

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

Commission file number 1-15134

HEAD N.V.

(Exact Name of Registrant as Specified in its Charter)

The Netherlands

(Jurisdiction of Incorporation or Organization)

Rotterdam

The Netherlands

(Address of Principal Executive Offices)

Rokin 55

1012 KK Amsterdam

The Netherlands

+31-20-625-1291

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary Shares of €0.20 each	New York Stock Exchange Vienna Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2003:

37,399,442 Ordinary Shares Nominal Value €0.20 each

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	1
ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	2
ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE	2
ITEM 3: KEY INFORMATION	2
3.A. Selected Financial Data	2
3.B. Capitalization and Indebtedness	4
3.C. Reasons for the Offer and Use of Proceeds	4
3.D. Risk Factors	4
ITEM 4: INFORMATION ON THE COMPANY	6
4.A. History and Development of the Company	6
4.B. Business Overview	7
4.C. Organizational Structure	23
4.D. Property, Plants and Equipment	23
ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS	24
5.A. Operating Results	24
5.B. Liquidity and Capital Resources	33
5.C. Research and Development, Patents and Licenses	35
5.D. Trend Information	35
ITEM 6: DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	36
6.A. Directors and Senior Management	36
6.B. Compensation	39
6.C. Board Practices	40
6.D. Employees	40
6.E. Share Ownership	41
ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	42
7.A. Major Shareholders	42
7.B. Related Party Transactions	42
7.C. Interest of Experts and Counsel	43
ITEM 8: FINANCIAL INFORMATION	43
8.A. Consolidated Statements and Other Financial Information	43
8.B. Significant Changes	43
ITEM 9: THE OFFER AND LISTING	43
9.A. Offer and Listing Details	43
9.B. Plan of Distribution	44
9.C. Markets	44
9.D. Selling Shareholders	44
9.E. Dilution	45
9.F. Expenses of the Issue	45
ITEM 10: ADDITIONAL INFORMATION	45
10.A. Share Capital	45
10.B. Articles of Association	45
10.C. Material Contracts	48
10.D. Exchange Controls	48
10.E. Taxation	49
10.F. Dividends and Paying Agents	56
10.G. Statement by Experts	56
10.H. Documents on Display	56
10.I. Subsidiary Information	56
ITEM 11: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	56
ITEM 12: DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	57
ITEM 13: DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	58
ITEM 14: MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	58
ITEM 15: CONTROLS AND PROCEDURES	58
ITEM 16: [RESERVED]	58
16.A. AUDIT COMMITTEE FINANCIAL EXPERT	58
16.B. CODE OF ETHICS	58
16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES	58
ITEM 17: FINANCIAL STATEMENTS	59
ITEM 18: FINANCIAL STATEMENTS	59

