HEAD

2000 ANNUAL REPORT

ABOUT HEAD

We have a rich heritage. Founded in 1950 by inventor Howard Head, today Head NV is a leading global manufacturer and marketer of branded sports equipment serving the skiing, tennis and diving markets. We have a world-class portfolio of premium brands, which includes *Head* (alpine skis, ski boots and snowboard products, tennis, racquetball and squash racquets, athletic and outdoor footwear and apparel); *Tyrolia* (ski bindings); *Penn* (tennis balls and racquetballs) and *Mares* and *Dacor* (diving equipment).

Our strategic focus is to target the high margin, premium segments of our markets by developing highly innovative products sold at premium prices, a policy that we call *"Superior Performance through Superior Technology."* This strategic focus has driven our growth and enabled us to achieve the highest operating margins among our peers in the year 2000.

We have created several new segments within our product categories including the *Head Cyber* ski line, the *EZ-on* ski boots, the *Titanium* and *Intelligence* lines of lightweight tennis and squash racquets, the *Tyrolia Super Light* bindings and the *Mares* and *Dacor* H.U.B. scuba system.

We are a global company diversified in terms of both products and geography. We are one of the top suppliers of branded sports equipment to sporting goods retailers worldwide. Head offers a broad product range through over 27,000 accounts in over 80 countries.

We hold leading market share positions in all three of our product categories: Winter Sports, Racquet Sports and Diving. We have a Licensing division to leverage value from and increase visibility of our brands outside the product categories covered by our product divisions.

Based on our fully integrated sales, marketing and distribution units in our major markets, as well as the strength of our innovative new products, we have been able to increase our market share.

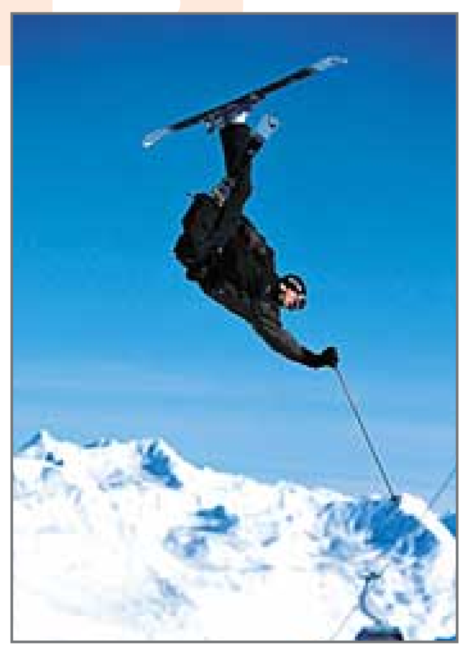
Our high performance products are used and endorsed by many of today's top athletes.

Please visit our website: www.head.com

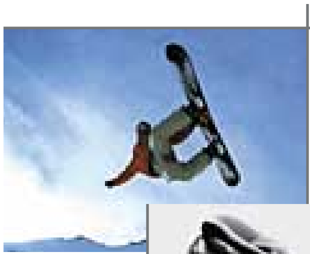
mares HEAD® SNOWBOARDS TYROLIA

DACOR HEAD penn®

Passion and Innovation Make the Greatest Force



BRANDS AND PRODUCTS



WINTER SPORTS DIVISION

Our Winter Sports division includes *Head* alpine skis, ski boots and snowboard products, along with *Tyrolia* ski bindings . We are one of only a handful of winter sports companies that offer a full line of products, making us an important supplier to sporting goods retailers worldwide.

We initiated and led the "carving revolution," which revitalized the entire ski industry and made skiing more fun and enjoyable. In Europe, which is the largest market for winter sports, we hold the top position in bindings and leading positions in skis as well as ski boots.

2000 was a very good year, with units up 5% in bindings, 7% in skis and 16% in ski boots. We are very excited about our product offering for the 2001/02 ski season. Some examples are the *Mad_Trix* skis: two skis in one with a pre-mounted binding which rotates 180 degrees, allowing the skier to switch mode on the slopes, our next generation of *EZ-on* boots, and our new *Free Flex PLUS* line of bindings. In addition, we introduced a complete line of *Head* snowboard products to an enthusiastic and receptive winter sports trade.

Hannes Trinkl, the 2001 Downhill World Champion, endorses our skis and bindings. In the US, World Free Style Ski Champion Jonny Moseley endorses our products.

RACQUET SPORTS DIVISION

Our Racquet Sports division includes *Head* tennis, squash and racquetball racquets, footwear and accessories, and *Penn* tennis balls and racquetballs. Worldwide, *Head* is the number two racquet brand and *Penn* is the number one tennis ball company worldwide.

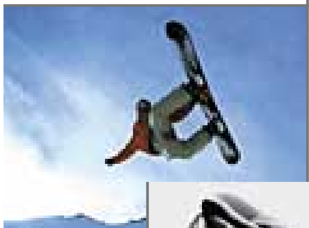
Having both racquets and balls in our product range makes us one of the most important suppliers to the sporting goods trade and allows us to benefit from synergies in sales, marketing and distribution.

We introduced all of the major tennis innovations in the last decade. With *Head Titanium Tennis*, we created a whole new category of high performance super light racquets and our Ti.S6 is the best selling tennis racquet in the world. We launched the revolutionary line of *Head Intelligence* tennis racquets powered by the piezoelectric *Head intellifibers*. The top of the line model, the i.S18 incorporates the breakthrough "*Chip System*," the world's first chip powered and electronically dampened racquet, designed to enhance power and eliminate vibration "*smarter racquet—better game*." This line has received tremendous media and racquet sports trade response globally.

2000 was an excellent year, with racquet sales up almost 20% in local currencies.

Our racquets are used and endorsed by some of the most successful athletes in the game of tennis, like Andre Agassi, Gustavo Kuerten and Bjorn Borg. *Head* racquets are the number one used racquet on the ATP Tour and *Penn* is the official ball used in over 80 top tennis tournaments world wide including the ATP and WTA events. *Head/Penn* is now the official sponsor of the prestigious Tennis Master Series.

BRANDS AND PRODUCTS



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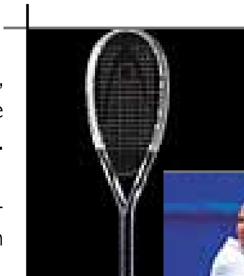
RACQUET SPORTS DIVISION



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Diving Division

Our Diving division has two brands *Mares* and *Dacor* with a strong heritage among diving enthusiasts. With *Mares*, we have the world's leading diving brand.

We offer a complete range of products under each brand, making us unique in the diving industry. Diving products are highly technical and we are perceived as the diving industry's innovation and technology leader. We have introduced many revolutionary new products such as plastic fins, underwater guns and high performance regulators. In late 1999, we launched the H.U.B (human underwater breathing system) which combined five previously separate items, including buoyancy vest and regulator, into one unit. The H.U.B. system was awarded "Product of the Year" at the Antibes World Diving Festival.

In 2000, our Diving division made good progress, with sales in local currency up 4%. We expect the diving market to continue to grow as the sport reaches new markets in regions such as Asia, Africa and Brazil.

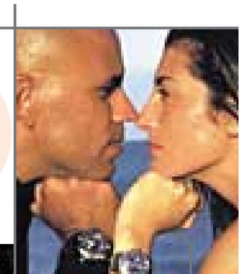
Most free diving records including those set by Francisco "Pipin" Ferreras and Audrey Mestre have been set using *Mares* equipment. For the past three years, *Mares* has been awarded "Brand of the Year" by "Divers" magazine.

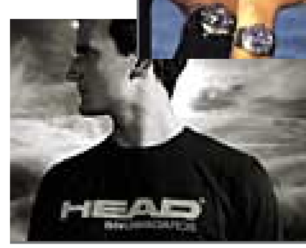
Licensing Division

Our Licensing division was created to leverage the worldwide recognition of *Head* and now includes all of our brands. Licensing enables us to expand our brands to other product categories such as sportswear, sport bags, watches, eyewear, golf equipment and accessories.

In 2000, we generated approximately $8 million of licensing revenues. Measured at wholesale prices this would equate to $125 million of additional brand sales globally. We believe that substantial licensing growth opportunities exist in new product areas and new regions around the world. We intend to protect and maintain the premium image of our brands by licensing only high quality goods within brand compatible product lines.

"Head," "Head Titanium Tennis," "Head Intelligence," "Tyrolia," "EZ-on," "Penn," "Mares," "Dacor," "Cyber," "Super Light," "Mad_Trix," "Free Flex PLUS," "Blax," "Generics" and *"Munari"* are our trademarks.





LETTER TO THE SHAREHOLDERS

Johan Eliasch
Chairman and CEO Head NV

To our Shareholders, Customers and Employees

2000 was a memorable year for Head. It was a year of record breaking operating performance and we completed our Initial Public Offering, listing Head N.V. on the New York and Vienna Stock Exchanges. Here are some of the highlights:

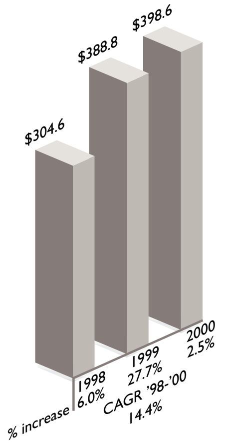
- **Revenues rose 2.5% in dollars to $398.6 million and 19% in euros**
- **EBIT margins rose to 9.7%**
- **EBITDA margins rose to 13.2%**
- **Net income before tax increased to $24.4 million**

We commenced a share buyback program to enhance shareholder value. We launched the *Head Intelligence* racquets, arguably the most innovative product in sporting goods history.

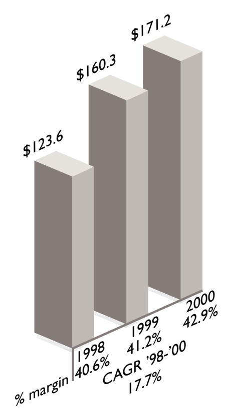
It is with great pleasure that I write this first annual letter to our shareholders, customers and employees. Completing our Initial Public Offering in October 2000 was a significant milestone for Head NV—a company with a rich heritage in sports equipment. We have developed world-class brands, are a top performer in our industry and strive for excellence in everything we do. Above all, we are committed to delivering excellent financial performance and shareholder value.

2000 was a record year for us. Despite the unprecedented weakness of the euro against the dollar, our revenues were up. Measured in euro currency, revenues were up 19% over 1999.

Over the past three years, we have achieved a compound annual revenue growth of 14.4%. New products have helped boost gross profit margins each year and gross profit has grown at compound annual rate of 17.7% since 1998.



