HEAD N.V. AND SUBSIDIARIES
ANNUAL REPORT

For the Year Ended December 31, 2007

SUPERVISORY BOARD

Viktor Klima
William S. Cohen (resigned on May 30, 2007)
Jürgen Hintz

DIRECTORS

Johan Eliasch
Ralf Bernhart
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HEAD N.V.

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DIRECTORS' REPORT
December 31, 2007

Business and Strategy

The Company:
The Company is a leading global manufacturer and marketer of branded sporting goods serving the skiing, racquet sports and diving markets. The Company has created or acquired a portfolio of brands – *Head* (principally alpine skis, ski bindings, ski boots 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). The Company's key products have attained leading market positions based on sales and reputation and have gained high 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, other racquet sport and diving markets, including pro shops, specialty sporting goods stores and mass merchants. Head N.V.'s products are sold through some 31,000 customers in over 85 countries and target sports enthusiasts of varying levels of ability and interest ranging from the novice to the professional athlete. 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 has become one of the world's most widely recognized developers and manufacturers of innovative, high-quality and technologically advanced sporting equipment. The Company's focus continues to be its core products of skiing, racquet sports and diving equipment. In order to expand market share and maximize profitability, the Company's strategy includes an emphasis on marketing and new product development, leveraging further its brands, global distribution network and traditional strength in manufacturing and the Company continuously seeks means for reducing its fixed costs.

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

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

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

Rapidly Develop and Launch New Products. We intend to continue our tradition of product innovation and development by identifying new product opportunities and moving quickly to launch these products successfully. After we identify a new product opportunity, we rely on our in-house research and development department and the manufacturing facilities available to us to produce the desired product concept. Thereafter, through a combination of our integrated marketing program, high brand awareness and global distribution organization efficiency we are able to introduce the new products to the market rapidly. Recent examples of this approach are our *Head Intelligence* and *Head* Liquidmetal skis and snowboards and *Head Metallix* and *Microgel* tennis racquets. The Company spent €10.5 million in 2007 and €10.1 million in 2006, on research and development.

Continued cost management. Beginning in 2003, we have implemented a substantial cost reduction program which has resulted and should continue to result in cost savings and improved operating results. In July 2005, we signed an agreement for the establishment of a company in the British Virgin Islands. The business venture was established to found a company in China which manufactures tennis balls exclusively for sale to us, which we believe, will lead to cost savings beginning in 2008. Manufacturing began in January 2007. In 2007, we finalized a restructuring program to reduce production capacity for diving products in Italy and transferred production to Eastern Europe and the Far East. In 2008, we will transfer parts of the ski production from our site in Kennelbach, Austria, to our site in Budweis, Czech Republic, to benefit from lower personnel costs. We will outsource parts of the production for diving equipment and close a diving equipment production facility in Italy to gain flexibility and reduce fixed costs.

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

Industry overview:
We define the winter sports market as the market for alpine skis, ski boots and bindings, 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 2007 was approximately €860 million at the wholesale level, consisting of €280 million for skis, €140 million for bindings, €190 million for boots and €250 million for snowboard equipment. The ski market consists predominantly of Europe, North America and Asia, with Europe constituting approximately 55% of the world market in 2007, the United States and Canada approximately 32% and Japan approximately 9%. The snowboard market is led by North America, followed by Europe and then Japan.

Ski sales have traditionally been the primary component of the winter sports market, with trends in ski sales directly affecting sales of bindings, ski boots and other ski accessories. The market for skis, however, has undergone a transformation in the past 15 to 20 years by declining from an estimated 6.5 million pairs sold per year worldwide in the late 1980's to approximately 4.1 million pairs sold in 2006. In 2007, approximately 3.0 million pairs were sold. The reduction in ski sales resulted primarily from a shift in preference among some consumers from skiing to snowboarding in the early 1990's, an absence of significant product innovation, except for the introduction of the carving ski in 1996, and the severe decline in the Japanese market. The dramatic decline in 2007 resulted from the very bad snow conditions worldwide during the 2006/2007 season. In the last years, the snowboard market developed into a new form of winter sport, and the market increased from 0.8 million boards sold in 1995 to a peak of 1.6 million in 2000 and 1.2 million in 2006. In 2007, 1.0 million boards were sold due to very bad snow conditions worldwide during the 2006/2007 season.

The ski bindings market declined from approximately 5.9 million pairs sold per year in the early 1990's to approximately 4.1 million in 2006. In 2007, 3.0 million pairs were sold. The ski boot market increased from 3.6 million pairs sold in 2003 to 4.0 million pairs in 2006. In 2007, 2.8 million pairs of ski boots were sold.

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 have become an important factor in sporting goods in general, and are becoming an important factor in winter sports products in particular.

We define the racquet sports market as the market for tennis, squash, badminton and racquetball racquets, accessories and footwear and for tennis balls and racquetball balls. We estimate that the market for tennis racquets in 2007 was approximately 10 million units, with a value of approximately €330 million at wholesale level. Based on information currently available we assume the global tennis racquet market has grown in 2007 between 3% and 8% in both units and value as compared to 2006. We believe that these favourable developments are a result of the launch of many new products by several key players in the industry.

We estimate that worldwide sales of tennis balls was approximately €200 million at the wholesale level in 2007, with approximately 25 million dozen tennis balls sold. The United States and Europe each represented more than 30% of the 2007 world market. In 2007, we estimate that the global market for tennis balls increased by approximately 5% in units but remained relatively stable in value compared to 2006. We believe the favourable development in units sold is a result of an increase in participation due to many grass roots activities implemented by various constituents of the market. Key European markets have grown in unit volume in 2007 although revenues remained flat, reflecting a deterioration in average selling prices due to intense competition as well as the decline in value of the U.S. Dollar. Market developments in both tennis racquets and balls in revenue were negatively impacted by the strengthening of the euro as sales in weaker currencies translated into fewer euros.

We define the diving market as the market for diving equipment, wetsuits, dry suits and diving accessories. We estimate the worldwide wholesale market at the end of 2007 was approximately €500 million. We believe that the overall diving market was slightly growing, with the important Western European, United States and Japanese markets showing recovery compared to 2006. 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. 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. Retail business for winter sports equipment was dramatically down in the 2006/07 winter season, including the first months of 2007, as a result of poor snow conditions in Europe and parts of the United States and also, the Company believes, as a result of evolving consumer behavior reflecting a continuing trend towards a preference for rental equipment. The most recent GFK (a German market research group) reports showed the following declines for sales of alpine skis in units from April 2006 through March 2007 compared to the preceding 12 months: Austria down 20%, Switzerland down 23% and Germany down 29%. Based on our own market perceptions, the trend is similar for sales of ski boots and ski bindings. SIA ("Snow Sports Industries America") reported for the total 2006/2007 season a decline of sales in the ski market and the ski boot market by 6% for the US compared to the prior season. For other regions final market figures are not available, but the Company believes, based on its own experience and observation, that most European markets as well as Japan experienced a market decline comparable to that indicated by the GFK report. This market development caused higher inventory levels at the retail level at the end of the 2006/07 season. As a result, retailers placed significantly lower pre-season orders for the 2007/08 season. Sales of snowboard equipment reflected a similar development. A GFK survey for Austria reported a decline in units of pre-season bookings in 2007 compared to 2006 of 30%. Pre-season bookings worldwide for both ski and snowboard equipment, the Company believes, have declined between 25% and 30% in units in 2007 compared to 2006.

Racquet Sports. We estimate that the market for tennis racquets in 2007 was approximately 10 million units, with a value of approximately €330 million at wholesale level. Based on information currently available we assume the global tennis racquet market has grown in 2007 between 3% and 8% in both units and value as compared to 2006, when the global market for racquet sales experienced a decline. We believe that these favourable developments are a result of the launch of many new products by several key players in the industry. We estimate that worldwide sales of tennis balls was approximately €200 million at the wholesale level in 2007, with approximately 25 million dozen tennis balls sold. The United States and Europe each represented more than 30% of the 2007 world market. In 2007, we estimate that the global market for tennis balls increased by approximately 5% in units but remained relatively stable in value compared to 2006. We believe the favourable development in units sold is a result of an increase in participation due to many grass roots activities implemented by various constituents of the market. Key European markets have grown in unit volume in 2007 although revenues remained flat, reflecting a deterioration in average selling prices due to intense competition as well as the decline in value of the U.S. Dollar.

Diving. After a flat year in 2006, the worldwide diving market showed growth in the United States and Europe in 2007 while Asia remained flat. In 2007, Mares continued its positive trend of 2006 and increased its market shares principally as a result of new advanced products, improved operations and strong performances by the United States and European sales teams.

Profitability

Income statement:
As anticipated, the results have been negatively impacted by the performance of the Winter Sports Division. The poor snow in the 06/07 skiing season has resulted in lower sales and utilization of our facilities. Whilst the financial performance of the Winter Sports Division has been heavily impacted by the market conditions, the race team has demonstrated the excellent performance of the products with 13 World Cup victories and over 40 podium places between the men and women. Head racers are in 1st place in three different categories and won five out of the possible twelve Crystal Globes. In the Racquet Sports Division sales were up due to new product introductions which was offset by strengthening of the Euro against the US dollar. Gross Profit of the Racquet Sports Division has improved due to the impact of the MicroGel series and cost reduction initiatives. The Diving division continues to perform well and we believe has gained market share during 2007.

Total net revenues decreased by €45.8 million, or 12.5%, to €321.0 million from €366.8 million in 2006. This decrease was due to principally lower volumes of sales by our Winter Sports division and the strengthening of the euro against the U.S. dollar.

Winter Sports revenues decreased by €47.5 million, or 25.3%, to €140.5 million from €188.1 million in 2006. This decrease was due to lower sales volumes of all of our winter sports products as a consequence of bad snow conditions globally in the winter season 2006/2007.

Racquet Sports revenues decreased by €2.8 million, or 2.1%, to €129.8 million from €132.7 million in 2006. Despite significant increased sales volumes of our tennis racquets the strengthening of the euro against the U.S. dollar in 2007 diminished the euro value of US sales and intensified price competition in the European tennis ball market.

Diving revenues increased by €3.2 million, or 6.6%, to €51.8 million from €48.6 million in 2006. This increase was mainly driven by improved availability throughout the distribution chain on our broad variety of diving products and was negatively affected by the strengthening of the euro against the U.S. dollar in the reporting period.

Licensing revenues decreased by €0.8 million, or 9.9%, to €7.3 million from €8.1 million in 2006, principally due to lower revenues recorded for the first quarter of 2007 and reduction in one of our agreements.

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 decreased by €2.2 million, or 20.7%, to €8.5 million from €10.7 million in 2006 due to decreased sales.

