in active markets (available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date provided by the bank.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The fair value of the Company's senior notes equals the market value at December 31, 2008. If the market value would increase by 10% the fair value would increase by €3.4 million but it has no effect on the Company's financial statements.

## Note 4 – Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS 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, impairments of trade receivables, product warranties and returns, inventory obsolescence and recognition of deferred tax assets. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ from those estimates.

*Estimated impairment of trademark and goodwill*

The Company tests annually whether trademarks, with an indefinite useful life and goodwill amounting to €13.2 million have suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 7).

If the estimated pre-tax discount rate applied to the discounted cash flows had been 10% points higher than management's estimates, the recoverable amount would have still exceeded the carrying amount of the assets.

*Impairment of trade receivables*

The Company recorded an impairment of trade receivables for estimated losses amounting to €2.8 million in 2008 resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provisions may be required. The Company specifically analyzes accounts receivables and evaluates historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the impairment of trade receivables. These estimations are continually reviewed. Recoveries related to changes in reserves did not occur in 2008.

If estimations relating to the percentage of uncollected accounts receivable were increased by 10% points, the Company would recognize an additional provision of €0.2 million.

*Impairment of Long Lived Assets*

Property, plant and equipment with a carrying amount of €61.3 million are initially stated at cost. Depreciation on property, plant and equipment is computed using the straight-line method over their estimated useful lives. The Company has determined useful lives of property, plant and equipment after consideration of historical results and anticipated results based on the Company's current plans. The estimated useful lives represent the period the asset remains in service assuming normal routine maintenance. The Company reviews the estimated useful lives assigned to property, plant and equipment when the business experience suggests that they do not properly reflect the consumption of the economic benefits embodied in the property, plant or equipment nor result in the appropriate matching of cost against revenue. Factors that lead to such a conclusion may include physical observation of asset usage, examination of realized gains and losses on asset disposals and consideration of market trends such as technological obsolescence or change in market demand.

When events or changes in circumstances indicate that the carrying amount may not be recoverable, property, plant and equipment are reviewed for impairment. When such assets' carrying value is greater than the recoverable amount, an impairment loss is recognized.

*Provision for Product Warranties*

The Company provides for the estimated cost of product warranties and product returns at the time revenue is recognized. The warranty provision amounting to €3.9 million is established based on the Company's best estimates of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Product return provisions are based on historical experiences. While the Company believes that its warranty and product return provisions are adequate and that the judgment applied is appropriate, such amounts estimated to be due and payable could differ materially from what will actually transpire in the future. The Company updates these estimated charges periodically. The actual product performance and/or field expense profiles may differ, and in those cases the Company adjusts its warranty reserves accordingly. Future warranty expenses may exceed the Company's estimates, which could lead to an increase in cost of sales. Significant differences from estimates did not occur in the past.

If revenues and claims were to increase by 10% points, the Company would have to recognise an additional provision of €0.3 million.

*Inventory Obsolescence*

The Company's chosen markets are competitive and subject to fluctuations in demand and technological obsolescence. The Company periodically reviews its inventory for obsolescence and declines in market value below cost. Estimated obsolescence or unmarketable inventory led to write-downs amounting to €3.1 million of the Company's inventory to the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions were less favourable than those projected by the Company, additional inventory write-downs may be required.

*Tax Loss Carry Forwards*

The Company recognises deferred tax assets on tax loss carry forwards amounting to €73.9 million for which it is probable that they will be realized. The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Company was to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. Changes in local income tax rates may also affect deferred tax assets.

If management's estimation with respect to the probability of tax losses carry forwards to be realized were to differ by 10% points the Company would have to increase income tax expense by €7.4 million.

## Note 5 - Segment Information

The Company operates in one reporting segment, Sporting Goods. The Company's nature of products and production processes are similar, the customers are largely the same and also the distribution channels the Company uses are the same for all its products.

The tables below show net revenues from external customers and long-lived assets by geographic region based on the location of the Company's subsidiaries:

| | | For the Years Ended December 31, 2008 | | 2007 |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| **Revenues from External Customers:** | | | | |
| Austria | € | 137,016 | € | 128,772 |
| Italy | | 34,253 | | 36,374 |
| Other (Europe) | | 45,913 | | 48,020 |
| Asia | | 24,048 | | 15,567 |
| North America | | 84,801 | | 92,259 |
| Total Net Revenues | € | 326,030 | € | 320,992 |

Although the Company's homeland is the Netherlands, the Company's economic domestic market is Austria. The Company has no major customers but a large number of customers who disperse across many geographic areas.

| | | December 31, 2008 | | 2007 |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| **Long-lived assets:** | | | | |
| Austria | € | 16,474 | € | 18,764 |
| Italy | | 9,559 | | 10,300 |
| Other (Europe) | | 21,319 | | 18,984 |
| Asia | | 11,869 | | 7,338 |
| North America | | 15,868 | | 17,884 |
| Total segment assets | € | 75,089 | € | 73,270 |

Sales by product category consist of the following:

| | | For the Years Ended December 31, 2008 | | 2007 |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| **Revenues by Product Category:** | | | | |
| Winter Sports | € | 156,359 | € | 140,533 |
| Racquet Sports | | 121,449 | | 129,836 |
| Diving | | 52,359 | | 51,818 |
| Licensing | | 5,582 | | 7,280 |
| Sales Deductions | | (9,717) | | (8,475) |
| Total Net Revenues | € | 326,030 | € | 320,992 |

## Note 6 – Property, Plant and Equipment

| | Land | Buildings | Machinery & plant equipment | Fixtures, furnitures & office equipment | Total property, plant & equipment |
|---|---|---|---|---|---|
| | | | *(in thousands)* | | |
| **As of January 1, 2007** | | | | | |
| Cost | € 3,102 | € 29,952 | € 106,681 | € 39,578 | € 179,313 |
| Accumulated depreciation | -- | (10,371) | (74,453) | (32,669) | (117,492) |
| Net book value | € 3,102 | € 19,581 | € 32,229 | € 6,910 | € 61,821 |
| **Year ended December 31, 2007** | | | | | |
| Opening net book value | € 3,102 | € 19,581 | € 32,229 | € 6,910 | € 61,821 |
| Additions | -- | 2,370 | 9,412 | 1,960 | 13,742 |
| Disposals | -- | (1,876) | 161 | (75) | (1,790) |
| Transfers | -- | -- | 25 | 111 | 136 |
| Exchange difference | (98) | (5) | (703) | (6) | (811) |
| Depreciation and impairment charge | -- | (1,157) | (9,460) | (2,602) | (13,219) |
| Closing net book value | € 3,004 | € 18,913 | € 31,664 | € 6,297 | € 59,879 |
| **As of December 31, 2007** | | | | | |
| Cost | € 3,004 | € 30,306 | € 113,405 | € 39,558 | € 186,273 |
| Accumulated depreciation | -- | (11,393) | (81,740) | (33,261) | (126,394) |
| Net book value | € 3,004 | € 18,913 | € 31,664 | € 6,297 | € 59,879 |
| **Year ended December 31, 2008** | | | | | |
| Opening net book value | € 3,004 | € 18,913 | € 31,664 | € 6,297 | € 59,879 |
| Additions | 6 | 3,050 | 9,912 | 1,259 | 14,227 |
| Disposals | -- | (8) | (127) | (95) | (230) |
| Transfers | -- | (25) | 31 | (6) | -- |
| Exchange difference | 254 | 266 | 1,946 | 65 | 2,531 |
| Depreciation and impairment charge | -- | (1,418) | (11,485) | (2,203) | (15,106) |
| Closing net book value | € 3,264 | € 20,778 | € 31,941 | € 5,317 | € 61,300 |
| **As of December 31, 2008** | | | | | |
| Cost | € 3,264 | € 33,660 | € 125,559 | € 40,217 | € 202,700 |
| Accumulated depreciation | -- | (12,882) | (93,618) | (34,899) | (141,399) |
| Net book value | € 3,264 | € 20,778 | € 31,941 | € 5,317 | € 61,300 |

In 2007, the Company reclassified €0.1 million from "Other non-current assets" to "Property plant and equipment".

For the years ended December 31, 2008 and 2007, the Company's total proceeds on the sale of property and equipment were €0.2 million and €2.1 million resulting in a gain of €0.3 million for the year ended December 31, 2007. Gains (losses) are included in other operating income (expense), net in the accompanying consolidated income statements.

Depreciation expense of €11.5 million has been charged in cost of goods sold (2007: €11.4 million), €0.4 million in selling and marketing expense (2007: €0.5million) and €1.1 million in general and administrative expense (2007: €1.3 million). €2.1 million additional depreciation was recorded in restructuring costs (see Note 14).

Land and building with a carrying value of €2.0 million and €2.1 million as of December 31, 2008 and 2007, respectively are used to secure a loan (see Note 15).

## Note 7 – Goodwill and Intangible Assets

| | Goodwill | Intangible Assets Trademarks | Intangible Assets Other | Intangible Assets Total |
|---|---|---|---|---|
| | thousands) | (in thousands) | | |
| **As of January 1, 2007** | | | | |
| Gross | € 3,142 | € 11,293 | € 652 | € 11,945 |
| Accumulated amortization and impairment | -- | (184) | (22) | (206) |
| Net book value | € 3,142 | € 11,109 | € 630 | € 11,739 |
| **Year ended December 31, 2007** | | | | |
| Opening net book value | € 3,142 | € 11,109 | € 630 | € 11,739 |
| Exchange difference | (248) | (1,170) | (26) | (1,197) |
| Amortisation and impairment | (11) | -- | (32) | (32) |
| Closing net book value | € 2,882 | € 9,939 | € 571 | € 10,509 |
| **As of December 31, 2007** | | | | |
| Gross | € 2,894 | € 10,122 | € 626 | € 10,748 |
| Accumulated amortization and impairment | (11) | (184) | (54) | (238) |
| Net book value | € 2,882 | € 9,939 | € 571 | € 10,509 |
| **Year ended December 31, 2008** | | | | |
| Opening net book value | € 2,882 | € 9,939 | € 571 | € 10,509 |
| Exchange difference | (239) | 574 | 75 | 648 |
| Amortisation and impairment | -- | -- | (12) | (12) |
| Closing net book value | € 2,643 | € 10,512 | € 633 | € 11,146 |
| **As of December 31, 2008** | | | | |
| Gross | € 2,643 | € 10,686 | € 674 | € 11,360 |
| Accumulated amortization and impairment | -- | (174) | (40) | (214) |
| Net book value | € 2,643 | € 10,512 | € 633 | € 11,146 |

The Company has determined an indefinite useful life for trademarks as the economic benefit is not limited to a certain period of time.

*Impairment test for trademarks and goodwill*

The Company completed the annual impairment test, in the fourth quarter of 2008 and 2007. Trademarks and goodwill are allocated to the Company's cash-generating units ("CGUs") identified according to country of operation and product category.

The following table provides information with regards to the allocation of trademark and goodwill to the CGU:

| | December 31, | | | |
|---|---|---|---|---|
| | 2008 | | 2007 | |
| | Racquet Sports | Diving | Racquet Sports | Diving |
| | *(in thousands)* | | *(in thousands)* | |
| Trademark | € 10,512 | € -- | € 9,939 | € -- |
| Goodwill | € 1,028 | € 1,615 | € 1,336 | € 1,546 |

In the impairment test on the trademarks and goodwill, the difference was calculated between the carrying value of the CGU which benefits from the business combination in which trademarks and goodwill arose and its recoverable amount. The recoverable amount of a CGU is determined based on value-in-use calculation. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated based on the result of the third year budgeted.

Management determined budgeted gross margin based on past performance and expected market development. The discount rate used (7.5%) is pretax and reflects specific risks relating to the Company's business.

## Note 8 – Inventories

Inventories consist of the following:

| | As of December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | *(in thousands)* | |
| Raw materials and supplies | € 17,021 | € 16,219 |
| Work in process | 7,319 | 6,926 |
| Finished goods | 65,807 | 66,867 |
| Provisions | (13,027) | (14,745) |
| Total inventories, net | € 77,120 | € 75,265 |

The cost of inventories recognized as expense and included in "Cost of sales" amounted to €129.2 million and €124.4 million for the year ended December 31, 2008 and 2007, respectively.