ITEM 19: EXHIBITS.....59
EXHIBIT INDEX

ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3: KEY INFORMATION**3.A. 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, 1999, 2000, 2001, 2002 and 2003 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, our independent auditors. 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., our controlling shareholder, an entity that is ultimately controlled by Johan Eliasch and his family members. 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,				
	1999	2000	2001	2002	2003
	<i>(in thousands, except per share data)</i>				
Statement of Operations Data:					
Total revenues.....	\$ 388,755	\$ 398,639	\$ 392,021	\$ 387,487	\$ 431,208
Cost of sales.....	228,453	227,442	233,971	233,402	266,023
Gross profit.....	160,302	171,197	158,050	154,085	165,186
Selling and marketing expense.....	95,906	97,743	102,094	102,619	117,071
General and administrative expense.....	38,601	33,488	33,972	32,081	38,847
Non-cash compensation expense.....	548	1,378	2,025	1,632	654
Restructuring charge (1).....	--	--	838	--	8,368
Operating income.....	25,246	38,588	19,121	17,753	245
Interest expense (2).....	(14,092)	(18,642)	(11,275)	(11,677)	(13,999)
Interest income.....	947	1,118	892	940	1,050
Foreign exchange gain (loss).....	4,574	7,502	5,828	(7,387)	(1,103)
Other income (expense), net.....	1,899	(4,181)	7	387	(18)
Income (loss) from continuing operations before income taxes and extraordinary items	18,574	24,386	14,573	15	(13,825)
Income tax benefit (expense) (3).....	35,887	1,934	(4,032)	(2,630)	(832)
Share of loss from equity investment, net of tax.....	-	-	(1,117)	--	--
Income (loss) from continuing operations before extraordinary items.....	54,463	26,321	9,424	(2,615)	(14,657)
Loss from discontinued operation.....	(60)	(644)	--	--	--
Extraordinary gain (4).....	-	2,104	--	--	--
Net income (loss).....	\$ 54,403	\$ 27,781	9,424	(2,615)	(14,657)
Earnings per share - basic (5)					
Income (loss) from continuing operations before extraordinary items.....	\$ 2.46	\$ 0.94	\$ 0.25	\$ (0.07)	\$ (0.40)
Net income (loss).....	\$ 2.46	\$ 0.99	\$ 0.25	\$ (0.07)	\$ (0.40)
Earnings per share - diluted (5)					
Income (loss) from continuing operations before extraordinary items.....	\$ 2.23	\$ 0.86	\$ 0.24	\$ (0.07)	\$ (0.40)
Net income (loss).....	\$ 2.23	\$ 0.91	\$ 0.24	\$ (0.07)	\$ (0.40)
Weighted average shares outstanding (5)					
basic	22,132	28,071	38,083	37,356	36,285
diluted	24,370	30,678	39,816	37,356	36,285
Other Financial Data:					
Cash provided by operating activities.....	\$ 28,444	\$ 6,452	\$ 35,921	\$ 23,279	\$ 17,342
Cash used in investing activities.....	\$ (57,517)	\$ (17,178)	\$ (19,913)	\$ (18,804)	\$ (16,554)
Cash provided by (used in) financing activities.....	\$ 43,066	\$ 20,073	\$ 393	\$ 2	\$ (2,007)

	1999	2000	2001	2002	2003
Balance Sheet Data:					
Cash (6).....	\$ 23,624	\$ 15,848	\$ 22,128	\$ 37,598	\$ 44,154
Total assets.....	\$ 434,660	\$ 434,304	\$ 416,519	\$ 473,853	\$ 537,586
Total debt (7).....	\$ 240,108	\$ 114,819	\$ 122,966	\$ 154,893	\$ 184,833
Capital Stock (8).....	\$ 64	\$ 7,067	\$ 7,067	\$ 7,067	\$ 7,067
Total shareholders' equity (9).....	\$ 82,547	\$ 229,988	\$ 212,539	\$ 229,824	\$ 241,716

- (1) Restructuring include employee terminations in 2001. In 2003 restructuring include employee terminations of \$5.2 million, impairment of fixed assets of \$2.6 million, excess rent of \$0.4 million and other related restructuring program costs of \$0.2 million.
- (2) Interest expense for the years ended December 31, 1999 and 2000 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."
- (3) 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 carry forwards.
- (4) Includes for the year ended December 31, 2000 a gain of \$2.1 million (net of income tax expense) as a result of the extinguishments of the restructured debt.
- (5) Earnings per share and 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. Earnings per share and weighted average shares outstanding on a diluted basis give effect to all outstanding options and warrants calculated under the treasury stock method. Options granted under the 2001 stock option plan have been excluded from the diluted earnings per share calculation for the year ended December 31, 2001 because their effect would be anti-dilutive. For the years ended December 31, 2002 and 2003, the diluted weighted average shares outstanding exclude the incremental effect of 1,789,490 and 1,347,773 stock options, respectively because it would have been anti-dilutive for these periods.
- (6) Cash includes cash and cash equivalents and in 1999 and 2003 restricted cash of \$5.7 million and \$2.8 million respectively.
- (7) Total debt 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." which amounts to \$6.3 million as of 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.
- (8) In 2000 due to the conversion to a par value from NLG 0.01 to EUR 0.20, \$4.4 million was transferred from additional paid-in capital to capital stock.
- (9) In 2000 a dividend of €16.1 million (approximately \$15.7 million) was paid to the Company's then sole shareholder. In 2001 and 2002, the Company paid a dividend of €0.28 (approximately \$0.25) per share and of €0.14 (approximately \$0.13) per share, respectively to its shareholders.