NET SALES
(in millions)



GROSS PROFIT
(in millions)

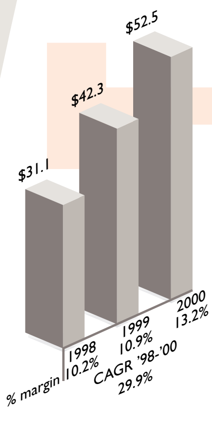
Our profitability has increased significantly over the last three years, both in margin and absolute terms. The acquisition of Penn and the streamlining of our cost base, combined with the increase in our sales, have resulted in a compound annual growth rate of 29.9% and 46.0% for EBITDA and EBIT respectively since 1998. Net income (before tax and extraordinary items) has increased at an average compound rate of 85.5% over the same period.

While it is not realistic to expect this level of income growth indefinitely, I am optimistic about 2001. I believe we have the products, organization and momentum to outperform our industry peers.

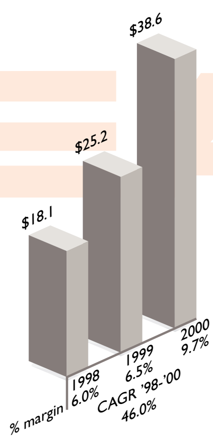
Over the past several years we have upgraded our infrastructure, streamlined our cost base, established a licensing division to leverage our brands and solidified our capital base.

However, this is just the beginning. We are passionate sports enthusiasts driven to achieve ever higher standards. Product innovations have been and will continue to drive our business forward. We are very proud of our achievements. We pioneered two of the most significant new categories of sports products in the past decade with the carving ski and the high performance lightweight *Head Titanium Tennis* Series of racquets. These breakthrough technologies helped revolutionize and reinvigorate the alpine ski and tennis markets from recreational participants through to professionals. This spirit will continue to drive us forward.

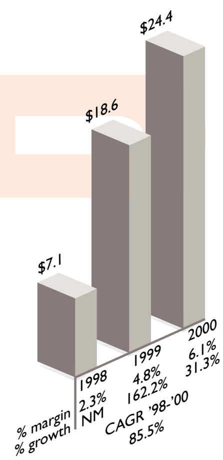
Being an avid sportsman, I personally test many of our new products all the way through to the final stages of product development. I am very excited about our new products for 2001 and beyond. Late last year we began to ship our revolutionary *Head Intelligence Tennis* Series of racquets. The entire line, including the world's first chip powered and electronically dampened racquet, the i.S18, which we will ship this fall, has met with tremendously positive media and trade response. In winter sports, we have introduced to enthusiastic retailers our 2001/02 product-line: the next generation of comfortable *EZ-on* ski boots, our ground-breaking *Mad_Trix* line of skis and the new *Free Flex PLUS* line of bindings. Also, we launched a complete new line of Head snowboard products from which we expect very strong order progress. In diving, we introduced the H.U.B. diving system, which won "Product of the Year" at the Antibes World Diving Festival.



EBITDA
(in millions)



EBIT
(in millions)



INCOME BEFORE TAX[1]
(in millions)

Note: (1) Income from continuing operations before income taxes and extraordinary items

Our global manufacturing, sales, marketing and distribution networks are among the best in the business. We are also one of the most important global suppliers to the sporting goods trade. This means that our new product launches can be rolled out globally and gain rapid market penetration.

Our athlete endorsement program yielded great success in 2000 and we had tremendous brand visibility and media exposure. In 2000 our tennis stars like Gustavo Kuerten and Marat Safin were the number 1 and number 2 players respectively in the ATP Champions Race. Andre Agassi and Gustavo Kuerten started 2001 in great form by between them winning the Australian Open and every Master Series Tournament to date this year. Each of them has already won more tournaments this year than any other player on the tour. Our racquets are the "choice of the pros"—the number one racquet used on the ATP Tour. In skiing and snowboarding, we sponsor some of the top athletes including 2001 Downhill World Champion Hannes Trinkl and World Free Style Champion Jonny Moseley. Most Free Diving records have been set using our equipment, including those set by Francisco "Pipin" Ferreras and Audrey Mestre.

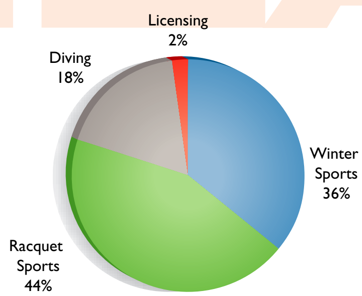
Being the largest shareholder, I would like to say a few words about our investor relations program. We are working very hard to establish Head in the equity markets and create shareholder value. We are actively meeting with research analysts, institutional investors and speaking at various investor conferences to tell our story. We have a new investor relations page on our website for dissemination of financial information and are holding quarterly Web Casts to announce our results and answer questions from the market. We hope that the market will recognize the value of our shares. Also, we have undertaken a share buy back program. So far, we have repurchased about 1.4 million shares.

Our plan for the future includes looking for growth beyond our existing business. We have successfully integrated three acquisitions in the past two years and we have the internal resources, capital base and experience to acquire additional companies if we believe that they add to shareholder value. We have strict criteria for evaluating acquisitions, including, financial impact, brand fit and culture fit. I know that many of our shareholders are also sports enthusiasts and I have heard from many of you who are using and enjoying our products! Please visit our website www.head.com to see our new products—your feedback is welcome.

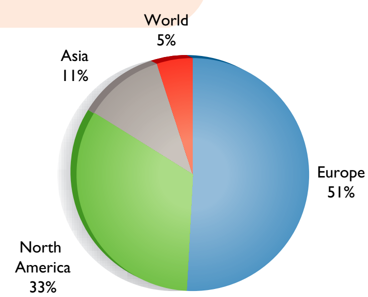
To paraphrase George Allen, the legendary US football coach, "winning is the science of being totally prepared." We are prepared!

Sincerely,

Johan Eliasch, Chairman and CEO Head NV



DIVERSIFIED PRODUCT MIX
2000 Sales by Division



GLOBAL COMPANY
2000 Net Sales by Geography

SELECTED FINANCIAL DATA

The following table provides our selected consolidated financial data for the periods indicated. The historical financial data for the years ended December 31, 1996, 1997, 1998, 1999 and 2000 have been derived from our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP, and have been audited by PricewaterhouseCoopers AG, our independent accountants. Historical results are not necessarily indicative of the results that may be expected for any future period.

In October 2000, London Films was distributed to Head Sports Holdings N.V., an entity controlled by Johan Eliasch, our controlling shareholder. As a result, prior years' financial statements have been restated to present London Films as a discontinued operation.

The selected financial data should be read in conjunction with our historical consolidated financial statements, the notes thereto and "Item 5—Operating and Financial Review and Prospects" included elsewhere in this annual report.

	Year Ended December 31,				
	1996	1997	1998	1999	**2000**
Statement of Operations Data:	*(in thousands, except per share data)*				
Total revenues	$342,125	$286,945	$304,504	$388,755	**$398,639**
Cost of sales	233,275	178,175	180,894	228,453	**227,442**
Gross profit	108,850	108,770	123,610	160,302	**171,197**
Selling and marketing expense	89,258	73,902	75,551	95,906	**97,743**
General and administrative expense (excluding non-cash compensation expense and restructuring charge)	44,058	30,074	29,911	36,910	**33,488**
Non-cash compensation expense	—	—	21	548	**1,378**
Restructuring charge	—	—	—	1,691	**—**
Operating income (loss)	(24,466)	4,794	18,127	25,246	**38,588**
Interest expense[1]	(21,368)	(16,455)	(10,573)	(14,092)	**(18,642)**
Interest income	4,398	3,138	1,349	947	**1,118**
Foreign exchange gain (loss)	2,146	(73)	(2,279)	4,574	**7,502**
Other income (expense), net	994	216	459	1,899	**(4,181)**
Minority interests in earnings of subsidiaries	(7)	38	2	—	**—**
Income (loss) from continuing operations before income taxes and extraordinary items	(38,303)	(8,342)	7,084	18,574	**24,386**
Income tax benefit (expense)[2]	(637)	(360)	(1,812)	35,887	**1,934**
Income (loss) from continuing operations before extraordinary items	(38,940)	(8,702)	5,273	54,463	**26,321**
Income (loss) from discontinued operations	(174)	(298)	243	(60)	**(644)**
Extraordinary gain[3]	—	—	58,203	—	**2,104**
Net income (loss)	$ (39,114)	$ (9,000)	$ 63,718	$ 54,402	**$ 27,781**
Pro forma earnings per share—basic[4]					
Income (loss) from continuing operations before extraordinary items	$ (1.95)	$ (0.44)	$ 0.26	$ 2.46	**$ 0.94**
Net income (loss)	$ (1.96)	$ (0.45)	$ 3.19	$ 2.46	**$ 0.99**
Pro forma earnings per share—diluted[4]					
Income (loss) from continuing operations before extraordinary items	—	—	$ 0.26	$ 2.23	**$ 0.86**
Net income (loss)	—	—	$ 3.15	$ 2.23	**$ 0.91**
Pro forma weighted average shares outstanding[4]					
Basic	20,000	20,000	20,000	22,132	**28,071**
Diluted	—	—	20,232	24,370	**30,679**
Other Financial Data:					
Cash provided by operating activities	$ 55,377	$ 27,650	$ 13,531	$ 28,444	**$ 6,452**
Cash provided by (used for) investing activities	$ 4,744	$ (9,346)	$ (17,824)	$ (57,517)	**$ (17,178)**
Cash provided by (used for) financing activities	$ (41,087)	$ (11,393)	$ (27,432)	$ 43,066	**$ 20,073**
Balance Sheet Data:					
Cash[5]	$ 48,832	$ 45,288	$ 12,860	$ 23,624	**$ 15,848**
Working capital[6]	$ (53,885)	$ (61,599)	$ 29,351	$ 73,432	**$151,241**
Total assets	$404,958	$330,099	$344,618	$434,660	**$434,304**
Total debt[7]	$322,056	$268,730	$199,335	$240,108	**$114,819**
Total stockholders' equity	$ (24,075)	$ (25,888)	$ 38,816	$ 82,547	**$229,987**