The Company recognized a provision of €3.1 million and €4.3 million for impairment of inventories during the year ended December 31, 2008 and 2007,, respectively. The Company released a provision for impaired inventories of €1.0 million and €1.3 million for the year ended December 31, 2008 and 2007, respectively.

## Note 9 – Trade and Other Receivables

Accounts receivable consist of the following:

| | | As of December 31, 2008 | | As of December 31, 2007 |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| Trade debtors | € | 138,357 | € | 136,069 |
| Other receivables | | 7,076 | | 8,262 |
| Allowance for doubtful accounts | | (12,981) | | (12,333) |
| Total accounts receivable, net | € | 132,452 | € | 131,998 |
| Less: long-term portion | | (1,662) | | (1,726) |
| Short-term portion | € | 130,790 | € | 130,272 |

As of December 31, 2008 and 2007, the nominal value of long-term trade receivables was €1.8 million, respectively. The average interest rate used was 5.8% and 5.9% for the year ended December 31, 2008 and 2007, respectively.

| | | December 31, 2008 | | December 31, 2007 |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| Accounts Receivable Trade, net | € | 125,376 | € | 123,736 |
| thereof not overdue, not impaired | | 101,868 | | 98,021 |
| thereof overdue, not impaired | | | | |
| 1 - 30 days | € | 6,457 | € | 5,976 |
| 31 - 60 days | | -- | | 2,261 |
| 61 - 90 days | | -- | | 996 |
| over 90 days | | -- | | 801 |
| | € | 6,457 | € | 10,034 |
| thereof impaired | € | 17,051 | € | 15,681 |

For the Company's accounts receivable trade there is no credit rating available.

As of December 31, 2008, for trade receivables that are neither impaired nor past due, there are no indicators that the debtors will not meet their payment obligations. There is no concentration of credit risk with respect to trade receivables, as the Company has a large number of customers, internationally dispersed.

The following table shows trade receivables, gross by currency:

| | | December 31, | | |
|---|---|---|---|---|
| | | 2008 | | 2007 |
| | | *(in thousands)* | | |
| EUR | € | 76,030 | € | 77,235 |
| USD | | 29,871 | | 29,732 |
| JPY | | 17,183 | | 12,791 |
| CAD | | 8,127 | | 9,329 |
| CHF | | 4,755 | | 3,202 |
| GBP | | 2,262 | | 3,620 |
| Other | | 129 | | 160 |
| Trade debtors | | 138,357 | | 136,069 |
| Allowance for doubtful accounts | | (12,981) | | (12,333) |
| | € | 125,376 | € | 123,736 |

The following table shows the development of allowances on trade receivables:

| | | December 31, | | |
|---|---|---|---|---|
| | | 2008 | | 2007 |
| | | *(in thousands)* | | |
| Balance as of January 1 | € | 12,333 | € | 12,162 |
| Additions | | 2,833 | | 2,013 |
| Used | | (2,332) | | (1,126) |
| Released | | (288) | | (310) |
| Translation adjustments | | 435 | | (405) |
| Balance as of December 31 | € | 12,981 | € | 12,333 |

The following table presents expenses for the full write-off of trade receivables as well as income from recoveries on trade receivables written off:

| | | December 31, | | |
|---|---|---|---|---|
| | | 2008 | | 2007 |
| | | *(in thousands)* | | |
| Expenses for full write-offs of receivables | € | 1.239 | € | 690 |
| Income from recoveries on receivables written off | € | 101 | € | 31 |

All income and expenses relating to allowances and write-offs of trade receivables are reported under selling and marketing expense.

**Note 10 – Available-for-Sale Financial Assets**

Available-for-sale financial assets consist of the following:

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| | *(in thousands)* | |
| Available-for-Sale | | |
| Money market funds.................................... | € 6,030 | € 10,230 |
| Other securities.......................................... | 164 | 608 |
| Total Financial assets available-for-sale........... | 6,194 | 10,838 |
| Less: Short-term portion.............................. | (6,194) | (10,230) |
| Total Long-term financial assets available-for-sale............................... | € 0 | € 608 |

Available-for-sale financial assets developed as follows during the years ended December 31, 2008 and 2007:

| | Available-for-sale Current | Available-for-sale Non-Current |
|---|---|---|
| | *(in thousands)* | |
| Balance as of January 1, 2007.......................... | € 17,828 | € 1,971 |
| Additions.................................................... | 8,169 | -- |
| Disposals.................................................... | (15,716) | (1,340) |
| Change in fair value....................................... | (51) | (23) |
| Balance as of December 31, 2007..................... | € 10,230 | € 608 |
| Additions.................................................... | 64 | -- |
| Disposals.................................................... | (3,708) | (50) |
| Reclassification............................................ | 563 | (563) |
| Change in fair value....................................... | (955) | 6 |
| Translation adjustment.................................. | | -- |
| Balance as of December 31, 2008..................... | € 6,194 | € 0 |

The following table is a summary of the Company's financial assets' (denominated in euro) gross unrealized losses and fair value, aggregated by category and length of time that individual financial assets have been in an unrealized loss position, at December 31, 2008 and 2007:

| | As of December 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | *(in thousands)* | | | | | |
| Money market funds........ | € 6,030 | € (856) | € -- | € -- | € 6,030 | € (856) |
| Other securities.............. | 164 | (35) | -- | -- | 164 | (35) |
| Total temporarily impaired securities...... | € 6,194 | € (890) | € -- | € -- | € 6,194 | € (890) |

| | As of December 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | *(in thousands)* | | | | | |
| Money market funds........ | € 9,923 | € (192) | € -- | € -- | € 9,923 | € (192) |
| Other securities.............. | -- | -- | 608 | (32) | 608 | (32) |
| Total temporarily impaired securities...... | € 9,923 | € (192) | € 608 | € (32) | € 10,531 | € (224) |

For the year ended December 31, 2008 and 2007, the Company recorded €0.3 million and €0.7 million of realized gains on available-for-sale financial assets respectively, which was recognized in "Interest income".

None of these financial assets is either past due or impaired.

## Note 11 - Derivative Financial Instruments

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

For the year 2007, The Company applied hedge accounting for certain foreign exchange contracts. Therefore the Company recorded the change in fair market value of derivatives related to cash flow hedges to fair value reserve of €0.1 million (net of tax) for the year ended December 31, 2007, all of which were 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, 2007, the Company reclassified a loss from fair value and other reserves/CTA to earnings of €0.2 million. For the year ended December 31, 2008, the Company reclassified a gain from fair value and other reserves/CTA to earnings of €0.1 million (net of tax).

The following table provides information regarding the Company's foreign exchange forward and option contracts as of December 31, 2008 and 2007. 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.

| | December 31, 2008 | | | |
|---|---|---|---|---|
| | Contract amount | | | |
| | in euro | Local currency converted into euro | Carrying value | Fair value |
| | *(in thousands)* | | | |
| Foreign exchange forward contracts........ | € 28,642 | € 28,870 | € (427) | € (427) |
| Foreign exchange option contracts.......... | € 9,300 | € 9,554 | € 178 | € 178 |

| | December 31, 2007 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Contract amount | | | | | | | |
| | | in euro | | Local currency converted into euro | | Carrying value | | Fair value |
| | | | | *(in thousands)* | | | | |
| Foreign exchange forward contracts........ | € | 24,728 | € | 24,038 | € | 568 | € | 568 |
| Foreign exchange option contracts.......... | € | 3,250 | € | 3,202 | € | 44 | € | 44 |

For those foreign exchange contracts were the Company did not apply hedge accounting, the Company recognized the change in fair value of foreign exchange forward contracts with a contract amount of €17.3 million and a fair value of €0.4 million and foreign exchange option contracts with a contract amount of €2.3 million and a fair value of €0.01 million in the income statement resulting in a gain of €0.4 million, for the year ended December 31, 2007.

The counterparties to the foreign currency contracts are major international banks. Such contracts are generally for one year or less. Foreign exchange contracts are recorded in trade and other receivables or trade and other payables according to their fair value.

**Note 12 –Equity**

The Company is a Naamloze Vennootschap ("N.V."), a Dutch public Company with limited liability. 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 and the minimum paid in capital requirement for a N.V. is €45,000.

Other reserves include additional paid-in capital, reduced by a capital repayment 2007.

As at December 31, 2008 and 2007, the nominal value of the 39,820,677 shares issued was €0.01.

As at December 31, 2008 and 2007, the authorized share capital amounts to €1,991,033.84 and is divided into 199,103,384 shares with a nominal value of €0.01 per share.

| | As of December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | *(in thousands)* | |
| Shares issued.......................................................... | 39,821 | 39,821 |
| Less: Treasury shares owned by the Company.......... | (2,184) | (2,184) |
| Less: Shares held by the Stichting.......................... | (527) | (527) |
| Shares outstanding.................................................. | 37,109 | 37,109 |

*Dividends*

In 2008 and 2007, the Company did not pay a dividend.

*Decrease in Nominal Value - Capital Repayment 2007*

At the Company's Annual General Meeting on May 30, 2007, shareholders approved to amend the Articles of Association of the Company to allow for a decrease of the nominal share capital of the Company to facilitate a payment of €7.2 million to its shareholders which was paid in September 2007.

*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 23), the Stichting also issues depository receipts to option holders, upon exercise of the option. Holders of depositary 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 €11.9 million, to the Stichting.  The Stichting may use these shares to fulfil the Company's obligations under the Head Tyrolia Mares Company Executive Stock Option Plans (see Note 23).

As of January 1, 2004, in accordance with SIC 12 "Consolidation – Special Purpose Entity" the Company consolidated the Stichting, as the Company was considered the main beneficiary of the Stichting. As a result of consolidating the Stichting shares held by the Stichting are presented as treasury shares in the consolidated balance sheets.

During the year ended December 31, 2007, the Stichting sold 50,908 treasury shares.

In September 2007, the Company's CEO exercised equity-settled stock options under the Plan 1998 and received 838,622 shares. The option price was $0.45 per share.

*Treasury Shares*

Pursuant to resolutions which were approved on May 28, 2008 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 its issued shares at any time.

As of December 31, 2008 and 2007, the Company owned 2,711,245 shares of treasury shares, respectively of which 527,104 was held by the Stichting at December 31, 2008 and 2007.

*Majority Shareholder*

Head Sports Holdings N.V and its shareholders controlled 19,898,766 shares, or approximately 49.97% of the Company's issued shares, as of December 31, 2008. Head Sports Holdings N.V., a Netherlands Antilles corporation, and its shareholders are controlled by Johan Eliasch and his family members resulting in the ability to significantly influence and control the Company's operations.

### Note 13 – Trade and Other Payable

Accounts payable consist of the following:

| | As of December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | *(in thousands)* | |
| Accounts payables, Trade | € 17,322 | € 18,879 |
| Allowances | 4,276 | 4,377 |
| Commissions | 2,572 | 2,786 |
| Personnel expenses | 8,600 | 8,751 |
| Deferred Income | 1,870 | 2,507 |
| Interest | 4,423 | 4,374 |
| Legal, Audit, Consulting | 2,514 | 2,450 |
| Fiscal Authorities | 4,348 | 2,583 |
| Advertising | 4,343 | 6,150 |
| Social Institution | 1,251 | 1,431 |
| Freight & duties | 1,202 | 1,135 |
| Other | 5,159 | 5,285 |
| Total | € 57,880 | € 60,709 |

All accounts payable are current as the settlement will take place within 12 months.

