HEAD N.V. AND SUBSIDIARIES
ANNUAL REPORT

For the Year Ended December 31, 2006

0595601

SUPERVISORY BOARD

Viktor Klima
William S. Cohen
Jürgen Hintz

DIRECTORS

Johan Eliasch
Ralf Bernhart
George Nicolai
Robert van de Voort (resigned on March 1st. 2007)

HEAD N.V.

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DIRECTORS' REPORT
December 31, 2006

Business and Strategy

The Company:
We are 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 and badminton products), Penn (tennis balls and racquetball balls), Tyrolia (ski bindings) and Mares and Dacor (diving equipment). Our key products have attained leading market positions and have gained visibility through their use by many of today's top athletes.

With a broad product offering marketed mainly from middle to high price points, the Company supplies sporting equipment and accessories to all major distribution channels in the skiing, tennis and diving markets, including pro shops, specialty sporting goods stores and mass merchants. Head N.V.'s products are sold through some 29,000 customers in over 85 countries and target sports enthusiasts of varying levels of ability and interest ranging from the novice to the professional athlete. The Company's strongest presence has traditionally been in Europe, and in recent years the Company has built market share in the United States, the next largest market for the Company's products after Europe.

Over the last six decades, the Company believes it has earned a reputation as a leading developer and manufacturer of innovative, high-quality and technologically advanced sporting equipment. The Company's focus continues to be its core products of skiing, tennis and diving equipment. In order to expand market share and maximize profitability, for the last ten years the Company has increased its emphasis on marketing and new product development, leveraging further its brands, global distribution network and traditional strength in manufacturing and in the last years, the Company initiated programs to reduce its fixed costs and streamline its organizational structure.

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. Re-orders are typically shipped in December and January. Racquet Sports and Diving product revenues also experience seasonality, but to a lesser extent than Winter Sports revenues. 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 Metallix* racquets and strong-selling products such as *Penn* and new branded *Head* tennis balls.

- We intend to continue to seek market share growth in European and other markets by our on-going investment in new athletes, technological product development, and branding, despite the difficult market conditions in 2007, due particularly to the impact of poor snow conditions on sales of our

Winter Sports products,

- We intend to increase business in emerging markets such as Asia, Latin America and Eastern Europe by establishing local representative offices in these key regions. To this end Asian markets will be covered from our new offices in Hong Kong and Shanghai.

- We intend to introduce new product categories, such as *Head* badminton equipment, under our well known *Head* brand.

- In the skiing market we intend to increase our market share through the inclusion of top class skiers among our sponsored racers whose outstanding performance raises our product profile. In addition, products tailored to woman's requirements should positively impact our market share.

- We intend to expand sales of our snowboard equipment by leveraging our sales, marketing and distribution networks.

- We intend to increase our penetration of the U.S. market for tennis racquets and other *Head* products through continued innovations in racquets and an exclusive endorsement agreement with the US Professional Tennis Association (racquets and balls) and a non-exclusive endorsement agreement with the Professional Tennis Registry (racquets only), the two largest tennis teaching organizations globally. Our goal is to become the leading supplier of tennis products and add significantly to the presence of *Head* racquets in the United States. We believe that the launch of our *Head Flexpoint* racquets has supported this objective. In 2006 we launched another superior technology with the *Metallix* Series of racquets for recreational players.

- We intend to increase our penetration of the U.S. market for diving equipment by introducing new products into the *Mares* line.

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 Flexpoint* and Liquidmetal tennis racquets. The Company spent €10.1 million in each of 2006 and 2005

Continued cost management. We have implemented a substantial cost reduction program which resulted in cost savings and increased operating income. Most recently, 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, beginning in January 2007, manufactures tennis balls for exclusive sale to us, which we believe will lead to cost savings beginning in 2008. In 2007, we expect to finalize a restructuring program to reduce production capacity for diving products in Italy and transfer production to Eastern Europe and the Far East, as a consequence of reductions in sales.

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:

Winter Sports Market. We define the winter sports market as the market for alpine skis, ski boots and bindings, and snowboard 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 2006 was approximately €1.2 billion at the wholesale level, consisting of €400 million for skis, €160 million for bindings, €280 million for boots and €310 million for snowboard equipment. The ski market consists predominantly of Europe, North America and Asia, with Europe constituting approximately 64% of the world market in 2006, the United States and Canada approximately 23% and Japan approximately 10%. 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 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. 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, caused by the economic difficulties experienced in Japan in recent years. In the last ten years, the snowboard market developed into a new form of winter sport, and the market increased from 800,000 boards sold in 1995 to a peak of 1.6 million in 2000. In 2006, 1.2 million boards were sold.

The ski bindings market declined from approximately 5.9 million pairs sold per year in the early 1990's to approximately 3.9 million pairs in 2005. In 2006 the market increased to approximately 4.1 million pairs as an increasing number of integrated ski-binding systems are sold. The ski boot market increased from 3.6 million pairs sold in 2003 to 4.0 million pairs in 2006.

The ski and snowboard industries have faced pricing pressures as a consequence 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 expect that these features will make 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, 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 are becoming a strong factor in sporting goods in general, and in winter sports products in particular.

Racquet Sports Market. We define the racquet sports market as the market for tennis, squash, badminton and racquetball racquets and tennis balls and racquetball balls. We estimate that the market for tennis racquets in 2006 was approximately 10 million units, with a value of approximately €300 million at the wholesale level. We believe the markets decreased by approximately 3% in revenue (measured in local currencies) in 2006 compared to 2005. The market is divided predominantly among the United States, Europe and Japan. The United States and Europe each represented approximately 30%, and Japan approximately 10%, of the 2006 world market.

Measured in unit volume, the worldwide tennis racquet market has declined from its peak in the early 1990's, as a result of various factors, including reduced interest in the sport, particularly from younger people. The decline in interest is believed to be due to competing leisure activities, such as alternative sports, computer games and the Internet.

We estimate that worldwide sales of tennis balls slightly exceeded €178 million at the wholesale level in 2006, with approximately 21.7 million dozen tennis balls sold. The United States and Europe each represented more than 30% of the 2006 world market. In 2006, we estimate that the global market for tennis balls increased in both value (by approximately 1.8%) and volume (by approximately 4.1%) compared to 2005. The U.S. market increased by approximately 5.2% in value and approximately 8.1% in volume in 2006. The European market increased by approximately 7.5% in value and by approximately 4.8% in volume. The Japanese market continued to decline by approximately15% in value in 2006, after a decline of approximately 6% in 2005.

Diving Market. We define the diving market as the market for diving equipment, wetsuits, dry suits and diving accessories. We estimate the market at the end of 2006 to have been approximately €450 million. We believe that the overall diving market was generally declining, with the important Western European and Japanese markets showing, according to some estimates, a downturn in demand in 2006 of up to 10% and 14%, respectively, compared to 2005. This overall decline was, we believe, principally due to the decrease in international travel to diving destinations and, to a lesser extent, general economic conditions. Only certain markets in areas such as South East Asia and Eastern Europe showed some general improvement in 2006. We believe that the diving market may recover in the event there is a decline in customers' concern about the threat of terrorism. The popularity of diving in many emerging economies is increasing, as reflected by increased sales of diving equipment in Russia, Poland, Croatia, Serbia, Ukraine, Thailand and South Africa, with significant increases in sales especially at diving centers. The diving equipment market can be divided into a lower segment sold through chain stores with lower average prices and an upper segment sold through specialty stores and diving centers. The lower segment of the market consists primarily of equipment for snorkelling while the upper segment of the market consists of equipment for scuba diving.

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. Snowfalls at the end of November and the beginning of December 2005 in all the Company's major winter sports markets, including Japan, generated early interest in winter sports products, and retailers reported improved sales at the beginning of the winter sports season 2005/2006 compared to the previous year. Ski boots, in particular, reported comparatively high sales. Reorders of winter sports products during January through March 2006 were substantially higher than in previous years, as skiing conditions remained excellent all over the world. The total winter sports retail market for the 2005/2006 season reported an increase in sales of ski boots and a slight decline in sales of skis. In 2006, pre-season orders for Winter Sports products from March until June showed some growth for all winter sports equipment, but reorders at the end of 2006 were negatively impacted by the bad snow conditions in almost all major winter sports areas. Overall we estimate that the total market for winter sports products was relatively stable in 2006, with a relative increase in sales at the beginning of the year and a relative decrease at the end.

Racquet Sports. Tennis racquet sales were strong throughout the global market for the first six months of 2006, in particular in North and South America, as well as in Europe. In the spring, poor weather conditions slowed sales markedly and caused higher inventories at the retail level. As a result, during the second half of 2006, retailers purchased fewer products to allow their inventories to come back down. Over the full year 2006, the US market finished with a slight increase in tennis racquet sales compared to 2005, with an increase of 1.3% in units sold and of 1.8% in revenue. In Europe, in 2006, the market declined by 4.5% and 3.1% in units sold and revenue, respectively, compared to 2005, while in Japan, the tennis racquet market declined by 5.2% and 3.9% in units sold and revenue, respectively, compared to 2005. Based on this information, we estimate that the global tennis racquet market declined by approximately 3% and 2% in units sold and revenue, respectively, compared to 2005. Global market sales of tennis balls in 2006 had mixed results. The US market performed very well and gained 5.2% and 8.1% in units sold and revenue, respectively, compared to 2005, while the European market recorded an increase of 3.5% in units sold and a decline of 1.3% in revenue, indicating a further deterioration in the average selling price. This decline in revenues from sales of tennis balls is a result of the declining value of the US dollar compared to the euro, as all tennis balls are produced in US dollar-based countries, which permits companies based in Europe to lower manufacturing costs.

Diving. The consensus among manufacturers is that the European market has begun to stabilize during 2006, and the Eastern European market continues to grow, albeit slowly. The American and Asian markets also showed a positive trend during 2006, although the Japanese market continued to decline.

Profitability

Income statement:
2006 has been a strong year for Head; the improvement in our operating result has been driven by the strong performance in the Winter division which has shown improved sales and market share gains. The Diving division has developed positively mainly through improved production efficiencies. Despite tough market conditions, the racquet sport division maintained sales at the same level as 2005.

For the year ended December 31, 2006, total net revenues increased by €7.2 million, or 2.0%, to €366.8 million from €359.6 million in 2005. This increase was due to higher sales volumes in our winter sports products. The strengthening of the euro against the U.S. dollar during 2006 and a decline in licensing revenues partly offset this positive development.

Winter Sports revenues increased by €10.8 million, or 6.1%, to €188.1 million from €177.3 million in 2005. This increase was due to higher sales volumes in all of our product categories and almost all of our geographic markets as a result of good snow conditions during the winter season 2005/2006, as well as to relatively low inventories at the retail level, which lead to strong pre-season orders of winter sports products from March until June 2006. Reorders from October through December 2006, however, were below prior year levels, as snow conditions were unfavourable in most geographic markets. At retail level we experienced increased demand mainly for racing and junior products during the last part of 2006 as a result of the success of Bode Miller, Marco Büchel, Maria Riesch and Didier Cuche in the Worldcup events of Lake Louise, Beaver Creek, Val Gardena and Hinterstoder.

Racquet Sports revenues decreased by €0.3 million, or 0.2%, to €132.7 million from €132.9 million in 2005. Higher sales volumes in racquets and balls were offset by negative product mix. While units and revenue in the U.S. market grew by 1.3% and 1.8%, respectively, in 2006, declines in the European and Japanese markets more than offset these gains.