(1) Interest expense for the year ended December 31, 1998 and the periods thereafter excludes capitalized future interest payments as required by SFAS No. 15. See "Item 5: Operating and Financial Review and Prospects—Liquidity and Capital Resources—Treatment of Bank Waivers Under SFAS No. 15."
(2) Includes for the year ended December 31, 1999 a non-cash deferred income tax benefit of $38.8 million resulting from the release of a substantial portion of a valuation allowance relating to operating loss carryforwards.
(3) Includes for the year ended December 31, 1998 a gain of approximately $58.2 million as a result of the application of SFAS No. 15. See "Item 5: Operating and Financial Review and Prospects—Liquidity and Capital Resources—Treatment of Bank Waivers Under SFAS No. 15."
(4) Pro forma earnings per share and pro forma weighted average shares outstanding represent our historical amounts as adjusted to reflect the two for one split of our outstanding ordinary shares upon the closing of the public offering in September 2000. Pro forma earnings per share and pro forma weighted average shares outstanding on a diluted basis give effect to all outstanding options and warrants calculated under the treasury stock method. Options and warrants have been excluded from the pro forma earnings per share calculations for the two years ended December 31, 1996 and 1997 because their effect would be anti-dilutive.
(5) Cash includes cash and cash equivalents and restricted cash.
(6) Working capital is computed as current assets, excluding restricted cash, less current liabilities.
(7) Total debt excludes capitalized future interest payments which is required by SFAS No. 15. See "Item 5: Operating and Financial Review and Prospects—Liquidity and Capital Resources—Treatment of Bank Waivers Under SFAS No. 15." These amounts are $8.0 million and $6.3 million respectively, as of December 31, 1998 and December 31, 1999. Due to the repayment of the restructured debt in the fourth quarter of 2000, all capitalized future interest payments have been released,

Financial Review

Management's Discussion and Analysis of Financial Statements and Results of Operations

Overview:

We are a leading global manufacturer and marketer of branded sporting goods serving the skiing, tennis and diving markets. We have created or acquired a portfolio of brands—Head (alpine skis and boots, snowboard equipment, tennis and squash racquets and athletic and outdoor footwear), Tyrolia (ski bindings), Mares and Dacor (diving equipment) and Penn (tennis balls and racquetball balls)– which are among the most widely recognized names within their respective markets.

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

The skiing market had declined until 1998 due to a shift in consumer preference from skiing to snowboarding in the early 1990s, an absence of significant product innovation prior to the introduction of the carving ski and the severe decline in the Japanese market caused by economic difficulties. Since the 1998/1999 winter season we have experienced a modest recovery in the skiing market which we believe is mainly due to the introduction of the carving ski technology. We believe we are well positioned in the skiing market as we are at the forefront of the development of the carving segment. The market for tennis equipment also has declined in recent years as a result of reduced interest in the sport due to the presence of fewer exciting professional stars, the increased durability of tennis racquets and competing leisure activities, such as alternative sports, computer games and the Internet. However, we have benefited from a significant increase in the sales of Head Titanium Tennis racquets.

In May 1999 we acquired Penn, a manufacturer and distributor of tennis and racquetball balls. Penn revenues also experience seasonality, and are typically highest during the months of January through March.

In October 1999 we acquired the Blax and Generics snowboard equipment business. We now market these products under the Head brand.

As a result of our recent acquisitions, our employee numbers have increased from 2,808 in 1999 to 3,097 in 2000.

Results of Operations:

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

	For the Years Ended December 31, 1999	**2000**
	(in thousands)	
Revenues		
Total revenues	$388,755	**$398,639**
Cost of sales	228,453	**227,442**
Gross profit	160,302	**171,197**
Gross margin	41.2%	**42.9%**
Selling and marketing expense	95,906	**97,743**
General and administrative expense (excluding non-cash compensation expense and restructuring charge)	36,910	**33,488**
Non-cash compensation expense	548	**1,378**
Restructuring charge	1,691	**—**
Operating income	25,246	**38,588**
Interest expense	(14,092)	**(18,642)**
Interest income	947	**1,118**
Foreign exchange gain (loss)	4,574	**7,502**
Other income (expense), net	1,899	**(4,181)**
Income from continuing operations before income taxes and extraordinary items	18,574	**24,386**
Income tax benefit	35,887	**1,934**
Income (loss) from discontinued operation (Note 3)	(60)	**(644)**
Extraordinary gain (Note 16)	—	**2,104**
Net income	$ 54,402	**$ 27,781**

TWELVE MONTHS ENDED DECEMBER 31, 1999 AND 2000:

Total Revenues

For the twelve months ended December 31, 2000, total revenues increased by $9.9 million, or 2.5%, to $398.6 million from $388.8 million in 1999. This increase was due to the consolidation of Penn for twelve months in 2000 versus seven months in 1999 and, to a lesser extent, the revenues of our snowboard business acquired in October 1999. Net of Penn and the snowboard business, revenues decreased by $15.0 million, or 3.9%, to $373.7 million for the twelve months ended December 31, 2000 from $388.8 million for the comparable 1999 period. This development should be seen in light of the adverse impact of currency translation adjustments resulting from the depreciation of the euro against the US dollar. At comparable exchange rates, total revenues for the twelve months ended December 31, 2000 increased by $50.8 million, or 13.2% to $436.3 million from $385.5 million in 1999. Net of Penn and snowboard, revenues at comparable rates increased by $25.1 million, or 6.5% to $410.6 million for the twelve months ended December 31, 2000 from $385.5 million in 1999.

	For the Years ended December 31, 1999	**2000**
	(in thousands)	
Product category:		
Winter Sports	$151,360	**$144,542**
Racquet Sports	152,825	**174,010**
Diving	76,691	**72,232**
Licensing	7,879	**7,855**
Total Revenues	$388,755	**$398,639**

Winter Sports revenues for the twelve months ended December 31, 2000 decreased by $6.8 million, or 4.5%, to $144.5 million from $151.4 million in 1999 mainly due to the weakness of the euro against the US dollar. At comparable exchange rates revenues from Winter Sports increased by $12.5 million, or 8.4%, to $161.5 million for the twelve months ended December 31, 2000 from $149.0 million in 1999. Net of Blax and Generics, revenues from Winter Sports increased by $9.0 million, or 6.0%, to $158.0 million for the twelve months 2000 from $149.0 million in 1999. This improvement results from the increased units sales of our skis (+7%), bindings (+5%)and ski boots (+16%).

Racquet Sports revenues for the twelve months ended December 31, 2000 increased by $21.2 million, or 13.9%, to $174.0 million from $152.8 million in 1999. Of this increase $21.8 million resulted from the consolidation of the Penn business. At comparable exchange rates Racquet Sports products revenues without Penn increased by $11.7 million, or 7.7%, to $163.9 million for the twelve months ended December 31, 2000 from $152.2 million in 1999 due primarily to a 27.4% increase in the number of units of tennis racquets sold, offset by declines in sales of footwear.

Diving product revenues for the twelve months ended December 31, 2000 decreased by $4.5 million, or 5.8%, to $72.2 million from $76.7 million in 1999. This decrease was due to the weak euro. At comparable exchange rates revenues from diving increased by 4.3%.

Licensing revenues for the twelve months ended December 31, 2000 remained stable.

Gross Profit

For the twelve months ended December 31, 2000, gross profit increased by $10.9 million, or 6.8%, to $171.2 million from $160.3 million in 1999. Gross margin increased to 42.9% in 2000 from 41.2% in 1999. The increase in gross margin is due to favorable currency impact as a portion of our dollar revenues are generated from products manufactured on a euro cost basis.

Selling and Marketing Expenses

For the twelve months ended December 31, 2000, selling and marketing expenses increased by $1.8 million, or 1.9%, to $97.7 million from $95.9 million in 1999. This increase was primarily due to selling and marketing expenses attributable to the consolidation of Penn.

General and Administrative Expenses

For the twelve months ended December 31, 2000, general and administrative expenses decreased by $3.4 million, or 9.3%, to $33.5 million from $36.9 million in 1999. Of this decrease, $1.2 million was attributable to the gain on the sale of a building used in operations in Italy. The balance was due to the favorable euro/dollar impact as a majority of our expenses are in euros.

We also recorded $1.4 million and $0.5 million for the twelve months ended December 31, 2000 and 1999, respectively, of non-cash compensation expense due to the grant of stock options under our existing stock option plan and the resulting amortization of compensation expense.

Operating Income

As a result of the foregoing factors, for the twelve months ended December 31, 2000, operating income increased by $13.3 million to $38.6 from $25.2 million in 1999.

Interest Expense

For the twelve months ended December 31, 2000, interest expense increased by $4.6 million, or 32.3%, to $18.6 million from $14.1 million in 1999. The increase was due to higher levels of debt resulting from the Penn acquisition in May 1999 and the Senior Note offering in July 1999 as a portion of the proceeds from this offering was used to refinance debt bearing lower interest rates. The increase in interest expense was offset, to a lesser extent, by the repayment of some of our debts following the initial public offering, which took place in October 2000.

Interest Income

For the twelve months ended December 31, 2000, interest income increased by $0.2 million, or 18.0%, to $ 1.1 million from $0.9 million in 1999.

Foreign Currency Exchange

For the twelve months ended December 31, 2000, primarily due to the weakness of the euro against the US dollar, we had a foreign currency exchange gain of $7.5 million, compared to $4.6 million in 1999. We operate in a multi-currency environment and are subject to the effects of fluctuation in exchange rates.

Other Income/(Expense)

For the twelve months ended December 31, 2000, we had other expense of $4.2 million mainly attributable to the one time payment to Austria Tabak compared to other income of $1.9 million in 1999 primarily attributable to a profit resulting from the disposal of a building in Italy in 1999.

Income Tax Benefit

For the twelve months ended December 31, 2000, we had an income tax benefit of $1.9 million, a decrease of $34.0 million from the same period in 1999. This decrease was due to the recognition of non-cash deferred tax asset of $38.8 million in 1999 versus $5.2 million in 2000.

Extraordinary Gain

For the twelve months ended December 31, 2000 we reported an extraordinary gain of $2.1 million which resulted from a release of $3.0 million (net of $1.6 million of tax) of accrued interest expense according to FAS15 following the repayment of our restructured long-term loans in October 2000, partially offset by the write off of $0.9 million of capitalized debt issuance cost in connection with the refinancing of our US-subsidiaries in April 2000.

Net Income

As a result of the foregoing factors, for the twelve months ended December 31, 2000, we had a net income of $27.8 million, compared to $54.4 million in 1999.

Liquidity and Capital Resources:

For the twelve months ended December 31, 2000, cash generated from operating activities decreased to $6.5 million from $28.4 million in 1999, which is mainly due to increased working capital requirements. The proceeds from operating activities, cash on hand and net drawdowns of $25.2 million under lines of credit were used to purchase property, plant and equipment of $17.2 million, to repay a due portion of senior loan in March 2000 of $2.7 million and to make a dividend payment to Head Sports Holdings N.V. (our sole shareholder at the time) of $15.7 million.