### Note 14 – Provisions

Provisions consist of the following:

| | As of December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | *(in thousands)* | |
| Warranty | € 3,880 | € 4,142 |
| Product Liability | 104 | 312 |
| Litigation | 3,891 | 3,944 |
| Restructuring | 2,087 | 2,033 |
| Other | 2,532 | 2,370 |
| Total | € 12,493 | € 12,801 |

| | | Warranty | | Product Liability | | Litigation | | Restruc-turing | | Other | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | (in thousands) | | | | | | |
| Net book value as of January 1, 2007 | € | 3,910 | € | 488 | € | 3,531 | € | 103 | € | 3,718 | € | 11,750 |
| Current year provision booked to expense | | 1,922 | | (151) | | 844 | | 2,033 | | 2,051 | | 6,698 |
| Amount paid | | (1,687) | | (25) | | (601) | | (103) | | (1,296) | | (3,712) |
| Reversal booked to income or expense | | -- | | -- | | (183) | | -- | | (1,679) | | (1,862) |
| Reclassification | | -- | | -- | | 367 | | -- | | (367) | | -- |
| Exchange difference | | (2) | | -- | | (15) | | -- | | (57) | | (74) |
| Net book value as of December 31, 2007 | € | 4,142 | € | 312 | € | 3,944 | € | 2,033 | € | 2,370 | € | 12,801 |
| Current year provision booked to expense | | 1,068 | | -- | | 770 | | 1,101 | | 1,273 | | 4,212 |
| Amount paid | | (1,334) | | (54) | | (823) | | (698) | | (1,228) | | (4,137) |
| Reversal booked to income or expense | | -- | | (154) | | -- | | (264) | | (150) | | (568) |
| Reclassification | | -- | | -- | | -- | | -- | | | | |
| Exchange difference | | 2 | | -- | | -- | | (85) | | 267 | | 184 |
| Net book value as of December 31, 2008 | € | 3,880 | € | 104 | € | 3,891 | € | 2,087 | € | 2,532 | € | 12,493 |

*Warranty*

The Company sells certain of its products to customers with a product warranty that provides free of cost repairs at or the issuance of credit notes to the customer. The length of the warranty term varies from one to two years and depends on the product being sold. 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.

*Product Liability*

Some of the Company's products are used in relatively high-risk recreational settings, and from time to time the Company is named as a defendant in lawsuits asserting product liability claims relating to our sporting goods products. The Company maintains product liability based on past experiences and taking into account the coverage of our product liability insurance. Management regularly reviews any cases and adjusts its estimations.

*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. There is no legal or constructive obligation until the outcome of current legal proceedings, claims and litigation is known. However, management believes that the resolution of these matters will not materially affect the Company's financial position.

The Company accrued €3.9 million for suits with several parties including competitors, customers for past receipts, former employees, suppliers and licensees at December 31, 2008 and 2007 respectively.

*Restructuring*

Throughout 2008 and 2007 the Company performed various restructuring programs. These programs consisted of the following:

**Italy reorganization 2007**

In October 2007, the Company approved a restructuring program to outsource some parts of production and close a production site in Italy to gain more flexibility and reduce fixed cost. The costs of €0.4 million consist of termination cost and have been fully accrued as of December 31, 2007. In 2008, additional cost of €0.2 million was incurred. This restructuring process has been finalized by October 2008.

**Reorganization of ski production**

In October 2007, the Company announced the transfer of parts of the ski production from its site in Kennelbach, Austria to its site in Budweis, Czech Republic to reduce fixed cost. As of December 31, 2007, the Company recognized €1.6 million relating to this program mainly consisting of €1.0 million employee severance cost, €0.5 million cost for deconstruction and €0.1 million engineering cost. In 2008, €0.3 million was used, €0.3 million of severance cost was released and additional cost of €0.9 million in relation to scrapping and writing-off of fixed assets and €0.2 million of termination benefits were incurred. The Company will largely complete the program during 2009.

**Shut-down of tennis ball facility**

After shifting tennis ball production from the U.S. to China it was decided to shut-down the U.S. tennis ball factory. In 2008, the Company recorded €3.2 million of restructuring cost consisting of € 2.1 million of additional depreciation of fixed assets and €1.0 million termination benefits which were accrued in 2008. The Company expects to incur additional restructuring costs in 2009 of €0.9 million to write-off fixed assets and €1.3 million of cost to dismantle the plant.

## Note 15 – Borrowings

| | December 31, 2008 | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | After 5 years |
| | (in thousands) | | | | |
| Lines of credit....................... | € 24,650 | € 24,650 | € -- | € -- | € -- |
| Senior Notes.......................... | 111,904 | -- | -- | -- | 111,904 |
| Sale-Leaseback Transaction..... | 9,848 | 153 | 337 | 386 | 8,972 |
| Mortgage.............................. | 2,438 | 204 | 455 | 527 | 1,252 |
| Other long-term debt............. | 8,568 | 2,033 | 1,474 | 582 | 4,479 |
| Liabilities against Venture Partner................... | 2,587 | -- | -- | -- | 2,587 |
| | € 159,994 | € 27,039 | € 2,266 | € 1,494 | € 129,195 |

| | December 31, 2007 | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | After 5 years |
| | *(in thousands)* | | | | |
| Lines of credit........................ | € 19,141 | € 19,141 | € -- | € -- | € -- |
| Senior Notes.......................... | 111,617 | -- | -- | -- | 111,617 |
| Sale-Leaseback Transaction..... | 9,990 | 143 | 316 | 361 | 9,171 |
| Mortgage.............................. | 2,484 | 179 | 400 | 463 | 1,442 |
| Other long-term debt............. | 9,514 | 2,138 | 2,709 | 812 | 3,855 |
| Liabilities against Venture Partner................... | 2,018 | -- | -- | -- | 2,018 |
| | € 154,763 | € 21,600 | € 3,424 | € 1,635 | € 128,103 |

Lines of credit contain revolving credit lines which are negotiable on a frequent basis.

Borrowings are denominated in the following currencies:

| | As of December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | *(in thousands)* | |
| EUR.......................................................... | € 148,750 | € 141,799 |
| USD.......................................................... | 5,025 | 4,501 |
| JPY........................................................... | 4,772 | 8,088 |
| CAD.......................................................... | 1,287 | -- |
| CZK.......................................................... | 161 | 375 |
| Total Borrowings.................................... | € 159,994 | € 154,763 |

The tables below show contractually agreed (undiscounted) interest payments and repayments of the financial liabilities:

| | Obligations December 31, 2008 | CASH FLOW 2009 | | | CASH FLOW 2010 - 2011 | | |
|---|---|---|---|---|---|---|---|
| | | Interest fix | Interest variable | Re-demption | Interest fix | Interest variable | Re-demption |
| | | | | (in thousands) | | | |
| Lines of credit | € 24,650 | € -- | € 748 | € 24,650 | € -- | € -- | € -- |
| Senior Notes | 111,904 | 9,675 | -- | -- | 19,350 | -- | -- |
| Sale-Leaseback | 9,848 | 651 | -- | 153 | 1,269 | -- | 337 |
| Mortgage | 2,438 | 172 | -- | 204 | 296 | -- | 455 |
| Other long-term debt | 8,568 | 6 | 75 | 2,033 | 30 | 12 | 1,472 |
| Liab. Venture Partner | 2,587 | 336 | -- | -- | 673 | -- | -- |
| | € 159,994 | € 10,840 | € 823 | € 27,039 | € 21,618 | € 12 | € 2,265 |

| | CASH FLOW 2012 - 2013 | | | CASH FLOW THEREAFTER | | |
|---|---|---|---|---|---|---|
| | Interest fix | Interest variable | Re-demption | Interest fix | Interest variable | Re-demption |
| | | | (in thousands) | | | |
| Lines of credit | € -- | € -- | € -- | € -- | € -- | € -- |
| Senior Notes | 19,350 | -- | | 4,838 | -- | 113,825 |
| Sale-Leaseback | 1,221 | -- | 386 | 1,999 | -- | 8,972 |
| Mortgage | 225 | -- | 527 | 188 | -- | 1,252 |
| Other long-term debt | 20 | -- | 582 | 11 | -- | 4,480 |
| Liab. Venture Partner | 673 | -- | -- | -- | -- | 2,587 |
| | € 21,488 | € 0 | € 1,494 | € 7,036 | € -- | € 131,116 |

Lines of credit contain revolving credit lines which are negotiable on a frequent basis. Until the maturity date of the Company's 8.5% senior notes an addition to disagio of €1.9 million will be booked to liabilities.

### *Borrowings, current*

Borrowings, current consist of the following:

| | As of December 31, 2008 | 2007 |
|---|---|---|
| | (in thousands) | |
| Lines of credit | € 24,650 | € 19,141 |
| Current maturities of long term debts | 2,389 | 2,460 |
| Total Borrowings, current | € 27,039 | € 21,600 |

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 secured by all Austrian trade receivables. As of December 31, 2008, the fair value of trade receivables that serve as collateral for the Company's revolving credit lines was €53.1 million (2007: €49.6 million).

In addition, the Company used lines of credit with several banks in Austria, France, Canada and Japan of €9.7 million and had €2.6 million in unused lines of credit. The French lines of credit are secured by all French trade receivables. In 2007, the Company used lines of credit with several banks in Japan of €4.1 million and had €2.9 million in unused lines of credit. The weighted average interest rate on outstanding short-term borrowings was 4.50% and 4.33% as of December 31, 2008 and 2007, respectively.

The amount of current borrowings recognized in the consolidated balance sheet approximates the fair value.

### *Borrowings, non-current*

Borrowings, non-current consist of the following:

| | As of December 31, | | | |
|---|---|---|---|---|
| | | 2008 | | 2007 |
| | | (in thousands) | | |
| Bridge notes | | -- | | -- |
| Senior notes | € | 111,904 | € | 111,617 |
| Liability against venture partner | | 2,587 | | 2,018 |
| Other long-term debt | | 20,853 | | 21,988 |
| Total long term debt | € | 135,344 | € | 135,623 |
| Less current portion | | (2,389) | | (2,460) |
| Long term portion | € | 132,955 | € | 133,163 |

*Senior Notes*

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.

In June 2004, the Company repurchased the equivalent of €5.5 million of its 8.5% senior notes for €5.0 million and realized a gain of €0.3 million. As a result of this transaction, the Company wrote-off €0.1 million of debt issue costs. In 2005, the Company repurchased the equivalent of €15.7 million of its 8.5% senior notes for €14.3 million and realized a gain of €0.9 million. As a result of this transaction, the Company wrote-off €0.1 million of debt issue costs.

At December 31, 2008 and 2007, the Company had €111.9 million and €111.6 million, respectively of senior notes outstanding.

*Liability against venture partner*

In July 2005, the Company signed an agreement for the establishment of a company in the British Virgin Islands. The business venture was established to found a Chinese company which will manufacture tennis balls for exclusive sale to the Company. The Company and its venture partner have a 78% and 22% interest in the newly formed company, respectively. In accordance with IAS 27 and SIC 12 this venture qualifies as a special purpose entity due to the fact that the Chinese company was formed to manufacture tennis balls solely on behalf of the Company. As a result the Company consolidated this entity from inception. In accordance with IAS 32, the Company recorded a liability of €2.6 million and €2.0 million, as of December 31, 2008 and 2007, respectively, for the contribution of its partner.

The Company's partner in this venture has the right to receive a guaranteed yearly dividend of 12% on its investment balance.

*Sale-Leaseback Transaction*

One of the Company's subsidiaries 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-term borrowings at the inception date of this agreement. At December 31, 2008 and 2007, the remaining obligation under the financing agreement is €9.8 and €10.0 million respectively.

The Company's future minimum lease payments as of December 31, 2008, are as follows:

| | | |
|---|---|---|
| 2009 | € | 803 |
| 2010 | | 803 |
| 2011 | | 803 |
| 2012 | | 803 |
| 2013 | | 803 |
| Thereafter | | 10,971 |
| Total minimum payments | € | 14,987 |
| Amount representing interest | | (5,140) |
| Obligation under financing activity | € | 9,848 |
| Obligations due within one year | | (153) |
| Long-term obligations under financing activities | € | 9,695 |

As of December 31, 2008, the net book value of land and building under the sale-leaseback arrangement consists of the following (in thousands):

| | Land | Building |
|---|---|---|
| Cost | € 1,020 | € 8,386 |
| Less: Accumulated depreciation | -- | (7,401) |
| Net book value | € 1,020 | € 986 |

*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 €4.9 million ($4.8 million) over a 15 year term at an interest rate of 7.33%. At December 31, 2008 and 2007, the outstanding balance of the mortgage is €2.4 million ($3.4 million) and €2.5 million ($3.7 million), respectively and the carrying value of the property was €1.6 million ($2.3 million) and €1.7 million ($2.5 million) as of December 31, 2008 and 2007, respectively.