Diving revenues decreased by €0.3 million, or 0.6%, to €48.6 million from €48.9 million in 2005. This decrease was mainly due to a special product launch in the first quarter of 2005 (Limited Edition) which was not repeated in 2006. Our growth in the Mares diving business was partially offset by an expected decline in the Dacor diving business, as well as declines in the snorkeling and spear fishing categories due to our emphasis on the promotion of our Mares products.

Licensing revenues decreased by €1.2 million, or 13.2%, to €8.1 million from €9.3 million in 2005. This decrease reflected the termination of a footwear license agreement which we plan to replace by taking advantage of our own distribution network, and the termination of an apparel license agreement in the UK which we expect will be replaced in 2007.

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 €1.8 million, or 19.8%, to €10.7 million from €8.9 million in 2005 due to increased sales in winter sports products and higher sales volumes in racquet sports.

Cost of Sales. Cost of Sales increased by €1.1 million, or 0.5%, to €222.6 million from 221.5 million in 2005 due to increased sales volumes and continuing high oil and steel prices on the world market. The high commodities prices led to cost increases in plastic components (for bindings, ski boots, diving fins),carbon-fibers (for racquets), metal parts (for binding components and ski edges) and rubber (for tennis and racquetball balls) which were partially offset by the reductions in manufacturing costs for ski boots, tennis racquets, tennis *balls and diving fins resulting from our business rationalization programs.*

Gross Profit. Gross profit increased by €6.2 million, or 4.4%, to €144.2 million from €138.0 million in 2005 due to increased revenues and the improvement in manufacturing costs resulting from our business rationalization programs. Gross margin increased to 39.3% in 2006 from 38.4% in 2005. The positive development in gross margin was due to our winter sports and diving business and reflected improved production efficiency. Gross margin was also positively affected by the reductions in manufacturing costs for tennis racquets and tennis ball.

Selling and Marketing Expense. Selling and marketing expense increased by €0.8 million, or 1.0%, to €92.9 million from €92.1 million in 2005. This increase was mainly due to the higher advertising and departmental selling expenditures in connection with our new branding. The increased selling and marketing expenses were partly offset by a lower provision for bad debt.

General and Administrative Expense. General and administrative expense increased by €2.6 million, or 8.7%, to €32.2 million from €29.6 million in 2005. This increase was due to higher compensation expenses of €2.7 million, resulting from the cash-settled stock option plans.

Gain on Sale of Property. In June 2005, we sold a property in Tallinn, Estonia, previously used for manufacturing purposes, and realized a gain of €5.9 million.

Restructuring Costs. In 2005, we recorded restructuring costs of €5.1 million relating to the reduction of our tennis racquet production in Kennelbach, Austria, and Budweis, Czech Republic, and the restructuring program of our ski binding production. The restructuring costs reflected primarily an impairment of €1.4 million, employee severance cost of €2.7 million of which €1.4 million were accrued, and additional cost due to production inefficiency of €0.9 million. In 2006, we paid €1.3 million and an additional €0.1 million will be paid in 2007.

Operating Profit. As a result of the foregoing, operating profit increased by €4.3 million to €20.0 million from €15.7 million in 2005. Excluding the impact in 2005 of the sale of property (gain of €5.9 million) and restructuring costs (€5.1 million), operating profit increased by €5.1 million compared to 2005.

Interest Expense. For the year ended December 31, 2006, interest expense decreased by €0.4 million, or 3.4%, to €12.4 million from €12.8 million in 2005. This decrease was due to the repurchase of a portion of our 8.5% senior notes in 2005.

Interest Income. Interest income decreased by €0.5 million, or 23.7%, to €1.6 million from €2.1 million in 2005. This decrease was due to the gain of €0.9 million on the repurchase of a portion of our 8.5% senior notes realized in 2005.

Income Tax Expense. For the year ended December 31, 2006, we recorded an income tax expense of €4.5 million, an increase of €4.2 million compared to the income tax expense of €0.3 million in 2005. This increase was due to an adjustment of tax loss carry forwards in Austria. As a result, we recorded a decrease of €4.3 million in tax loss carry forwards. We also recorded additional tax expense resulting from prior year adjustments mainly in Italy, Austria and Canada as well as a non-taxable gain of €5.9 million on the sale of property in 2005.

Profit for the Year. As a result of the foregoing factors, we reported a profit of €4.4 million, compared to a profit of €6.7 million in 2005.

Financing:
Based upon current operations and our historical results, we believe that our cash flow from operations will be adequate to meet our anticipated requirements for working capital, capital expenditures and scheduled interest

payments. We believe that we will have enough money available to fund our working capital and planned capital expenditures for the next several years.

For the twelve months ended December 31, 2006, cash generated from operating activities decreased by €7.0 million, or 23.2% to €23.1 million from €30.1 million in 2005. This decrease is mainly the result of the Company's higher net working capital requirements in 2006, due to increased trade accounts receivable resulting from increased sales at year end compared to 2005. The Company used this cash from operations to purchase property, plant and equipment for €15.0 million, to purchase available for sale marketable securities principally cash bonds for €2.9 million and repay of €9.4 million of its capital stock.

As of December 31, 2006, the Company had €111.4 million of senior notes due 2014 outstanding, €13.1 million of long-term obligations under a sale-leaseback agreement and a mortgage agreement due 2017 and €11.9 million of other long-term debt comprising secured loans in Italy, the Czech Republic and Japan (including current portion). In addition, the Company used lines of credit with several banks in Austria, Canada and Japan of €19.4 million (excluding current portion of long-term debt).

As of December 31, 2006, the Company had no available unused credit facilities and €40.5 million cash on hand, mainly in euro. In addition, the Company had €17.8 million cash bonds held in euro which were recognized in the Company's balance sheet as "Available-for-sale-financial assets".

The Company believes that its current level of cash on hand, anticipated cash flows from operations and other available sources of liquidity are sufficient to meet the Company's operating needs for at least the next twelve months.

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 2006 we completed a new tennis ball plant in China, which began producing pressureless tennis balls in January 2007. We have financed our capital expenditure from operating cash flows and the disposal proceeds of other factory assets as they are replaced.

We expect to spend approximately €44 million on investment in property, plant and equipment and €36 million on engineering, research and development in the 2007 to 2009 period, 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, 2006, we employed 1,920 people worldwide compared to 2,023 at the end of 2005.

Employees by categories:

	For the Years ended Dece	
	2006	2005
Manufacturing	1,173	1,296
Engineering and Patent	108	103
Selling and Advertising	398	381
Warehouse	103	100
Business Unit Administration	138	143
Total	1,920	2,023

Employees by geography:

	For the Years ended December 31,	
	2006	2005
Austria	617	717
Italy	251	315
Czech Republic	501	417
Other (Europe)	160	156
USA	339	370
Other	52	48
Total	1,920	2,023

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. 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. Our success also depends partly on our ability to anticipate and respond quickly to changing merchandise trends, consumer taste and consumer preferences.

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 are expected to substantially reduce revenues for our Winter Sports products and negatively impact 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, 2006, we recognized €60.5 million of deferred tax assets on Austrian tax losses carried forward. We believe it is more likely than not that these deferred tax assets will be realized. Austria allows an unlimited carryover of net operating losses. However, a change in Austrian tax law lowering the applicable tax rate could occur, as it did in 2004, requiring us to write down a portion of our deferred tax assets. Such a write down would cause a tax expense and negatively affect our net income.

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.

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. The poor snow conditions worldwide during the season 2006/2007 had a more pronounced negative impact on the sales of low-end and junior equipment, while high-end models, such as our *Supershape* models, sold relatively well. For 2007, we will concentrate on improving product mix, especially with Race, *Supershape* and Monster Skis, as well as with the new Raptor Boot. We have extended the line of *Supershape* models and also the range of Monster Freeride skis in sandwich construction and have also introduced a number of high-end skis for women. Because most skis are offered as pre-defined sets including a binding, we have launched *Head* branded bindings to be sold together with all head skis well coordinated in function and design. 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", innovative light-weight constructions such as Air-coat technology for the Allmountain Ski line. We have developed a completely new Skiboot "Raptor" designed for the high performance skier and racer and this boot has already captured the attention of opinion leading skiers as Bode Miller and Didier Cuche won World Cup races and Patrick Staudacher and Sarka Zahrobska became World Champions at the recent Alpine Skiing World Championships in Aare Sweden.

In snowboard we have extended and coordinated the range of helmets and protection gear for both the snowboarder and alpine skier.

In ski boots, 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 2007/2008 are designed according to the new brand guidelines and already bear the new *Head* Logo and new branding elements.

In Racquet Sports, we expect the tennis racquet and ball market to be stable during 2007. New racquet products will be launched during the summer of 2007. We also expect no major changes in tennis balls, but believe the current industry overcapacities will maintain pressure on prices and margins.

The Company is entering the badminton business and plans a simultaneous rollout globally to present *Head* Badminton products to retailers during the spring 2007. Consumers should be able to purchase these products starting in the summer 2007. To support the introduction of our new business, Head has formed a partnership with the Danish Badminton Association as the organization's exclusive equipment supplier. With this partnership Head has also secured worldwide television exposure through the international tournaments in Denmark, the Denmark Open and Copenhagen Masters. The Denmark Open is the biggest badminton tournament in Europe in prize money and will be part of the new International Super Series introduced by the International Badminton Federation in January 2007.

In Diving, we are introducing our products in new geographical areas such as Eastern Europe and South Asia. In 2006, the Diving division launched a range of innovations with a focus on performance, fashion and comfort. The diving division's latest product launch is the Liquid skin mask, incorporating new, bi-silicone technology to improve comfort and fit. Mares has extended its line of dive computers with the new *Nemo* wide and *Nemo* Sport models. In 2007, we plan to continue our focus on the Asian market through our new subsidiary in Hong Kong, Mares Asia Pacific, which acts as regional headquarters.

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 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 approximately 40% is 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 of the countries from which the products were shipped. 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.

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.

In 2005, as a result of the price increases for oil and steel in the world market, we faced significant cost increases in plastic components (for bindings, ski boots, diving fins), carbon-fibers (for racquets) and metal parts (for binding components and ski edges). In 2006, rubber prices (for tennis and racquetball balls) increased substantially. The trend in price increase of plastic components continued in 2006, partly driven by the high oil prices. However, prices for our key materials peaked in 2006, and now appear to have stabilized.

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 2006 and 2005, and we spent approximately €15.0 million and €14.6 million, *respectively, on facilities and equipment maintenance. These expenditures are financed through our operating* cash flow. We expect our annual capital expenditures to be stable during the next three years due to our reliance on outsourced production.

In connection with ordinary share options granted to officers we have incurred share-based compensation expenses of approximately €1.8 million expense in 2006 and we recorded €0.9 million of income in 2005. As of December 31, 2006, other long-term liabilities with regards to our stock options amounted to approximately €6.7 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 income or 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 and sell our goods. Of our cost of goods sold and other* operating expenses approximately 64% is generated in euro whereas approximately 33% is generated in U.S. dollar. Because a portion of our U.S. dollar revenues are generated from products manufactured on an 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 €7,964,135 and consists of 39,820,677 ordinary shares of €0.20 each.