Net proceeds from our initial public offering of $134.4 million were used to repay $63.3 million under our lines of credit, to repay the outstanding portion of our senior loan of $29.9 million, to repurchase senior notes of $30.0 million and to buy back our ordinary shares of $5.2 million under an existing resolution.

Consolidated Balance Sheets

	December 31, 1999	December 31, 2000
	(in thousands, except shares)	
Assets:		
Cash and cash equivalents	$ 17,948	**$ 15,848**
Restricted cash	5, 676	**—**
Accounts receivable, net of allowance for doubtful accounts of $10,054 and $10,509	157,987	**158,424**
Inventories, net	78,295	**83,701**
Prepaid expense and other current assets	10,796	**12,894**
Total current assets	270,702	**270,867**
Marketable securities	2,347	**2,174**
Property, plant and equipment, net	59,503	**60,943**
Intangible assets, net	20,900	**19,850**
Deferred income taxes	69,889	**72,168**
Other non-current assets	11,320	**8,301**
Total assets	$434,660	**$434,304**
Liabilities and Stockholders' Equity:		
Accounts payable	$ 36,286	**$ 34,436**
Accrued expenses and other current liabilities	56,094	**41,837**
Short-term borrowings	93,906	**41,822**
Current portion of long-term debt	5,308	**1,531**
Total current liabilities	191,594	**119,626**
Long-term debt	147,240	**71,466**
Other long-term liabilities	13,270	**13,215**
Total liabilities	352,104	**204,307**
Minority interest	9	**9**
Commitments and contingencies (Note 18)		
Stockholders' Equity:		
Ordinary shares: 0.01 NLG and 0.20EUR par value at 1999 and 2000, respectively; 24,227,820 and 39,820,677 shares issued at 1999 and 2000, respectively	64	**7,067**
Additional paid in capital	15,221	**143,999**
Treasury stock, at cost; 956,300 shares at 2000	—	**(5,211)**
Retained earnings	64,834	**75,620**
Accumulated other comprehensive income	2,428	**8,512**
Total stockholders' equity	82,547	**229,987**
Total liabilities and stockholders' equity	$434,660	**$434,304**

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

Consolidated Statements of Operations

	For the Years Ended December 31, 1998	1999	**2000**
	(in thousands, except per share data)		
Revenues:			
Product revenues	$298,325	$380,876	**$390,784**
Licensing revenues	6,178	7,879	**7,855**
Total revenues	304,504	388,755	**398,639**
Cost of sales (the year ended December 31, 1999 included $2,187 related to the step-up of inventory from acquisitions—see Note 5)	180,894	228,453	**227,442**
Gross profit	123,610	160,302	**171,197**
Selling and marketing expense	75,551	95,906	**97,743**
General and administrative expense (excluding non-cash compensation expense and restructuring charge)	29,911	36,910	**33,488**
Non-cash compensation expense	21	548	**1,378**
Restructuring charge	—	1,691	**—**
Operating income	18,127	25,246	**38,588**
Interest expense	(10,573)	(14,092)	**(18,642)**
Interest income	1,349	947	**1,118**
Foreign exchange gain (loss)	(2,279)	4,574	**7,502**
Other income (expense), net	459	1,899	**(4,181)**
Minority interests in earnings of subsidiaries	2	—	**—**
Income from continuing operations before income taxes and extraordinary items	7,084	18,574	**24,386**
Income tax benefit (expense):			
Current	(1,812)	(2,929)	**(3,231)**
Deferred	—	38,816	**5,165**
Income tax benefit (expense)	(1,812)	35,887	**1,934**
Income from continuing operations before extraordinary items	5,273	54,463	**26,321**
Income (loss) from discontinued operation (Note 3)	243	(60)	**(644)**
Extraordinary gain (net of income tax of $1,559 in 2000—see Note 16)	58,203	—	**2,104**
Net income	$ 63,718	$ 54,402	**$ 27,781**
Earnings per share-basic			
Income from continuing operations before extraordinary items	$ 0.26	$ 2.46	**$ 0.94**
Income (loss) from discontinued operation	0.01	(0.00)	**(0.02)**
Extraordinary gain	2.91	—	**0.07**
Net income	3.19	2.46	**0.99**
Earnings per share-diluted			
Income from continuing operations before extraordinary items	$ 0.26	$ 2.23	**$ 0.86**
Income (loss) from discontinued operation	0.01	(0.00)	**(0.02)**
Extraordinary gain	2.88	—	**0.07**
Net income	3.15	2.23	**0.91**
Weighted average shares outstanding			
Basic	20,000	22,132	**28,071**
Diluted	20,232	24,370	**30,679**

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

Consolidated Statements of Stockholders' Equity

	Ordinary Shares		Additional Paid-in	Treasury	Retained Earnings (Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Stock	Deficit)	Income	Equity
			(in thousands, except per share data)				
Balance at December 31, 1997	20,000,000	$ 1,010	$ 9,609	$ —	$(48,247)	$11,705	$ (25,923)
Capital contributions	—	53	2,212	—	—	—	2,265
Stock-based compensation	—	—	21	—	—	—	21
Transfer of capital from registered capital to capital contribution	—	(1,010)	1,010	—	—	—	—
Comprehensive income:							
Net income	—	—	—	—	63,718	—	63,718
Foreign currency translation adjustments	—	—	—	—	—	(1,266)	(1,266)
Comprehensive income							62,452
Balance at December 31, 1998	20,000,000	53	12,853	—	15,471	10,439	38,816
Issuance of warrants	—	—	1,820	—	—	—	1,820
Stock-based compensation	—	—	548	—	—	—	548
Consideration in excess of historical cost of assets acquired from common control entity	4,227,820	11	—	—	(5,040)	—	(5,029)
Comprehensive income:							
Net income	—	—	—	—	54,402	—	54,402
Foreign currency translation adjustments	—	—	—	—	—	(7,951)	(7,951)
Minimum pension liability	—	—	—	—	—	(60)	(60)
Comprehensive income							46,391
Balance at December 31, 1999	24,227,820	64	15,221	—	64,834	2,428	82,547
Dividend paid	—	—	—	—	(15,717)	—	(15,717)
Stock-based compensation	—	—	1,378	—	—	—	1,378
Conversion to a par value from NLG 0.01 to euro 0.20	—	4,414	(4,414)	—	—	—	—
Exercise of warrants	1,009,524	4	(4)	—	—	—	—
Purchase of treasury stock	(956,300)	—	—	(5,211)	—	—	(5,211)
Issuance of ordinary shares under public offering, net of issuance costs	14,583,333	2,585	131,817	—	—	—	134,402
Spin-off of London Films	—	—	—	—	(1,277)	632	(645)
Comprehensive income:							
Net income	—	—	—	—	27,781	—	27,781
Foreign currency translation adjustments	—	—	—	—	—	5,452	5,452
Comprehensive income							33,233
Balance at December 31, 2000	**38,864,377**	**$7,067**	**$143,999**	**$(5,211)**	**$75,620**	**$8,512**	**$229,987**

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

Consolidated Statements of Cash Flows

	For the Years Ended December 31, 1998	1999	**2000**
		(in thousands)	
Operating Activities:			
Net income	$ 63,718	$ 54,402	**$ 27,781**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,019	17,502	**16,110**
Provision for leaving indemnity and pension benefits	716	1,399	**772**
Gain on sale of property, plant and equipment	(459)	(438)	**(1,160)**
Gain on debt restructuring	(58,203)	—	**(2, 104)**
Gain applicable to minority interest	(2)	—	**—**
Non-cash interest expense (income)	—	1,820	**(1,023)**
Non cash compensation expense	21	548	**1,378**
Deferred tax	—	(38,816)	**(5,165)**
Other, net	268	89	**(31)**
Changes in operating assets and liabilities (net of effects of acquisitions):			
Accounts receivable	(16,447)	(18,271)	**(7,457)**
Inventories	(8, 841)	(468)	**(13,277)**
Prepaid expense and other assets	5,648	4,704	**(31)**
Accounts payable, accrued expenses and other liabilities	14,093	5,973	**(9,341)**
Net cash provided by operating activities	13,531	28,444	**6,452**
Investing Activities:			
Purchase of property, plant and equipment	(17,459)	(24,131)	**(20,571)**
Proceeds from sale of property, plant and equipment	2,100	5,762	**3,303**
Acquisition of Dacor, net of cash acquired	(1, 892)	—	**—**
Acquisition of Penn, net of cash acquired	—	(40,191)	**—**
Other acquisitions	—	(753)	**—**
Maturities (purchases) of marketable securities, net	(288)	2,783	**90**
Acquisition of minority interest	(285)	(987)	**—**
Net cash used for investing activities	(17,824)	(57,517)	**(17,178)**
Financing Activities:			
Change in short-term borrowings, net	(30,804)	(16,384)	**(38,032)**
Proceeds from long-term debt	22,810	132,362	**1,789**
Payments on long-term debt	(25,131)	(71,047)	**(61,970)**
Proceeds from initial public offering	2,265	—	**134,402**
Purchase of treasury stock	—	—	**(5,211)**
Dividend paid	—	—	**(15,717)**
Change in restricted cash	3,428	(1,865)	**4,812**
Net cash provided by (used for) financing activities	(27,432)	43,066	**20,073**
Effect of exchange rate changes on cash and cash equivalents	2,708	(4,401)	**(11,446)**
Net increase (decrease) in cash and cash equivalents	(29,017)	9,592	**(2,099)**
Cash and cash equivalents at beginning of period	37,373	8,356	**17,948**
Cash and cash equivalents at end of period	$ 8,356	$ 17,948	**$ 15,848**
Supplemental Cash Flow Information:			
Cash paid for interest	$ 8,622	$ 8,485	**$ 17,283**
Cash paid for income taxes	$ 1,418	$ 1,895	**$ 3,230**
Spin-off of London Films	$ —	$ —	**$ 645**

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

NOTE 1—THE COMPANY

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

On January 1, 1996, Head Holding Unternehmensbeteiligung GmbH, a subsidiary of Head N.V., acquired 100% of the outstanding shares of HTM Sport- und Freizeitgeräte AG (HTM). The acquisition has been accounted for as a purchase and accordingly the operating results of HTM have been included in the Company's consolidated financial statements since the date of acquisition. On June 6, 2000, in order to discharge any current or future payment obligations under the share purchase agreement by which the Company acquired HTM, the Company made a payment of ATS 52.5 million ($3.5 million) to the former owner of HTM and amended the share purchase agreement. The terms of the share purchase agreement may have entitled the former owner to 15% of any profits realized on the subsequent sale of the HTM shares. The amendment eliminated this provision. This payment is included in other income (expense), net in the accompanying consolidated statement of operations for the year ended December 31, 2000.