Cost of Sales. Cost of Sales decreased by €25.7 million, or 11.5%, to €196.9 million from 222.6 million in 2006 due to decreased sales volumes, lower depreciation and €1.4 million write off of a patent in 2006; Cost of Sales was adversely affected by increased raw material prices, start-up costs for the tennis ball production facility in China and lower utilisation of production capacities of the ski, ski boots and binding production sites.

Gross Profit. Gross profit decreased by €20.1 million to €124.1 million from €144.2 million in 2006. Gross margin decreased to 38.7% in 2007 from 39.3% in 2006. This decrease was due to lower sales and lower utilization of production capacity for winter sports products.

Selling and Marketing Expense. Selling and marketing expense increased by €1.4 million, or 1.5%, to €94.3 million from €92.9 million in 2006. This increase was mainly due to higher advertising costs for our sponsored professional ski racers, which were partly offset by lower commissions, shipment costs and selling expense as a consequence of decreased sales and positively influenced by the strengthening of the euro against the U.S. dollar.

General and Administrative Expense. General and administrative expense decreased by €0.3 million, or 0.9%, to €30.1 million from €30.3 million in 2006.

Restructuring costs. In 2007, we recorded €2.0 million of restructuring expenses related to the reorganization of ski production and outsourcing some of the production capacities in Italy.

Share-based Compensation Expense (Income). We recorded €0.2 million of share-based compensation income for our Stock Option Plans compared to €1.8 million expense in 2006. The positive effect is mainly due to the decrease of the share price during 2007.

Other Operating Income, net. Other operating income, net increased by €0.5 million to €1.4 million from €0.9 million in 2006. This increase was due to the release of an accrual for possible environmental expenses related to the property in Estonia which we sold in 2005 and the sales of the Sporasub brand and of a non consolidated investment. This income was partly offset by lower foreign exchange gains.

Operating Profit (Loss). As a result of the foregoing, an operating loss of €0.7 million was recorded compared to an operating profit of €20.0 million in 2006.

Interest Expense. Interest expense increased by €0.2 million to €12.6 million from €12.4 million in 2006. This increase was mainly due to the contribution to our venture business partner.

Interest Income. Interest income increased by €0.5 million, to €2.1 million from €1.6 million in 2006 due to higher interest rates.

Foreign Exchange Gain (Loss). We recorded foreign exchange gains of €0.3 million compared to a loss of €0.3 million in 2006.

Income Tax Benefit (Expense). Income tax expense was €0.2 million, a decrease of €4.3 million compared to an income tax expense of €4.5 million in 2006. This decrease reflects lower current income tax expenses due to reduced pre-tax results of some of our subsidiaries in a tax paying position and the increase in pre-tax losses whose deductibility from future taxable profits is probable partially offset by deferred income tax expense of €1.4 million as a result of the effect of the decrease in the German income tax rate on tax loss carry forwards.

Profit (Loss). As a result of the foregoing factors, for the twelve months ended December 31, 2007, we recorded a loss of €11.2 million compared to a profit of €4.4 million in 2006.

Financing:
Payments from our customers are our principal source of liquidity. Additional sources of liquidity include our credit facility, financing under capital lease arrangements and vendor financing. The cash provided by these sources has a variety of uses. Most importantly, we must pay our employees and vendors for the services and materials they supply.

Additional uses include capital expenditures, development of new products, payment of interest, extension of credit to our customers, and other general funding of our day-to-day operations.

Cash used for operating activities increased by €25.8 million resulting in a net cash outflow of €2.7 million compared to net cash generated by operating activities of €23.1 million in 2006. This decrease was due to lower cash from operations as a consequence of higher losses and a higher level of working capital, resulting mainly from substantially higher inventory levels and a substantially lower level of accounts payable. Our operative cash requirements, purchases of property, plant and equipment (net of proceeds) of €11.6 million and the repayment of capital to shareholders of €7.2 million in connection with the reduction of the nominal value of our shares were financed by sales of marketable securities and cash on hand.

As of December 31, 2007, we had €154.5 million of total debt, consisting of €111.6 million of 8.5% senior notes due 2014 outstanding, €12.5 million of long-term obligations under a sale-leaseback agreement and a mortgage agreement due 2017, €9.5 million of other long-term debt comprising secured loans in Italy, the Czech Republic and Japan and a liability toward our Business Venture Partner of €2.0 million in connection with its guaranteed return on its investment. Of this total debt as at December 31, 2007, our short-term debt consisted of €21.6 million, due principally to our draw downs of €19.1 million from lines of credit with several banks in Austria and Japan, as well as the short-term portion of our long-term debt. At year-end 2007, we had no commitments for capital expenditures.

As of December 31, 2007, we had €27.8 million in unrestricted cash on hand, compared to €40.5 million at December 31, 2006, and €10.2 million of available-for-sale financial securities mainly held in euro, compared to €17.8 million at December 31, 2006.

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

Research and Development

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

Capital Expenditures

A significant amount of our annual capital expenditure goes to maintenance of current facilities including the molds, tools and equipment. Some product lines change annually as new products are introduced, while others are in use for several years. In 2007, we announced the transfer of parts of the ski production from our site in Kennelbach, Austria, to our site in České Budejovice, Czech Republic. In addition, we began the construction of a new diving manufacturing plant in Bulgaria which should be completed by the middle of 2008.

We expect to spend approximately €40 million on investment in property, plant and equipment, including expenditures for maintenance of our facilities and equipment, and €31 million on research and development, in the 2008 to 2010 period. We expect that these expenses will be financed through our operating cash flow. These expenses will be primarily for the design and manufacturing of products that are scheduled to be introduced and existing products which we expect to continue selling during the period.

Employees

As of December 31, 2007, we employed 2,216 people worldwide compared to 1,920 at the end of 2006. The increase reflects our tennis ball production site in China.

Employees by categories:

	For the Years ended December 31,	
	2007	2006
Manufacturing	1,360	1,173
Engineering and Patent	115	108
Selling and Advertising	418	398
Warehouse	137	103
Business Unit Administration	186	138
Total	2,216	1,920

Employees by geography:

	For the Years ended December 31,	
	2007	2006
Austria	619	617
Italy	235	251
Czech Republic	389	501
Other (Europe)	164	160
USA	353	339
China	396	--
Other	60	52
Total	2,216	1,920

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

Legal risks:
As of December 31, 2007, we recognized €69.5 million of deferred tax assets, mainly on Austrian tax losses carried forwards. We believe it is more likely than not that these deferred tax assets will be realized. Austria and some other countries allow an unlimited carryover of net operating losses. However, a change in income tax law lowering the applicable tax rate could occur, as it did in 2004 in Austria and in 2007 in Germany, requiring us to write down €20.2 million of our deferred tax assets in 2004 and €1.4 million in 2007. Such a write-down has caused a significant income tax expense and negatively affected our net income, and may occur again in the future.

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

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

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 2008, following the success of our sponsored race team in the 2007/2008 winter season, 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 All-mountain Ski line. We have developed a completely new Skiboot "Raptor" designed for the high performance skier and racer.

In snowboards, where we have renewed our high end range, we plan to maintain our cost efficiency in production and concentrate on improving our product mix. We have also extended and coordinated the range of helmets and protection gear for both the snowboarder and alpine skier.

All *Head* products for the winter season 2008/2009 are designed according to the new brand guidelines and already bear the new *Head* Logo and new branding elements.

In Racquet Sports, we launched a new technology, *Microgel,* during the second half of 2007. We expect no major changes in tennis balls, but believe that the current pressure on prices and margins will continue.

The Company has just entered the tennis footwear business. A simultaneous rollout globally to present *Head* tennis footwear products to retailers was conducted during the fall of 2007. Consumers should be able to purchase these products starting in the summer 2008.

In Diving, we are introducing our products in new geographical areas such as Eastern Europe and South Asia. In 2007, the Diving division launched a range of innovations with a focus on performance, fashion and comfort. The diving division's latest product launch is a new Abyss regulator and an extended line of dive computers with the new *Nemo Excel* and *Puck* models. In 2008, we plan to continue our focus on the Asian market through our new subsidiary in Hong Kong, Mares Asia Pacific, which acts as regional headquarter.

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

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

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

Most of our revenues are denominated in euro, the functional currency of our European operations, and in 2007 approximately 32% was denominated in U.S. dollars. Our revenues are thus affected by movements in the exchange rate of the U.S. dollar and other currencies against the euro. Our revenues are also affected by fluctuations in the value of the currency in which the products are sold relative to the value of the currencies in which production expenses are incurred 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.

Factors Affecting Expenses

We separate our principal expenses into:

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

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

Since 2005, as a result of the price increases for oil and steel in the world market, we have 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). Prices for plastic components continued to increase in 2007 partly driven by the energy price increase. In 2007, rubber prices (tennis and racquetball balls) continued to increase because of the increasing demand in China and the weakness in the U.S. dollar.

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 85% 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 2007 and 2006, we spent approximately €13.7 million and €15.0 million, respectively, on facilities and equipment maintenance. Historically, these expenditures were financed through our operating cash flow. In 2007, however, due to the disastrous winter season the main financing source was our cash. 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 recorded share-based compensation income of approximately €0.2 million in 2007 and we recorded €1.8 million of expense in 2006. As of December 31, 2007, other long-term liabilities with regards to our stock options amounted to approximately €5.7 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. Of our cost of goods sold and other operating expenses, approximately 68% is recorded in euro whereas approximately 25% is recorded in U.S. dollars. Because a portion of our U.S. dollar revenues are generated from products manufactured on a euro-cost basis, the appreciation of the euro against the U.S. dollar has decreased our revenues when translated into euro and negatively impacted our margins.

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

a) Structure of the capital:

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

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

As of December 31, 2007, 12,521,055 shares were listed on the Vienna Stock Exchange and 8,312,278 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 and its shareholders, controlled by Johan Eliasch and his family members, holds 19,825,966, or approximately 49.8%, of Head N.V.'s issued shares as of December 31, 2007.

Donald Smith & Co., Inc. holds 3,737,900, or 9.4%, and Aegis Financial Corporation holds 2,035,600, or 5.1%, of Head N.V.'s issued shares as of December 31, 2007.

As of December 31, 2007 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 1,963,540 options were exercised as at December 31, 2007 and all others are exercisable. No further options will be granted under the 1998 Plan. The Chairman and Chief Executive Officer is eligible to receive all options issued under the Plan 1998 that do not vest to current participants. So far he received 838,622 options.

In September 2001, the Company adopted the Head N.V. Executive Stock Option Plan 2001 ("Plan 2001"). The Plan 2001 provided for grants of 3,982,068 stock options to officers and employees of the Company and its subsidiaries. Out of the 3,982,068 options which are vested and exercisable as of December 31, 2007 the Chairman and Chief Executive Officer received 1,426,470 options under this grant, which vested immediately. In addition, he received further options in the amount of 564,564, which did not vest to other participants.