Our shares are listed on the New York Stock Exchange and the Vienna Stock Exchange effective from September 28, 2000 in connection with our initial public offering.

As of December 31, 2006, 12,455,774 shares were listed on the Vienna Stock Exchange and 8,377,559 shares were listed on the New York Stock Exchange (see Note 12 in the Notes to the consolidated Financial Statements).

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 controlled by Johan Eliasch and his family members, holds 18,987,344, or approximately 47.7%, of Head N.V.'s issued shares as of December 31, 2006.

Donald Smith & Co., Inc. holds 3,737,900, or 9.4%, and Aegis Financial Corporation holds 2,097,350, or 5.3%, of Head N.V.'s issued shares as of December 31, 2006.

As of December 31, 2006 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 861,760 options were exercised as at December 31, 2006 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 provides for grants of 3,982,068 stock options to officers and employees of the Company and its subsidiaries which will vest in 2007. The Chairman and Chief Executive Officer received 1,426,470 options under this grant, which vested immediately. In addition, he will receive further options up to an amount of 564,564, which will 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 3,864,691 stock options to certain officers and key employees of the Company and its subsidiaries which will vest in 2009. As at December 31, 2006, 195,345 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 24, 2006, 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 24, 2007), 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 24, 2007) 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 24, 2 011), 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.

Corporate Governance

As a Dutch company listed on both the Vienna Stock Exchange and the NYSE, we must 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 will apply the NYSE and SEC rules of corporate governance and not specifically the rules of the Dutch CGC. Our shareholders approved such proposal and we therefore comply with the NYSE corporate governance rules applicable to controlled companies. We believe that by complying with the NYSE and SEC 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 Austrian Code of Corporate Governance. Our Corporate Governance Guidelines are posted on our website www.head.com, section "Investor Relations".

As notified to the NYSE in October 2005, following the resignation of Secretary William Cohen from our audit committee, we had, and we continue to have, two audit committee members. Secretary Cohen continues to serve as a member of the Supervisory Board.

Amsterdam,
April 27, 2007

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

HEAD N.V. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	Note		December 31, 2006		2005 Restated
			(in thousands)		
ASSETS:					
Non-current assets					
Property, plant and equipment, net	6	€	61,821	€	61,617
Intangible assets	7		11,739		13,442
Goodwill	7		3,142		3,161
Available-for-sale financial assets	10		1,971		1,973
Deferred income tax assets	21		59,552		61,507
Trade receivables	9		2,082		1,854
Other non-current assets			3,625		5,381
Total non-current assets			143,932		148,935
Current assets					
Inventories, net	8		64,996		68,551
Trade and other receivables	9		149,541		146,670
Prepaid expense			2,635		3,890
Available-for-sale financial assets	10		17,828		14,834
Cash and cash equivalents	28		43,628		49,460
Total current assets			278,628		283,405
Total assets	5	€	422,560	€	432,340
EQUITY:					
Share capital	12	€	7,964	€	7,964
Other reserves	12		115,838		125,247
Treasury shares	12		(12,307)		(12,307)
Retained earnings			51,853		47,438
Fair Value and other reserves including cumulative translation adjustments (CTA)	20		(7,462)		(1,884)
Total equity			155,888		166,459
LIABILITIES:					
Non-current liabilities					
Borrowings	16		133,835		131,565
Retirement benefit obligations	18		15,744		16,449
Other long-term liabilities	17, 23		15,094		13,503
Total non-current liabilities			164,673		161,517
Current liabilities					
Trade and other payables	13		67,144		61,980
Income taxes liabilities			1,094		600
Borrowings	14, 16		22,010		29,856
Provisions	15		11,750		11,929
Total current liabilities			101,999		104,364
Total liabilities	5		266,672		265,881
Total liabilities and equity		€	422,560	€	432,340

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, 2006		2005
					Restated
			(in thousands, except per share data)		
Total net revenues	5	€	366,762	€	359,566
Cost of sales			222,597		221,536
Gross profit			144,165		138,030
Selling and marketing expense			92,929		92,053
General and administrative expense	22, 23		32,160		29,595
Gain on sale of property	6		--		(5,876)
Restructuring costs	15		--		5,073
Other operating (income) expense, net			(902)		1,533
Operating profit			19,978		15,652
Interest expense			(12,376)		(12,808)
Interest income			1,609		2,110
Foreign exchange gain (loss)			(297)		2,121
Profit (loss) before income taxes			8,914		7,075
Income tax benefit (expense):					
Current			(2,085)		(1,468)
Deferred			(2,415)		1,121
Income tax expense	21		(4,499)		(348)
Profit (loss) for the year		€	4,415	€	6,728
Earnings per share-basic					
Profit (loss) for the year	29		0.12		0.19
Earnings per share-diluted					
Profit (loss) for the year	29		0.12		0.18

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						Minority Interest	Total Equity
		Ordinary Shares		Other	Treasury	Retained	Fair Value and Other Reserves/		
		Shares	Amount	Reserves	Shares	Earnings	CTA		
					(in thousands, except share data)				
Balance at January 1, 2005 *(Restated)*		36,219,902 €	7,964 €	125,247 €	(12,307) €	40,711 €	(8,277) €	8 €	153,346
Minority interest..	12	–	–	–	–	–	–	(8)	(8)
Profit for the year..		–	–	–	–	6,728	–	–	6,728
Changes in fair value and other reserves including CTA:									
Unrealized gain on available-for-sale financial assets, (net of tax of €18)..................		–	–	–	–	–	74	–	74
Unrealized loss on derivatives instruments (net of tax of €163)..	11	–	–	–	–	–	(489)	–	(489)
Reclassification adjustment for derivative losses recorded in net income (net of tax of €42)..	11	–	–	–	–	–	127	–	127
Foreign currency translation adjustment..........		–	–	–	–	–	6,682	–	6,682
Total recognised income and expense in 2005....		–	–	–	–	–	–	–	13,121
Balance at December 31, 2005 *(Restated)*		36,219,902 €	7,964 €	125,247 €	(12,307) €	47,438 €	(1,884) €	0 €	166,459
Increase in share capital.......................................	12	–	9,409	(9,409)	–	–	–	–	0
Decrease in share capital......................................	12	–	(9,409)	9,409	–	–	–	–	0
Capital repayment..	12	–	–	(9,409)	–	–	–	–	(9,409)
Profit for the year..		–	–	–	–	4,415	–	–	4,415
Changes in fair value and other reserves including CTA:									
Unrealized gain on available-for-sale financial assets, (net of tax of €30)..................		–	–	–	–	–	104	–	104
Unrealized gain on derivatives instruments (net of tax of €68)..	11	–	–	–	–	–	270	–	270
Reclassification adjustment for derivative losses recorded in net income (net of tax of €69)..	11	–	–	–	–	–	(274)	–	(274)
Foreign currency translation adjustment..........		–	–	–	–	–	(5,678)	–	(5,678)
Total recognised income and expense in 2006....		–	–	–	–	–	–	–	(1,163)
Balance at December 31, 2006............................		36,219,902 €	7,964 €	115,838 €	(12,307) €	51,853 €	(7,462) €	– €	155,888

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, 2006	2005 Restated
		(in thousands)	
OPERATING ACTIVITIES:			
Profit (loss) for the year		€ 4,415	€ 6,728
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6, 7	14,061	15,533
Amortization and write-off of debt issuance cost and bond discount		470	354
Impairment	7, 15	184	1,444
Provision (release) for leaving indemnity and pension benefits		(532)	308
Restructuring costs	15	(1,261)	1,364
(Gain) loss on sale of property, plant and equipment	6	98	(5,975)
Share-based compensation expense	23	1,818	(899)
Deferred income	17	(1,573)	(778)
Interest expense		11,905	12,453
Interest income		(1,609)	(1,280)
Tax expense		2,085	1,468
Deferred tax (benefit) expense	21	2,415	(1,121)
Changes in operating assets and liabilities:			
Accounts receivable		(5,682)	9,567
Inventories		1,656	1,854
Prepaid expense and other assets		907	(167)
Accounts payable, accrued expenses and other liabilities		9,940	4,418
Interest paid		(14,972)	(13,988)
Tax paid		(1,203)	(1,125)
Net cash provided by operating activities		23,122	30,159
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	6	(15,018)	(14,600)
Purchase of intangible assets		(44)	(662)
Proceeds from sale of property, plant and equipment	6	114	8,001
Purchases of available-for-sale financial assets	10	(5,017)	(4,113)
Sale of available-for-sale financial assets	10	2,154	444
Interest received		1,639	954
Minority interest	12	--	(8)
Net cash used for investing activities		(16,172)	(9,985)
FINANCING ACTIVITIES:			
Change in short-term borrowings, net	14	(2,629)	(1,714)
Payments on long-term debt	16	(1,776)	(15,853)
Proceeds from other long-term obligations	17	1,876	295
Capital repayment	12	(9,409)	--
Change in restricted cash	28	780	755
Net cash provided by (used for) financing activities		(11,158)	(16,516)
Effect of exchange rate changes on cash and cash equivalents		(844)	(1,171)
Net increase (decrease) in cash and cash equivalents		(5,052)	2,486
Cash and cash equivalents at beginning of period		45,503	43,016
Cash and cash equivalents at end of period	28	€ 40,451	€ 45,503

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

HEAD N.V. AND SUBSIDIARIES
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 New York Stock Exchange ("HED") and the Vienna Stock Exchange ("HEAD").

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 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 April 27, 2007.

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

In 2004, the Company for the first time based its financial reporting on IFRS as adopted. As of December 31, 2005, the Company filed its financial statements under IFRS as adopted, based on its financial statements under Dutch GAAP as of January 1, 2004 with the Dutch commercial register.

First-Time Adoption of IFRS

The Company has made use of the following exemptions available under IFRS 1:
- Business combinations (paragraph 15): The Company did not apply IAS 22 retrospectively and did not restate past business combinations but kept it as in its previous Dutch GAAP financial statements.
- Use of the Dutch GAAP book values of property, plant and equipment at the date of transition to IFRS as deemed cost (paragraph 16-19).
- Cumulated translation differences have been deemed to be zero at the date of transition (paragraph 21 and 22).

First-Time Adoption of International Financial Reporting Standards

The IASB issued a series of amendments to existing standards and published new standards and interpretations, which have been mandatory since January 1, 2006. These new regulations are also applicable in the EU and relate to the following areas:

- IAS 19, (Amended 2004), Employee Benefits- Actuarial Gains and Losses, Group Plans and Disclosures.

- IAS 21, (Amendment), Net Investment in a Foreign Operation.
- IAS 39, (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions.
- IAS 39, (Amendment), The Fair Value Option.
- IAS 39, and IFRS 4 (Amendment), Financial Guarantee Contracts.
- IFRS 1, (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources.
- IFRS 6, Exploration for and Evaluation of Mineral Resources.
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from March 1, 2006).
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after March 1, 2006).
- IFRIC 9, Reassessment of embedded derivates (effective for annual periods beginning on or after June 1, 2006).

Standards effective in 2006 early adopted

IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Company has already adopted IFRIC 4 on a 2004 long-term supplier contract (see Note 19).

The following of the aforementioned standards and interpretations were adopted for the first time:

IAS 19 (Amendment), Employee Benefits, introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Company does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Company will apply IFRIC 8 from January 1, 2007, but it is not expected to have any impact on the Company's accounts;

Management assessed the relevance of the other amended standards and interpretations with respect to the Company's operations and concluded that they are not relevant to the Company.