*Other long-term debt*

In August 2006, the Company renegotiated the terms of its outstanding credit lines of Japanese Yen ("JPY") 1,382.9 million (€8.8 million) with a Japanese bank and agreed a semi-annual prepayment of JPY 24.5 million (€0.2 million) for five years. As a consequence the Company reclassified €4.5 million from bank overdraft to long-term debt and €0.2 million to current maturities of long-term debt. Other long-term debt comprises secured loans in Italy and the Czech Republic outstanding with several banks.

The weighted average interest rate on other long-term debt was 3.0% and 4.9% as of December 31, 2008 and 2007, respectively. Borrowings mature at various dates through 2017. At December 31, 2008 and 2007, the remaining outstanding long-term debt is €8.6 million and €9.5 million, respectively.

## Note 16 – Additional Disclosures on Financial Instruments

The following table provides carrying amounts, amounts recognized and fair values of financial assets and liabilities by category.

| | Category in acc. with IAS 39 | Carrying amount Dec. 31, 2008 | Amounts recognized in balance sheet according to IAS 39 | | | Fair value Dec. 31, 2008 |
|---|---|---|---|---|---|---|
| | | | Amortized cost | Fair value recogn. in equity | Fair value recogn. in profit or loss | |
| | | | | *(in thousands)* | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | LaR | € 17,643 | € 17,643 | € -- | € -- | € 17,643 |
| Trade receivables | LaR | 125,376 | 125,376 | -- | -- | 125,376 |
| Other receivables | LaR | 5,476 | 5,476 | -- | -- | 5,476 |
| Derivative financial asset | DuH | 297 | -- | -- | 297 | 297 |
| Available-for-sale financial assets | AfS | 6,194 | -- | 6,194 | -- | 6,194 |
| | | € 154,986 | € 148,495 | € 6,194 | € 297 | € 154,986 |
| **Liabilities** | | | | | | |
| Trade payables | FLaC | € 17,322 | € 17,322 | € -- | € -- | € 17,322 |
| Other payables | FLaC | 24,667 | 24,667 | -- | -- | 24,667 |
| Derivative financial liabilities | DuH | 546 | -- | -- | 546 | 546 |
| Lines of credit | FLaC | 24,650 | 24,650 | -- | -- | 24,650 |
| Senior Notes | FLaC | 111,904 | 111,904 | -- | -- | 34,148 |
| Sale-Leaseback | FLaC | 9,848 | 9,848 | -- | -- | 9,475 |
| Mortgage | FLaC | 2,438 | 2,438 | -- | -- | 2,844 |
| Other long-term debt | FLaC | 8,568 | 8,568 | -- | -- | 8,568 |
| Liabilities against Venture Partner | FLaC | 2,587 | 2,587 | -- | -- | 2,587 |
| | | € 202,529 | € 201,983 | € -- | € 546 | € 124,806 |
| Aggregated by category in accordance with IAS 39: | | | | | | |
| Loans and receivables | LaR | € 148,495 | € 148,495 | € -- | € -- | € 148,495 |
| Derivatives used for hedging (asset) | DuH | 297 | -- | -- | 297 | 297 |
| Available-for-sale financial assets | AfS | 6,194 | -- | 6,194 | -- | 6,194 |
| Financial liabilities at amortized cost | FLaC | 201,983 | 201,983 | -- | -- | 124,260 |
| Derivatives used for hedging (liability) | DuH | 546 | -- | -- | 546 | 546 |

| | Category in accordance with IAS 39 | Carrying amount Dec. 31, 2007 | Amounts recognized in balance sheet according to IAS 39 | | | Fair value Dec. 31, 2007 |
|---|---|---|---|---|---|---|
| | | | Amortized cost | Fair value recogn. in equity | Fair value recogn. in profit or loss | |
| | | | | (in thousands) | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | LaR | € 30,264 | € 30,264 | € -- | € -- | € 30,264 |
| Trade receivables | LaR | 123,736 | 123,736 | -- | -- | 123,736 |
| Other receivables | LaR | 3,167 | 3,167 | -- | -- | 3,167 |
| Derivative financial asset | DuH | 665 | -- | 211 | 454 | 665 |
| Available-for-sale financial assets | AfS | 10,838 | -- | 10,838 | -- | 10,838 |
| | | € 168,670 | € 157,167 | € 11,049 | € 454 | € 168,670 |
| **Liabilities** | | | | | | |
| Trade payables | FLAC | € 18,879 | € 18,879 | € -- | € -- | € 18,879 |
| Other payables | FLAC | 26,557 | 26,557 | -- | -- | 26,557 |
| Lines of credit | FLAC | 19,141 | 19,141 | -- | -- | 19,141 |
| Senior Notes | FLAC | 111,617 | 111,617 | -- | -- | 87,645 |
| Sale-Leaseback | FLAC | 9,990 | 9,990 | -- | -- | 9,534 |
| Mortgage | FLAC | 2,484 | 2,484 | -- | -- | 2,832 |
| Other long-term debt | FLAC | 9,514 | 9,514 | -- | -- | 9,514 |
| Liabilities against Venture Partner | FLAC | 2,018 | 2,018 | -- | -- | 2,018 |
| | | € 200,200 | € 200,200 | € -- | € -- | € 176,120 |
| Aggregated by category in accordance with IAS 39: | | | | | | |
| Loans and receivables | LaR | € 157,167 | € 157,167 | € -- | € -- | € 157,167 |
| Derivatives used for hedging | DuH | 665 | -- | 211 | 454 | 665 |
| Available-for-sale financial assets | AfS | 10,838 | -- | 10,838 | -- | 10,838 |
| Financial liabilities at amortized cost | FLaC | 200,200 | 200,200 | -- | -- | 176,120 |

Cash and cash equivalents, and trade and other receivables mainly have short times to maturity. For this reason, their carrying amounts at the reporting date approximate the fair values. Trade and other payables, as well as other liabilities, generally have short times to maturity; the values reported approximate the fair values. The fair values of the senior notes equal the nominal amounts multiplied by the price quotations at the reporting date. The fair values of liabilities to banks and other financial liabilities are calculated as the present values of the payments associated with the debts, based on the applicable yield curve and the Company's credit spread curve for specific currencies.

The tables below show net gain/(loss) be category:

| | For the Year Ended December 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Interest Income/ (Expense) | From Subsequent Measurement | | | Gain/ (Loss) on Disposal | Net Gain/ (Loss) |
| | | Fair Value Gain/ (Loss) | Foreign Currency Gain/ (Loss) | Impairment/ Reversal of Impairment | | |
| | *(in thousands)* | | | | | |
| Loans and receivables (LaR)...................... | € 829 | € -- | € 1,386 | € (3,118) | € (525) | € (1,428) |
| Derivatives used for hedging (DuH)........... | -- | 465 | (581) | -- | -- | (117) |
| Available-for-sale financial assets (AfS)...... | 290 | -- | -- | -- | (1) | 289 |
| Financial liabilities at amortized cost (FLAC)........................ | (12,903) | -- | (986) | -- | -- | (13,889) |
| | € (11,784) | € 465 | € (181) | € (3,118) | € (526) | € (15,145) |

| | For the Year Ended December 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Interest Income/ (Expense) | From Subsequent Measurement | | | Gain/ (Loss) on Disposal | Net Gain/ (Loss) |
| | | Fair Value Gain/ (Loss) | Foreign Currency Gain/ (Loss) | Impairment/ Reversal of Impairment | | |
| | *(in thousands)* | | | | | |
| Loans and receivables (LaR)...................... | € 1,222 | € (261) | € (514) | € (315) | € (614) | € (481) |
| Derivatives used for hedging (DuH)........... | -- | 496 | 25 | -- | -- | 521 |
| Available-for-sale financial assets (AfS)...... | 746 | -- | -- | -- | 38 | 784 |
| Financial liabilities at amortized cost (FLAC)........................ | (12,526) | -- | 229 | -- | 146 | (12,151) |
| | € (10,558) | € 235 | € (260) | € (315) | € (430) | € (11,328) |

The Company recognized all components of net gain/(loss) in “Interest and investment income”, “Interest expense” and “Foreign exchange gain (loss)”, except for impairment/reversals of impairment of trade receivables. Those are reported under “Selling and marketing expense”. Foreign exchange gains/(losses) of trade receivables are recognized under “Other operating (income) expense, net”.

### Note 17 – Other Long-Term Liabilities

| | As of December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | *(in thousands)* | |
| Deferred income, non-current....................................... | € 5,676 | € 6,252 |
| Liability on share-based payments................................ | 465 | 5,694 |
| Other....................................................................... | -- | 48 |
| Total other long-term liabilities................................. | € 6,141 | € 11,993 |

Other long-term liabilities also include a long-term portion of deferred income from long-term licensing agreements. In July 2005, the Company agreed to extend an existing long-term licensing agreement started on April 1, 2005 for a further 10 years until 2019 and has received a prepayment in the amount of €4.9 million for the extended period. Additionally, the payment terms of the original agreement have been amended and it was agreed that the prepayment of €4.1 million received in November 2004 represents a one time fee with no future royalty payments. The prepayments were recorded as deferred income in the consolidated balance sheet and are recognized over the contract period. At December 31, 2008 and 2007, the deferred income balance associated with this licensing agreement was €5.7 million and €5.8 million, respectively.

As of December 31, 2008 and 2007, the Company recognised the short-term portion of the long-term licensing agreements of €1.0 million and €0.7 million, respectively in trade and other payables.

The Company records liabilities on share-based payments in relation to its stock option plans (see Note 23).

### Note 18 – Retirement benefit obligations

The Company funds pension and other postretirement benefit plans paid to employees at some Austrian, other European and Japanese 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. For the year ended December 31, 2008 and 2007, the only pension plan that includes plan assets are the French and Japanese pension plans. The Company maintains sufficient assets to meet the minimum funding requirements set forth by the regulations in each country. The discount rate is based on the expected return of long-term securities in the secondary market.

Pension benefits and other postretirement benefit plans have developed as follows:

| | December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | *(in thousands)* | |
| Beginning of the year | € 15,157 | € 15,744 |
| Charge to income | 1,704 | 1,530 |
| Payments | (2,180) | (2,116) |
| Release | (203) | -- |
| Exchange differences | 163 | (1) |
| End of the year | € 14,643 | € 15,157 |

Other postretirement benefits include anniversary bonuses and severance obligations.

The table below shows the obligations and unfunded status:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Change in benefit obligation | (in thousands) | | (in thousands) | |
| Benefit obligation at beginning of year.......... | € 4,720 | € 4,830 | € 12,448 | € 13,758 |
| Service cost.......................................... | 233 | 268 | 586 | 579 |
| Interest cost.......................................... | 239 | 208 | 484 | 491 |
| Amendments.......................................... | 301 | 0 | (64) | (173) |
| Actuarial loss (gain)................................. | (375) | (302) | (564) | (469) |
| Settlement............................................. | -- | -- | (45) | (276) |
| Benefit payments..................................... | (137) | (249) | (1,981) | (1,458) |
| Translation adjustment.............................. | 212 | (34) | 62 | (4) |
| Benefit obligation at end of year.................. | € 5,193 | € 4,720 | € 10,926 | € 12,448 |
| Change in plan assets | | | | |
| Fair value of plan assets at beginning of year................................ | 334 | 394 | -- | -- |
| Actual return on plan assets........................ | 13 | 0 | -- | -- |
| Employer contribution................................ | 46 | 45 | -- | -- |
| Benefit payments..................................... | (16) | (88) | -- | -- |
| Amendment............................................ | 303 | -- | -- | -- |
| Translation adjustment.............................. | 111 | (18) | -- | -- |
| Fair value of plan assets at end of year.......... | € 792 | € 334 | € -- | € -- |
| Unfunded status....................................... | 4,402 | 4,386 | 10,926 | 12,448 |
| Unrecognized net actuarial loss (gain).......... | 172 | (161) | (823) | (1,519) |
| Translation adjustment.............................. | (45) | 3 | -- | -- |
| Net amount recognized.............................. | € 4,529 | € 4,228 | € 10,103 | € 10,929 |

Amounts recognized in the consolidated balance sheet consist of:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (in thousands) | | (in thousands) | |
| Other assets............................................ | € 11 | € -- | € -- | € -- |
| Accrued benefit cost.................................. | € 4,540 | € 4,228 | € 10,103 | € 10,929 |

Accrued benefit costs are included in the balance sheet line item "Retirement benefit obligation" on the consolidated balance sheets. The Company expects to make insignificant amounts of employer contributions during the years 2009 to 2012.