In May 2005, at the annual general meeting the shareholders approved the Head N.V. Executive Stock Option Plan 2005 ("Plan 2005"). The Plan 2005 provides for grants of 3,874,691 stock options to certain officers and key employees of the Company and its subsidiaries which will vest in 2009. As at December 31, 2007, 205,345 options were available for grant under the Plan 2005 and no options are currently exercisable.

f) Restrictions on voting rights:

There are no restrictions on voting rights.

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

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

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

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

Supervisory Board at any time by a majority vote of our shareholders at a general meeting of shareholders. However, any suspension or removal not proposed by the Stichting may only be decided at a general shareholders' meeting by a resolution adopted by a two-thirds majority vote.

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

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

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

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

On May 30, 2007, 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 30, 2008), 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 30, 2008) 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 30, 2012), 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. 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".

The principal differences between our corporate governance practices and the rules of the NYSE applicable to US domestic companies are that: (i) following the resignation of Secretary William Cohen from our audit committee in October 2005, we had, and we continue to have, two audit committee members; as of May 30, 2007, Secretary Cohen resigned from the Supervisory Board; and (ii) we do not have a nominating/corporate governance committee or a compensation committee.

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

These discussions have led the Supervisory Board and the Management Board to decide on delisting our shares from the NYSE, which became effective as of March 31, 2008. If the conditions required under SEC rules are satisfied, we will also seek to deregister from the SEC.

Since the Company is no longer listed in New York, and is not listed in the Netherlands and has much stronger connections to Austria, it seems appropriate to focus on specifically the Austrian rules on corporate governance. Both, the Board of Management and the Supervisory Board believe that it would be appropriate to ask the shareholders at the annual general meeting to approve that the Company will apply Austrian Code of Corporate Governance and not specifically the rules of the Dutch Code of Corporate Governance. By complying with the Austrian Code of Corporate Governance, and the current internal Code of Conduct of the Company setting out general standards for ethical behaviour, the Company should also meet many of the requirements of the Dutch Code of Corporate Governance.

Amsterdam,
28.04.2008

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, 2007	2006
		(in thousands)	
ASSETS:			
Non-current assets			
Property, plant and equipment, net	5, 6	€ 59,879	€ 61,821
Intangible assets	5, 7	10,509	11,739
Goodwill	5, 7	2,882	3,142
Available-for-sale financial assets	10, 16	608	1,971
Deferred income tax assets	21	61,137	59,552
Trade receivables	9, 16	1,726	2,082
Other non-current assets	16	4,174	3,625
Total non-current assets		140,915	143,932
Current assets			
Inventories, net	8	75,265	64,996
Trade and other receivables	9, 16	130,272	149,541
Prepaid expense		2,376	2,635
Available-for-sale financial assets	10, 16	10,230	17,828
Cash and cash equivalents	16, 28	30,264	43,628
Total current assets		248,407	278,628
Total assets		€ 389,322	€ 422,560
EQUITY:			
Share capital	12	€ 398	€ 7,964
Other reserves	12	111,489	115,838
Treasury shares	12	(7,119)	(12,307)
Retained earnings		40,699	51,853
Fair Value and other reserves including cumulative translation adjustments (CTA)	20	(12,450)	(7,462)
Total equity		133,017	155,888
LIABILITIES:			
Non-current liabilities			
Borrowings	15, 16	133,163	136,006
Retirement benefit obligations	18	15,157	15,744
Other long-term liabilities	17, 23	11,993	12,923
Total non-current liabilities		160,313	164,673
Current liabilities			
Trade and other payables	13	60,709	67,144
Income taxes liabilities		883	1,094
Borrowings	15, 16	21,600	22,010
Provisions	14	12,801	11,750
Total current liabilities		95,993	101,999
Total liabilities		256,306	266,672
Total liabilities and equity		€ 389,322	€ 422,560

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, 2007	2006
		(in thousands, except per share data)	
Total net revenues	5	€ 320,992	€ 366,762
Cost of sales		196,911	222,597
Gross profit		124,080	144,165
Selling and marketing expense		94,319	92,929
General and administrative expense	22, 23	30,062	30,342
Restructuring costs	14	2,033	--
Share-based compensation (income) expense	23	(218)	1,818
Other operating (income) expense, net		(1,430)	(902)
Operating profit (loss)		(686)	19,978
Interest expense	16	(12,592)	(12,376)
Interest income	16	2,069	1,609
Foreign exchange gain (loss)	16	287	(297)
Profit (loss) before income taxes		(10,922)	8,914
Income tax benefit (expense):			
Current		(1,201)	(2,085)
Deferred		969	(2,415)
Income tax expense	21	(232)	(4,499)
Profit (loss) for the year		€ (11,154)	€ 4,415
Earnings per share-basic			
Profit (loss) for the year	29	(0.31)	0.12
Earnings per share-diluted			
Profit (loss) for the year	29	(0.31)	0.12

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

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

	Note	Attributable to equity holders of the Company						Total Equity
		Ordinary Shares		Other	Treasury	Retained	Fair Value and Other Reserves/	
		Shares	Amount	Reserves	Shares	Earnings	CTA	
		(in thousands, except share data)						
Balance at January 1, 2006		36,219,902 €	7,964 €	125,247 €	(12,307) €	47,438 €	(1,884) €	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)	10	--	--	--	--	--	104	104
Unrealized gain on cash flow hedges (net of tax of €68)	11	--	--	--	--	--	270	270
Reclassification adjustment for derivative gains 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		--	--	--	--	--	(5,578)	(1,163)
Balance at December 31, 2006		36,219,902 €	7,964 €	115,838 €	(12,307) €	51,853 €	(7,462) €	155,888
Sale of treasury shares	12	50,908	--	(147)	297	--	--	150
Capital repayment	12	--	(7,566)	415	--	--	--	(7,151)
Exercise of options, equity-based	12	838,622	--	(4,618)	4,891	--	--	273
Loss for the year		--	--	--	--	(11,154)	--	(11,154)
Changes in fair value and other reserves including CTA:								
Unrealized loss on available-for-sale financial assets, (net of tax of €86)	10	--	--	--	--	--	(342)	(342)
Unrealized loss on cash flow hedges (net of tax of €30)	11	--	--	--	--	--	(101)	(101)
Reclassification adjustment for derivative losses recorded in net income (net of tax of €78)	11	--	--	--	--	--	244	244
Foreign currency translation adjustment		--	--	--	--	--	(4,790)	(4,790)
Total recognised income and expense in 2007		--	--	--	--	--	(4,989)	(16,143)
Balance at December 31, 2007		37,109,432 €	398 €	111,489 €	(7,119) €	40,699 €	(12,450) €	133,017

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, 2007	2006
		(in thousands)	
OPERATING ACTIVITIES:			
Profit (loss) for the year		€ (11,154)	€ 4,415
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6, 7	13,251	14,061
Amortization and write-off of debt issuance cost and bond discount		401	470
Impairment	6, 7, 14	11	184
Provision (release) for leaving indemnity and pension benefits		(573)	(532)
Restructuring costs	14	1,930	(1,261)
(Gain) loss on sale of property, plant and equipment	6	(296)	98
Share-based compensation expense	23	(218)	1,818
Deferred income	17	(863)	(1,573)
Interest expense	16	12,191	11,905
Interest income	16	(2,031)	(1,609)
Tax expense		1,201	2,085
Deferred tax (benefit) expense	21	(969)	2,415
Changes in operating assets and liabilities:			
Accounts receivable	9	16,514	(5,682)
Inventories	8	(12,183)	1,656
Prepaid expense and other assets		(647)	907
Accounts payable, accrued expenses and other liabilities		(2,755)	9,940
Interest paid		(13,878)	(14,972)
Tax paid		(2,657)	(1,203)
Net cash (used for) provided by operating activities		(2,724)	23,122
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	6	(13,742)	(15,018)
Disposal (purchase) of intangible assets	7	--	(44)
Proceeds from sale of property, plant and equipment	6	2,097	114
Purchases of available-for-sale financial assets	10	(8,169)	(5,017)
Sale of available-for-sale financial assets	10	17,055	2,154
Interest received		2,084	1,639
Net cash used for investing activities		(674)	(16,172)
FINANCING ACTIVITIES:			
Change in short-term borrowings, net	15	(113)	(2,629)
Payments on long-term debt	15	(2,546)	(1,776)
Proceeds from other long-term obligations	15	222	1,876
Proceeds from exercised options, share-based	12	273	--
Sale of treasury shares	12	150	--
Capital repayment	12	(7,151)	(9,409)
Change in restricted cash	28	696	780
Net cash used for financing activities		(8,468)	(11,158)
Effect of exchange rate changes on cash and cash equivalents		(803)	(844)
Net decrease in cash and cash equivalents		(12,669)	(5,052)
Cash and cash equivalents, unrestricted at beginning of period		40,451	45,503
Cash and cash equivalents, unrestricted at end of period	28	€ 27,782	€ 40,451

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 February 26, 2008.

Note 2 - Summary of Significant Accounting Policies

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

Basis of Presentation

The Company and its subsidiaries maintain their accounting records in accordance with their local regulations and have made certain adjustments to these records to present the accompanying financial statements in conformity with International Financial Reporting Standards ("IFRS") as adopted by the EU. The consolidated financial statements have been prepared under the historical cost convention and fair value accounting for available-for-sale financial assets and derivatives.

Standards, amendment and interpretations effective in 2007

IFRS 7, "Financial instruments: Disclosures", and the complementary amendment to IAS 1, "Presentation of financial statements – Capital disclosures", introduce new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Company's financial instruments.

IFRIC 8, "Scope of IFRS 2", 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 in order to establish whether or not they fall within the scope of IFRS 2. This interpretation did not have any impact on the Company's financial statements.

IFRIC 10, "Interim financial reporting and impairment", prohibits the impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation did not have any impact on the Company's financial statements.

Standard and Interpretation early adopted by the Company

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

IFRIC 11,"'IFRS 2 – Group and treasury share transactions", was early adopted in 2007. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Company's financial statements.

Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2007 but they are not relevant to the Company's operations:

- IFRS 4, "Insurance contracts";
- IFRIC 7, "Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies"; and
- IFRIC 9, "Reassessment of embedded derivatives".

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

The following standards, amendments and interpretations to existing standards have been published by the IASB but are not mandatory in the financial year 2007 and had not yet been endorsed by the EU at the time the consolidated financial statements of the Company were prepared:

- IFRS 2 (Amendment) "Share-based Payment". The amendment to the standard clarifies the terms "vesting conditions" and "cancellations". The amendment is effective for annual periods beginning on or after January 1, 2009.
- IFRS 3 (Revised) "Business Combinations" and IAS 27 (Amendment) "Consolidated and Separate Financial Statements". IFRS 3 is applicable from periods beginning on or after July 1, 2009. The revised standard requires business combinations to be accounted for as acquisitions and gives greater transparency.
- IAS 1 (Amendment) "Presentation of Financial Statements: A Revised Presentation". This standard sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. This standard shall be applied for annual periods beginning on or after January 1, 2009.
- IAS 23 (Amendment), "Borrowing costs" (effective from January 1, 2009). The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Company will apply IAS 23 (Amended) from January 1, 2009 but is currently not applicable to the Company as there are no qualifying assets.