On June 15, 1999, entities controlled by the Company's principal shareholder contributed all of the outstanding share capital of London Films Ltd. to the Company. The transaction has been accounted for on an "as if pooling" basis and, accordingly, the combined financial statements have been presented for all periods in which common control existed. The Company issued 4,227,820 shares against this contribution in kind. Subsequently, the Company contributed the shares in London Films Ltd. in kind to its Austrian subsidiary, HTM Sport- und Freizeitgeräte AG. London Films, a company duly established in London, U.K., owns or has the rights to over 125 feature films and television programs, which it markets on a world-wide basis. London Films was discontinued in 2000 (see Note 3—Discontinued operations).

The Company is engaged, through its subsidiaries, in the design, engineering, manufacturing and marketing of a line of alpine skis, boots, bindings and snowboards, tennis and squash racquets, tennis balls, scuba and snorkel diving equipment and tennis, squash and trekking footwear. The Company's products are marketed globally under the internationally recognized brand names of Head, Tyrolia, Mares, Penn, Dacor, San Marco, Blax and Generics.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company maintains its accounting records and publishes its statutory financial statements in accordance with Dutch corporate regulations and has made certain adjustments to these records to present the accompanying financial statements in conformity with generally accepted accounting principles in the United States of America.

Consolidation Policies

The consolidated financial statements of Head include the accounts of all majority-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash comprises deposits pledged as collateral on outstanding lines of credit. The amounts are collateralized with several financial institutions.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a first-in first-out basis.

Marketable Securities

Debt securities are classified as held-to-maturity and are reported at amortized cost.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost and includes expenditures for new facilities and expenditures which substantially increase the useful lives of existing facilities. The cost of maintenance, repair and minor renewals is expensed as incurred. When plant and equipment is retired or otherwise disposed, the cost and related accumulated depreciation are eliminated, 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.

Intangible Assets

Identifiable intangible assets comprise trademarks and goodwill. Trademarks are amortized using the straight-line method over a period of 20 to 40 years. Goodwill is amortized using the straight-line method over a period of 15 to 30 years. The Company periodically reviews the carrying value of its intangibles based primarily upon an analysis of undiscounted cash flows. Any impairment would be recognized when the expected future operating cash flows derived from such intangible assets are less than their carrying value. The impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Revenue Recognition

Revenues from product sales are recognized at the time of product shipment, which represents transfer of title to the customer. Revenues from licensing agreements are recognized as earned. Provisions are recorded for estimated product returns at the time revenues are recognized. Costs associated with product shipment and handling are classified in selling and marketing expense in the consolidated statement of operations.

Translation of Foreign Currency

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

Financial Instruments

The Company enters into forward foreign currency contracts principally to hedge currency fluctuations in transactions denominated in foreign currencies, thereby limiting the Company's risk that would otherwise result from changes in exchange rates. The Company periodically enters into forward foreign exchange contracts to hedge firm commitments and it buys foreign exchange options contracts to hedge anticipated transactions. Gains and losses on purchased option contracts and forward foreign exchange contracts are deferred and recorded in the period in which the underlying sales transactions are recognized. The Company does not utilize financial instruments for trading or speculative purposes.

Research and Development Costs

Research and development costs are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred.

Stock-Based Compensation

The Company accounts for its stock option plan using the fair value method in accordance with Statement of Financial Accounting Standards No. 123 ("SFAS 123"), Accounting for Stock-Based Compensation.

Debt Issuance Costs

Debt issuance costs are capitalized and amortized over the term of the debt.

Income Taxes

The provision for income taxes is based on income recognized for financial statement purposes and includes the effects of temporary differences between such income and that recognized for tax return purposes. 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.

Share Split

In October 2000, the Company effected a two-for-one stock split of its ordinary shares. All references in the consolidated financial statements and notes thereto to numbers of shares and per share amounts have been restated to reflect the stock split.

Computation of Net Income per Share

Net income per share is computed under Statement of Financial Accounting Standards No. 128, Earnings per Share. Basic net income per share is computed by dividing the net income for the period by the weighted average number of ordinary shares outstanding during the period. Diluted net income per share is computed by dividing the net income for the period by the weighted average number of ordinary shares and potential ordinary shares outstanding during the period. Potential ordinary shares are composed of incremental shares issuable upon the exercise of share options and warrants, and are included in diluted net income per share to the extent such shares are dilutive.

The following table sets forth the computation of diluted weighted average shares outstanding for the periods indicated:

	For the Years Ended December 31,		
	1998	1999	**2000**
	(in thousands)		
Weighted average shares outstanding—basic	20,000	22,132	**28,071**
Dilutive effect of stock options	70	1,402	**1,858**
Dilutive effect of warrants	162	836	**750**
Weighted average shares outstanding—diluted	20,232	24,370	**30,679**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made in prior years' consolidated financial statements to conform to classifications used in the current year.

Recent Accounting Pronouncements

Statement of Financial Accounting Standard No. 133 'Accounting for Derivative Instruments and Hedging Activities' ("SFAS 133"), as amended by FAS 138 is effective for fiscal years beginning after 15 June 2000, (1 January 2001 for the Company). The standard requires that all derivative financial instruments be recorded on the Consolidated Balance Sheet at their fair values. Changes in fair values of derivative will be recorded each period in earnings, other comprehensive income, or the cumulative translation adjustment in equity depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. For cash-flow transactions in which the Company is hedging the variability of cash flows related to variable-rate asset, liability, firm commitment (for foreign currency cash flow hedging) or a forecasted transaction, changes in the fair value of the hedging instrument that are reported initially in other comprehensive income will be reclassified into earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged items. The ineffective portions of all hedges will be recognized in current-period earnings.

On January 1, 2001, the Company will record a transition adjustment in its accounting records to bring the accounting for its derivatives into compliance with SFAS 133. The Company estimates that it will record a net-of-tax-effect-type adjustment of $1.8 million in accumulated other comprehensive income to recognize at fair value all derivative instruments that will be designated as cash-flow hedging instruments.

At this time, Head NV plans no significant change in its risk management strategies due to the adoption of SFAS 133.

Note 3—Discontinued Operations

In August 2000, the Company granted its parent and 100% shareholder, Head Sports Holdings N.V., the option to receive all outstanding shares of London Films as a shareholder distribution. Head Sports Holdings N.V. is controlled by Johan Eliasch. On October 31, 2000, London Films, with net assets of $0.6 million, was distributed in accordance with this option. The results of operations of London Films have been presented as a discontinued operation in the accompanying consolidated statements of operations for the years ended December 31, 1998, 1999 and 2000. Revenues of London Films were $1.2 million, $1.5 million and $0.5 million for the years ended December 31, 1998, 1999 and 2000, respectively.

No income tax expense has been recorded on the income from discontinued operations due to the availability of net operating loss carryforwards.

Note 4—U.S. Sportswear Business

During 1995, the Company announced a plan to discontinue its U.S. sportswear manufacturing and distribution business and to enter into an agreement whereby Head Sportswear would be manufactured under license in the U.S. Included in operating income are the following revenues and costs incurred in connection with the discontinuation of the U.S. sportswear business and the establishment of a licensing agreement (in thousands):

	For the Years Ended December 31,		
	1998	1999	**2000**
Revenues	$1,985	$—	**$—**
Cost of sales	1,378	—	**—**
Gross profit	607	—	**—**
Selling and marketing expenses	378	—	**—**
General and administrative expense	267	—	**—**
Operating loss	$ (38)	$—	**$—**

In March 1998, the Company entered into two U.S. sportswear licensing agreements. The agreements are for a term of 5 years and provide for the Company to receive minimum royalties totaling approximately $5.5 million over the term of the agreements.

Note 5—Acquisitions

Dacor Acquisition

On November 19, 1998, one of the Company's subsidiaries acquired 100% of the outstanding common stock of Dacor Corporation, a U.S. manufacturer of diving equipment, for a purchase price of approximately $2.3 million. The allocation of purchase price included approximately $1.6 million of restructuring and transaction costs (primarily severance and equipment relocation costs associated with the shut down of Dacor's facility and professional fees) and inventories with a fair market value of approximately $5.6 million (approximately $1.0 million greater than cost which has been charged to cost of sales in 1999). The excess of purchase price over the fair value of net assets acquired of approximately $1.8 million, was allocated to goodwill and is being amortized over 30 years.

The acquisition has been accounted for as a purchase and, accordingly, the operating results of Dacor have been included in the Company's consolidated financial statements since the date of acquisition. Post acquisition, the business contributed a loss of approximately $0.2 million to consolidated net income for the year ended December 31, 1998.

Penn Acquisition

Effective May 1, 1999, one of the Company's subsidiaries acquired the outstanding common stock of Penn Racquet Sports, Inc. for an aggregated purchase price of approximately $40.6 million.

Penn manufactures and distributes tennis balls and racquetball balls. The acquisition has been accounted for as a purchase and, accordingly, the operating results of Penn have been included in the Company's consolidated financial statements since the date of acquisition. The acquisition was funded by borrowings under a $50.0 million revolving loan agreement.

The allocation of purchase price included trademarks of $19.1 million, which are being amortized over 20 years. The allocation of purchase price also included $1.3 million of exit costs, employee termination and relocation costs and professional fees and inventories with a fair market value of approximately $7.9 million (approximately $1.2 million greater than cost which has been charged to cost of sales in 1999). The excess of the fair value of net assets acquired over purchase price was proportionately allocated to non-current assets.

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisition had occurred as of January 1, 1999. The pro forma data give effect to actual operating results prior to the acquisition and adjustments to revenue, cost of sales, interest expense and amortization.

	For the Year Ended December 31, 1999
	(in thousand, except per share data)
Revenues	$411,185
Operating income	26,806
Income from continuing operations before income taxes and extraordinary items	18,477
Income from continuing operations before extraordinary items	53,686
Net income	$ 53,686
Earnings per share—basic	
Income from continuing operations before extraordinary items	$ 2.43
Net income	$ 2.43
Earnings per share—diluted	
Income from continuing operations before extraordinary items	$ 2.20
Net income	$ 2.20

To fund the Penn acquisition, one of the Company's subsidiaries entered into a $50.0 million revolving loan agreement (the "US loan agreement"). Borrowings under the loan are secured by substantially all of the assets of the Company's US subsidiaries, and accrue interest at prime plus 1.5% for the first 90 days and at either prime plus 1.5% or LIBOR plus 2.75% thereafter. In July 1999, the Company repaid all borrowings under this agreement and reduced the available amount to $20.0 million. In April 2000, the Company replaced the Agreement with a $20.0 million, three-year, renewable term Loan and Security Agreement with Fleet Capital Corporation under similar terms.