New financial reporting standards not yet adopted

The IASB issued further standards and amendments to standards and interpretations, which are not yet mandatory in the financial year 2006. The following standards had been endorsed by the EU and published in the official journal by the time these consolidated financial statements were prepared.

- IAS 1 (amended 2006), Presentation of Financial Statements - Capital Disclosures
- IFRS 7, Financial Instruments - Disclosures

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk and also including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS.

The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

The Company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment, of IAS 1. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning January 1, 2007.

The IASB has issued additional financial reporting regulations, which, however, at the time the consolidated financial statements were prepared, had not yet been endorsed by the EU.

- IFRS 8, Operating Segments
- IFRIC 10, Interim Financial Reporting and Impairment
- IFRIC 11, IFRS 2 Group and Treasury Share Transactions
- IFRIC 12, Service Concession Arrangements

IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006). IFRIC 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Company will apply IFRIC 10 from January 1, 2007 but it is not expected to have any impact on the Company's accounts.

The Company will evaluate the effect of the first time adoption of the new standards and interpretations.

The preparation of financial statements in conformity with IFRS as adopted requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The Company presents percentages and some amounts contained in its financial statements rounded for ease of presentation, and sometimes amounts may not add due to this rounding.

As of January 1, 2006, the Company changed its reporting currency from U.S. dollar to euro for the 20-F reporting and as of January 1, 2004, for the IFRS reporting. In prior years, due to the first issued senior notes in U.S. dollar, more than one third of revenues were U.S. dollar denominated the Company's most significant currency was the U.S. dollar. Due to the implementation of the euro, the fact that the Company's newly issued senior notes are denominated in euro and its listing on an European Stock Exchange, the Company decided to change its reporting currency to euro.

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) Transactions and minority interests
The Company applies a policy of treating transactions with minority interests as transactions with parties external to the Company. Disposals to minority interests result in gains and losses for the Company that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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, except when deferred in cumulative translation adjustment ("CTA") (equity: "Fair value and other reserves including cumulative translation adjustments") as qualifying cash flow hedges. The effect of exchange rate changes on intercompany transactions of a long-term investment nature is also included in CTA. For the year ended December 31, 2006, a foreign exchange loss of €0.5 million has been recorded in other operating (income) expense, 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 shareholders' 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 loss. Additions and improvements that extend the useful lives of the plant and equipment and replacements, major renewals, and betterments are capitalized. The cost of maintenance, repair and minor renewals are expensed as incurred. When plant and equipment is retired or otherwise disposed, the cost and related accumulated depreciation 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.

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.

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 and intangible assets with indefinite life 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. Management determines the classification of its financial assets at initial recognition and re-evaluates 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. 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.

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. 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 carried at amortized cost using the effective interest method. Changes in the fair value of available-for-sale financial assets are recognized in equity.

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.

Derivative Financial Instruments and Hedging Activities

The Company records all derivatives on the balance sheet at fair value. The Company uses derivative instruments, specifically foreign exchange forward and option contracts, to hedge the foreign exchange risk related to its forecasted and firmly committed foreign currency denominated cash flows. On the date on which a derivative contract is transacted, the Company designates the derivative as a hedging instrument (cash flow hedge). Changes in derivative fair values that are designated effective and qualify as cash flow hedges will be deferred and recorded as a component of fair value and other reserves/CTA until the hedged transactions affect earnings; at which time the deferred gains and losses on the derivative designated as cash flow hedges are recognized in earnings and classified in accordance with the classification of the hedged item. The Company excludes the time value component of the derivatives' change in fair value from the assessment of hedge effectiveness. The Company enters into hedging relationships to limit the foreign exchange rate risk for periods generally not to exceed one year. For those financial instruments that do not qualify for hedge accounting, the Company recognizes the changes in the fair value of the instruments in the income statement. The Company does not utilize financial instruments for trading or speculative purposes.

The Company documents 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 documents 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 is 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.

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 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.

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.

Deferred Income Tax

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

Employee Benefits

(a) Retirement benefit obligations

The Company operates various pension 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 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 fair value of the employee services received in exchange for the grant of the options is recognized in general and administrative 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 are expected to become exercisable.

(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 recognises 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 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.

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.

Research and Development Costs

Research costs are recognized as 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 incurred research and development costs amounting to €10.1 million for each year ended December 31, 2006 and 2005. In 2006 and 2005, 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.

Restatement

The Company operates a number of share-based compensation plans which were originally accounted for as equity-settled. In the process of preparing the consolidated financial statements for the year ended December 31, 2006, the Company determined that certain share-based compensation plans should have been accounted for as cash-settled (liability awards) under IFRS 2, "Share-based Payment".

As a result of the matters described above, the Company has restated its fiscal years 2005 financial statements to (in thousands):

- Increase other reserve balance at December 31, 2005 by €897
- Reduce retained earnings balance at December 31, 2005 by €6,254
- Increase other long-term liabilities balance at December 31, 2005 by €5,358
- Decrease general and administrative expense for the year ended December 31, 2005 by €1,580
- Increase other operating expense for the year ended December 31, 2005 by €838

As of December 31, 2005, the restatement had an impact of €5.4 million on the Company's net assets as a result of additional other long-term liabilities. Additionally, the restatement had an impact on net profit (loss) for the year ended December 31, 2005 of €0.7 million as a result of changes in fair value of the liabilities.

The following items in the consolidated income statement and the consolidated balance sheet have been restated as follows:

	For the Year Ended December 31, 2005		
	(in thousands, except per share data)		
	(Previously Reported)	(As Restated)	
Consolidated Income Statement:			
General and administrative expense	€ 31,175	€ 29,595	
Other operating (income) expense, net	695	1,533	
Operating profit	14,910	15,652	
Profit (loss) before income taxes	6,333	7,075	
Profit (loss) for the year	5,986	6,728	
Earnings per share-basic			
Profit (loss) for the year	0.17	0.19	
Earnings per share-diluted			
Profit (loss) for the year	0.16	0.18	
Consolidated Balance Sheet:			
Other reserves	€ 124,351	€ 125,247	€
Retained earnings	53,693	47,438	
Total equity	171,817	166,459	
Other long-term liabilities	8,145	13,503	
Total liabilities	260,524	265,881	

Note 3 – Financial Risk Management

Financial Risk Factors

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.

Currency Risk Factors

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:

	December 31,	
1 Euro =	2006	2005
USD	1.31700	1.17970
CHF	1.60690	1.55510
GBP	0.67150	0.68530
JPY	156.93000	138.90000
CAD	1.52810	1.37250
CSK	27.48500	29.00000

Liquidity Risk Factors

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. Given the nature of winter sports, and to a lesser extent racquet sports, 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, are invested in inventories and receivables. 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.

Expected interest expense on contractual obligations for the periods indicated are as follows as of December 31, 2006 (in thousands):

Expected Interest Expense	2007	2008	2009	2010	2011	There-after	Total
Long-Term Debt Obligations							
8.50% Senior Notes due 2014	€ 9,675	9,675	9,675	9,675	9,675	20,157	€ 68,532
Mortgage	217	203	189	173	156	413	1,352
Other Long-Term Debt	366	298	232	172	148	368	1,585
Capital (Finance) Lease Obligations							
Sale-Leaseback	670	661	651	640	629	3,220	6,470

Based upon current operations and the Company's historical results, the Company believes that its cash flow from operations will be adequate to meet the anticipated requirements for working capital, capital expenditures and scheduled interest payments.

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 Group 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 Group for similar financial instruments.

Note 4 – Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS as adopted, 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 impairment on 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 €14.3 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% higher than management's estimates, the Company would have not recognized an impairment on trademarks and goodwill.

Impairment of trade receivables

The Company records impairment of trade receivables for estimated losses amounting to €2.5 million 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 2006.

If estimations relating to the percentage of uncollected accounts receivable were increased by 10%, the Company would recognize an additional provision of €0.1 million.

Impairment of Long Lived Assets

Property, plant and equipment 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 if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use.

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 € 2.1 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%, the Company would have to recognise an additional provision of €0.2 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 €4.2 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. No significant write downs were recognized in 2006.

Tax Loss Carry Forwards

The Company recognises deferred tax assets on tax loss carry forwards amounting to €66.1 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% the Company would have to increase income tax expense by €7.9 million.

Note 5 - Segment Information

Primary reporting format – geographical segments

The Company operates in the following main geographical areas, even though they are managed on a worldwide basis. The table below shows net revenues from external customers based upon where the sale originated by geographic region based on the location of the Company's subsidiaries (in thousands):

	For the Years Ended December 31,	
	2006	2005
Revenues from External Customers:		
Austria	€ 160,897	€ 162,156
Italy	36,381	32,885
Other (Europe)	54,064	53,645
Asia	17,257	17,406
North America	98,162	93,474
Total Net Revenues	€ 366,762	€ 359,566

The segment results are as follows (in thousands):

	For the Years Ended December 31,	
	2006	2005
		Restated
Operating Profit:		
Austria	€ 23,931	€ 17,540
Italy	3,406	(234)
Other (Europe)	(3,140)	2,104
Asia	(394)	970
North America	(2,371)	(1,689)
Unallocated	(1,455)	(3,039)
Operating Profit	€ 19,978	€ 15,652

The segment assets are as follows (in thousands):

	December 31,	
	2006	2005
Segment Assets:		
Austria	€ 122,938	€ 118,071
Italy	34,943	33,247
Other (Europe)	53,675	54,616
Asia	19,878	17,751
North America	68,146	80,880
Total segment assets	€ 299,581	€ 304,565

	December 31,			
		2006		2005
Segment assets	€	299,581	€	304,565
Cash and cash equivalents		43,628		49,460
Available-for-sale marketable securities, current		17,828		14,834
Deferred income tax assets		59,552		61,507
Available-for-sale marketable securities, non-current		1,971		1,973
Total assets	€	422,560	€	432,340

Assets are allocated in relation to their location. The locations of the assets differ from those of the Company's customers.