- IAS 32 (Revised) "Financial Instruments: Presentation" (effective from January 1, 2009). This standard deals with distinguishing between equity and liability instruments and foresees equity classification of puttable instruments, provided certain conditions are met.
- IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from January 1, 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Company will apply IFRIC 14 from January 1, 2008, but it is not expected to have any impact on the Company's accounts.

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

The following interpretations to existing standards have been published by the IASB and are mandatory for the Company's accounting periods beginning on or after January 1, 2008 or later periods but have not yet been endorsed by the EU and are not relevant for the Company's operations:
- IFRIC 12, 'Service concession arrangements' (effective from January 1, 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Company's operations because none of the Company's companies provide for public sector services.
- IFRIC 13, "Customer loyalty programmes" (effective from July 1, 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Company's operations because none of the Company's companies operate any loyalty programmes.

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 deconsolidated from the date 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

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

Foreign Currency Translation

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

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

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. Amortization of land use rights is calculated using the straight-line method.

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

Impairment of Non-Financial Assets

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

Financial Assets

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

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

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

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

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

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

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

Derivative Financial Instruments and Hedging Activities

The Company records all derivatives on the balance sheet at fair value. The Company uses derivative instruments, specifically foreign exchange forward and option contracts, to hedge the foreign exchange risk related to 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 ("Foreign exchange gain (loss). 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 tax rates enacted or substantially enacted. 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.

Employee Benefits

(a) Retirement benefit obligations

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

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

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

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

(b) Share-based compensation

The Company operates a number of share-based compensation plans. The plans are treated either as equity-settled or cash-settled. The change in fair value of the employee services received in exchange for the grant of the options is recognized in share based compensation expense with a corresponding entry to equity for the equity-settled plan and to other long-term liabilities for cash-settled plans. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. Non-market vesting conditions are included in assumptions about the number of options that 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 recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

Provisions

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

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

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

Revenue Recognition

The Company recognizes revenue when significant risks and rewards of ownership of the goods are transferred to the buyer. These criteria are generally met when finished products are shipped to the customers and both title and the risks and rewards of ownership are transferred.

Revenues from licensing agreements are recognized over the license term for the fixed license revenue portion and based on underlying customer sales once minimum contractual sales volumes are met for the variable license revenue portion. Prepayments received on long-term licensing agreements are recognized in other long-term liabilities.

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

Sales deductions

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

Interest Income

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

Leases

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

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 did not capitalize any development costs.

Earnings per share

(a) Basic

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

(b) Diluted

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

Note 3 – Financial Risk Management

Financial Risk Factors

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

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

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

a) Market Risk

Currency Risk
The Company operates in a multi-currency environment in which a portion of its revenues and expenses are denominated in currencies other than the euro. The Company is, as a result, subject to currency translation risk and,

to a lesser extent, currency transaction risk. Currency translation risk arises because the Company measures and records the financial condition and results of operations of each of its subsidiaries in their functional currency and then translates these amounts into the reporting currency, the euro. The Company incurs transaction risk when one of its subsidiaries enters into a transaction using a currency other than its functional currency, although the Company reduces this risk by seeking, when possible, to match its revenues and costs in each currency. The Company also hedges part of its firm commitments for sales to Japan, Switzerland, United Kingdom and Canada through forward contracts and options with Austrian and Italian banks. Accordingly, shifts in currency exchange rates, particularly between the euro and the U.S. dollar, may adversely affect our results of operations.

The table below shows the European Central Bank exchange rates for euro for those currencies that mainly influence the Company's results:

	December 31,	
1 Euro =	2007	2006
USD	1.4721	1.3170
CHF	1.6547	1.6069
GBP	0.7334	0.6715
JPY	164.9300	156.9300
CAD	1.4449	1.5281
CSK	26.6280	27.4850
CNY	10.7524	10.2793

Price Risk
The Company is exposed to marketable securities price risk because of marketable securities held by the Company and classified on the consolidated balance sheet as available-for-sale. The Company is not exposed to commodity price risk. To manage its price risk arising from marketable securities, the Company diversifies its portfolio.

Cash flow and fair value interest rate risk
As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company operates with several international banks and does not have a lead bank.

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates expose the group to fair value interest rate risk. The Company's main external financial source arises from its 8.5% senior notes. Borrowings issued at variable rates expose the group to cash flow interest rate risk. During 2007 and 2006, the Company's borrowings at variable rate were denominated in euro, Japanese yen and Czech koruna.

b) Credit Risk

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

c) Liquidity Risk

The Company's liquidity needs arise principally from working capital requirements, capital expenditures, asset acquisitions and the semi-annual interest payment on its 8.5% senior notes. 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.

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.

Capital risk management

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

Fair value estimation

The fair value of financial instruments traded in active markets (available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the 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 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant of these estimates are impairments, impairments of trade receivables, product warranties and returns, inventory obsolescence and recognition of deferred tax assets. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ from those estimates.

Estimated impairment of trademark and goodwill

The Company tests annually whether trademarks, with an indefinite useful life and goodwill amounting to €12.8 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 impairment on trademarks and goodwill.

Impairment of trade receivables

The Company records impairment of trade receivables for estimated losses amounting to €2.0 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 2007.

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 with a carrying amount of €59.9 million are initially stated at cost. Depreciation on property, plant and equipment is computed using the straight-line method over their estimated useful lives. The Company has determined useful lives of property, plant and equipment after consideration of historical results and anticipated results based on the Company's current plans. The estimated useful lives represent the period the asset remains in service assuming normal routine maintenance. The Company reviews the estimated useful lives assigned to property, plant and equipment when the business experience suggests that they do not properly reflect the consumption of the economic benefits embodied in the property, plant or equipment nor result in the appropriate matching of cost against revenue. Factors that lead to such a conclusion may include physical observation of asset usage, examination of realized gains and losses on asset disposals and consideration of market trends such as technological obsolescence or change in market demand.

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

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 €4.1 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 €0.4 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 €7.4 million of the

Company's inventory to the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions were less favourable than those projected by the Company, additional inventory write-downs may be required.

Tax Loss Carry Forwards

The Company recognises deferred tax assets on tax loss carry forwards amounting to €69.5 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 €7.0 million.

Note 5 - Segment Information

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

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

	For the Years Ended December 31,	
	2007	2006
	(in thousands)	
Revenues from External Customers:		
Austria	€ 128,772	€ 160,897
Italy	36,374	36,381
Other (Europe)	48,019	54,064
Asia	15,567	17,257
North America	92,259	98,162
Total Net Revenues	€ 320,992	€ 366,762

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

	December 31, 2007		December 31, 2006
	(in thousands)		
Long-lived assets:			
Austria	€	18,764 €	19,662
Italy		10,300	12,304
Other (Europe)		18,984	17,859
Asia		7,338	5,823
North America		17,884	21,053
Total segment assets	€	73,270 €	76,702

Sales by product category consist of the following:

	For the Years Ended December 31, 2007	For the Years Ended December 31, 2006
	(in thousands)	
Revenues by Product Category:		
Winter Sports	€ 140,533	€ 188,070
Racquet Sports	129,836	132,683
Diving	51,818	48,623
Licensing	7,280	8,078
Sales Deductions	(8,475)	(10,692)
Total Net Revenues	€ 320,992	€ 366,762

Note 6 – Property, Plant and Equipment

	Land	Buildings	Machinery & plant equipment	Fixtures, furnitures & office equipment	Construction in progress	Total property, plant & equipment
			(in thousands)			
As of January 1, 2006						
Cost	€ 3,307	€ 26,905	€ 100,461	€ 39,830	€ 770	€ 171,273
Accumulated depreciation	--	(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 and impairment charge	--	(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	--	(10,371)	(74,453)	(32,669)	--	(117,492)
Net book value	€ 3,102	€ 19,581	€ 32,229	€ 6,910	€ --	€ 61,821
Year ended December 31, 2007						
Opening net book value	€ 3,102	€ 19,581	€ 32,229	€ 6,910	€ --	€ 61,821
Additions	--	2,370	9,412	1,960	--	13,742
Disposals	--	(1,876)	161	(75)	--	(1,790)
Transfers	--	--	25	111	--	136
Exchange difference	(98)	(5)	(703)	(6)	--	(811)
Depreciation and impairment charge	--	(1,157)	(9,460)	(2,602)	--	(13,219)
Closing net book value	€ 3,004	€ 18,913	€ 31,664	€ 6,297	€ --	€ 59,879
As of December 31, 2007						
Cost	€ 3,004	€ 30,306	€ 113,405	€ 39,558	€ --	€ 186,273
Accumulated depreciation	--	(11,393)	(81,740)	(33,261)	--	(126,394)
Net book value	€ 3,004	€ 18,913	€ 31,664	€ 6,297	€ --	€ 59,879

In 2006, the Company reclassified €0.2 million from "Intangible assets" to "Property plant and equipment". In 2007, the Company reclassified €0.1 million from "Other non-current assets" to "Property plant and equipment".

The Company's total proceeds on the sale of property and equipment were €2.1 million and €0.1million for the years ended December 31, 2007 and 2006, respectively resulting in a gain of €0.3 million for the year ended December 31, 2007 and a loss of €0.1 million for the year ended December 31, 2006. All other gains (losses) are included in other operating income (expense), net in the accompanying consolidated income statements.

Depreciation expense of €11.4 million has been charged in cost of goods sold (2006: €12.0 million,), €0.5 million in selling and marketing expense (2006: €0.5million) and €1.3 million in general and administrative expense (2006: €1.5 million).

Land and building with a carrying value of €2.1 million as of December 31, 2007 and 2006 respectively are used to secure a loan (see Note 15).