Note 6—Accounts Receivable

Accounts receivable consist of the following (in thousands):

	December 31, 1999	December 31, 2000
Trade debtors	$149,157	**$149,202**
Other receivables	18,884	**19,731**
Allowance for doubtful accounts	(10,054)	**(10,509)**
Total Accounts receivable, net	$157,987	**$158.424**

Note 7—Inventories

Inventories consist of the following (in thousands):

	December 31, 1999	December 31, 2000
Raw materials and supplies	$ 19,074	**$ 21,409**
Work in process	9,379	**5,573**
Finished goods	60,469	**68,191**
Provisions	(10,627)	**(11,472)**
Total Inventories, net	$ 78,295	**$ 83,701**

Note 8—Marketable Securities

Marketable securities consist of the following (in thousands):

	December 31, 1999	December 31, 2000
Austrian government debt securities	$ 960	**$ 709**
Austrian debt security funds	1,239	**1,206**
Corporate debt securities	326	**315**
Total Marketable securities	$2,525	**$2,230**
Less: short-term portion	(178)	**(56)**
Total long-term marketable securities	$2,347	**$2,174**

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

	December 31, 1999	December 31, 2000
Mature within 1 year	$ 178	**$ 56**
Mature between one year and five years	1,108	**968**
Mature between five years and ten years	1,239	**1,206**
Mature after ten years	—	**—**
Total Marketable securities	$2,525	**$2,230**

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

As of December 31, 2000, debt securities were restricted as to withdrawal by Austrian regulations requiring that a percentage of leaving indemnity plan assets are maintained in discounted Austrian government and Austrian corporate debt securities.

Note 9—Property, Plant and Equipment

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

	December 31, 1999	December 31, 2000
Land	$ 5,132	**$ 4,608**
Buildings	17,899	**19,780**
Machinery and equipment	82,241	**90,200**
	105,272	**114,588**
Less: Accumulated depreciation	(45,768)	**(53,645)**
Total Property, plant and equipment, net	$ 59,503	**$ 60,943**

The useful lives used in computing depreciation are as follows:

	Years
Buildings	10–48
Machinery and equipment	2–20

NOTE 10—INTANGIBLE ASSETS

Intangible assets consist of the following (in thousands):

	December 31, 1999	December 31, 2000
Trademarks	$19,066	**$19,066**
Goodwill	2,528	**2,528**
	21,594	**21,594**
Less: Accumulated amortization	(694)	**(1,744)**
Total Intangible assets, net	$20,900	**$19,850**

Intangible assets in the amount of $ 38.7 million were reduced as of December 31, 1999 as a result of the release of valuation allowances against deferred assets (see Note 20—Income taxes).

NOTE 11—CREDIT RISK CONCENTRATIONS

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

No customer accounted for greater than 4.0% of total revenues during the years ended December 31, 1998, 1999 and 2000.

NOTE 12—FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of the Company's financial instruments approximates fair value at December 31, 1999 and 2000. The carrying amounts reported in the consolidated balance sheet for cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short maturity of these instruments. The carrying amounts of marketable securities approximate fair value based on quoted market prices.

The carrying amounts of the Company's short-term borrowings and senior debt approximate fair value because the interest rates are primarily based upon floating rates identified by reference to market rates.

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

The table below provides information about our forward foreign exchange contracts and foreign exchange option contracts which we use to manage our exposures to fluctuations in foreign currency exchange rates (in thousands):

	As of December 31, 2000		
	Contract amount	Carrying value	Fair value
Forward foreign exchange contracts	$15,001	$(77)	$1,575
Foreign exchange option contracts	$ 2,618	$ —	$ 275

The fair values of foreign currency contracts and options presented above are estimated by obtaining quoted market prices.

Note 13—Short-Term Borrowings

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

	December 31, 1999	December 31, 2000
Lines of credit	$82,871	**$39,567**
Notes payable	11,035	**2,255**
Total Short-term borrowings	$93,906	**$41,822**

The Company has multiple revolving lines of credit with several banks. Interest under these lines is determined based on the bank's prime rates or other variable rates. As of December 31, 1999 and 2000, approximately $29.3 million and $65.3 million, respectively, was available under the lines. Borrowings under the lines of credit are either unsecured or secured by cash deposits, trade accounts receivable, inventories, patents and trademarks of the Company.

Notes payable comprise discounted promissory notes issued by the Company's Japanese subsidiary. The notes bear interest at 3.0% and are for a term of less than one year.

The weighted average interest rate on outstanding short-term borrowings was 4.2% and 4.4% as of December 31, 1999 and 2000, respectively.

Note 14—Accounts Payable

Accounts payable consist of the following (in thousands):

	December 31, 1999	December 31, 2000
Accounts payable—trade	$27,486	**$22,390**
Salaries and wages	1,950	**2,344**
Insurance	732	**263**
Fiscal authorities	2,320	**2,344**
Social institutions	1,093	**1,015**
Other	2,705	**6,080**
Total Accounts Payable	$36,286	**$34,436**

Note 15—Accrued Expenses and Other Current Liabilities

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

	December 31, 1999	December 31, 2000
Employee compensation and benefits	$ 6,720	**$ 7,513**
Accrued warranties and allowances	6,761	**7,618**
Advertising	3,843	**3,030**
Legal, auditing and consultant fees	4,489	**1,697**
Fiscal authorities	3,806	**1,294**
Commissions	3,416	**3,341**
Accrued interest	5,532	**3,605**
Other	21,527	**13,739**
Total Accrued expenses and other current liabilities	$56,094	**$41,837**

NOTE 16—LONG-TERM DEBT

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

	December 31, 1999	December 31, 2000
Senior debt	$ 37,086	**$ —**
Senior notes	100,460	**64,206**
Other long-term debt	15,002	**8,791**
Total long-term borrowings	152,548	**72,997**
Less current portion	5,308	**1,531**
Long-term portion	$147,240	**$71,466**

Senior debt

As of December 31, 1999 senior debt comprised amounts owing to a consortium of Austrian banks denominated as follows (in thousands):

	December 31, 1999	December 31, 2000
Deutsche Mark	$22,835	**$—**
Swiss Franc	7,857	**—**
Italian Lira	6,394	**—**
Total senior debt	$37,086	**$—**

Amounts outstanding at December 31, 1999 accrued interest at LIBOR plus 75 basis points (DEM 3.9%, CHF 2.6% and ITL 3.9% as of December 31, 1999). Senior debt borrowings were secured by the Head and Tyrolia trademarks, trade accounts receivable, inventories and patents. The weighted average interest rate on outstanding senior debt was 3.6% as of December 31, 1999. Senior debt borrowings were repaid in October 2000 using proceeds from the initial public offering.

Bridge notes

On June 2, 1998, one of the Company's subsidiaries, Head Holding Unternehmensbeteiligung GmbH, entered into a $15.0 million senior credit agreement (tranche A bridge note). On December 29, 1998, the agreement was amended and restated to include a $8.0 million tranche B bridge note. The proceeds from the bridge notes were primarily used to repay a portion of the Company's indebtedness. Interest initially accrued on outstanding borrowings at 3 month LIBOR plus 475 basis points (increasing by 50 basis points every 90 days), not to exceed 15.0% (10.97% as of December 31, 1998). The bridge loan and the accrued interest totaling $25.5 million was repaid on July 15, 1999 using the proceeds from the Senior Notes.

In conjunction with the bridge note financings, the Company issued warrants to purchase a total of 7.65% of its ordinary shares at $0.01 per share. The warrants were placed in escrow and were to be released to the lenders periodically in the event that the bridge notes were not repaid by specified dates. During the years ended December 31, 1998 and 1999, warrants to purchase 3.00% and 1.06% of the Company's ordinary shares were released from escrow. The warrants were immediately exercisable upon release and expire 10 years from the date of issuance. The Company assigned an estimated fair value to each of the warrants at the time of their release and recorded this value as interest expense in the consolidated statements of operations. Because the bridge notes were repaid out of the proceeds of the July 15, 1999 issuance of Senior Notes, warrants representing 3.59% of the Company's ordinary shares that remained in escrow were cancelled. On September 28, 2000 warrants representing 4.06% of the Company's common equity (1,009,524 ordinary shares) were exercised as part of the initial public offering and issued to the holders.

Senior Notes

On July 15, 1999 one of the Company's subsidiaries, Head Holding Unternehmensbeteiligung GmbH, issued €100.0 million (approximately $101.7 million as at July 15, 1999) of Senior Notes. Proceeds of the offering were used to repay existing indebtedness (including the US loan agreement, bridge notes and lines of credit) and for general corporate purposes.

The notes bear interest of 10.75% per annum, which is payable semi-annually and mature in total on July 15, 2006. Among other restrictions, the notes include certain restrictive terms regarding investments, distributions and incurrence of additional indebtedness by the Company.

On January 5, 2000 a registration statement for the exchange of the original 10.75% Senior Notes ("Original Notes") for new 10.75% Senior Notes ("Exchange Notes") was made effective by the U.S. Securities Exchange Commission (SEC). On February 9, 2000, the Exchange Offer was consummated.

In October 2000, Head Holding Unternehmensbeteiligung GmbH, a 100% owned subsidiary of the Company, repurchased €30.9 million of its Senior Notes in a series of transactions using part of the proceeds of the Company's initial public offering.

Loan and Security Agreement

In April 2000, the Company's subsidiaries, Head USA, Inc., Mares America Corporation, Penn Racquet Sports, Inc. and Dacor Corporation, entered into a $20.0 million, three-year, renewable term Loan and Security Agreement with Fleet Capital Corporation and other financial institutions providing for a revolving loan facility and a letter of credit facility. The agreement is secured by substantially all the assets of Head USA, Inc., Mares America Corporation, Penn Racquet Sports, Inc. and Dacor Corporation, including inventory, accounts receivable, and the Penn trademarks and patents (collectively the "collateral"). The amount the Company is eligible to borrow is based upon a percentage of certain eligible collateral but will not exceed $20.0 million. Borrowings bear interest at either a Base Rate or a LIBOR Rate, each as defined in the agreement, plus an applicable margin. There are no borrowings under this line as of December 31, 2000. The extinguishment of the prior credit facility (see Note 5) and the write off of deferred financing fees resulted in a loss of $0.9 million. This is presented in the consolidated statement of operations under extraordinary items.

Other long-term debt

Other long-term debt comprises loans outstanding with several banks. The weighted average interest rate on outstanding borrowings was 4.98% and 5.61% as of December 31, 1999 and 2000, respectively. Borrowings mature at various dates through 2005.