The segment liabilities are as follows (in thousands):

	December 31,			
		2006		2005
Segment Liabilities:				*Restated*
Austria	€	56,797	€	50,849
Italy		23,578		23,158
Other (Europe)		16,251		18,456
Asia		2,170		2,613
North America		10,937		8,785
Total segment liabilities	€	109,733	€	103,861

	December 31,			
		2006		2005
				Restated
Segment liabilities	€	109,733	€	103,861
Borrowings, current		22,010		29,856
Income tax liabilities		1,094		600
Borrowings, non-current		133,835		131,565
Total liabilities	€	266,672	€	265,881

The segment capital expenditures are as follows (in thousands):

	For the Years Ended December 31,	
	2006	2005
Austria	€ 5,824	€ 6,822
Italy	1,998	2,605
Other (Europe)	1,816	3,263
Asia	3,636	1,434
North America	1,788	1,138
Total Capital Expenditures	€ 15,062	€ 15,262

The segment depreciation and amortization are as follows (in thousands):

	For the Years Ended December 31,	
	2006	2005
Austria	€ 6,206	€ 7,778
Italy	2,499	3,319
Other (Europe)	3,477	3,861
Asia	86	40
North America	1,977	1,978
Total Capital Expenditures	€ 14,245	€ 16,977

Secondary reporting format – business segments

The Company operates in one business segment, Sporting Goods. Revenues by product category consist of the following (in thousands):

	For the Years Ended December 31,	
	2006	2005
Revenues by Product Category:		
Winter Sports	€ 188,070	€ 177,311
Racquet Sports	132,683	132,935
Diving	48,623	48,937
Licensing	8,078	9,309
Sales Deductions	(10,692)	(8,926)
Total Net Revenues	€ 366,762	€ 359,566

Note 6 – Property, Plant and Equipment

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

		Land		Buildings		Machinery & plant equipment		Fixtures, furnitures & office equipment		Construction in progress		Total property, plant & equipment
As of January 1, 2005												
Cost	€	3,359	€	24,243	€	97,369	€	38,888	€	--	€	163,859
Accumulated depreciation		--		(5,660)		(64,233)		(31,514)		--		(101,407)
Net book value	€	3,359	€	18,583	€	33,136	€	7,374	€	--	€	62,451
Year ended December 31, 2005												
Opening net book value	€	3,359	€	18,583	€	33,136	€	7,374	€	--	€	62,451
Additions		--		1,942		9,282		2,606		770		14,600
Disposals		(195)		(1,642)		(147)		(40)		--		(2,024)
Transfers		--		1,757		(1,689)		1,717		-		1,785
Exchange difference		143		341		1,107		175		--		1,766
Depreciation and impairment		--		(1,550)		(11,312)		(4,101)		--		(16,962)
Closing net book value	€	3,307	€	19,430	€	30,377	€	7,732	€	770	€	61,617
As of December 31, 2005												
Cost	€	3,307	€	26,905	€	100,461	€	39,830	€	770	€	171,273
Accumulated depreciation and impairment		--		(7,475)		(70,085)		(32,098)		--		(109,657)
Net book value	€	3,307	€	19,430	€	30,377	€	7,732	€	770	€	61,617
Year ended December 31, 2006												
Opening net book value	€	3,307	€	19,430	€	30,377	€	7,732	€	770	€	61,617
Additions		--		2,289		9,381		3,348		--		15,018
Disposals		--		(2)		(667)		457		--		(212)
Transfers		(41)		(1,117)		3,566		(1,450)		(770)		188
Exchange difference		(165)		56		(552)		(105)		--		(766)
Depreciation		--		(1,075)		(9,876)		(3,072)		--		(14,023)
Closing net book value	€	3,102	€	19,581	€	32,229	€	6,910	€	--	€	61,821
As of December 31, 2006												
Cost	€	3,102	€	29,952	€	106,681	€	39,578	€	--	€	179,313
Accumulated depreciation and impairment		--		(10,371)		(74,453)		(32,669)		--		(117,492)
Net book value	€	3,102	€	19,581	€	32,229	€	6,910	€	--	€	61,821

In 2005 the Company recognized an impairment of €1.4 million (see Note 15).

The Company's total proceeds on the sale of property and equipment were €0.1 million and €8.8 million resulting in a gain of €0.1 million and €6.0 million for the years ended December 31, 2006 and 2005, respectively. As of December 31, 2005, €5.9 million of these gains pertain to a sale of land and building and are reflected as gain on sale of property on the consolidated statements of operations as these gains represent gains on the sale of operating activities. All other gains (losses) are included in other operating income (expense), net in the accompanying consolidated income statements.

Depreciation expense of €12.0 million has been charged in cost of goods sold (2005: €14.8 million), €0.5 million in selling and marketing expense (2005: €0.6 million) and €1.5 million in general and administrative expense (2005: €1.6 million).

Land and building with a carrying value of €2.1 million and €2.5 million as of December 31, 2006 and 2005 respectively are used to secure a loan (see Note 16).

Note 7 – Goodwill and Intangible Assets

	Goodwill	Trademarks	Other
As of January 1, 2005			
Gross €	3,121 €	10,901 €	529
Accumulated amortization	--	--	(235)
Net book value €	3,121 €	10,901 €	294
Year ended December 31, 2005			
Opening net book value €	3,121 €	10,901 €	294
Additions	--	--	662
Transfers	--	--	(86)
Exchange difference	40	1,685	--
Amortisation	--	--	(14)
Closing net book value €	3,161 €	12,586 €	856
As of December 31, 2005			
Gross €	3,161 €	12,586 €	1,192
Accumulated amortization	--	--	(336)
Net book value €	3,161 €	12,586 €	856
Year ended December 31, 2006			
Opening net book value €	3,161 €	12,586 €	856
Additions	--	--	44
Transfers	--	--	(198)
Exchange difference	(19)	(1,294)	(35)
Amortisation and impairment	--	(184)	(37)
Closing net book value €	3,142 €	11,109 €	630
As of December 31, 2006			
Gross €	3,142 €	11,293 €	652
Accumulated amortization and impairment	--	(184)	(22)
Net book value €	3,142 €	11,109 €	630

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

As of December 31, 2006, the Company has recognized an impairment loss against trademark of €0.2 million in general and administrative expense, as a result of the annual impairment test.

Impairment test for trademarks and goodwill

The Company completed the annual impairment test, in the fourth quarter of 2006 and 2005. Trademarks and goodwill are allocated to the Company's cash-generating units ("CGUs") identified according to country of operation and product category.

A segment-level summary of the trademark and goodwill allocation is presented below (in thousands):

	December 31,			
	2006		2005	
	Racquet Sports	Diving	Racquet Sports	Diving
Trademark	€ 11,109	€ --	€ 12,401	€ 185
Goodwill	1,459	1,683	1,429	1,732

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 (7.9%) is pretax and reflects specific risks relating to the Company's business.

Note 8 – Inventories

Inventories consist of the following (in thousands):

	December 31,	
	2006	2005
Raw materials and supplies	€ 15,483	€ 15,648
Work in process	7,783	8,557
Finished goods	55,176	57,477
Provisions	(13,447)	(13,132)
Total inventories, net	€ 64,996	€ 68,551

The Company recognized a provision of €4.2 million and €5.7 million for impairment of inventories during the year ended December 31, 2006 and 2005, respectively. The Company released a provision for impaired inventories of €1.0 million and €2.6 million for the year ended December 31, 2006 and 2005, respectively.

Note 9 – Trade and Other Receivables

Accounts receivable consist of the following (in thousands):

	December 31, 2006	December 31, 2005
Trade debtors	€ 157,234	€ 154,303
Other receivables	6,551	7,370
Allowance for doubtful accounts	(12,162)	(13,148)
Total accounts receivable, net	€ 151,623	€ 148,525
Less: long-term portion	(2,082)	(1,854)
Short-term portion	€ 149,541	€ 146,670

The Company recognized a provision of €2.5 million and €4.0 million for impairment of trade receivables during the year ended December 31, 2006 and 2005 respectively. The Company released a provision for impaired receivables of €1.0 million and €1.3 million for the year ended December 31, 2006 and 2005, respectively.

As of December 31, 2006 and 2005, the fair value of long-term trade receivables was €2.2 million and €2.0 million, respectively. The average interest rate used was 4.6% and 5.4% for the year ended December 31, 2006 and 2005, respectively. The amount of short-term accounts receivable recognized in the consolidated balance sheet approximates the fair value.

There is no concentration of credit risk with respect to trade receivables, as the Company has a large number of customers, internationally dispersed.

Note 10 – Available-for-Sale Financial Assets

Available-for-sale financial assets consist of the following (in thousands):

	December 31, 2006	December 31, 2005
Available-for-Sale		
Debt security funds	€ 1,314	€ 1,294
Cash bonds	17,828	14,718
Other securities	657	795
Total Marketable securities available-for-sale	19,799	16,807
Less: Short-term portion	(17,828)	(14,834)
Total Long-term marketable securities	€ 1,971	$ 1,973

The following table is a summary of the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a unrealized loss position, at December 31, 2006 (in thousands):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other securities	€ --	€ --	€ 631	€ (23)	€ 631	€ (23)
Total temporarily impaired securities	€ --	€ --	€ 631	€ (23)	€ 631	€ (23)

Available-for-sale financial assets developed as follows during the years ended December 31, 2006 and 2005 (in thousands):

	Available-for-sale financial assets	
	Current	Non-Current
Balance as of January 1, 2005	€ 10,686	€ 2,166
Additions	4,112	1
Disposals	(128)	(316)
Change in fair value	156	123
Translation adjustment	7	--
Balance as of December 31, 2005	€ 14,834	€ 1,973
Additions	5,017	--
Disposals	(2,154)	--
Change in fair value	133	(2)
Translation adjustment	(1)	--
Balance as of December 31, 2006	€ 17,828	€ 1,971

In 2006, the Company recorded a €0.1 million realized gain on available-for-sale financial assets to income.

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 and firmly committed foreign currency denominated cash flows.

The Company recorded the change in fair market value of derivatives related to cash flow hedges to fair value reserve of €0.3 million and €0.5 million (net of tax) for the year ended December 31, 2006 and 2005 respectively, all of which is expected to be reclassified to earnings during the next twelve months. The time value component excluded from effectiveness testing was not material for the periods presented.

For the year ended December 31, 2006 and 2005, the Company reclassified a gain from fair value and other reserves/CTA to earnings of €0.3 million and €0.1 million (net of tax) respectively.

The following table provides information regarding the Company's foreign exchange forward and option contracts as of December 31, 2006 and 2005. 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, 2006		
	Contract amount	Carrying value	Fair value
		(in thousands)	
Foreign exchange forward contracts	€ 11,047	€ 1	€ 1
Foreign exchange option contracts	€ 1,604	€ 6	€ 6

	December 31, 2005		
	Contract amount	Carrying value	Fair value
		(in thousands)	
Foreign exchange forward contracts	€ 17,890	€ (161)	€ (161)
Foreign exchange option contracts	€ 1,872	€ 13	€ 13

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 and share-based compensation expense for the stock option plan 1998, reduced by a capital repayment.

As at December 31, 2006 and 2005, 39,820,677 shares with a nominal value of €0.20 were issued and fully paid.

	December 31,	
	2006	2005
	(in thousands)	
Shares issued	39,821	39,821
Less: Treasury shares owned by the Company	(2,184)	(2,421)
Less: Shares held by the Stichting	(1,417)	(1,180)
Shares outstanding	36,220	36,220

Dividends

In 2006 and 2005, the Company did not pay a dividend.

Capital Repayment

At the last Annual General Meeting of the shareholders held on May 24, 2006, the Company's shareholders approved the resolution to amend the Articles of Association to firstly increase the nominal value of the shares from €0.20 to €0.45 out of other reserves and to subsequently reduce the nominal value of the shares from €0.45 to €0.20.

As a consequence of the adoption of the resolution, the Company made a capital repayment of €0.25 per share to its shareholders in September 2006.

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 will use these shares to fulfil the Company's obligations under the Head Tyrolia Mares Group Executive Stock Option Plan 1998 ("Plan 1998") (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.

Treasury Shares

Pursuant to resolutions which were approved on May 24, 2006 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.

In August 2006, the Company transferred 237,094 shares with an original cost of €0.5 million, to the Stichting.

As of December 31, 2006 and 2005, the Company owned 3,600,775 shares of treasury shares, of which 1,416,634 were held by the Stichting at December 31, 2006 and 1,179,540 at December 31, 2005.

Minority Interest

As a consequence of the retirement of the director of HTM Sports Japan K.K. in 2005, his minority interest of 0.4% of HTM Sports Japan K.K was transferred to the Company.