The contribution for defined contribution plans for the year ended December 31, 2008 and 2007 amounted to €0.1 million respectively.

The components of net periodic benefit costs consist of the following:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (in thousands) | | (in thousands) | |
| Service cost | € 233 | € 268 | € 586 | € 579 |
| Interest cost | 239 | 208 | 484 | 491 |
| Expected return on plan assets | (21) | (8) | -- | -- |
| Recognized actuarial (gain) loss | 5 | 13 | 178 | (20) |
| Net periodic benefit cost | € 457 | € 480 | € 1,248 | € 1,050 |

The weighted average assumptions used to determine benefit obligations are as follows:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Discount rate | 5.1% | 4.6% | 5.5% | 5.0% |
| Rate of compensation increase | 2.4% | 2.3% | 3.2% | 3.0% |
| Expected return on plan assets | 2.9% | 2.2% | -- | -- |

The plan assets of the Japanese pension plan consist of equity funds at December 31, 2008 and 2007. The Company invests in equity funds with an expected stable growth rate. The actual return on plan assets was not significant. The expected rate of return on plan assets is based upon the present rate of return and is expected to be stable. The plan assets of the French pension plan consist of an insurance contract.

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| | | | (in thousands) | | |
| Present value of defined benefit obligations | € 16,119 | € 17,168 | € 18,588 | € 19,408 | € 18,028 |
| Fair Value of plan assets | 792 | 334 | 405 | 400 | 400 |
| Deficit | € 15,327 | € 16,835 | € 18,183 | € 19,008 | € 17,628 |
| Experience adjustments on plan liabilities | € (939) | € (771) | € (80) | € 833 | € 147 |
| Experience adjustments on plan assets | 7 | 8 | 9 | 9 | 0 |

## Note 19 - 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 2014. Rent expense was approximately €4.2 million and €3.9 million for the year ended December 31, 2008 and 2007, respectively.

Future minimum payments under non-cancelable operating leases with initial or remaining lease terms in excess of one year are as follows as of December 31, 2008:

| | | As of December 31, 2008 |
|---|---|---|
| | | *thousands)* |
| 2009 | € | 4,218 |
| 2010 | | 2,651 |
| 2011 | | 1,950 |
| 2012 | | 1,396 |
| 2013 | | 1,113 |
| Thereafter | | 1,139 |
| | € | 12,467 |

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 cancels. This agreement contains an operating lease for warehouse facilities and machinery and equipment. The future minimum payments are included within above table.

**Note 20 – Fair Value and Other Reserves Including Cumulative Translation Adjustment**

The following table shows the components of fair value and other reserves/CTA:

| | | Foreign Currency Translation Adjustment | | Foreign exchange loss on invested intercompany receivables | | Unrealized Gains on Derivative Instruments | | Unrealized Gain (Loss) on Securities | | Fair Value and Other Reserves/CTA |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *(in thousands)* | | | | |
| Balance at January 1, 2007 | € | (2,748) | € | (4,833) | € | 1 | € | 118 | € | (7,462) |
| Current period changes | | -- | | -- | | 143 | | (342) | | (199) |
| Translation Adjustments | | (3,391) | | (1,400) | | -- | | -- | | (4,790) |
| Balance at December 31, 2007 | € | (6,138) | € | (6,233) | € | 144 | € | (224) | € | (12,450) |
| Current period changes | | -- | | -- | | (144) | | (667) | | (811) |
| Translation Adjustments | | 3,693 | | (126) | | -- | | -- | | 3,567 |
| Balance at December 31, 2008 | € | (2,445) | € | (6,359) | € | 0 | € | (890) | € | (9,694) |

As of January 1, 2004, one of the Company's euro-based subsidiaries recognized non-euro denominated permanently invested intercompany accounts receivable. As of December 31, 2008 and 2007 the foreign exchange losses recorded in CTA were €8.5 million and €8.3 million respectively.

**Note 21 – 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.

| | As of December 31, | |
|---|---|---|
| | 2008 | 2007 |
| Dutch statutory tax rate | 25.5% | 25.5% |
| Tax rate differential | 5.2 | (3.1) |
| Other taxes | (5.2) | (8.4) |
| Prior year adjustments | 5.7 | 12.9 |
| Changes in tax rates | (6.4) | (16.0) |
| Effect on non-recognized tax losses | (24.2) | (13.0) |
| Effective tax rate | 0.6% | (2.1)% |

In 2008, the Company's effective tax rate differed from the statutory tax rate in the Netherlands primarily due to the effect of non-recognized tax losses for which it is not probable to be realized of € 2.4 million. Withholding taxes, other local taxes and prior year adjustments mainly in Italy and Austria and changes in local tax rates mainly in Italy, the Czech Republic and China affected the tax rate.

In 2007, the Company's effective tax rate differed from the statutory tax rate in the Netherlands primarily due to a reduction of the German income tax rate by 9% as of January 1, 2008, which was resolved in July 2007 and led to a reduction of long-term deferred tax assets, mainly on tax losses carried forward and accordingly additional deferred tax expense of €1.4 million. Other effects that lead to differences to the Dutch statutory rate are caused by withholding taxes, other local taxes and prior year adjustments mainly in Italy and Austria and the effect of non-recognized tax losses of €1.5 million for which it is not probable to be utilized by future taxable income.

The movements in deferred tax assets and liabilities during the year ended December 31, 2008 are as follows:

| | Dec. 31, 2008 | (Charged)/ credited to income | (Charged)/ credited to equity | Exchange differences | Dec. 31, 2007 |
|---|---|---|---|---|---|
| | | | *(in thousands)* | | |
| *Short-term:* | | | | | |
| Deferred tax asset: | | | | | |
| Tax loss carried forward | € 170 | € (2,362) | € -- | € -- | € 2,532 |
| Impairment of inventory | 4,215 | (417) | -- | 8 | 4,623 |
| Impairment of accounts receivable | 1,083 | (148) | -- | 135 | 1,096 |
| Provisions | 2,229 | (474) | -- | 106 | 2,597 |
| Other | 290 | 73 | 48 | 19 | 149 |
| Total Short-term deferred tax assets | € 7,987 | € (3,327) | € 48 | € 269 | € 10,998 |
| Deferred tax liabilities: | | | | | |
| Liabilities | € (2,099) | € (86) | € -- | € (1) | € (2,012) |
| Other | (498) | (136) | 222 | -- | (584) |
| Total Short-term deferred tax liability | € (2,597) | € (221) | € 222 | € (1) | € (2,597) |
| Total Short-term deferred tax asset, net | € 5,390 | € (3,549) | € 270 | € 268 | € 8,401 |
| *Long-term:* | | | | | |
| Deferred tax asset: | | | | | |
| Tax loss carried forward | € 73,769 | € 6,802 | € -- | € (10) | € 66,977 |
| Fixed assets | 263 | (199) | -- | (3) | 465 |
| Intangible assets | 14 | (92) | -- | 3 | 103 |
| Retirement Benefit Obligations | 908 | 7 | -- | 45 | 856 |
| Investments | 815 | (125) | -- | -- | 940 |
| Lease obligations | 2,424 | (38) | -- | -- | 2,462 |
| Other | 1,553 | (232) | 42 | 5 | 1,739 |
| Total Long-term deferred tax assets | € 79,746 | € 6,122 | € 42 | € 40 | € 73,542 |
| Deferred tax liabilities: | | | | | |
| Fixed assets | € (758) | € 276 | € -- | € 2 | € (1,036) |
| Investments | (20,891) | (1,507) | -- | -- | (19,384) |
| Other | (460) | (74) | -- | -- | (386) |
| Total Long-term deferred tax liability | € (22,109) | € (1,305) | € -- | € 2 | € (20,806) |
| Valuation allowance | | | -- | | |
| Total Long-term deferred tax asset, net | € 57,637 | € 4,817 | € 42 | € 42 | € 52,736 |
| Total deferred tax asset, net | € 63,027 | € 1,268 | € 312 | € 310 | € 61,137 |

The movements in deferred tax assets and liabilities during the year ended December 31, 2007 are as follows:

| | Dec. 31, 2007 | (Charged)/ credited to income | (Charged)/ credited to equity | Re-class. | Exchange differences | Dec. 31, 2006 |
|---|---|---|---|---|---|---|
| | | | *(in thousands)* | | | |
| *Short-term:* | | | | | | |
| Deferred tax asset: | | | | | | |
| Tax loss carried forward | € 2,532 | € (31) | € -- | € -- | € -- | € 2,563 |
| Impairment of inventory | 4,623 | 523 | -- | -- | 3 | 4,097 |
| Impairment of accounts receivable | 1,096 | (96) | -- | -- | (23) | 1,215 |
| Provisions | 2,597 | 612 | -- | -- | (7) | 1,992 |
| Other | 149 | (835) | (48) | (255) | (15) | 1,302 |
| Total Short-term deferred tax assets | € 10,998 | € 174 | € (48) | € (255) | € (42) | € 11,169 |
| Deferred tax liabilities: | | | | | | |
| Liabilities | € (2,012) | € (1,238) | € -- | € (306) | € 1 | € (469) |
| Other | (584) | (304) | 112 | 393 | -- | (786) |
| Total Short-term deferred tax liability | € (2,597) | € (1,542) | € 112 | € 87 | € 1 | € (1,255) |
| Total Short-term deferred tax asset, net | € 8,401 | € (1,368) | € 64 | € (168) | € (41) | € 9,914 |
| *Long-term:* | | | | | | |
| Deferred tax asset: | | | | | | |
| Tax loss carried forward | € 66,977 | € 3,395 | € -- | € -- | € 1 | € 63,581 |
| Fixed assets | 465 | (335) | -- | -- | 4 | 796 |
| Intangible assets | 103 | 2 | -- | -- | (0) | 101 |
| Retirement Benefit Obligations | 856 | 220 | -- | -- | (5) | 640 |
| Investments | 940 | 0 | -- | 911 | 29 | -- |
| Lease obligations | 2,462 | (71) | -- | -- | -- | 2,533 |
| Other | 1,739 | 917 | 567 | 255 | (1) | -- |
| Total Long-term deferred tax assets | € 73,542 | € 4,129 | € 567 | € 1,166 | € 27 | € 67,652 |
| Deferred tax liabilities: | | | | | | |
| Fixed assets | € (1,036) | € (71) | € -- | € 51 | € (1) | € (1,016) |
| Investments | (19,384) | (1,474) | -- | (911) | -- | (16,998) |
| Other | (386) | (247) | -- | (139) | -- | -- |
| Total Long-term deferred tax liability | € (20,806) | € (1,792) | € -- | € (999) | € (1) | € (18,014) |
| Valuation allowance | | | -- | -- | | |
| Total Long-term deferred tax asset, net | € 52,736 | € 2,337 | € 567 | € 168 | € 26 | € 49,638 |
| Total deferred tax asset, net | € 61,137 | € 969 | € 631 | € 0 | € (15) | € 59,552 |

Reclassifications in 2007 reflect changes from deferred tax liabilities to deferred tax assets mainly on investments.

Deferred income tax assets are recognized for tax loss carry forwards to the extent that the realization of the related tax benefits through the future taxable profits is probable. These tax losses have an unlimited carryover period. As of December 31, 2008 and 2007, the Company did not recognize deferred income tax assets of €14.9 million and €13.0 million, respectively in respect of losses amounting to €46.5 million and €42.7 million respectively, for which it is not probable to be used. All unutilized tax losses will expire by 2028, at the very latest.