Note 7 – Goodwill and Intangible Assets

		Goodwill		Intangible Assets: Trademarks		Other		Total
		(in thousands)				(in thousands)		
As of January 1, 2006								
Gross	€	3,161	€	12,586	€	1,192	€	13,778
Accumulated amortization		--		--		(336)		(336)
Net book value	€	3,161	€	12,586	€	856	€	13,442
Year ended December 31, 2006								
Opening net book value	€	3,161	€	12,586	€	856	€	13,442
Additions		--		--		44		44
Transfers		--		--		(198)		(198)
Exchange difference		(19)		(1,294)		(35)		(1,329)
Amortisation and impairment		--		(184)		(37)		(221)
Closing net book value	€	3,142	€	11,109	€	630	€	11,739
As of December 31, 2006								
Gross	€	3,142	€	11,293	€	652	€	11,945
Accumulated amortization and impairment		--		(184)		(22)		(206)
Net book value	€	3,142	€	11,109	€	630	€	11,739
Year ended December 31, 2007								
Opening net book value	€	3,142	€	11,109	€	630	€	11,739
Exchange difference		(248)		(1,170)		(26)		(1,197)
Amortisation and impairment		(11)		--		(32)		(32)
Closing net book value	€	2,882	€	9,939	€	571	€	10,509
As of December 31, 2007								
Gross	€	2,894	€	10,122	€	626	€	10,748
Accumulated amortization and impairment		(11)		(184)		(54)		(238)
Net book value	€	2,882	€	9,939	€	571	€	10,509

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 2007 and 2006. Trademarks and goodwill are allocated to the Company's cash-generating units ("CGUs") identified according to country of operation and product category.

The following table provides information with regards to the CGU trademark and goodwills are allocated to:

	December 31,			
	2007		2006	
	Racquet Sports	Diving	Racquet Sports	Diving
	(in thousands)		*(in thousands)*	
Trademark	€ 9,939	€ --	€ 11,109	€ --
Goodwill	1,336	1,546	1,459	1,683

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 (8.1%) is pretax and reflects specific risks relating to the Company's business.

Note 8 – Inventories

Inventories consist of the following:

	December 31,	
	2007	2006
	(in thousands)	
Raw materials and supplies	€ 16,219	€ 15,483
Work in process	6,926	7,783
Finished goods	66,867	55,176
Provisions	(14,745)	(13,447)
Total inventories, net	€ 75,265	€ 64,996

The Company recognized a provision of €7.4 million and €4.2 million, for impairment of inventories during the years ended December 31, 2007 and 2006, respectively. The Company released a provision for impaired inventories of €1.3 million and €1.0 million for the years ended December 31, 2007 and 2006, respectively.

Note 9 – Trade and Other Receivables

Accounts receivable consist of the following:

	December 31,			
		2007		2006
		(in thousands)		
Trade debtors	€	136,069	€	157,234
Other receivables		8,262		6,551
Allowance for doubtful accounts		(12,333)		(12,162)
Total accounts receivable, net	€	131,998	€	151,623
Less: long-term portion		(1,726)		(2,082)
Short-term portion	€	130,272	€	149,541

As of December 31, 2007 and 2006, the nominal value of long-term trade receivables was €1.8 million, and €2.2 million, respectively. The average interest rate used was 5.9% and 4.6% for the years ended December 31, 2007 and 2006, respectively.

		December 31,		
		2007		2006
		(in thousands)		
Accounts Receivable Trade, net	€	123,736	€	145,072
thereof not overdue, not impaired		98,021		117,103
thereof overdue, not impaired				
1 - 30 days	€	5,976	€	7,517
31 - 60 days		2,261		3,017
61 - 90 days		996		822
over 90 days		801		703
	€	108,055	€	129,163
thereof impaired	€	15,681	€	15,910

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

As of December 31, 2007, for trade receivables that are neither impaired nor past due, there are no indicators that the debtors will not meet their payment obligations. There is no concentration of credit risk with respect to trade receivables, as the Company has a large number of customers, internationally dispersed.

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

		December 31, 2007		December 31, 2006
		(in thousands)		
Balance as of January 1	€	12,162	€	13,148
Additions		2,013		2,548
Used		(1,126)		(1,990)
Released		(310)		(1,029)
Translation adjustments		(405)		(516)
Balance as of December 31	€	12,333	€	12,162

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

		December 31, 2007		December 31, 2006
		(in thousands)		
Expenses for full write-offs of receivables	€	690	€	366
Income from recoveries on receivables written off	€	31	€	1

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

Note 10 – Available-for-Sale Financial Assets

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

		December 31, 2007		December 31, 2006
		(in thousands)		
Available-for-Sale				
Debt security funds	€	--	€	1,314
Money market funds		10,230		17,828
Other securities		608		657
Total Financial assets available-for-sale		10,838		19,799
Less: Short-term portion		(10,230)		(17,828)
Total Long-term financial assets available-for-sale	€	608	€	1,971

Available-for-sale financial assets developed as follows during the years ended December 31, 2007 and 2006:

	Available-for-sale financial assets	
	Current	Non-Current
	(in thousands)	
Balance as of January 1, 2006	€ 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
Additions	8,169	--
Disposals	(15,716)	(1,340)
Change in fair value	(51)	(23)
Balance as of December 31, 2007	€ 10,230	€ 608

The following table is a summary of the Company's financial assets' (denominated in euro) gross unrealized losses and fair value, aggregated by category and length of time that individual financial assets have been in an unrealized loss position, at December 31, 2007 and 2006:

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

	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)

For the years ended December 31, 2007 and 2006, the Company recorded €0.7 million and €0.1 million realized gain on available-for-sale financial assets, respectively, which was recognized in "Interest 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 €0.1 million and €0.3 million (net of tax) for the years ended December 31, 2007 and 2006 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, 2007, the Company reclassified a loss from fair value and other reserves/CTA to earnings of €0.2 million. For the year ended December 31, 2006, the Company reclassified a gain from fair value and other reserves/CTA to earnings of €0.3 million (net of tax).

The following table provides information regarding the Company's foreign exchange forward and option contracts as of December 31, 2007 and 2006. 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, 2007			
	Contract amount			
	in euro	Local currency converted into euro	Carrying value	Fair value
	(in thousands)			
Foreign exchange forward contracts................	€ 24,728	€ 24,038	€ 568	€ 568
Foreign exchange option contracts...................	€ 3,250	€ 3,202	€ 44	€ 44

As of December 31, 2007, the Company recognized the change in fair value of foreign exchange forward contracts with a contract amount of €17.3 million and a fair value of €0.4 million and foreign exchange option contracts with a contract amount of €2.3 million and a fair value of €0.01 million in the income statement resulting in a gain of €0.4 million.

	December 31, 2006			
	Contract amount			
	in euro	Local currency converted into euro	Carrying value	Fair value
	(in thousands)			
Foreign exchange forward contracts................	€ 11,047	€ 10,997	€ 1	€ 1
Foreign exchange option contracts...................	€ 1,604	€ 1,583	€ 6	€ 6

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 in 2007 and 2006.

As at December 31, 2006, 39,820,677 shares with a nominal value of €0.20 were issued and fully paid. At the Company's Annual General Meeting on May 30, 2007, shareholders approved to amend the Articles of Association of the Company to allow for a decrease of the nominal share capital of the Company to facilitate a payment of €7.2 million to its shareholders which was paid in September 2007. As at December 31, 2007, the nominal value of the 39,820,677 shares issued was €0.01 per share.

As at December 31, 2007, the authorized share capital amounts to €1,991,033.84 and is divided into 199,103,384 shares with a nominal value of €0.01 per share. As at December 31, 2006, the number of shares authorized was 199,103,384 with a nominal value of €0.20 per share.

	December 31,	
	2007	2006
	(in thousands)	
Shares issued	39,821	39,821
Less: Treasury shares owned by the Company	(2,184)	(2,184)
Less: Shares held by the Stichting	(527)	(1,417)
Shares outstanding	37,109	36,220

Dividends

In 2007 and 2006, the Company did not pay a dividend.

Decrease in Nominal Value - Capital Repayment 2007

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

Increase and Decrease in Nominal Value - Capital Repayment 2006

At the 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 may use these shares to fulfil the Company's obligations under the Head Tyrolia Mares Group Executive Stock Option Plans (see Note 23).

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

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

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

Treasury Shares

Pursuant to resolutions which were approved on May 30, 2007 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, 2007 and 2006, the Company owned 2,711,245 and 3,600,775 shares of treasury shares, respectively of which 527,104 was held by the Stichting at December 31, 2007 and 1,416,634 was held by the Stichting at December 31, 2006.

Majority Shareholder

Head Sports Holdings N.V and its shareholders controlled 19,825,966 shares, or approximately 49.8% of the Company's issued shares, as of December 31, 2007. Head Sports Holdings N.V., a Netherlands Antilles corporation, and its shareholders are controlled by Johan Eliasch and his family members resulting in the ability to significantly influence and control the Company's operations.

Note 13 – Trade and Other Payable

Accounts payable consist of the following:

	December 31,	
	2007	2006
	(in thousands)	
Accounts payables, Trade	€ 18,879	€ 18,963
Allowances	4,377	5,548
Commissions	2,786	3,062
Personnel expenses	8,751	10,469
Deferred Income	2,507	3,139
Interest	4,374	4,925
Legal, Audit, Consulting	2,450	2,334
Fiscal Authorities	2,583	2,562
Advertising	6,150	6,733
Social Institution	1,431	1,710
Freight & duties	1,135	1,217
Other	5,285	6,483
Total	€ 60,709	€ 67,144

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

Note 14 – Provisions

Provisions consist of the following:

	December 31, 2007	December 31, 2006
	(in thousands)	
Warranty	€ 4,142	€ 3,910
Product Liability	312	488
Litigation	3,944	3,531
Restructuring	2,033	103
Other	2,370	3,718
Total	€ 12,801	€ 11,750

	Warranty	Product Liability	Litigation	Restructuring	Other	Total
	(in thousands)					
Net book value as of January 1, 2006	€ 3,525	€ 615	€ 3,300	€ 1,364	€ 3,127	€ 11,931
Current year provision booked to expense	2,122	--	1,456	--	2,035	5,614
Amount paid	(1,712)	(26)	(213)	(1,261)	(188)	(3,400)
Reversal booked to income or expense	(26)	(100)	(990)	--	(1,129)	(2,245)
Exchange difference	--	--	(22)	--	(128)	(150)
Net book value as of December 31, 2006	€ 3,910	€ 488	€ 3,531	€ 103	€ 3,718	€ 11,750
Current year provision booked to expense	1,922	(151)	844	2,033	2,051	6,698
Amount paid	(1,687)	(25)	(601)	(103)	(1,296)	(3,712)
Reversal booked to income or expense	--	--	(183)	--	(1,679)	(1,862)
Reclassification	--	--	367	--	(367)	--
Exchange difference	(2)	--	(15)	--	(57)	(74)
Net book value as of December 31, 2007	€ 4,142	€ 312	€ 3,944	€ 2,033	€ 2,370	€ 12,801

Warranty

The Company sells certain of its products to customers with a product warranty that provides free of cost repairs at or the issuance of credit notes to the customer. The length of the warranty term varies from one to two years and depends on the product being sold. The Company accrues its estimated exposure to warranty claims based upon historical warranty claim costs as a percentage of sales multiplied by prior sales still under warranty at the end of any period.