Note 13 – Trade and Other Payable

Accounts payable consist of the following (in thousands):

		December 31, 2006		December 31, 2005
Accounts payables, Trade	€	18,963	€	13,908
Allowances		5,548		5,401
Commissions		3,062		3,067
Personnel expenses		10,469		10,586
Deferred Income		3,139		1,744
Interest		4,925		4,870
Legal, Audit, Consulting		2,334		3,361
Fiscal Authorities		2,562		2,934
Advertising		6,733		4,866
Social Institution		1,710		1,336
Freight & duties		1,217		989
Other		6,483		8,918
Total	€	67,144	€	61,980

The amount of trade and other payables recognized in the consolidated balance sheet approximates the fair value.

Note 14 – Borrowings, current

Borrowings consist of the following (in thousands):

		December 31, 2006		December 31, 2005
Lines of credit	€	19,467	€	27,748
Current maturities of long term debts		2,544		2,108
Total borrowings	€	22,010	€	29,856

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, 2006, the fair value of trade receivables that serve as collateral for the Company's revolving credit lines was €60.7 million (2005: €61.6 million). In addition, the Company used lines of credit with several banks in Japan and USA of €4.5 million and had €2.9 million unused credit lines. In 2005, the Company used lines of credit with several banks in Canada and Japan of €12.7 million and had €0.8 million in unused lines of credit. The weighted average interest rate on outstanding short-term borrowings was 3.3% and 2.9% as of December 31, 2006 and 2005 respectively.

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

Note 15 – Provisions

Provisions consist of the following (in thousands):

	December 31, 2006	December 31, 2005
Warranty €	3,910 €	3,523
Product Liability	1,656	984
Litigation	3,532	3,300
Restructuring	103	1,364
Other	2,550	2,758
Total €	11,750 €	11,929

	Warranty	Product Liability	Litigation	Restructuring	Other	Total
Net book value as of December 31, 2005... €	3,523 €	984 €	3,300 €	1,364 €	2,758 €	11,929
Current year provision booked to expense	2,122	799	1,456	--	1,236	5,614
Amount paid	(1,712)	(26)	(213)	(1,261)	(323)	(3,535)
Reversal booked to income or expense	(24)	(100)	(990)	--	(994)	(2,108)
Exchange difference	--	--	(22)	--	(128)	(150)
Net book value as of December 31, 2006... €	3,910 €	1,656 €	3,532 €	103 €	2,550 €	11,750

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 €3.5 million and €3.3 million for suits with several parties including competitors, customers for past receipts, former employees, suppliers and licensees at December 31, 2006 and 2005 respectively.

Restructuring
Throughout 2005 and 2006 the Company performed various restructuring programs. These programs consisted of the following:

Kennelbach and Budweis facility closure
In April 2005, the Company decided to outsource its tennis racquet production from its European sites in Kennelbach, Austria and České Budejovice, Czech Republic to China. As of December 31, 2005, the Company recognized €3.2 million relating to this program mainly consisting of an impairment of €1.4 million pertaining to machinery and equipment, additional cost due to production inefficiency of €0.9 million (mainly personnel cost) and €0.8 million employee severance costs for 250 workers. The fair value of the impaired assets was determined using the discounted cash flow method for cash flows expected to be generated in the future. The Company largely completed the program during 2005.

Reorganization of ski binding production
In July 2005, the Company started to restructure the ski binding production and recognized €0.6 million employee severance costs for 44 workers. This restructuring process was largely finalized at the end of 2005.

Italy reorganization
In November 2005, the Company decided to move the remaining ski boots production from the Maser plant, Italy to the plant in Litovel, Czech Republic. In December 2005, the Company recognized €0.3 million of severance costs which were paid in 2006. The program was largely completed in 2006.

In November 2005, the Company approved a restructuring program to reduce production capacity as a consequence of sales reductions and the transfer of production to Eastern Europe and Far East starting in January 2006. 60 people were included in the restructuring program (Cassa Integrazione Straordinaria) agreed with unions and local institutions. During a period of 12 months the employees could voluntarily adhere to a dismissal plan (voluntary Mobilità) benefiting from incentives from the Company and Government. Those employees who have not agreed will be involuntarily terminated as part of a dismissal plan (obligatory Mobilità) in 2007. In 2005, the total costs for the restructuring program were €1.0 million and represented personnel costs. As of December 31, 2005 those costs have been fully accrued and €0.9 million have been paid in 2006. This restructuring process will be finalized in 2007.

Note 16 – Borrowings, non-current

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

	December 31, 2006	December 31, 2005
Senior notes	€ 111,353	€ 111,111
Other long-term debt	25,026	22,562
Total long term debt	€ 136,379	€ 133,673
Less current portion	(2,544)	(2,108)
Long term portion	€ 133,835	€ 131,565

The carrying value of the Company's non-current borrowings approximates fair value based on current rates offered and quoted market price of debt with similar terms.
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. With the proceeds from the sale, all of the Company's outstanding 10.75% senior notes due 2006 were redeemed. The total redemption payment was €70.1 million of which €3.5 million represents the redemption premium. In addition, the Company used a portion of the remaining proceeds to repay €25.8 million of other outstanding debt.

In June 2004, the Company repurchased the equivalent of €5.5 million of its 8.5% senior notes for €5.0 million 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, 2006 and 2005, the Company had €111.4 million and €111.1 million, respectively of senior notes outstanding.

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, 2006 and 2005, the remaining obligation under the financing agreement is €10.1 and €10.2 million respectively.

The Company's future minimum lease payments as of December 31, 2006, are as follows:

2007	€	803
2008		803
2009		803
2010		803
2011		803
Thereafter		12,578
Total minimum payments		16,594
Amount representing interest		(6,470)
Obligation under financing activity		10,124
Obligations due within one year		(133)
Long-term obligations under financing activities	€	9,990

As of December 31, 2006, 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	--	(7,231)
Net book value	€ 1,020	€ 1,156

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, 2006 and 2005, the outstanding balance of the mortgage is €3.0 million ($3.9 million) and €3.5 million ($4.1 million) respectively and the carrying value of the property was €2.1 million and €2.5 million as of December 31, 2006 and 2005 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 3.1% and 2.4% as of December 31, 2006 and 2005, respectively. Borrowings mature at various dates through 2011. At December 31, 2006 and 2005, the remaining outstanding long-term debt is €11.9 million and €8.8 million respectively.

Maturities of long-term debt

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

	December 31, 2006
2007	€ 2,544
2008	2,496
2009	2,314
2010	1,189
2011	965
Thereafter	126,871
	€ 136,379

Note 17 – Other Long-Term Liabilities

	December 31, 2006	December 31, 2005 Restated
Deferred income, non-current	€ 6,156	€ 7,729
Liability against venture partner	2,171	295
Liability on share-based payments	6,677	5,358
Other	91	121
Total other long-term liabilities	€ 15,094	€ 13,503

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 70% and 30% interest in the newly formed company. In accordance with IAS 27 in connection with 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. In accordance with IAS 32, the Company recorded other long-term liabilities of €2.2 million and €0.3 million, as of December 31, 2006 and 2005, respectively, for the contribution of its partner.

The Company's partner in this venture has the right to receive a guaranteed yearly dividend on its investment balance starting in the month after the operation has started. Operations are due to commence in January 2007.

Other long-term liabilities also include the long-term portion of deferred income from a long-term licensing agreement. 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, 2006 and 2005, the deferred income balance associated with this licensing agreement was €7.2 million and €8.5 million, respectively. As of December 31, 2006 and 2005, the Company recognised the short-term portion of €0.9 million and 0.8 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 years ended December 31, 2006 and 2005, the only pension plans that includes plan assets is the Japanese pension plan. All other plans do not include plan assets. 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 (in thousands):

	December 31, 2006	December 31, 2005
Beginning of the year	€ 16,449	€ 15,822
Charge to income	2,199	2,959
Payments	(2,946)	(2,276)
Reclassifications	37	--
Exchange differencies	5	(56)
End of the year	€ 15,744	€ 16,449

The table below shows the obligations and funded status (in thousands):

	Pension Benefits 2006	Pension Benefits 2005	Other Benefits 2006	Other Benefits 2005
Change in benefit obligation				
Benefit obligation at beginning of year	€ 4,887	€ 4,570	€ 14,521	€ 14,396
Service cost	296	297	1,230	1,369
Interest cost	210	204	536	547
Plan amendments	--	5	(5)	4
Actuarial loss (gain)	(294)	56	215	777
Settlement	--	--	--	(564)
Benefit payments	(180)	(249)	(2,727)	(2,025)
Translation adjustment	(89)	4	(11)	16
Benefit obligation at end of year	4,830	4,887	13,758	14,521
Change in plan assets				
Fair value of plan assets at beginning of year	405	400	--	--
Employer contribution	47	53	--	--
Benefit payments	(8)	(51)	--	--
Translation adjustment	(49)	2	--	--
Fair value of plan assets at end of year	394	405	--	--
Funded status	4,435	4,482	13,758	14,521
Unrecognized net actuarial loss	(485)	(641)	(1,977)	(1,917)
Translation adjustment	13	5	--	--
Net amount recognized	€ 3,963	€ 3,845	€ 11,781	€ 12,604

Amounts recognized in the consolidated balance sheet consist of (in thousands):

	Pension Benefits 2006	Pension Benefits 2005	Other Benefits 2006	Other Benefits 2005
Accrued benefit cost	€ 3,963	€ 3,845	€ 11,781	€ 12,604

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 2007 to 2011.

The contribution for defined contribution plans for the year ended December 31, 2006 and 2005 amounted to €0.1 million respectively.

The components of net periodic benefit costs consist of the following (in thousands):

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Service cost	€ 296	€ 297	€ 1,230	€ 1,369
Interest cost	210	204	536	547
Expected return on plan assets	(9)	(9)	--	--
Settlement actuarial loss	--	--	--	151
Recognized actuarial loss	(143)	16	79	86
Net periodic benefit cost	€ 354	€ 507	€ 1,845	€ 2,152

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

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Discount rate	4.4%	4.2%	4.6%	4.8%
Rate of compensation increase	2.4%	2.3%	2.7%	3.0%
Expected return on plan assets	2.2%	2.2%	--	--

The plan assets of the Japanese pension plan consist of equity funds at December 31, 2006 and 2005. The Company invests in equity funds with an expected stable growth rate. The actual return on plan assets was 0. The expected rate of return on plan assets is based upon the present rate of return and is expected to be stable.

	December 31,			
	2006	2005	2004	2003
Present value of defined benefit obligations	€ 18,588	€ 19,408	€ 18,028	€ 21,367
Fair Value of plan assets	405	400	400	4,537
Deficit	€ 18,183	€ 19,008	€ 17,628	€ 16,830
Experience adjustments on plan liabilities	€ (80)	€ 833	€ 147	€ --
Experience adjustments on plan assets	0	0	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 2012. Rent expense was approximately €3.7 million and €3.8 million for the years ended December 31, 2006 and 2005, 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, 2006 (in thousands):

		December 31, 2006
2007	€	3,746
2008		3,050
2009		2,632
2010		1,729
2011		1,607
Thereafter		1,407
	€	14,172

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, 2005	€	(3,095)	(5,490)	€	367	€	(60)	€	(8,277)
Current period changes		--	--		(362)		74		(288)
Translation Adjustments		4,481	2,200		--		--		6,682
Balance at December 31, 2005	€	1,386	(3,289)	€	5	€	14	€	(1,884)
Current period changes		--	--		(4)		104		100
Translation Adjustments		(4,134)	(1,544)		--		--		(5,678)
Balance at December 31, 2006	€	(2,748)	(4,833)	€	1	€	118	€	(7,462)

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, 2006 and 2005 the foreign exchange losses recorded in CTA were €6.0 million and €4.1 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.