Exchange Rates

In this report, references to "U.S. dollars," "dollars" or "\$" are to United States dollars and "euro" or "€" means the common currency for twelve member states of the European Monetary Union. We have rounded percentages and some amounts contained herein for ease of presentation, and sometimes amounts may not add due to this rounding. We have presented most amounts in U.S. dollars. In some cases, this report contains translations of euro amounts into U.S. dollars at specified rates solely for the convenience of the reader. You should not construe these translations as representations that the euro amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated.

In January 1999, 11 European Union member states (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal and Spain) formed the EMU. The 11 EMU member states also introduced a new common currency: the euro. The fixed, irrevocable conversion rates between the euro and national EMU currencies were announced on December 31, 1998. These countries, as well as Greece, have adopted the euro as their national currency as of January 1, 2002.

Unless otherwise indicated, U.S. dollar amounts have been translated from euro amounts to U.S. dollars, based on the European Central Bank rates. On December 31, 2003, the rate was € 0.791766 = \$1. Our inclusion of such translations is not meant to suggest that the euro amounts actually represent such U.S. dollar amounts or that such amounts could have been converted into U.S. dollars at such rate or any other rate. For a discussion of the impact of the exchange rate fluctuations on our financial condition and results of operations, see "Risk Factors" and "Operating and Financial Review and Prospects." We did not use the rates listed above in the preparation of our financial statements.

The table below shows information concerning the European Central Bank rates for euro for the years ended December 31, 1999, 2000, 2001, 2002 and 2003, expressed in euro per one U.S. dollar.

	Year ended December 31,				
	1999	2000	2001	2002	2003
High.....	0.9985	1.2118	1.1927	1.1658	0.9637
Low.....	0.8482	0.9626	1.0477	0.9536	0.7918
Average (1).....	0.9341	1.0834	1.1159	1.0670	0.8897
End of period.....	0.9954	1.0770	1.1347	0.9536	0.7918

(1) The average of the European Central Bank rates for euro on the last business day of each month during the applicable period.

The table below sets forth the period end, high and low exchange rates, expressed in euro per one U.S. dollar, for six prior month.

Months	Period end	High	Low
October 2003.....	0.86044	0.86363	0.84832
November 2003.....	0.83375	0.87535	0.83375
December 2003.....	0.79177	0.83507	0.79177
January 2004.....	0.80749	0.80821	0.77954
February 2004.....	0.80528	0.80528	0.77773
March 2004.....	0.81806	0.82522	0.80103

The European Central Bank rate on December 31, 2003 was \$1.00 = €0.7918 and the European Central Bank rate on March 31, 2004 was \$1.00 = €0.8181.

3.B. Capitalization and Indebtedness

Not applicable.

3.C. Reasons for the Offer and Use of Proceeds

Not applicable.

3.D. Risk Factors

The sporting goods industry is highly competitive and our success depends upon our ability to respond quickly to changes in consumer preferences

The sporting goods industry is very competitive and includes many regional, national and international companies, some of which have achieved substantial market share. We compete primarily on the basis of product features, brand recognition, quality and price, and the failure to remain competitive could adversely affect our results of operations and financial condition. Some of these competitors offer types of sports products that we do not sell and some of our competitors are larger and have substantially greater financial and other resources than us.

Our success also depends partly on our ability to anticipate and respond quickly to changing merchandise trends, consumer taste and consumer preferences. Any failure to so respond could adversely affect consumer acceptance of our brand names, product lines and business.