Product Liability

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

Litigation
From time to time the Company and its subsidiaries are involved in legal proceedings, claims and litigation arising in the ordinary course of business. There is no legal or constructive obligation until the outcome of current legal proceedings, claims and litigation is known. However, management believes that the resolution of these matters will not materially affect the Company's financial position.

The Company accrued €3.9 million and €3.5 million for suits with several parties including competitors, customers for past receipts, former employees, suppliers and licensees at December 31, 2007 and 2006 respectively.

Restructuring
Throughout 2007 and 2006 the Company performed various restructuring programs. These programs consisted of the following:

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

Reorganization of ski production
In October 2007, the Company announced the transfer of parts of the ski production from its site in Kennelbach, Austria to its site in Budweis, Czech Republic to reduce fixed cost. As of December 31, 2007, the Company recognized €1.6 million relating to this program mainly consisting of €1.0 million employee severance cost, €0.5 million cost for deconstruction and €0.1 million engineering cost. The Company will largely complete the program during 2008.

Note 15 – Borrowings

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

	December 31, 2006				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
	(in thousands)				
Lines of credit	€ 19,467	€ 19,467	€ --	€ --	€ --
Senior Notes	111,353	--	--	--	111,353
Sale-Leaseback Transaction	10,124	133	295	337	9,358
Mortgage	2,962	186	416	481	1,880
Other long-term debt	11,940	2,224	4,099	1,336	4,280
Liabilities against Venture Partner	2,171	--	--	--	2,171
	€ 158,017	€ 22,010	€ 4,810	€ 2,155	€ 129,041

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

Borrowings are denominated in the following currencies:

	December 31,	
	2007	2006
	(in thousands)	
EUR	€ 141,799	€ 143,367
USD	4,501	5,248
JPY	8,088	8,812
CZK	375	589
Total Borrowings	€ 154,763	€ 158,017

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

	Obligations December 31, 2007	CASH FLOW 2008 Interest fix	CASH FLOW 2008 Interest variable	CASH FLOW 2008 Redemption	CASH FLOW 2009 - 2010 Interest fix	CASH FLOW 2009 - 2010 Interest variable	CASH FLOW 2009 - 2010 Redemption
			(in thousands)				
Lines of credit	€ 19,141	€ --	€ 784	€ 19,141	€ --	€ --	€ --
Senior Notes	111,617	9,675	--	--	19,350	--	--
Sale-Leaseback	9,990	661	--	143	1,291	--	316
Mortgage	2,484	176	--	179	311	--	400
Other long-term debt	9,514	80	87	2,138	60	50	2,709
Liab. Venture Partner	2,018	242	--	--	484	--	--
	€ 154,763	€ 10,834	€ 871	€ 21,600	€ 21,496	€ 50	€ 3,424

	CASH FLOW 2011 - 2012 Interest fix	CASH FLOW 2011 - 2012 Interest variable	CASH FLOW 2011 - 2012 Redemption	CASH FLOW THEREAFTER Interest fix	CASH FLOW THEREAFTER Interest variable	CASH FLOW THEREAFTER Redemption
			(in thousands)			
Lines of credit	€ --	€ --	€ --	€ --	€ --	€ --
Senior Notes	19,350	--	--	10,481	--	113,825
Sale-Leaseback	1,246	--	361	2,603	--	9,171
Mortgage	248	--	463	275	--	1,442
Other long-term debt	24	3	813	19	--	3,854
Liab. Venture Partner	484	--	--	242	--	2,018
	€ 21,352	€ 3	€ 1,635	€ 13,620	€ --	€ 130,310

Lines of credit contain revolving credit lines which are negotiable on a frequent basis. Until the maturity date of the Company's 8.5% senior notes an addition to disagio of €2.2 million will be booked to liabilities.

Borrowings, current

Borrowings, current consist of the following:

	December 31, 2007	December 31, 2006
	(in thousands)	
Lines of credit	€ 19,141	€ 19,467
Current maturities of long term debts	2,460	2,544
Total Borrowings, current	€ 21,600	€ 22,010

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, 2007, the fair value of trade receivables that serve as collateral for the Company's revolving credit lines was €49.6 million (2006: €60.7 million).

In addition, the Company used lines of credit with several banks in Japan of €4.1 million. In 2006, the Company used lines of credit with several banks in USA and Japan of €4.5 million and had €2.9 million in unused lines of credit. The weighted average interest rate on outstanding short-term borrowings was 4.33% and 3.3% as of December 31, 2007 and 2006 respectively.

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

Borrowings, non-current

Borrowings, non-current consist of the following:

	December 31, 2007	December 31, 2006
	(in thousands)	
Senior notes	€ 111,617	€ 111,353
Liability against venture partner	2,018	2,171
Other long-term debt	21,988	25,026
Total long term debt	€ 135,623	€ 138,550
Less current portion	(2,460)	(2,544)
Long term portion	€ 133,163	€ 136,006

Senior Notes

In January 2004, one of the Company's subsidiaries issued €135.0 million of 8.5% unsecured senior notes due 2014, guaranteed by the Company and certain of its subsidiaries. The notes are listed on the Luxembourg Stock Exchange.

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

At December 31, 2007 and 2006, the Company had €111.6 million and €111.4 million, respectively of senior notes outstanding.

Liability against venture partner

In July 2005, the Company signed an agreement for the establishment of a company in the British Virgin Islands. The business venture was established to found a Chinese company which will manufacture tennis balls for exclusive sale to the Company. The Company and its venture partner have a 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 a liability of €2.0 million and €2.2 million, as of December 31, 2007 and 2006, 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 started in January 2007.

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 lease 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, 2007 and 2006, the remaining obligation under the financing agreement is €10.0 and €10.1 million respectively.

The Company's future minimum lease payments as of December 31, 2007, are as follows:

2008	€	803
2009		803
2010		803
2011		803
2012		803
Thereafter		11,774
Total minimum payments		15,791
Amount representing interest		(5,800)
Obligation under financing activity		9,990
Obligations due within one year		(143)
Long-term obligations under financing activities	€	9,848

As of December 31, 2007, 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		--		(7,347)
Net book value	€	1,020	€	1,040

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, 2007 and 2006, the outstanding balance of the mortgage is €2.5 million ($3.7 million) and €3.0 million ($3.9 million) respectively and the carrying value of the property was €1.7 million and €2.1 million as of December 31, 2007 and 2006 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 4.9% and 3.1% as of December 31, 2007 and 2006, respectively. Borrowings mature at various dates through 2011. At December 31, 2007 and 2006, the remaining outstanding long-term debt is €9.5 million and €11.9 million respectively.

Note 16 – Additional Disclosures on Financial Instruments

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

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

	Category in accordance with IAS 39	Carrying amount Dec. 31, 2006	**Amounts recognized in balance sheet according to IAS 39** Amortized cost	Fair value recognized in equity	Fair value recognized in profit or loss	Fair value Dec. 31, 2006
				(in thousands)		
Assets						
Cash and cash equivalents	LaR €	43,628 €	43,628 €	-- €	-- €	43,628
Trade receivables	LaR	145,072	145,072	--	--	145,072
Other receivables	LaR	2,996	2,996	--	--	2,996
Derivative financial asset	DuH	175	--	175	--	175
Available-for-sale financial assets	AfS	19,799	--	19,799	--	19,799
	€	211,671 €	191,697 €	19,974 €	-- €	211,671
Liabilities						
Trade payables	FLAC €	18,963 €	18,963 €	-- €	-- €	18,963
Other payables	FLAC	30,302	30,302	--	--	30,302
Lines of credit	FLAC	19,467	19,467	--	--	19,467
Senior Notes	FLAC	111,353	111,353	--	--	117,240
Sale-Leaseback	FLAC	10,124	10,124	--	--	9,622
Mortgage	FLAC	2,962	2,962	--	--	3,260
Other long-term debt	FLAC	11,940	11,940	--	--	11,940
Liabilities against Venture Partner	FLAC	2,171	2,171	--	--	2,171
	€	207,281 €	207,281 €	-- €	-- €	212,964
Aggregated by category in accordance with IAS 39:						
Loans and receivables	LaR €	191,697 €	191,697 €	-- €	-- €	191,697
Derivatives used for hedging	DuH	175	--	175	--	175
Available-for-sale financial assets	AfS	19,799	--	19,799	--	19,799
Financial liabilities at amortized cost	FLaC	207,281	207,281	--	--	212,964

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

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

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

	Interest Income/ (Expense)	From Subsequent Measurement: Fair Value Gain/ (Loss)	From Subsequent Measurement: Foreign Currency Gain/ (Loss)	From Subsequent Measurement: Impairment/ Reversal of Impairment	Gain/ (Loss) on Disposal	Net Gain/ (Loss)
For the Year Ended December 31, 2006 (in thousands)						
Loans and receivables (LaR)	€ 1,263	€ (256)	€ (754)	€ (64)	€ (1,010)	€ (822)
Derivatives used for hedging (DuH)	9	144	(16)	--	--	137
Available-for-sale financial assets (AfS)	323	--	--	--	--	323
Financial liabilities at amortized cost (FLAC)	(12,396)	--	895	--	--	(11,501)
	€ (10,802)	€ (112)	€ 126	€ (64)	€ (1,010)	€ (11,863)

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

Note 17 – Other Long-Term Liabilities

	December 31, 2007	December 31, 2006
	(in thousands)	
Deferred income, non-current	€ 6,252	€ 6,156
Liability on share-based payments	5,694	6,677
Other	48	91
Total other long-term liabilities	€ 11,993	€ 12,923

Other long-term liabilities also include a 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, 2007 and 2006, the deferred income balance associated with this licensing agreement was €6.7 million and €7.2 million, respectively. As of December 31, 2007 and 2006, the Company recognised the short-term portion of €1.4 million and €0.9 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, 2007 and 2006, the only pension plan 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:

	December 31,	
	2007	2006
	(in thousands)	
Beginning of the year	€ 15,744	€ 16,449
Charge to income	1,530	2,199
Payments	(2,116)	(2,946)
Reclassifications	--	37
Exchange differences	(1)	5
End of the year	€ 15,157	€ 15,744

Other postretirement benefits include anniversary bonuses and severance obligations.