	December 31,	
	2006	2005
		Restated
Dutch statutory tax rate	29.1%	31.5%
Tax rate differential	7.8	12.4
Non-taxable gain on sale of property	--	(29.2)
Other taxes	9.3	10.4
Prior year adjustments	25.2	(28.8)
Changes in tax rates	(0.4)	0.3
Provision	(21.3)	8.3
Effective tax rate	49.6%	4.9%

In 2006, the Company's effective tax rate differed from the statutory tax rate in the Netherlands primarily due to an adjustment of tax losses carry forwards in Austria which led to a decrease of €4.3 million. Other effects that lead to differences to the Dutch federal statutory rate are caused by withholding taxes, other local taxes and prior year adjustments mainly in Italy, Austria and Canada. The provision for additional tax losses which will not be used also effects the effective tax rate.

In 2005, the Company's effective tax rate differed from the statutory tax rate in the Netherlands primarily due to the non-taxable gain on sale of the property in Estonia of €5.9 million partially offset by higher tax rates applicable to the Company in other countries, mainly in Germany and Japan and by withholding taxes and other local taxes mainly in Italy, Austria and Canada.

HEAD N.V. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The movements in deferred tax assets and liabilities during the year ended December 31, 2006 are as follows (in thousands):

	December 31, 2006	(Charged)/ credited to income	(Charged)/ creditedEx to equity	change differences	December 31, 2005
Short-term:					
Deferred tax asset:					
Tax loss carried forward................................ €	2,563 €	581 €	-- €	-- €	1,982
Impairment of inventory................................	4,097	(103)	43	(18)	4,175
Impairment of accounts receivable...............	1,215	(911)	--	(59)	2,186
Other..	3,294	(318)	1	(62)	3,672
Total Short-term deferred tax assets..........	11,169	(751)	44	(139)	12,015
Deferred tax liabilities:					
Deferred expenses... €	(8) €	198 €	-- €	-- €	(206)
Trade and other payables..............................	(469)	(165)	--	--	(305)
Other..	(777)	650	(33)	5	(1,400)
Total Short-term deferred tax liability.......	(1,255)	683	(33)	5	(1,911)
Total Short-term deferred tax asset, net..... €	9,914 €	(68) €	11 €	(133) €	10,105
Long-term:					
Deferred tax asset:					
Tax loss carried forward................................ €	63,581 €	(1,684) €	-- €	6 €	65,259
Intangible assets..	101	101	--	--	1
Fixed assets..	796	188	56	24	529
Lease obligations...	640	5	--	--	635
Other..	2,533	(498)	483	(14)	2,562
Total Long-term deferred tax assets........... €	67,652 €	(1,888) €	538 €	16 €	68,985
Deferred tax liabilities:					
Investments.. €	(16,998) €	(626) €	-- €	29 €	(16,402)
Fixed assets..	(1,016)	166	--	(1)	(1,181)
Total Long-term deferred tax liability........	(18,014)	(459)	--	28	(17,583)
Total Long-term deferred tax asset, net..... €	49,638 €	(2,347) €	538 €	44 €	51,403
Total deferred tax asset, net........................ €	59,552 €	(2,415) €	549 €	(89) €	61,507

The movements in deferred tax assets and liabilities during the year ended December 31, 2005 are as follows (in thousands):

	December 31, 2005	(Charged)/ credited to income	(Charged)/ creditedExc to equity	hange differences	December 31, 2004
Short-term:					
Deferred tax asset:					
Tax loss carried forward €	1,982 €	395 €	-- €	-- €	1,587
Impairment of inventory	4,175	1,832	--	2	2,341
Impairment of accounts receivable	2,186	1,790	--	3	393
Other	3,672	1,617	121	6	1,928
Total Short-term deferred tax assets	12,015	5,633	121	11	6,250
Deferred tax liabilities:					
Deferred expenses €	(206) €	(4) €	-- €	(1) €	(201)
Trade and other payables	(305)	(298)	--	--	(7)
Other	(1,400)	1,660	(46)	(113)	(2,901)
Total Short-term deferred tax liability	(1,911)	1,358	(46)	(113)	(3,109)
Total Short-term deferred tax asset, net €	10,105 €	6,991 €	75 €	(102) €	3,141
Long-term:					
Deferred tax asset:					
Tax loss carried forward €	65,259 €	(3,311) €	-- €	17 €	68,553
Intangible assets	1	--	--	--	1
Fixed assets	529	(447)	--	33	943
Lease obligations	635	(40)	--	--	675
Other	2,562	(31)	--	2	2,591
Total Long-term deferred tax assets €	68,985 €	(3,828) €	-- €	52 €	72,762
Deferred tax liabilities:					
Investments €	(16,402) €	(3,144) €	-- €	-- €	(13,258)
Fixed assets	(1,181)	(224)	--	--	(957)
Other	--	1,326	(688)	--	(639)
Total Long-term deferred tax liability	(17,583)	(2,042)	(688)	--	(14,854)
Total Long-term deferred tax asset, net €	51,403 €	(5,870) €	(688) €	52 €	57,908
Total deferred tax asset, net €	61,507 €	1,121 €	(613) €	(50) €	61,049

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, 2006 and 2005, the Company did not recognize deferred income tax assets of €13.1 million and €16.8 million, respectively in respect of losses amounting to €42.1 million and €51.1 million respectively, for which it is not probable to be used. All unutilized tax losses will expire by 2026, at the very latest.

Net operating losses were experienced in the following jurisdictions (in thousands):

	December 31,	
	2006	2005
Austria	€ 268,199	€ 278,094
Germany	14,195	11,119
Other Europe	953	455
North America	15,896	24,945
	€ 299,243	€ 314,613

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

	For the Years Ended December 31,	
	2006	2005
Austria	€ 12,309	€ 4,933
Non-Austria	(3,395)	2,142
Total income (loss) before income taxes	€ 8,914	€ 7,075

Austria and Germany allow an unlimited carry forward of net operating losses, whereas the United States allow 20 years carry forwards. The Company recorded a provision to reduce the deferred tax assets to 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, controlled 18,987,344 shares, or approximately 47.7% of the Company's issued shares, as of December 31, 2006. Head Sports Holdings N.V., a Netherlands Antilles corporation, is 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 and €4.2 million for the years ended December 31, 2006 and 2005, 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.

One of the Company's subsidiaries leased its office building from its general manager. Rental expenses amounted to approximately €0.04 million for the years ended December 31, 2006 and 2005 respectively.

The table below shows key managements' compensation (in thousands):

	For the Years Ended December 31,	
	2006	2005
		Restated
Salaries and other short-term employee benefits €	4,023 €	3,814
Post-employment benefit	270	356
Other long-term benefits	50	175
Share-based benefits	1,436	(606)
Total €	5,779 €	3,739

Note 23 – Stock Option Plans

The Company accounts for its stock options in accordance with IFRS 2. Share-based compensation expense is recognized over the vesting term of the options, is included in general and administrative expense and amounted to €1.8 million expense and €0.9 million reversal of expense for the years ended December 31, 2006 and 2005, respectively. The fair value of the liability for the cash-settled stock option plans amounted to €6.7 million (2005: €5.4 million). The total intrinsic value of the liability is €4.0 million (2005: €4.0 million).

Plan 1998

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. 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 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 (2005: 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 861,760 options (2005: 861,760 options) were exercised as at December 31, 2006 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 expense 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, 2006, the weighted-average fair value of the grant was $3.31 (2005: $2.81), which was estimated using the following assumptions: no dividends, expected volatility of 34.10% (2005: 44.19%), expected term of 2.1 years (2005: 3.1 years), and risk-free interest rate of 4.29% (2005: 3.82%). The volatility is based on statistical analysis of daily share prices over the last three years.

For the equity-settled Plan 1998 the Company records share-based compensation expense on the grant-date fair values of the stock options computed using the Black and Scholes option pricing model. The weighted-average fair value of the grant was $3.04, which was estimated using the following assumptions: no dividends, expected volatility of 0%, expected term of 9.3 years, and risk-free interest rate of 5.76%.

As of December 31, 2006, the weighted average remaining contractual life of the outstanding stock options is 2.6 years.

	Number of of options	Weighted average exercise price
Balance, December 31, 2005	554,874	$ 0.38
Balance, December 31, 2006	554,874	$ 0.42

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, 2006, the weighted-average fair value of the grant was $1.13 (2005: $1.18), which was estimated using the following assumptions: no dividends, expected volatility of 34.10% (2005: 44.19%), expected term of 4.7 years (2005: 5.7 years), and risk-free interest rate of 4.29% (2005: 3.82%). 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 will receive further options up to an 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 of options	Weighted average exercise price
Balance, December 31, 2006 and 2005	3,982,068	$ 4.31

As at December 31, 2006, the weighted average remaining contractual life of the outstanding stock options is 4.7 years, and 1,866,482 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 3,864,691 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, 2006, 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, 2006 and 2005?, the weighted-average fair value of the grant was €1.66 and €1.9 respectively, which was estimated using the following assumptions: no dividends, expected volatility of 34.10% (2005: 44.19%), expected term of 8.7 years (2005: 9.7 years), and risk-free interest rate of 4.29% (2005: 3.82%). 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 1% of the options will forfeit during the four year period. Options have a maximum term of 10 years. As at December 31, 2006, 195,345 (2005: 203,345 options) options were available for grant under the Plan 2005 and no options are currently exercisable.