Maturities of long-term debt

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

	December 31, 2000
2001	$ 1,531
2002	1,265
2003	1,034
2004	1,164
2005	1,035
Thereafter	66,968
	$72,997

Debt restructuring

On June 4, 1998, the Company entered into an agreement with an Austrian bank whereby the bank agreed to forgive outstanding short-term debt of approximately $6.0 million. In accordance with the terms of the agreement, the Company repaid remaining indebtedness of approximately $6.3 million on June 5, 1998.

On June 8, 1998, the Company entered into an agreement with a consortium of Austrian Banks whereby the banks agreed to forgive outstanding senior debt, other long-term debt and line of credit principal claims totaling approximately $53.3 million and interest totaling approximately $13.6 million.

The debt restructuring has been accounted for in accordance with Statement of Financial Accounting Standards No. 15 ("SFAS 15"), Accounting by Debtors and Creditors for Troubled Debt Restructurings. In accordance with SFAS 15, remaining indebtedness was recorded as the sum of all future principal and interest payments and accordingly, interest expense is no longer recognized on the restructured debt.

The Company recorded an extraordinary gain on debt restructuring of approximately $58.2 million, net of restructuring expenses. The extraordinary gain was calculated as follows (in thousands):

Outstanding principal at restructuring	$ 185,869
Accrued interest at restructuring	13,588
Future principal payments	(126,582)
Future interest payments (included in remaining indebtedness)	(11,055)
Debt restructuring expenses	(3,617)
	$ 58,203

No income tax expense was recorded on the extraordinary gain due to the availability of net operating loss carryforwards for the year ended December 31, 1998.

In the fourth quarter of 2000, the Company repaid all of the restructured debt using part of the proceeds of the Company's initial public offering. The gain on the extinguishment of the restructured debt of $3.0 million, net of income tax expense of $1.6 million has been recorded as an extraordinary item.

NOTE 17—OTHER LONG-TERM LIABILITIES

The Company funds leaving indemnities and pension liabilities paid to employees at some Austrian and other European locations. The indemnities are based upon years of service and compensation levels and are generally payable upon retirement or dismissal in some circumstances, after a predetermined number of years of service. The Company maintains sufficient assets to meet the minimum funding requirements set forth by the regulations in each country. Total leaving indemnity expense was $2.9 million, $2.4 million and $0.8 million for the years ended December 31, 1998, 1999 and 2000, respectively.

Indemnity liabilities total approximately $10.5 million and $9.6 million at December 31, 1999 and 2000, respectively. The Company assumes a weighted average annual rate of increase in salaries of 3.0% per annum. The leaving indemnity liability was determined using a weighted average discount rate of 6.0% in 1999 and 2000.

NOTE 18—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 2004. Rent expense was approximately $2.5 million, $2.8 million and $2.3 million for the years ended December 31, 1998, 1999 and 2000, respectively. The Company also leases certain manufacturing equipment under capital leases. Capital lease obligations are not significant as of December 31, 1999 and 2000.

Future minimum payments under non-cancellable operating leases with initial or remaining lease terms in excess of one year are as follows as of December 31, 2000 (in thousands):

	December 31, 2000
2001	$2,292
2002	1,588
2003	1,110
2004	662
2005	662
	$6,314

Litigation

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

In March 1998, a competitor filed suit against the Company's US subsidiary alleging patent infringement in connection with the Head Titanium Tennis racket. The case was settled in April 2000 and the accrual for the estimated settlement cost was released.

In July 1996 the European Commission released a decision allowing the contribution received by HTM Sport- und Freizeitgeräte AG (HTM) from Austria Tabak (former owner) as restructuring aid that was compatible with the European Union's state aid rules. In that decision, the European Commission imposed capital contribution requirements on HTM. The Commission's decision was appealed by two of HTM's competitors. On October 6, 1999, the Court of First Instance of the European Communities upheld the European Commission's decision. No appeal was filed to the decision of the Court of First Instance within the statutory appeal period.

In connection with the Senior Notes offering in July 1999, $18.8 million was contributed downstream as additional capital to HTM in order to satisfy in full the remainder of the capital contribution requirement imposed by the European Commission.

Note 19—Registered Capital

The Company is a Naamloze Vennootschap ("N.V."), a limited liability company under Dutch law. The registered capital of a N.V. is in the form of shares which represent negotiable securities. The minimum registered and authorised capital requirement is NLG 500,000 (approximately $0.23 million) and the minimum paid in capital requirement for a N.V. is NLG 100,000 (approximately $0.05 million).

In August 1998, Head Holding Unternehmensbeteiligung GmbH ("Head Holding") merged with a wholly-owned subsidiary of the Company in a transaction treated as a merger of entities under common control and accounted for on an "as if pooling" basis. The number of shares of the Company as of the date of the merger have been retroactively effected in the financial statements for all periods prior to the merger.

As of February 17, 2000, Head N.V. made a dividend payment in the aggregate amount of €16.1 million ($15.7 million) to its sole shareholder Head Sports Holdings N.V.

In August and September 2000, our shareholders resolved to amend our articles of association at a general meeting of shareholders. Upon this amendment becoming effective on October 3, our ordinary shares were split on a two for one basis and converted to a par value of €0.20 each from NLG 0.01. At December 31, 2000 99,551,692 and 39,820,677 shares were authorized and issued, respectively.

Pursuant to existing resolutions which were approved in August 2000, the Company is authorized to buy back 10% of its outstanding share capital over the next fifteen months to support the share price. Between November 12, 2000 and December 15, 2000 the Company purchased 956,300 shares of treasury stock at the prevailing price in the total amount of $5.2 million.

Note 20—Income Taxes

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

	For the Years Ended December 31,		
	1998	1999	**2000**
Dutch statutory tax rate	35.0%	35.0%	**35.0%**
Tax rate differential	(0.8)	31.5	**(3.3)**
Austrian capital credit	(3.8)	—	**—**
Permanent differences	6.3	0.1	**0.4**
Other	—	1.2	**1.4**
Valuation allowance	(11.2)	(261.1)	**(41.5)**
Effective tax rate	25.5%	(193.1)%	**(7.9)%**

Deferred tax assets (liabilities) consist of the following as of December 31, 1999 and 2000 (in thousands):

	December 31, 1999	December 31, 2000
Short-term:		
Deferred tax asset:		
Tax loss carried forward	$10,371	**$ 8,631**
Inventory reserve	1,390	**1,229**
Other short-term liabilities	1,864	**1,404**
Reserve for doubtful accounts	2,379	**2,096**
Debt restructuring	2,158	**—**
Total short-term deferred tax assets	18,163	**13,360**
Deferred tax liabilities:		
Deferred expenses	$ (2,087)	**$(1,638)**
Other short-term receivables	(205)	**(757)**
Foreign currency exchange differences	(1,941)	**(149)**
Accrued liabilities	—	**(71)**
Total short-term deferred tax liability	(4,233)	**(2,615)**
Valuation allowance	(6,965)	**(2,453)**
Total short-term net deferred tax asset	$ 6,965	**$ 8,293**

	December 31, 1999	December 31, 2000
Long-term:		
Deferred tax asset:		
Tax loss carried forward	$146,650	**$107,231**
Other	1,131	**461**
Total long-term deferred tax assets	147,782	**107,692**
Deferred tax liabilities:		
Fixed assets	$ (7,651)	**$(11,977)**
Other long-term receivables	(752)	**(2,035)**
Foreign currency exchange differences	(10)	**(157)**
Total long-term deferred tax liability	(8,413)	**(14,169)**
Valuation allowance	(69,479)	**(21,355)**
Total long-term net deferred tax asset	$ 69,889	**$ 72,168**

The Company has net operating loss carryforwards of approximately $393.0 million and $329.5 million, (both net of restricted portion due to the EC decision of $53.4 million) as of December 31, 1999 and 2000, respectively. These net operating losses are available in the following jurisdictions (in thousands):

	December 31, 1999	December 31, 2000
Austria	$331,871	**$275,964**
Germany	10,411	**7,376**
Other Europe	3,406	**1,538**
Japan	25,734	**17,735**
North America	21,539	**26,862**
	$392,962	**$329,476**

In July 1996 the EC limited the utilization of certain net operating losses (approximately $53.4 million as of December 31, 2000). These net operating losses and any related deferred tax asset are not included in the above amounts due to the limitation.

In light of the Company's recent and planned profitability, the Company released a substantial portion of the valuation allowance in both 1999 and 2000 relating to operating losses. In 1999, the tax benefits were first applied to reduce other non-current intangible assets, resulting from the date of acquisition on January 1, 1996, from $38.7 million to zero. The additional tax benefits were recognized as deferred income tax benefit in the amount of $38.8 million and $3.6 million in the years ended December 31,1999 and 2000, respectively.

Austria and Germany allow an unlimited carryover of net operating losses, whereas Japan and the United States allow 5 and 15 year carryovers, respectively.

Note 21—Research and Development Expense

The Company incurred research and development expense in the amount of $10.1 million, $9.2 million and $9.1 million for the years ended December 31, 1998, 1999 and 2000, respectively. Research and development expense is included in cost of sales in the accompanying consolidated statements of operations.

Note 22—Advertising Expense

The Company incurred advertising costs of $23.9 million, $29.7 million and $30.2 million for the years ended December 31, 1998, 1999 and 2000, respectively. Advertising expense is included in selling and marketing expense in the accompanying consolidated statements of operations.

Note 23—Segment Information

The Company operates in one industry segment, Sporting Goods. The activities related to the operations of London Films Ltd. were reported as "Income (loss) from discontinued operations" for the years ended December 31, 1998, 1999 and 2000 and the segment information for 1998 and 1999 has been adjusted to reflect this.

The tables below show revenues from external customers and long-lived assets by geographic region (in thousands):

	For the Years Ended December 31,		
	1998	1999	**2000**
Revenues from External Customers:			
Austria	$ 55,429	$ 68,042	**$ 67,419**
Italy	76,519	73,126	**66,866**
Germany	41,312	50,642	**42,893**
France	30,417	33,963	**30,646**
Japan	15,566	23,449	**20,809**
Other (Europe)	26,388	32,605	**38,518**
North America	58,871	106,929	**131,486**
Total revenues	$304,504	$388,755	**$398,639**

	December 31,	
	1999	**2000**
Long lived assets:		
Austria	$18,339	**$18,645**
Italy	18,035	**19,021**
Germany	390	**1,205**
France	195	**273**
Japan	1,821	**1,619**
Other (Europe)	9,443	**8,163**
North America	11,280	**12,018**
Total Assets	$59,503	**$60,943**

Note 24—Related Party Transactions

The Company receives administrative services from a corporation which is ultimately owned by the majority shareholder of the Company. Administrative expenses amounted to approximately $0.1 million, $0.6 million and $0.2 million for the years ended December 31, 1998, 1999 and 2000.