Net operating losses were experienced in the following jurisdictions:

| | December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | *(in thousands)* | |
| Austria | € 301,380 | € 285,408 |
| Germany | 13,140 | 13,690 |
| North America | 18,539 | 14,182 |
| Other | 9,619 | 5,452 |
| | € 342,678 | € 318,732 |

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

| | December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | *(in thousands)* | |
| Austria | € (1,536) | € (9,514) |
| Non-Austria | (8,262) | (1,409) |
| Total income (loss) before income taxes | € (9,798) | € (10,922) |

Austria and Germany allow an unlimited carry forward of net operating losses, whereas the United States allow 20 years for net operating loss carry forwards. The Company recognized deferred tax assets at the amount the Company believes is probable to be realized considering future taxable income and feasible tax planning strategies.

## Note 22 - Related Party Transactions

Head Sports Holdings N.V. and its shareholders controlled 19,898,766 shares, or approximately 49.97% of the Company's issued shares, as of December 31, 2008. Head Sports Holdings N.V., a Netherlands Antilles corporation, and its shareholders are controlled by Johan Eliasch and his family members resulting in the ability to significantly influence and control the Company's operations.

The Company receives administrative services from corporations which are ultimately owned by the principal shareholder of the Company. Administrative expenses amounted to approximately €4.6 million for the year ended December 31, 2008 and 2007, respectively.

The related party 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.

In 2007, the Company established a joint venture distribution company in the Netherlands in which it holds 50%. This investment of €0.01million was accounted for using the equity method and is recognized in "Other non-current assets". The Company granted a loan of €0.6 million to the newly found company. The annual interest rate amounts to 5%. The loan is redeemable at December 31, 2012.

In 2008, the Company signed a joint venture agreement to set up a distribution company in New Zealand in which it holds 50%. This investment of €0.01million was accounted for using the equity method and is recognized in "Other non-current assets". The Company granted a shareholder loan of €0.1 million to the newly found company. The annual interest rate amounts to 5% p.a.. Half of the loan is redeemable at December 31, 2009. The second half of the loan is redeemable at December 31, 2010. In case the shareholder loan cannot be paid back it will be converted into equity. The joint venture partner has the right to purchase, at any time after December 31, 2009 all shares for the paid in share capital at that time. Any outstanding shareholder loan given by the Company shall be reimbursed prior to the completion of the call option.

One of the Company's subsidiaries leased its office building from its Executive Director of Global Sales. Rental expenses amounted to approximately €0.04 million for the year ended December 31, 2008 and 2007, respectively.

The table below shows key managements' compensation:

| | For the Years Ended December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | *(in thousands)* | |
| Salaries and other short-term employee benefits........... | € 3,322 | € 3,471 |
| Post-employment benefit........................................... | 572 | 305 |
| Other long-term benefits........................................... | 22 | 21 |
| Share-based benefits................................................. | (3,775) | (775) |
| Total...................................................................... | € 142 | € 3,022 |

## Note 23 – Stock Option Plans

The Company accounts for its stock options in accordance with IFRS 2 and determined the Plan 2005, 2001 and parts of the Plan 1998 to be cash-settled, as participants except for the CEO under the Plan 1998 do not have the option to receive or hold shares in Head N.V. at any time. Once vested under the Plans' terms as disclosed and exercised, the participants are issued depository receipts indexed to Head N.V. shares held by the Stichting. Upon settlement of the depository receipts, participants are only entitled to receive a cash payment subject to having requested the Stichting to sell the shares underlying the depository receipt to the market or upon exercise of the call option by Head N.V. The call option may be exercised at the time the participant resigns or employment is terminated. The settlement scheme established by the Company and the Stichting only allows for cash settlement and neither the Company nor the Stichting have an option to settle in shares.

Share-based compensation expense is recognized over the vesting term of the options. The fair value of the liability for the cash-settled stock option plans amounted to €0.5 million (2007: €5.7 million). Mainly the fluctuation of the Company's share price resulted in a non-cash compensation income of €5.3 million and €0.2 million for the year ended December 31, 2008 and 2007, respectively. As of December 31, 2008, the total intrinsic value of the liability is zero (2007: €2.3 million).

*Plan 1998*

In November 1998, the Company adopted the Head Tyrolia Mares Company Executive Stock Option Plan 1998 ("Plan 1998"). The Plan 1998 provided for grants of stock options to officers and key employees of the Company and its subsidiaries. One part of the Plan 1998 is treated as cash-settled share-based plan, as participants have no right to receive shares. The Company therefore records a liability for the plan. The other part of the Plan 1998 for the Chairman and Chief Executive Officer is treated as equity-settled share-based plan, as the Company has no legal or constructive obligation to repurchase or settle the options in cash. The Chairman and Chief Executive Officer was eligible to receive all options issued under the Plan 1998 that do not vest to current participants. In 2007, he received 838,622 options.

A total of 2,424,242 options were reserved to be granted under the terms of the Plan 1998. 2,278,394 options have been granted and 2,143,978 options (2007: 1,963,540 options) were exercised until December 31, 2008 and all other are exercisable. No further options will be granted under the 1998 Plan. 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 vested over a period of 4 years and were subject to the Company meeting certain earnings performance targets during this period. The Company used a forfeiture rate of 37% as that many employees have left during the vesting 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.

The Company records share-based compensation income on each balance sheet date fair values of the stock options for cash-settled plans computed using the Black and Scholes option pricing model. As at December 31, 2008, the weighted-average fair value of the grant was $0 (2007: $3.14).

As of December 31, 2008, the weighted average remaining contractual life of the outstanding stock options is 0.7 years.

| | Number of options | Weighted average exercise price |
|---|---|---|
| Balance, December 31, 2007 ........................ | 314,854 | $ 0.46 |
| Exercise, cash-settled .................................. | (180,438) | $ 0.50 |
| Balance, December 31, 2008 ........................ | 134,416 | $ 0.51 |

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. In accordance with IFRS 2 the Plan 2001 is treated as cash-settled share-based plan, as participants have no right to receive shares. On September 28, 2001, a total of 3,982,068 options were granted under the terms of the Plan 2001. The Company records share-based compensation expense on each balance sheet date fair values of the stock options computed using the Black and Scholes option pricing model. As at December 31, 2008, the weighted-average fair value of the grant was $0.01 (2007: $0.80), which was estimated using the following assumptions: no dividends, expected volatility of 71.28% (2007: 30.38%) expected term of 2.7 years (2007: 3.7 years), and risk-free interest rate of 2.87% (2007: 4.57%). The volatility is based on statistical analysis of daily share prices over the last three years.

The exercise price for all stock options granted under the Plan 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. In addition, he has received further options in the amount of 564,564, which will not vest to other participants. The Company assumes that no further options will forfeit. Options have a maximum term of 10 years.

| | Number of options | Weighted average exercise price |
|---|---|---|
| Balance, December 31, 2008 and 2007 .......... | 3,982,068 | $ 4.31 |

As at December 31, 2008, the weighted average remaining contractual life of the outstanding stock options is 2.7 years, and 3,982,068 options are vested and exercisable at a price of $4.31 per share, under the Plan 2001.

*Plan 2005*

In May 2005, at the annual general meeting the shareholders approved the Head N.V. Executive Stock Option Plan 2005 ("Plan 2005"). The Plan 2005 provides for grants of 3,874,691 stock options to certain officers and key employees of the Company and its subsidiaries. In accordance with IFRS 2 the Plan 2005 is treated as cash-settled share-based plan, as participants have no right to receive shares. As of December 31, 2008, a total of 3,669,346 options were granted under the terms of the Plan 2005. The Company records share-based compensation expense on each balance sheet date fair values of the stock options computed using the Black and Scholes option pricing model. As at December 31, 2008, the weighted-average fair value of the grant was €0.13 (2007: €1.20), which was estimated using the following assumptions: no dividends, expected volatility of 71.28% (2007: 30.38%), expected term of 6.7 years (2007: 7.7 years), and risk-free interest rate of 2.87% (2007: 4.57%). The volatility is based on statistical analysis of daily share prices over the last three years.

The exercise price for all stock options granted under the Plan 2005 was fixed at inception of the Plan 2005 at €2.168. Options generally vest over a period of 4 years. The Company assumes that about 4.4% of the options will forfeit during the four year period. Options have a maximum term of 10 years. As at December 31, 2008, 205,345 (2007: 205,345) options were available for grant under the Plan 2005 and no options are currently exercisable. As of December 31, 2008, 145,000 options were forfeited.

| | Number of options | Weighted average exercise price |
|---|---|---|
| Balance, December 31, 2008 and 2007 .......... | 3,669,346 | € 2.168 |

## Note 24 – Average Number of Employees

| | For the Years Ended December 31, | |
|---|---|---|
| | 2008 | 2007 |
| Salaried employees.................................................. | 838 | 831 |
| Hourly paid employees............................................ | 1,472 | 1,342 |
| Total...................................................................... | 2,310 | 2,173 |

## Note 25 – Expenses by Nature

| | For the Years Ended December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | *(in thousands)* | |
| Depreciation, amortization and impairment charges............. | € 15,117 | € 13,263 |
| Employee benefit expenses............................................. | 69,287 | 73,317 |
| Changes in inventory...................................................... | (1,890) | (1,555) |
| Raw material and merchandise......................................... | 129,265 | 124,438 |
| Commission.................................................................. | 7,783 | 7,905 |
| Shipment cost............................................................... | 7,374 | 7,705 |
| Advertising expenses...................................................... | 41,019 | 40,444 |
| Legal, audit, consulting and other outside services............... | 21,989 | 22,721 |
| Other expenses............................................................. | 34,182 | 33,440 |
| Total cost of sales, selling and marketing, general and administrative and other operating (income) expense........ | € 324,126 | € 321,678 |

For the year ended December 31, 2008, a foreign exchange loss of € 0.3 million, for the year ended December 31, 2007 a foreign exchange gain of €0.8 million have been recorded in other operating (income) expense, net.

The Company incurred research and development costs amounting to €9.2 million and €10.5 million for the year ended December 31, 2008 and 2007, respectively.

**Note 26 – Personnel Costs**

| | For the Years ended December 31, | | | |
|---|---|---|---|---|
| | | 2008 | | 2007 |
| | | *(in thousands)* | | |
| Salaries and wages | € | 56,343 | € | 55,324 |
| Social security and other benefit | | 16,580 | | 16,681 |
| Share options granted to directors and employees | | (5,341) | | (218) |
| Pension costs - defined benefit plans | | 457 | | 480 |
| Post-employment benefits | | 1,248 | | 1,050 |
| Total | € | 69,287 | € | 73,317 |

**Note 27 – List of (direct and indirect) Participations as of December 31, 2008**

| | 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 Technology GmbH | Austria | 100.0% |
| Tyrolia Technology GmbH | Austria | 100.0% |
| Head Austria GmbH | Austria | 100.0% |
| Head Canada Inc. | Canada | 100.0% |
| Head Sport s.r.o. | Czech Republic | 100.0% |
| HTM Sport s.r.o. | Czech Republic | 100.0% |
| HTM Bulgaria EOOD | Bulgaria | 100.0% |
| Head France S.A.S. | France | 100.0% |
| Head Germany GmbH | Germany | 100.0% |
| Head UK Ltd | England | 100.0% |
| Mares S.p.A. | Italy | 100.0% |
| HTM Sports Japan KK | Japan | 100.0% |
| Head Spain S.L. | Spain | 100.0% |
| Head Switzerland AG | Switzerland | 100.0% |
| HTM USA Holdings Inc. | USA | 100.0% |
| Head USA Inc. | USA | 100.0% |
| Head Sports Inc. | USA | 100.0% |
| Penn Racquet Sports Inc. | USA | 100.0% |
| Mares Asia Pacific Ltd. | Hong Kong | 100.0% |
| Power Ahead Holding Ltd. | British Virgin Islands | 78.0% |
| Head Sports (Hui Zhou) Corp. | China | 78.0% |
| Mares Benelux B.V. | Netherlands | 50.0% |
| Mares New Zealand Ltd. | New Zealand | 50.0% |

## Note 28 – Cash and cash equivalents

As at December 31, 2008 and 2007, cash and cash equivalents contains cash of €17.2 million and €27.8 million respectively and restricted cash of €0.5 million and €2.5 million respectively representing deposits pledged as collateral on outstanding lines of credit.