	Number of of options		Weighted average exercise price
Balance, December 31, 2005	3,661,346		2.168
Granted	8,000		2.168
Balance, December 31, 2006	3,669,346	€	2.168

Note 24 – Average Number of Employees

	For the Years Ended December 31, 2006	2005
Salaried employees	714	722
Hourly paid employees	1,253	1,575
Total	1,966	2,297

Note 25 – Expenses by Nature

		For the Years Ended December 31, 2006		2005
		(in thousands)		
				Restated
Depreciation, amortization and impairment charges	€	14,245	€	16,977
Employee benefit expenses		77,913		86,190
Changes in inventory		(312)		(899)
Raw material and merchandise		138,161		129,172
Commission		10,531		10,321
Shipment cost		8,104		7,924
Advertising expenses		38,274		37,370
Legal, audit, consulting and other outside services		26,043		24,832
Other expenses		33,824		32,027
Total cost of sales, selling and marketing, general and administrative and other operating (income) expense	€	346,784	€	343,913

Note 26 – Personnel Costs

	For the Years ended December 31, 2006	2005
	(in thousands)	*Restated*
Salaries and wages €	55,957 €	63,007
Social security and other benefit	17,939	21,424
Share options granted to directors and employees	1,818	(899)
Pension costs - defined benefit plans	354	507
Post-employment benefits	1,845	2,152
Total €	77,913 €	86,190

Note 27 – List of (direct and indirect) Participations as of December 31, 2006

	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 s.r.o.	Czech Republic	100.0%
OÜ HTM Sport Eesti	Estonia	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	70.0%
Head Sports (Hui Zhou) Corp.	China	70.0%

Note 28 – Cash and cash equivalents

As at December 31, 2006 and 2005, cash and cash equivalents contains cash of €40.5 million and €45.5 million respectively and restricted cash of €3.2 million and €4.0 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,			
		2006		2005
				Restated
	(in thousands, except per share data)			
Profit for the year	€	4,415	€	6,728
Weighted average number of ordinary shares in issue		36,220		36,220
Basic earnings per share		0.12		0.19

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,			
		2006		2005
	(in thousands, except per share data)			
				Restated
Profit for the year	€	4,415	€	6,728
Weighted average number of ordinary shares in issue		36,220		36,220
Share options		748		733
Weighted average number of ordinary shares for diluted earnings per share		36,968		36,953
Diluted earnings per share		0.12		0.18

HEAD N.V.
COMPANY BALANCE SHEETS

	Note	December 31, 2006	December 31, 2005
		(in thousands)	
Non-current assets			
Investment in subsidiaries	5	€ 139,432	€ 139,432
Total non-current assets		139,432	139,432
Current assets:			
Amounts receivables from shareholders and from other participating interests		453	383
Prepaid expense		560	164
Cash and cash equivalents	4	320	198
Total current assets		1,333	745
Total assets		140,765	140,177
Current liabilities (due within one year):			
Amounts owed to group companies		7,747	9,608
VAT		47	35
Accruals	6	1,141	1,090
Total current liabilities		8,934	10,733
Shareholders' equity:			
Share capital	9	7,964	7,964
Share premium	9	100,657	109,991
Retained earnings	9	11,490	15,593
Result for the year	9	11,721	(4,103)
Shareholders' equity		131,831	129,444
Total liability and equity		€ 140,765	€ 140,177

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

HEAD N.V.
COMPANY INCOME STATEMENTS

	For the Years Ended December 31,	
	2006	2005
	(in thousands)	
Total net revenues	€ 3,845	€ 3,771
Cost of sales	3,740	3,670
Gross profit	105	101
Selling and marketing expense	65	65
General and administrative expense	3,638	3,898
Operating loss	(3,598)	(3,862)
Interest income	42	39
Foreign exchange gain (loss)	276	(288)
Other income, net	--	7
Dividend income	15,000	--
Result for the year	€ 11,721	€ (4,103)

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,	
	2006	2005
		Restated
	(in thousands)	
OPERATING ACTIVITIES:		
Profit (loss) for the year	€ 11,721	€ (4,103)
Dividend received	(15,000)	--
Accounts receivable	(479)	(57)
Accounts receivable, intercompany	(1,931)	3,285
Prepaid expense and other assets	86	--
Accounts payable, accrued expenses and other liabilities	61	(404)
Net cash used for operating activities	(5,542)	(1,280)
FINANCING ACTIVITIES:		
Treasury shares	75	--
Capital repayment	(9,409)	--
Dividend received	15,000	--
Net cash provided by (used for) financing activities	5,666	--
Net increase (decrease) in cash and cash equivalents	122	(1,280)
Cash and cash equivalents at beginning of period	198	1,478
Cash and cash equivalents at end of period	€ 320	€ 198

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 *(in thousands)*		Result for the year		Total shareholder's Equity
Balance at January 1st. 2005	€	7,964	€	109,991	€	15,593	€	--	€	133,548
Result for the year		--		--		--		(4,103)		(4,103)
Balance at December 31st. 2005	€	7,964	€	109,991	€	15,593	€	(4,103)	€	129,444
Transfer of result for the year		--		--		(4,103)		4,103		--
Transfer to Stichting		--		75		--		--		75
Capital repayment		--		(9,409)		--		--		(9,409)
Result for the year		--		--		--		11,721		11,721
Balance at December 31st. 2006	€	7,964	€	100,657	€	11,490	€	11,721	€	131,831

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

HEAD N.V.
NOTES TO THE COMPANY ACCOUNTS

Note 1 – Summary of Significant Accounting Policies

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 company financial statements in conformity with International Financial Reporting Standards as adopted by the European Union ("EU") ("IFRS as adopted"). For a description of the accounting principles, we refer to the consolidated financial statements for the year ended December 31, 2006.

Note 2 - Investments in Subsidiaries

The following investment is stated under the cost method:

Name of investment	Legal Seat
Head Holding Unternehmensbeteiligung GmbH	Vienna, Austria

Note 3 – *Financial risk management and critical accounting estimates and judgements*

For a detailed description of financial risk management and critical accounting estimates and judgements, we refer to Note 3 and 4 of the consolidated financial statements. There are not further risks or critical accounting estimates which are specifically relevant to the parent company only.

Note 4 - Cash and Cash Equivalents

Cash and cash equivalents consists of the following (in thousands):

	December 31, 2006	December 31, 2005
MeesPierson EUR	€ 152	€ 94
MeesPierson USD	65	15
Morgan Stanley USD	22	9
Morgan Stanley EUR	71	70
Creditanstalt	--	1
Goldmann Sachs USD	10	10
	€ 320	€ 198

Note 5 - Financial Fixed Assets

Financial fixed assets consist of the following (in thousands):

	Book value Jan 1, 2006	Cost of assets acquired	Book value of disposed assets	Income from participating interest	Book value Dec 31, 2006
Investment in subsidiaries........	€ 139,432	€ --	€ --	€ --	€ 139,432

Note 6 – Accrued Expenses and Other Liabilities

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

	December 31, 2006	December 31, 2005
Management and administration fee	€ 446	€ 438
Audit, consulting and legal fee	101	62
Accrued expenses	593	591
	€ 1,141	€ 1,090

Note 7 – Directors' Remuneration

The Company has four managing directors and three supervisory board directors. The table below shows the remuneration of the directors of the group for the year ended December 31, 2006 (in thousands):

	Paid	Accrued for future payments
Management Board		
Johan Eliasch	€ 591	€ --
Ralf Bernhart	622	22
George Nicolai	10	--
Robert van de Voort	10	--
	€ 1,233	€ 22
Supervisory Board		
Viktor Klima	€ 8	€ --
William S. Cohen	8	--
Jürgen Hintz	8	--
	€ 24	€ --

The company did not record or pay any pension or termination charges, profit sharing or bonuses during the year.

Under the Head Tyrolia Mares Group Executive Stock Option Plan 1998 described below under "Stock Option Plans," we have issued options to purchase an aggregate of 1,839,188 depositary receipts representing ordinary shares to some of our Management Board members, key executive officers and Supervisory Board members. For the year ended December 31, 2006, share-based compensation amounted to €0.2 million. Options vested over a period of four years and were subject to the Company meeting specified earnings performance targets during this period. These options were exercisable beginning on January 1, 2002, but the shares were subject to a lock-up until October 3, 2002. Each option may be exercised for a nominal price.

Under the Head N.V. Executive Stock Option Plan 2001 described below under "Stock Option Plans", we have issued options to purchase an aggregate of 3,203,826 depositary receipts representing ordinary shares to some of our Management Board members, key executive officers and Supervisory Board members. For the year ended December 31, 2006, share-based compensation amounted to $0.1 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 below under "Stock Option Plans", we have issued options to purchase an aggregate of 2,902,346 depositary receipts representing ordinary shares to some of our key executive officers and Supervisory Board members. For the year ended December 31, 2006, share-based compensation amounted to €1.1 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.

The table below shows the details of both 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 1998						
Johan Eliasch	$0.19	838,622	--	--	$0.42	838,622
Ralf Bernhart	$0.19	175,714	--	--	$0.42	175,714
Christoph Henkel	$0.19	3,636	--	--	$0.42	3,636
René Jäggi	$0.19	3,636	--	--	$0.42	3,636
Michael Treichl	$0.19	2,424	--	--	$0.42	2,424
Option Plan 2001						
Johan Eliasch	$4.31	1,426,470	--	--	$4.31	1,426,470
Karel Vuursteen	$4.31	55,002	--	--	$4.31	55,002
Christoph Henkel	$4.31	55,002	--	--	$4.31	55,002
Viktor Klima	$4.31	85,002	15,000	--	$4.31	100,002
William S. Cohen	$4.31	85,002	15,000	--	$4.31	100,002
René Jäggi	$4.31	40,002	--	--	$4.31	40,002
Jürgen Hintz	$4.31	55,002	15,000	--	$4.31	70,002
Option Plan 2005						
Johan Eliasch	€2.17	–	–	--	€2.17	–
Ralf Bernhart	€2.17	–	–	--	€2.17	–

HEAD N.V.
NOTES TO THE COMPANY ACCOUNTS

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,			
		2006		2005
				Restated
		(in thousands)		
Result for the year	€	11,720	€	(4,103)
Net income (loss) from participating interest		(7,305)		10,831
Net income	€	4,415	€	6,728

	For the Years Ended December 31,			
		2006		2005
				Restated
		(in thousands)		
Shareholders' equity	€	131,831	€	129,444
Retained earnings from participating interest		24,057		37,015
Shareholders' equity consolidated	€	155,888	€	166,459

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.

Share premium includes additional paid-in capital reduced by treasury shares and a capital repayment.

As at December 31, 2006 and 2005, 39,820,677 shares with a nominal value of €0.20 were issued and fully paid.

Dividends

In 2006 and 2005, the Company did not pay a dividend.

Capital Repayment

At the last Annual General Meeting of the shareholders held on May 24, 2006, the Company's shareholders approved the resolution to amend the Articles of Association to firstly increase the nominal value of the shares from €0.20 to €0.45 out of share premium and to subsequently reduce the nominal value of the shares from €0.45 to €0.20.

As a consequence of the adoption of the resolution, the Company made a capital repayment of €0.25 per share equaling €9.4 million to its shareholders in September 2006.

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 will use these shares to fulfil the Company's obligations under the Head Tyrolia Mares Group Executive Stock Option Plan 1998 ("Plan 1998").

In August 2006, the Company transferred 237,094 shares with an original cost of €0.5 million, to the Stichting.

Treasury Shares

Pursuant to resolutions which were approved on May 24, 2006 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, 2006 and 2005, the Company owned 3,600,775 shares of treasury shares, of which 1,416,634 was held by the Stichting at December 31, 2006 and 1,179,540 at December 31, 2005.

Amsterdam,
April 27, 2007

Johan Eliasch Chief Executive Officer	Ralf Bernhart Chief Financial Officer	George Nicolai Managing Director
Viktor Klima Supervisory Board Member	William S. Cohen Supervisory Board Member	Jürgen Hintz Supervisory Board Member

HEAD N.V.
OTHER INFORMATION

Auditor's Report

The report of the auditor, PricewaterhouseCoopers Accountants N.V., is presented on page 72 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 profit

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.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Accountants N.V.
Thomas R. Malthusstraat 5
1066 JR Amsterdam
P.O. Box 90357
1006 BJ Amsterdam
The Netherlands
Telephone +31 (20) 568 66 66
Facsimile +31 (20) 568 68 88
www.pwc.com/nl

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 2006 of Head N.V., Rotterdam as set out on pages 16 to 70 which comprise the consolidated and company balance sheet as at 31 December 2006, the profit and loss account, 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.

PRICEWATERHOUSECOOPERS

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 2006, 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 5 part e 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, 27 April 2007
PricewaterhouseCoopers Accountants N.V.

L.H.J. Oosterloo RA