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The table below shows the obligations and funded status:

		Pension Benefits				Other Benefits		
		2007		2006		2007		2006
Change in benefit obligation		*(in thousands)*				*(in thousands)*		
Benefit obligation at beginning of year	€	4,830	€	4,887	€	13,758	€	14,521
Service cost		268		296		579		1,230
Interest cost		208		210		491		536
Plan amendments		0		--		(173)		(5)
Actuarial loss (gain)		(302)		(294)		(469)		215
Settlement		--		--		(276)		--
Benefit payments		(249)		(180)		(1,458)		(2,727)
Translation adjustment		(34)		(89)		(4)		(11)
Benefit obligation at end of year	€	4,720	€	4,830	€	12,448	€	13,758
Change in plan assets								
Fair value of plan assets								
at beginning of year		394		405		--		--
Actual return on plan assets		0		(0)		--		--
Employer contribution		45		47		--		--
Benefit payments		(88)		(8)		--		--
Translation adjustment		(18)		(49)		--		--
Fair value of plan assets at end of year	€	334	€	394	€	--	€	--
Funded status		4,386		4,435		12,448		13,758
Unrecognized net actuarial loss		(161)		(485)		(1,519)		(1,977)
Translation adjustment		3		13		--		--
Net amount recognized	€	4,228	€	3,963	€	10,929	€	11,781

Amounts recognized in the consolidated balance sheet consist of:

		Pension Benefits				Other Benefits		
		2007		2006		2007		2006
		(in thousands)				*(in thousands)*		
Accrued benefit cost	€	4,228	€	3,963	€	10,929	€	11,781

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 2008 to 2011.

The contribution for defined contribution plans for the years ended December 31, 2007 and 2006 amounted to €0.1 million respectively.

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

	Pension Benefits				Other Benefits			
	2007		2006		2007		2006	
	(in thousands)				*(in thousands)*			
Service cost	€	268	€	296	€	579	€	1,230
Interest cost		208		210		491		536
Expected return on plan assets		(8)		(9)		--		--
Settlement actuarial loss		--		--		--		--
Recognized actuarial (gain) loss		13		(143)		(20)		79
Net periodic benefit cost	€	480	€	354	€	1,050	€	1,845

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

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Discount rate	4.6%	4.4%	5.0%	4.6%
Rate of compensation increase	2.3%	2.4%	3.0%	2.7%
Expected return on plan assets	2.2%	2.2%	--	--

The plan assets of the Japanese pension plan consist of equity funds at December 31, 2007 and 2006. The Company invests in equity funds with an expected stable growth rate. The actual return on plan assets was k€4. The expected rate of return on plan assets is based upon the present rate of return and is expected to be stable.

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

Note 19 - Commitments and Contingencies

Operating Leases

The Company leases certain office space, warehouse facilities, transportation and office equipment under operating leases which expire at various dates through 2014. Rent expense was approximately €3.9 million and €3.7 million for the years ended December 31, 2007 and 2006, 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, 2007:

		December 31, 2007
		(in thousand)
2008	€	3,793
2009		2,621
2010		1,639
2011		1,310
2012		1,011
Thereafter		884
	€	11,258

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, 2006	€	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)
Current period changes		--	--		143		(342)		(199)
Translation Adjustments		(3,391)	(1,400)		--		--		(4,790)
Balance at December 31, 2007	€	(6,138)	(6,233)	€	144	€	(224)	€	(12,450)

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, 2007 and 2006 the foreign exchange losses recorded in CTA were €8.3 million and €6.0 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,	
	2007	2006
Dutch statutory tax rate	25.5%	29.1%
Tax rate differential	(3.1)	7.8
Non-taxable gain on sale of property	--	--
Other taxes	(8.4)	9.3
Prior year adjustments	12.9	25.2
Changes in tax rates	(16.0)	(0.4)
Effect on non-recognized tax losses	(13.0)	(21.3)
Effective tax rate	(2.1)%	49.6%

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

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 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.

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

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

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

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

	December 31, 2006	(Charged)/ credited to income	(Charged)/ credited to equity	Exchange differences	December 31, 2005
			(in thousands)		
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)
Liabilities..	(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
Fixed assets..	796	188	56	24	529
Intangible assets..	101	101	--	--	1
Lease obligations...	2,533	(29)	--	--	2,562
Other..	640	(463)	483	(14)	635
Total Long-term deferred tax assets........... €	67,652 €	(1,888) €	538 €	16 €	68,985
Deferred tax liabilities:					
Fixed assets.. €	(1,016) €	166 €	-- €	(1) €	(1,181)
Investments..	(16,998)	(626)	--	29	(16,402)
Total Long-term deferred tax liability........ €	(18,014) €	(460) €	-- €	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

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, 2007 and 2006, the Company did not recognize deferred income tax assets of €13.0 million and €13.1 million, respectively in respect of losses amounting to €42.7 million and €42.1 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:

		December 31,		
		2007		2006
		(in thousands)		
Austria	€	285,408	€	268,199
Germany		13,690		14,195
North America		14,182		15,896
Other		5,452		953
	€	318,732	€	299,243

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

		For the Years Ended December 31,		
		2007		2006
		(in thousands)		
Austria	€	(9,514)	€	12,309
Non-Austria		(1,409)		(3,395)
Total income (loss) before income taxes	€	(10,922)	€	8,914

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

Note 22 - Related Party Transactions

Head Sports Holdings N.V, and its shareholders controlled 19,825,966 shares, or approximately 49.8% of the Company's issued shares, as of December 31, 2007. Head Sports Holdings N.V., a Netherlands Antilles corporation, and its shareholders are controlled by Johan Eliasch and his family members resulting in the ability to significantly influence and control the Company's operations.

The Company receives administrative services from corporations which are ultimately owned by the principal shareholder of the Company. Administrative expenses amounted to approximately €4.6 million and €4.6 million for the years ended December 31, 2007 and 2006, 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, 2007 and 2006, respectively.

The table below shows key managements' compensation:

		For the Years Ended December 31,	
		2007	2006
		(in thousands)	
Salaries and other short-term employee benefits	€	3,471 €	4,023
Post-employment benefit		305	270
Other long-term benefits		21	50
Share-based benefits		(775)	1,442
Total	€	3,022 €	5,785

Note 23 – Stock Option Plans

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

Share-based compensation expense is recognized over the vesting term of the options and amounted to €0.2 million reversal of expense for the year ended December 31, 2007 and €1.8 million expense for the year ended December 31, 2006. The fair value of the liability for the cash-settled stock option plans amounted to €5.7 million (2006: €6.7 million). The total intrinsic value of the liability is €2.3 million (2006: €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 (2006: 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 1,963,540 options (2006: 861,760 options) were exercised until December 31, 2007 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.

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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, 2007, the weighted-average fair value of the grant was $3.14 (2006: $3.31), which was estimated using the following assumptions: no dividends, expected volatility of 30.38% (2006: 34.10%), expected term of 1.1 years (2006: 2.1 years), and risk-free interest rate of 4.57% (2006: 4.29%). 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, 2007, the weighted average remaining contractual life of the outstanding stock options is 1.2 years.

	Number of options	Weighted average exercise price
Balance, December 31, 2006	1,416,634	$ 0.42
Exercised, cash-settled	(263,158)	$ 0.42
Exercise, equity-settled	(838,622)	$ 0.45
Balance, December 31, 2007	314,854	$ 0.46

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, 2007, the weighted-average fair value of the grant was $0.80 (2006: $1.13), which was estimated using the following assumptions: no dividends, expected volatility of 30.38% (2006: 34.10%), expected term of 3.7 years (2006: 4.7 years, and risk-free interest rate of 4.57% (2006: 4.29%). 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 options	Weighted average exercise price
Balance, December 31, 2007 and 2006	3,982,068	$ 4.31

As at December 31, 2007, the weighted average remaining contractual life of the outstanding stock options is 3.7 years, and 3,982,068 options are vested and exercisable at a price of $4.31 per share, under the Plan 2001.

Plan 2005

In May 2005, at the annual general meeting the shareholders approved the Head N.V. Executive Stock Option Plan 2005 ("Plan 2005"). The Plan 2005 provides for grants of 3,874,691 stock options to certain officers and key employees of the Company and its subsidiaries. In accordance with IFRS 2 the Plan 2005 is treated as cash-settled share-based plan, as participants have no right to receive shares. As of December 31, 2007, 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, 2007, the weighted-average fair value of the grant was €1.20 (2006: €1.66), which was estimated using the following assumptions: no dividends, expected volatility of 30.38% (2006: 34.10%), expected term of 7.7 years (2006: 8.7 years), and risk-free interest rate of 4.57% (2006: 4.29%). The volatility is based on statistical analysis of daily share prices over the last three years.

The exercise price for all stock options granted under the Plan 2005 was fixed at inception of the Plan 2005 at €2.168. Options generally vest over a period of 4 years. The Company assumes that about 4.4% of the options will forfeit during the four year period. Options have a maximum term of 10 years. As at December 31, 2007, 205,345 (2006: 205,345) options were available for grant under the Plan 2005 and no options are currently exercisable. As of December 31, 2007, 71,500 options were forfeited.

	Number of options	Weighted average exercise price
Balance, December 31, 2007 and 2006	3,669,346	€ 2.168

Note 24 – Average Number of Employees

	For the Years Ended December 31,	
	2007	2006
Salaried employees	831	714
Hourly paid employees	1,342	1,253
Total	2,173	1,966

Note 25 – Expenses by Nature

	For the Years Ended December 31,			
		2007		2006
		(in thousands)		
Depreciation, amortization and impairment charges......	€	13,263	€	14,245
Employee benefit expenses..................................		73,317		77,913
Changes in inventory...		(1,555)		(312)
Raw material and merchandise...............................		124,438		138,161
Commission..		7,905		10,531
Shipment cost..		7,705		8,104
Advertising expenses..		40,444		38,274
Legal, audit, consulting and other outside services........		22,721		26,043
Other expenses...		33,440		33,824
Total cost of sales, selling and marketing, general an administrative and other operating (income) expense	€	321,678	€	346,784

For the years ended December 31, 2007 and 2006 a foreign exchange gain of €0.8 million and €0.5 million respectively have been recorded in other operating (income) expense, net.

The Company incurred research and development costs amounting to €10.5 million and €10.1 million for the years ended December 31, 2007 and 2006.

Note 26 – Personnel Costs

	For the Years ended December 31,			
		2007		2006
		(in thousands)		
Salaries and wages..	€	55,324	€	55,957
Social security and other benefit..		16,681		17,939
Share options granted to directors and employees.........................		(218)		1,818
Pension costs - defined benefit plans...		480		354
Post-employment benefits...		1,050		1,845
Total..	€	73,317	€	77,913

Note 27 – List of (direct and indirect) Participations as of December 31, 2007

	Domicile	Proportion of Issued capital held
Head Holding Unternehmensbeteiligung GmbH	Austria	100.0%
HTM Sport- und Freizeitgeräte AG	Austria	100.0%
Head Sport AG	Austria	100.0%
Head International GmbH	Austria	100.0%
Head Technology GmbH	Austria	100.0%
Tyrolia Technology GmbH	Austria	100.0%
Head Austria GmbH	Austria	100.0%
Head Canada Inc.	Canada	100.0%
Head Sport s.r.o.	Czech Republic	100.0%
HTM Sport s.r.o.	Czech Republic	100.0%
HTM Bulgaria EOOD	Bulgaria	100.0%
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%
Mares Benelux B.V.	Netherlands	50.0%

In 2007, the Company established a joint venture distribution company in the Netherlands in which it holds 50%. This investment of €0.01million was accounted for using the equity method and is recognized in "Other non-current assets". The Company granted a loan of €0.4 million to the newly found company. The annual interest rate amounts to 5%. The loan is redeemable at December 31, 2012.