## Note 29 – Earnings per Share

a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares (see Note 12).

| | For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | | 2008 | | 2007 |
| | *thousands, except per share da* | | | |
| Loss for the year.................................................. | € | (9,738) | € | (11,154) |
| Weighted average number of ordinary shares in issue..................................... | | 37,109 | | 36,479 |
| Basic earnings per share....................................... | | (0.26) | | (0.31) |

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are composed of incremental shares issuable upon the exercise of share options of the equity settled Plan 1998, and are included in diluted earnings per share to the extent such shares are dilutive. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options.

| | For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | | 2008 | | 2007 |
| | *thousands, except per share da* | | | |
| Loss for the year.................................................. | € | (9,738) | € | (11,154) |
| Weighted average number of ordinary shares in issue..................................... | | 37,109 | | 36,479 |
| Share options................................................. | | -- | | -- |
| Weighted average number of ordinary shares for diluted earnings per share.......................................... | | 37,109 | | 36,479 |
| Diluted earnings per share.................................... | | (0.26) | | (0.31) |

### Note 30 – Principal Accountant Fees and Services

PricewaterhouseCoopers (PwC) has served as our independent public auditors for each of the years ended in the two-year period ended December 31, 2008. The following table presents the aggregate fees for professional audit services and other services rendered by PricewaterhouseCoopers in 2008 and 2007 (in thousands):

| | Year Ended December 31 | |
|---|---|---|
| | 2008 | 2007 |
| Audit Fees | € 825 | € 847 |
| Audit-Related Fees | 9 | 20 |
| Tax Fees | 201 | 204 |
| All Other Fees | 18 | 97 |
| Total Audit Fees | € 1,053 | € 1,168 |

Audit Fees primarily relate to the audit of Head N.V.'s Annual Consolidated and Company financial statements set forth in our Statutory Annual Report and other services normally provided in connection with statutory and regulatory filings, which mainly include the statutory audits of financial statements of our subsidiaries. In addition, audit fees contain agreed upon procedures performed on Head N.V.'s quarterly financial statements.

Audit-Related Fees consist of fees incurred for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements or that are traditionally performed by the external auditor, and include consultations concerning financial accounting and reporting standards.

Tax Fees comprise tax services for corporate income tax compliance and other tax advisory services. Tax services rendered in connection with the audit of financial statements have been included in the caption Audit Fees.

All Other Fees represent professional services provided for services not directly supporting financial statement audits, such as local law advices.

### Note 31 – Subsequent Event

On April 21, 2009, the Company announced a private exchange offer to exchange its outstanding €135.0 million 8.5 % Senior Notes due 2014 for its new 10% Senior Secured Notes due 2014. The purpose of the exchange offer is to reduce the Company's overall indebtedness and related interest expense. The exchange offer will expire on May 22, 2009.

Eligible holders of existing senior notes who validly tender on or prior to May 11, 2009, will receive €350 aggregate principal amount of the new notes for each €1,000 principal amount of existing notes exchanged. Eligible holders who validly tender after the early tender date will receive €300 aggregate principal amount of the new notes (the "Exchange Offer Consideration") for each €1,000 principal amount of Existing Notes exchanged. In addition, on the settlement date, accrued and unpaid interest will be paid in cash on all properly tendered and accepted existing notes. The Company may terminate or withdraw the Exchange Offer at its sole discretion, at any time and for any reason. The Company expects costs of €1.9 million to incur in relation to the exchange offer.

# HEAD N.V.
# COMPANY BALANCE SHEETS
## Before proposed appropriation of results

| | Note | As of December 31, 2008 | 2007 |
|---|---|---|---|
| | | *(in thousands)* | |
| ***Non - current assets:*** | | | |
| Investment in subsidiary | 5 | € 139,432 | € 139,432 |
| Total non - current assets | | 139,432 | 139,432 |
| ***Current assets:*** | | | |
| Amounts receivables from related companies | | 1,142 | 250 |
| Prepaid expenses | | 88 | 7 |
| Trade receivables | | 686 | 588 |
| Cash | 4 | 222 | 632 |
| Total current assets | | 2,137 | 1,477 |
| Total assets | | € 141,569 | € 140,910 |
| ***Current liabilities (due within one year):*** | | | |
| Amounts owed to related companies | | € 6 | € 9,287 |
| VAT | | 38 | 26 |
| Accruals and other liabilities | 6 | 1,282 | 1,237 |
| Total current liabilities | | 1,326 | 10,551 |
| ***Shareholders' equity:*** | | | |
| Share capital | 9 | 398 | 398 |
| Share premium | 9 | 101,302 | 101,016 |
| Retained earnings | 9 | 28,944 | 23,210 |
| Result for the year | 9 | 9,598 | 5,734 |
| Shareholders' equity | | 140,242 | 130,358 |
| Total liabilities and equity | | € 141,569 | € 140,910 |

The accompanying notes are an integral part of the company financial statements

# HEAD N.V.
# COMPANY INCOME STATEMENTS

| | | 2008 | | 2007 |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| Total net revenues | € | 3,237 | € | 3,104 |
| Cost of sales | | 3,145 | | 3,015 |
| Gross profit | | 92 | | 89 |
| Selling and marketing expense | | 67 | | 65 |
| General and administrative expense | | 3,673 | | 3,597 |
| Operating loss | | (3,648) | | (3,573) |
| Interest income | | 37 | | 44 |
| Foreign exchange gain | | 209 | | 265 |
| Dividend income | | 13,000 | | 9,000 |
| Result for the year | € | 9,598 | € | 5,735 |

The accompanying notes are an integral part of the company financial statements

# HEAD N.V.
# COMPANY CASH FLOW STATEMENTS

| | | For the Years Ended December 31, | | |
|---|---|---|---|---|
| | | 2008 | | 2007 |
| | | *(in thousands)* | | |
| **OPERATING ACTIVITIES:** | | | | |
| Result for the year | € | 9,598 | € | 5,735 |
| Dividend received | | (13,000) | | (9,000) |
| Movement in accounts receivable | | (98) | | (38) |
| Movement in accounts receivable and payable, intercompany | | (10,173) | | 1,744 |
| Movement in prepaid expense and other assets | | (80) | | -- |
| Movement in accounts payable, accrued expenses and other liabilities | | 56 | | 78 |
| Net cash used for operating activities | | (13,698) | | (1,481) |
| **INVESTING ACTIVITIES:** | | | | |
| Dividend received | | 13,000 | | 9,000 |
| Net cash provided by investing activities | | 13,000 | | 9,000 |
| **FINANCING ACTIVITIES:** | | | | |
| Transfer from Stichting | | 286 | | (56) |
| Capital repayment | | -- | | (7,151) |
| Net cash used for financing activities | | 286 | | (7,207) |
| Net increase (decrease) in cash and cash equivalents | | (411) | | 312 |
| Cash and cash equivalents at beginning of period | | 632 | | 320 |
| Cash and cash equivalents at end of period | € | 222 | € | 632 |

The accompanying notes are an integral part of the company financial statements

**HEAD N.V.**
**COMPANY STATEMENT OF CHANGES IN EQUITY**

| | Share Capital | Share Premium | Retained Earnings | Result for the year | Total shareholder's Equity |
|---|---|---|---|---|---|
| | | | *(in thousands)* | | |
| Balance at January 1, 2007 | € 7,964 | € 100,657 | € 11,490 | € 11,721 | € 131,831 |
| Transfer of result for the year | -- | -- | 11,721 | (11,721) | -- |
| Transfer from Stichting | -- | (56) | -- | -- | (56) |
| Capital repayment | (7,566) | 415 | -- | -- | (7,151) |
| Result for the year | -- | -- | -- | 5,734 | 5,734 |
| Balance at December 31, 2007 | € 398 | € 101,016 | € 23,210 | € 5,734 | € 130,358 |
| Transfer of result for the year | -- | -- | 5,734 | (5,734) | -- |
| Transfer to Stichting | -- | 286 | -- | -- | 286 |
| Result for the year | -- | -- | -- | 9,598 | 9,598 |
| Balance at December 31, 2008 | € 398 | € 101,302 | € 28,944 | € 9,598 | € 140,242 |

The accompanying notes are an integral part of the company financial statements

**HEAD N.V.**
**NOTES TO THE COMPANY ACCOUNTS**

### Note 1 – General information

The Company is a public limited liability company incorporated under the laws of The Netherlands and acts as a holding and finance company for the Head group and as a distributor of winter and racquet sport products in the Netherlands. For further information we refer to Note 1 of the consolidated financial statements.

### Note 2 - Summary of Significant Accounting Policies

These accompanying company financial statements are prepared in conformity with International Financial Reporting Standards as adopted by the European Union ("EU") ("IFRS as adopted") and Book 2 Title 9 of the Netherlands Civil Code, based on Section 362.8 and 362.9. For a description of the accounting policies, we refer to Note 2: Summary of Significant Accounting Policies in the consolidated financial statements for the year ended December 31, 2008.

The investment in subsidiary is stated at acquisition cost which is the fair value at the date of acquisition. If an investment in subsidiaries is impaired, it is measured at its impaired value; any write-offs are disclosed in the income statement.

### Note 3 – Investments in Subsidiary

The following investment is stated under the cost method:

| Name of investment | Legal Seat | % owned |
|---|---|---|
| Head Holding Unternehmensbeteiligung GmbH | Vienna, Austria | 100 |

No impairment loss on this investment has been recorded.

### Note 4 - Financial risk management and critical accounting estimates and judgments

The company manages its financial risks for the group as whole. For a detailed description of financial risk management and critical accounting estimates and judgments, we refer to Note 3 and 4 of the consolidated financial statements. The Company continues to make losses from its operation and is depending on the dividend income from its subsidiary, Head Holding Unternehmensbeteiligung GmbH.

### Note 5 – Investment in Subsidiary

Financial fixed assets consist of the following:

| | Book value Jan 1, 2008 | Cost of assets acquired | Book value of disposed assets | Income from participating interest | Book value Dec 31, 2008 |
|---|---|---|---|---|---|
| | | | *(in thousands)* | | |
| Investment in Subsidiary....... | € 139,432 | € - - | € - - | € - - | € 139,432 |

### Note 6 – Accruals and Other Liabilities

Accrued expenses and other liabilities consist of the following:

| | As of December 31, | |
|---|---|---|
| | 2008 | 2007 |
| | *(in thousands)* | |
| Management and administration fee | € 447 | € 427 |
| Audit, consulting and legal fee | 296 | 236 |
| Accrued expenses | 539 | 574 |
| | € 1,282 | € 1,237 |

### Note 7 – Directors' Remuneration

The Company has three managing directors and two supervisory board directors during the year. The table below shows the remuneration of the directors of the group for the year ended December 31, 2008:

| | Periodic payments | Termination payments | Accrued for future payments | Share-based compensation income |
|---|---|---|---|---|
| | *(in thousands)* | | | |
| Management Board | | | | |
| Johan Eliasch | € 601 | € -- | € -- | € (2,250) |
| Ralf Bernhart | 601 | 203 | (45) | (157) |
| George Nicolai | 10 | -- | -- | -- |
| | € 1,213 | € 203 | € (45) | € (2,408) |
| Supervisory Board | | | | |
| Viktor Klima | € 14 | € -- | € -- | € (66) |
| Jürgen Hintz | 20 | -- | -- | (57) |
| | € 34 | € -- | € -- | € (123) |

The termination payment to Ralf Bernhart relating to an employment contract in one of the Company's subsidiaries includes severance payment, which was accrued before 2008. The share-based compensation income results from the reduction of the fair value of the liability against option holders due to the decrease of the company's share price. The company did not pay any pension, profit sharing or bonuses during the year.