In 1998, the Company received consulting services from a member of the Board of Directors of one of the Company's subsidiaries, HTM Sport- und Freizeitgeräte AG. In accordance with the terms of a consulting agreement, the director received an advisory fee of $0.02 million per month plus success fees in certain circumstances equal to an amount to be agreed upon between the Company and the director. The Company included an accrual of approximately $1.0 million for success fees to be paid in conjunction with the debt restructuring as of December 31, 1998 which was included in the $3.6 million of total debt restructuring expenses. The success fee totaling approximately $1.0 million was paid in February 1999.

NOTE 25—RESTRUCTURING CHARGE

Following the acquisition of Penn, the Company decided to restructure its U.S. distribution subsidiary and to move the distribution of Racquet Sports from Columbia, MD to Phoenix, AZ and the distribution of Winter Sports from Columbia to Boston, MA.

The restructuring charge in 1999 includes costs for the closure of the Columbia location.

NOTE 26—GAIN ON SALE OF PROPERTY

In December 2000, one of the Company's subsidiaries sold a part of the building used in operations for $1.7 million, resulting in a gain of $1.2 million. This gain is included in general and administrative expense in the accompanying consolidated statements of operations.

NOTE 27—STOCK OPTION PLAN

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

Options have a maximum term of 10 years. As of December 31, 2000, 145,848 shares were available for grant under the Plan.

	Exercise Price Less Than Grant Date Stock Fair Value	
	Number of of shares	Weighted average exercise price
	(in thousands, except per share data)	
Outstanding at December 31, 1998	1,465,586	$0.24
Granted	783,620	0.24
Outstanding at December 31, 1999	2,249,306	0.24
Granted	29,088	0.24
Outstanding at December 31, 2000	2,278,394	$0.24

As of December 31, 2000, the weighted average remaining contractual life of the outstanding stock options is 6.7 years, and no options are exercisable.

The Company accounts for its stock options in accordance with SFAS 123. Accordingly, the Company records stock-based compensation expense based on the grant-date fair values of the stock options computed using the Black-Scholes option pricing model. Stock-based compensation expense is recognized over the vesting term of the options and amounted to $0.02 million, $0.5 million and $1.4 million for the years ended December 31, 1998, 1999 and 2000, respectively.

The weighted average grant-date fair values using the Black-Scholes option pricing model were $0.27, $5.42 and $8.84 per share for options granted in 1998, 1999 and 2000, respectively.

The fair values of options granted during 1998, 1999 and 2000 were estimated on the date of grant using the following weighted average assumptions: no dividends; expected volatility of 0% (all options granted prior to IPO); expected terms of 3.5, 3.6 and 4.0 years, respectively; and risk free interest rates of 4.70%, 5.76% and 6.63%, respectively. The Company has also assumed that all performance targets will be achieved and all options granted will become fully vested.

Note 28—Initial Public Offering

On October 3, 2000, Head N.V. completed its initial public offering of ordinary shares. A total of 14,583,333 shares were sold by Head at a price of $10.0 (€11.295) per share. The offering resulted in net proceeds to Head of $134.4 million, net of an underwriting discount of $7.3 million and offering expenses of $4.1 million. Also as a part of this offering, existing shareholders sold 6,250,000 shares for net proceeds of approximately $59.4 million, net of an underwriting discount of $3.1 million

Of the net proceeds of the initial public offering, approximately $123.2 million was used to pay down debt, including $59.0 million to repay the Renegotiated Austrian Loan Agreement, $15.4 million to repay short-term loans in Austria, $30.1 million to repay principal (€30,850) plus premium and accrued interest on the Senior Notes, $9.2 million to repay the short-term lines of credit from Japanese banks, and $7.4 million to repay the open lines under the Loan and Security Agreement with Fleet Capital Corporation in the United States, and $1.8 million to repay short-term bank borrowings in Italy, and other countries. Pursuant to an existing resolution Head N.V. repurchased 956,300 of its shares at prevailing market prices totaling $5.2 million. The balance of $6.0 million will be used for general corporate purposes.

Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Head N.V. and its subsidiaries at December 31, 1999 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with generally accepted accounting principles in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers
Vienna, Austria
February 21, 2001

List of Significant (Direct and Indirect) Participation's at December 31, 2000

	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 Tyrolia GmbH	Austria	100.0%
Head Tyrolia Sports Canada Inc.	Canada	100.0%
Head Sport s.r.o.	Czech Republic	100.0%
OÜ HTM Sport Eesti	Estonia	100.0%
Head Tyrolia Sports S.A.	France	100.0%
Sporasub S.A.	France	100.0%
HTM Deutschland GmbH	Germany	100.0%
Penn Europe GmbH	Germany	100.0%
Head Sportswear GmbH	Germany	50.0%
Penn Racquet Sports Co.	Ireland	100.0%
Penn Racquet Sports Holding Ltd.	Ireland	100.0%
HTM Sports S.p.A.	Italy	100.0%
HTM Sports Japan KK	Japan	99.6%
HTM Head Tyrolia Mares Iberica S.L.	Spain	100.0%
HTM Sports Corp.	Switzerland	100.0%
HTM USA Holdings Inc.	USA	100.0%
Head USA Inc.	USA	100.0%
Head Sports Inc.	USA	100.0%
Mares America Corp.	USA	100.0%
Dacor Corp.	USA	100.0%
Penn Racquet Sports Inc.	USA	100.0%

Listing Details

Our shares are listed on the New York Stock Exchange "HED" and the Vienna Stock Exchange "HEAD."

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

	NYSE *(amounts in dollars)*		Vienna Stock Exchange *(amounts in euros)*	
	High	Low	High	Low
September, 2000 (from 9/28)	8.2500	7.5625	11.2000	8.5000
October, 2000	7.8750	4.7500	9.7800	6.2000
November, 2000	6.2500	4.2500	7.4000	5.2000
December, 2000	6.0800	4.7500	7.1000	5.6800
January, 2001	5.9900	5.2100	6.2600	5.6500
February, 2001	5.8500	5.0000	6.4500	5.6000
March, 2001	5.1300	3.8100	5.9000	4.5100

PRINCIPAL OFFICE

Aert van Nesstraat 45
3012 CA Rotterdam
The Netherlands
Tel: (31) 10 214 1923
Fax: (31) 10 214 1957

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

TRANSFER AGENTS AND REGISTRARS

U.S. Transfer Agent and Registrar:
The Bank of New York
101 Barclay Street—22W
New York
NY 10286
USA

Tel from US: 1-888-BNY-ADR
Tel from outside US: (1) 908-769-9835/9711

European Transfer Agent:
Oesterreichische Kontrollbank AG
Am Hof 4
1010 Vienna
Austria

Tel: (43) 1 53127 352

ANNUAL MEETING

The Annual General Meeting of shareholders of the Company will be held on Monday 28 May, 2001 at 15:00 hours local time at the Sheraton Amsterdam Airport, Schipol Boulevard 101, 1118 BG Schipol Airport (Haarlemmermeer), The Netherlands.

INVESTOR ENQUIRIES

Analysts, investors, media and others seeking financial and general information, please contact:
Robert Kosian
Head of Corporate Development
71 South Audley Street
London
WIK IJA
United Kingdom
Tel: (44) 20 7499 7800
Fax: (44) 20 7491 7725
E-mail: htmbk@aol.com

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

Corporate Directory

Supervisory Board

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

Name	Age	Title
Christoph Henkel	43	Member of the Supervisory Board
René C. Jäggi	52	Chairman of the Supervisory Board
Viktor Klima	53	Member of the Supervisory Board
Maurice Saatchi	54	Member of the Supervisory Board
Michael B. Treichl	50	Member of the Supervisory Board
Karel Vuursteen	59	Member of the Supervisory Board

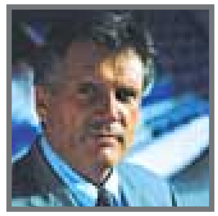
Management Board and Executive Officers

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

Name	Age	Title
Johan Eliasch	39	Chairman of the Management Board, and Chief Executive Officer
George F. Nicolai	48	Member of the Management Board
Ralf Bernhart	49	Member of the Management Board, and Chief Financial Officer
Carlo Contini	62	General Manager, Ski Boots Division
Claudio Ferrantino	54	Executive Vice President, Diving Division
Klaus Hotter	45	Executive Vice President, Ski Division
Robert Kosian	51	Head of Corporate Development
Georg Kröll	52	Executive Vice President, Licensing Division
Robert Marte	47	Executive Vice President, Racquet Sports Division
Edgar Pöllmann	56	Executive Vice President, Bindings Division
Robert Soden	57	President, Head USA
Helmut Umlauft	54	Vice President, Operations, Head Division
David Haggerty	43	President, Penn Racquet Sports

The Supervisory Board, Management Board and Executive Officers of Head N.V.

Viktor Klima,
Member of
Supervisory Board



Rene C. Jaggi,
Chairman of
Supervisory Board

Karel Vuursteen,
Member of
Supervisory Board

Christoph Henkel,
Member of
Supervisory Board

Maurice Saatchi,
Member of
Supervisory Board

Michael B Treichl,
Member of
Supervisory Board

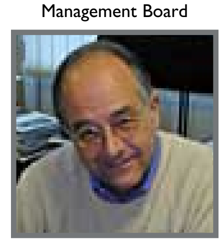
Ralf Bernhart
Member of Management
Board and CFO

Johan Eliasch,
Chairman of Management
Board and CEO

George F Nicolai
Member of
Management Board

Robert Marte
EVP, Racquet
Sports Division

Klaus Hotter
EVP, Ski Division



Claudio Ferrantino
EVP, Diving Division

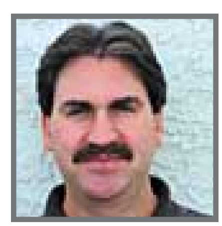
Georg Kroll
EVP, Licensing Division

Carlo Contini
General Manager,
Ski Boots Division

Edgar Pollmann,
EVP, Bindings Division

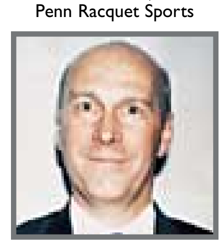
Robert Soden,
President Head USA

Helmut Umlauft
VP, Operations,
Head Divisions



Dave Haggerty
President,
Penn Racquet Sports

Clare Sharman
Corporate Finance



Robert Kosian
Head of Corporate
Development

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