Note 28 – Cash and cash equivalents

As at December 31, 2007 and 2006, cash and cash equivalents contains cash of €27.8 million and €40.5 million respectively and restricted cash of €2.5 million and €3.2 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,	
	2007	2006
	(in thousands, except per share data)	
Profit (loss) for the year	€ (11,154)	€ 4,415
Weighted average number of ordinary shares in issue	36,479	36,220
Basic earnings per share	(0.31)	0.12

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. 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,	
	2007	2006
	(in thousands, except per share data)	
Profit (loss) for the year	€ (11,154)	€ 4,415
Weighted average number of ordinary shares in issue	36,479	36,220
Share options	--	748
Weighted average number of ordinary shares for diluted earnings per share	36,479	36,968
Diluted earnings per share	(0.31)	0.12

HEAD N.V.
COMPANY BALANCE SHEETS

	Note	December 31, 2007	December 31, 2006
		(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		250	453
Prepaid expenses		7	7
Trade receivables		588	553
Cash	4	632	320
Total current assets		1,477	1,333
Total assets		€ 140,910	€ 140,765
Current liabilities:			
Amounts owed to group companies		€ 9,287	€ 7,747
VAT		26	47
Accruals	6	1,237	1,141
Total current liabilities		10,551	8,934
Shareholders' equity:			
Share capital	9	398	7,964
Share premium	9	101,016	100,657
Retained earnings	9	23,210	11,490
Result for the year	9	5,735	11,721
Shareholders' equity		130,359	131,831
Total liabilities and equity		€ 140,910	€ 140,765

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

HEAD N.V.
COMPANY INCOME STATEMENTS

	For the Years Ended December 31,	
	2007	2006
	(in thousands)	
Total net revenues	€ 3,104	€ 3,845
Cost of sales	3,015	3,740
Gross profit	89	105
Selling and marketing expense	65	65
General and administrative expense	3,597	3,638
Operating loss	(3,573)	(3,598)
Interest income	44	42
Foreign exchange gain (loss)	265	276
Dividend income	9,000	15,000
Result for the year	€ 5,735	€ 11,721

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,	
	2007	2006
	(in thousands)	
OPERATING ACTIVITIES:		
Profit (loss) for the year	€ 5,735	€ 11,721
Dividend received	(9,000)	(15,000)
Accounts receivable	(38)	(479)
Accounts receivable, intercompany	1,744	(1,931)
Prepaid expense and other assets	--	86
Accounts payable, accrued expenses and other liabilities	78	61
Net cash used for operating activities	(1,481)	(5,543)
INVESTING ACTIVITIES:		
Dividend received	9,000	15,000
Net cash provided by (used for) investing activities	9,000	15,000
FINANCING ACTIVITIES:		
Treasury shares	--	75
Transfer from Stichting	(56)	--
Capital repayment	(7,151)	(9,409)
Net cash provided by (used for) financing activities	(7,207)	(9,334)
Net increase in cash and cash equivalents	312	122
Cash and cash equivalents at beginning of period	320	198
Cash and cash equivalents at end of period	€ 632	€ 320

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. 2006	€ 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
Transfer of result for the year	--	--	11,721	(11,721)	--
Transfer from Stichting	--	(56)	--	--	(56)
Capital repayment	(7,566)	415	--	--	(7,151)
Result for the year	--	--	--	5,735	5,735
Balance at December 31st. 2007	€ 398	€ 101,016	€ 23,210	€ 5,735	€ 130,359

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. These entity accounts are prepared in conformity with Book 2 Title 9 of Dutch Law and based on Article 362.8. These accompanying company financial statements are prepared 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, 2007.

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

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

No impairment loss on this investment has been recorded.

Note 3 – Financial risk management and critical accounting estimates and judgments

For a detailed description of financial risk management and critical accounting estimates and judgments, we refer to Note 3 and 4 of the consolidated financial statements. There are no 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, 2007	December 31, 2006
Fortis EUR	€ 190	€ 152
Fortis USD	340	65
Morgan Stanley USD	20	22
Morgan Stanley EUR	73	71
Creditanstalt	1	--
Goldmann Sachs USD	9	10
	€ 632	€ 320

Note 5 - Financial Fixed Assets

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

	Book value Jan 1, 2007	Cost of assets acquired	Book value of disposed assets	Income from participating interest	Book value Dec 31, 2007
Financial fixed assets	€ 139,432	€ --	€ --	€ --	€ 139,432

Note 6 – Accrued Expenses and Other Liabilities

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

	December 31, 2007	2006
Management and administration fee	€ 427	€ 446
Audit, consulting and legal fee	236	101
Accrued expenses	574	593
	€ 1,237	€ 1,141

Note 7 – Directors' Remuneration

The Company has three managing directors and two supervisory board directors during the year (as of May 30, 2007 Mr. William S. Cohen resigned as member of the supervisory board). The table below shows the remuneration of the directors of the group for the year ended December 31, 2007 (in thousands):

	Paid	Accrued for future payments	Share-based compensation income
Management Board			
Johan Eliasch	€ 584	€ --	€ (58)
Ralf Bernhart	624	22	(178)
George Nicolai	10	--	--
	€ 1,219	€ 22	€ (236)
Supervisory Board			
Jürgen Hintz	€ 20	€ --	€ (3)
William S. Cohen	7	--	(4)
Viktor Klima	14	--	(4)
	€ 41	€ --	€ (11)

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 we have issued options to purchase an aggregate of 1,818,166 depositary receipts representing ordinary shares to some of our Management Board members, key executive officers and Supervisory Board members. 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.

Options vested over a period of four years and were subject to the Company meeting specified earnings performance targets during this period. For the year ended December 31, 2007, share-based compensation amounted to an income of €0.7 million.

Under the Head N.V. Executive Stock Option Plan 2001 described we have issued options to purchase an aggregate of 3,580,054 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, 2007, share-based compensation amounted to an income of €0.5 million. The exercise price for all stock options granted under the 2001 Plan was fixed at inception of the Plan.

Under the Head N.V. Executive Stock Option Plan 2005 described we have issued options to purchase an aggregate of 2,862,346 depositary receipts representing ordinary shares to some of our key executive officers and Supervisory Board members. For the year ended December 31, 2007, share-based compensation amounted to €0.4 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 the Executive Option Plans:

	Exercise price at the issuance	Number of non-exercised shares at beginning of the year	Number of written shares	Number of exercised shares	Exercise price	Number of non-exercised shares at the end of the year
Option Plan 1998						
Johan Eliasch	$0.19	838,622	- -	838,622	$0.46	- -
Ralf Bernhart	$0.19	175,714	- -	175,714	$0.46	- -
Christoph Henkel	$0.19	3,636	- -	- -	$0.46	3,636
René Jäggi	$0.19	3,636	- -	- -	$0.46	3,636
Michael Treichl	$0.19	2,424	- -	- -	$0.46	2,424
Option Plan 2001						
Johan Eliasch	$4.31	1,426,470	564,564	- -	$4.31	1,991,034
Ralf Bernhart	$4.31	- -	200,004	- -	$4.31	200,004
Karel Vuursteen	$4.31	55,002	- -	- -	$4.31	55,002
Christoph Henkel	$4.31	55,002	- -	- -	$4.31	55,002
Viktor Klima	$4.31	100,002	15,000	- -	$4.31	115,002
William S. Cohen	$4.31	100,002	15,000	- -	$4.31	115,002
René Jäggi	$4.31	40,002	- -	- -	$4.31	40,002
Jürgen Hintz	$4.31	70,002	15,000	- -	$4.31	85,002
Option Plan 2005						
Johan Eliasch	€ 2.17	--	--	- -	€ 2.17	--
Ralf Bernhart	€ 2.17	--	--	- -	€ 2.17	--

Note 8 – Reconciliation of Shareholders' Equity

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

		For the Years Ended December 31,		
		2007		2006
		(in thousands)		
Result for the year	€	5,735	€	11,721
Net income (loss) from participating interest		(16,889)		(7,306)
Net income (loss)	€	(11,154)	€	4,415

		For the Years Ended December 31,		
		2007		2006
		(in thousands)		
Shareholders' equity	€	130,359	€	131,831
Retained earnings from participating interest		2,658		24,057
Shareholders' equity consolidated	€	133,017	€	155,888

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.

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, 2007 and 2006, 39,820,677 shares with a nominal value of €0.01 and €0.20, respectively, were issued and fully paid.

Dividends

In 2007 and 2006, the Company did not pay a dividend.

Capital Repayment

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

At the 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.

HEAD N.V.
NOTES TO THE COMPANY ACCOUNTS

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 of the consolidated financial statements), the Stichting also issues depository receipts to option holders, upon exercise of the option. Holders of depositary receipts are entitled to dividends paid on the Company's shares and to proceeds on the sales of their shares upon request to the Stichting. However, such holders have no voting rights.

On May 25, 2001, Head N.V. transferred 2,041,300 shares, with an original cost of €11.9 million, to the Stichting. The Stichting may use these shares to fulfil the Company's obligations under the Head Tyrolia Mares Group Executive Stock Option Plan.

Treasury Shares

Pursuant to resolutions which were approved on May 30, 2007 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. In 2007, the company reassigned part of the shares transferred to the Stichting for the 1998 Option Plan to the 2005 Option Plan.

As of December 31, 2007 and 2006, the Company owned 2,711,245 and 3,600,775 shares of treasury shares, respectively of which 527,104 were held by the Stichting at December 31, 2007 and 1,416,634 were held by the Stichting at December 31, 2006.

Amsterdam,
28.04.2008

Johan Eliasch
Chief Executive Officer

Ralf Bernhart
Chief Financial Officer

George Nicolai
Managing Director

Viktor Klima
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 75 of this report.

Appropriation of Result – Provisions in Company's Statutes

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

Appropriation of result

The Board of Management is proposing with due observance of the Company's policy on additions to reserves and on distribution of profits to allocate the result for the year to retained earnings.

PRICEWATERHOUSECOOPERS

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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 2007 of Head N.V., Rotterdam as set out on pages 14 to 73 which comprise the consolidated and company balance sheet as at 31 December 2007, 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 2007, 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, 28 April 2008
PricewaterhouseCoopers Accountants N.V.

L.H.J. Oosterloo RA

HEAD N.V. AND SUBSIDIARIES
ADDITIONAL INFORMATION

Statement by the Management Board according to the European Transparency Guideline

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

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

Amsterdam,
28.04.2008

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