Under the Head N.V. Executive Stock Option Plan 2001 described we have issued options to purchase an aggregate of 2,406,042 depositary receipts representing ordinary shares to our Management Board and Supervisory Board members. For the year ended December 31, 2008, share-based compensation amounted to an income of €1.4 million. The exercise price for all stock options granted under the 2001 Plan was fixed at inception of the Plan.

Under the Head N.V. Executive Stock Option Plan 2005 described we have issued options to purchase an aggregate of 2,012,346 depositary receipts representing ordinary shares to our Management Board members. For the year ended December 31, 2008, share-based compensation income amounted to €1.2 million. The exercise price for all stock options granted under the 2005 Plan was fixed at inception of the Plan. The vesting period is four years. For further information please see Note 23 of the consolidated financial statements.

The table below shows the details of the Executive Option Plans:

| | Exercise price at the issuance | Number of non-exercised shares at beginning of the year | Number of written shares | Number of exercised shares | Exercise price | Number of non-exercised shares at the end of the year |
|---|---|---|---|---|---|---|
| Option Plan 2001 | | | | | | |
| Johan Eliasch........... | $4.31 | 1,991,034 | - - | - - | $4.31 | 1,991,034 |
| Ralf Bernhart........... | $4.31 | 200,004 | - - | - - | $4.31 | 200,004 |
| Viktor Klima............ | $4.31 | 115,002 | - - | - - | $4.31 | 115,002 |
| Jürgen Hintz............ | $4.31 | 85,002 | 15,000 | - - | $4.31 | 100,002 |
| Option Plan 2005 | | | | | | |
| Johan Eliasch........... | € 2.17 | -- | -- | - - | € 2.17 | -- |
| Ralf Bernhart........... | € 2.17 | -- | -- | - - | € 2.17 | -- |

## Note 8 – Reconciliation of Shareholders' Equity

The table below shows a reconciliation of company shareholders' equity and consolidated shareholders' equity and net income:

| | For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | | 2008 | | 2007 |
| | | *(in thousands)* | | |
| Result for the year............................................... | € | 9,598 | € | 5,734 |
| Net income (loss) from participating interest............ | | (19,336) | | (16,888) |
| Net income (loss)................................................ | € | (9,738) | € | (11,154) |

| | For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | | 2008 | | 2007 |
| | | *(in thousands)* | | |
| Shareholders' equity............................................ | € | 140,242 | € | 130,358 |
| Retained earnings from participating interest........... | | (14,208) | | 2,659 |
| Shareholders' equity consolidated.......................... | € | 126,034 | € | 133,017 |

## Note 9 – Shareholders' Equity

The Company is a Naamloze Vennootschap ("N.V."), a Dutch public Company with limited liability. 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 and the minimum paid in capital requirement for a N.V. is €45,000.

As at December 31, 2008 and 2007, 39,820,677 shares with a nominal value of €0.01, respectively, were issued and fully paid.

Share premium include additional paid-in capital reduced by a capital repayment. The change in value of share premium represents the reassignment of own shares transferred to the Stichting for the 1998 Option Plan to the 2005 Option Plan.

*Dividends*

In 2008 and 2007, the Company did not pay a dividend.

*Capital Repayment*

At the Company's Annual General Meeting on May 30, 2007, shareholders approved to amend the Articles of Association of the Company to allow for a decrease of the nominal share capital of the Company from €0.20 to €0.01 to facilitate a payment of €7.2 million to its shareholders which was paid in September 2007.

*Treasury Shares*

Pursuant to resolutions which were approved on May 28, 2008 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 its issued shares at any time.

As of December 31, 2008 and 2007, the Company owned 2,184,141 shares of treasury shares, respectively.

**Note 10 – Expenses by Nature**

The table below provided details to the incurred selling, marketing and administrative expenses.

| | For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | | 2008 | | 2007 |
| | | *(in thousands)* | | |
| Management fees | € | 2,678 | € | 2,780 |
| Employee costs | | 409 | | 408 |
| Legal, audit and consulting | | 557 | | 391 |
| Other | | 95 | | 83 |
| Total operative expenses | € | 3,740 | € | 3,662 |

**Note 11 – Income tax**

The total loss available for loss carry forward at the end of 2007, provided that the Dutch tax authorities agree with the 2007 corporate income tax return, is €26.4 million. The Company does not report any tax as it incurs tax losses from 2000 (see Note 4: Financial risk management)

**Note 12 – Related Party Transactions**

Head Sports Holdings N.V. and its shareholders controlled 19,898,766 shares, or approximately 49.97% of the Company's issued shares, as of December 31, 2008. Head Sports Holdings N.V., a Netherlands Antilles corporation, and its shareholders are controlled by Johan Eliasch and his family members resulting in the ability to significantly influence and control the Company's operations.

The Company receives administrative services from corporations which are ultimately owned by the principal shareholder of the Company. Administrative expenses amounted to approximately €2.0 million for the year ended December 31, 2008 and 2007, respectively. The related party 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.

The Company received product deliveries of €3.1 million (2007: €3.0 million) for the distribution in the Netherlands from a group company. As of December 31, 2008, the Company recorded a receivable of €0.6 million compared to a payable of €9.3 million as of December 31, 2007, as it used the proceeds from the dividend income received in 2008 to prepay future deliveries. In addition, the Company recorded a receivable of €0.6 million against the Stichting resulting from the transfer of own shares.

Amsterdam, April 24, 2009

| | | |
|---|---|---|
| Johan Eliasch<br>Chief Executive Officer | Ralf Bernhart<br>Chief Financial Officer | George Nicolai<br>Managing Director |
| Viktor Klima<br>Supervisory Board Member | Jürgen Hintz<br>Supervisory Board Member | |

# HEAD N.V.
# OTHER INFORMATION

*Auditor’s Report*

The report of the auditor, PricewaterhouseCoopers Accountants N.V., is presented on page 92 of this report.

*Appropriation of Result – Provisions in Company’s Statutes*

The Company’s articles of association provide that the appropriation of results is at the disposal of the Board of Management.

*Appropriation of result*

The Board of Management is proposing with due observance of the Company's policy on additions to reserves and on distribution of profits to allocate the result for the year to retained earnings. This proposal is not yet reflected in the accounts.

*Subsequent event*

Refer to note 31 of the consolidated financial statements on page 81 for detailed information on the exchange offer made by the Company on the Senior Notes.

**HEAD N.V. AND SUBSIDIARIES**
**AUDITOR'S REPORT**

To the General Meeting of Shareholders of Head N.V.

## Auditor's report

### Report on the financial statements

We have audited the accompanying financial statements 2008 of Head N.V., Rotterdam as set out on pages 23 to 90 which comprise the consolidated and company balance sheet as at 31 December 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

*The directors' responsibility*

The directors of the company are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Head N.V. as at 31 December 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

## Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5f of the Netherlands Civil Code, we report, to the extent of our competence, that the directors' report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, April 24; 2009
PricewaterhouseCoopers Accountants N.V.

B. Koolstra RA

**Statement by the Management Board according to the European Transparency Guideline**

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.

We confirm to the best of our knowledge that the separate financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Amsterdam, April 24, 2009

| | | |
|---|---|---|
| Johan Eliasch | Ralf Bernhart | George Nicolai |
| Chief Executive Officer | Chief Financial Officer | Managing Director |

## Listing Details

Our ordinary shares are listed on the Vienna Stock Exchange "HEAD". On the 31st March 2008, our delisting from the NYSE became effective and we are no longer listed on this exchange. On the 6th of March 2009, we filed a Form 15F with the SEC terminating our registration and reporting obligations with immediate effect. This termination is expected to become effective 90 days after the filing of the Form 15F.

The chart below shows the high and low market prices of our ordinary shares each month on each exchange since January 2008:

| | NYSE (amounts in dollars) | | Vienna Stock Exchange (amounts in euros) | |
|---|---|---|---|---|
| | **High** | **Low** | **High** | **Low** |
| January 2008 | 3.61 | 2.63 | 2.45 | 1.89 |
| February 2008 | 3.00 | 2.60 | 2.08 | 1.89 |
| March 2008 | 3.31 | 1.52 | 2.06 | 1.39 |
| April 2008 | - | - | 1.53 | 1.37 |
| May 2008 | - | - | 1.49 | 1.29 |
| June 2008 | - | - | 1.43 | 1.25 |
| July 2008 | - | - | 1.37 | 0.93 |
| August 2008 | - | - | 1.29 | 1.12 |
| September 2008 | - | - | 1.26 | 0.95 |
| October 2008 | - | - | 1.09 | 0.52 |
| November 2008 | - | - | 0.80 | 0.41 |
| December 2008 | - | - | 0.49 | 0.33 |
| January 2009 | - | - | 0.50 | 0.32 |
| February 2009 | - | - | 0.46 | 0.35 |
| March 2009 | - | - | 0.39 | 0.30 |

## Head N.V. Financial Reporting Calendar 2009

First Quarter 2009 ................................................... 7 May 2009
Second Quarter 2009 ................................................ 13 August 2009
Third Quarter 2009 .................................................. 12 November 2009

The Company will release the results prior to the opening of the Vienna Stock Exchange. The Company will no longer hold quarterly conference calls.

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

## Shareholder Information

**Principal Office**
Rokin 55
1012KK Amsterdam
The Netherlands
Tel: (31) 20 625 1291
Fax: (31) 20 625 0956

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 Thursday 28 May, 2009 at 11.00 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 IFRS are available at the principal office of the Company.

**Corporate Governance**
At our Annual General Meeting in 2008 we asked our shareholders to approve that we will apply Austrian rules of corporate governance and not specifically the rules of the Dutch Corporate Governance Code. Our shareholders approved such proposal. We believe that by complying with the Austrian rules, and our current internal Code of Conduct setting out general standards for ethical behavior, we should also meet many of the recommendations of the Dutch Code of Corporate Governance. Both our Corporate Governance Guidelines and current internal Code of Conduct are posted on our website www.head.com, section "Investor Relations".

**Investor Enquires**
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

**Annual Report**
Anyone wishing to obtain a copy of the Company's annual report for the year ended 31 December 2008 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;
- cyclicality and economic condition of and anticipated trends 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 two members, whose names and details are set forth below.

| Name | Age | Title |
|---|---|---|
| Jurgen Hintz | 66 | Member of the Supervisory Board and Audit Committee |
| Viktor Klima | 61 | Member of the Supervisory Board and Audit Committee |

**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 three 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 | 47 | Chairman of MB, Chief Executive Officer and Chairman of EC |
| Ralf Bernhart | 57 | Member of MB, Chief Financial Officer and Member of EC |
| George F. Nicolai | 56 | Member of MB |
| Klaus Hotter | 53 | Executive Vice President, Winter Sports Division (Managing Director Head Sport AG) and Member of EC |
| Georg Kröll | 60 | Executive Vice President, Licensing Division (Managing Director Head Sport AG) and Member of EC |
| Robert Marte | 56 | Executive Vice President, Racquet Sports Division (Managing Director Head Sport AG) and Member of EC |
| Edgar Pöllmann | 64 | Executive Vice President, Operations (Managing Director of HTM Sport-und Freizeitgeräte AG) and Member of EC |
| Gerald Skrobanek | 43 | Executive Vice President, Diving Division (Managing Director of Mares S.p.A) and Member of EC |
| Gunter Hagspiel | 45 | Executive Vice President, Finance & Controlling (Managing Director of Head Sport AG) and Member of EC |
| Jeremy Sherwood | 52 | Executive Director Global Sales (As of Jan 2008) |
| Clare Vincent | 40 | Head of Investor Relations |
| Dave Haggerty | 51 | President, Penn Racquet Sports Inc. and Head USA Inc. |
| Kevin Kempin | 50 | Vice President, Sales/Marketing Racquet Sports U.S. and Penn Worldwide |

Mr. Bernhart will resign from his position as Chief Financial Officer within our group effective May 28, 2009 and will become the Deputy Chairman of the Management Board.
Mr. Hagspiel is expected to become Chief Financial Officer of Head N.V. as of May 29, 2009.
Mr. Pöllmann resigned from his positions on February 28, 2009.