Our failure to introduce innovative products to the market could adversely affect our sales and margins

Our success is dependent in part on our introduction of innovative products that represent an improvement over existing products that we or other manufacturers offer. We believe that our future growth and success will depend significantly on our continued ability to identify, develop, introduce and market innovative sports products such as our *Head Intelligence* skis and snowboard equipment, our *Head Titanium*, *Head Intelligence* and *Head Liquidmetal* series of tennis racquets, and our *Mares* and *Dacor* lines of diving equipment, although we cannot assure you of our ability to do so. Our operating results may fluctuate as a result of the amount, timing and market acceptance of new products that we or our competitors introduce. In addition, our failure to introduce new, innovative products will adversely affect our margins because margins on the sales of sports products tend to decline over time with the entry of competitive products into existing markets.

Negative factors beyond our control have caused and could continue to cause a decline in demand for our products

We and the sporting goods industry in general are dependent on the economies in which we sell our products and levels of consumer spending. Economic conditions affect not only the ultimate consumer, but also retailers, our primary customers. As a result, our results may be adversely affected by downward trends in the economies in which we sell our products, such as the recession in

Japan during the 1990's and the current general worldwide economic slowdown. In addition, the occurrence of events that adversely affect economies, such as the September 11, 2001 attacks on the United States and subsequent acts of terrorism, continue to adversely affect leisure travel and related discretionary consumer spending, which can have a particularly negative impact on our diving business. We cannot assure you that any prolonged economic downturn would not adversely affect us. In addition, a decline in the size of the market for sports products from which we derive sales, whether from a decrease in the popularity of particular products or adverse weather conditions, such as lack of snowfall, could cause a decline in sales.

We may not successfully realize the savings of our cost reduction program

The cost savings described under "Item 4.B Business Overview— Our Strategy — Reduce Costs" represent the savings we anticipate to result from the full implementation of our cost reduction program described in that section. These future cost savings are based upon a number of estimates. We may not realize the cost savings from our cost reduction program if, among other things:

- our estimates are proved incorrect;
- there are additional unanticipated costs; and/or
- the implementation of the program is not completed for any reason in the time periods envisaged, including disruptions and delays in transferring our operations from one plant to another as described.

Accordingly, the estimated cost savings are not necessarily indicative of our future financial results which may be affected by a number of other factors, including demand and pricing for our products and other costs associated with our production, distribution and other operations.

Shifts in currency exchange rates may adversely affect our results of operations

We operate in a multi-currency environment in which a portion of our revenues and expenses are denominated in currencies other than the euro. We are, as a result, subject to currency translation risk and, to a lesser extent, currency transaction risk. Currency translation risk arises because we measure and record the financial condition and results of operations of each of our subsidiaries in their functional currency and then translate these amounts into our reporting currency, the U.S. dollar. We incur transaction risk when one of our subsidiaries enters into a transaction using a currency other than its functional currency, although we reduce this risk by seeking to match our revenues and costs in each currency. Accordingly, shifts in currency exchange rates, particularly between the euro and the U.S. dollar, may adversely affect our results of operations.

We are dependent in part on the performance of third-party suppliers, which may cause delays in filling orders, affect the quality of some products or affect the image of our trademarks

Approximately 40% of our cost of sales in 2003 consists of fees paid to third-party manufacturers located in Europe, in countries such as the Czech Republic (some junior skis), Germany (snowboard bindings), Austria (snowboards), Estonia and Italy (diving products) and Asia, in countries such as China (tennis and squash racquets, accessories and snowboard boots) and Thailand (diving products). Furthermore, a substantial number of our third party licensees outsource the manufacturing of Head licensed products to third party manufacturers. As a result of this outsourcing, we, as well as our third party licensees, are dependent in part on the performance of third-party suppliers in our ability to deliver quality products in a timely manner. We and our licensees are also increasingly subject to risks relating to the local economic and political conditions in the countries to which we outsource our manufacturing operations. Although these factors have not had an adverse impact on our operations to date, we cannot assure you that these factors will not affect quality control, orders and shipments, or the image of our trademark in the case of licensees. In addition, the ability to fulfill orders and our cost of sales may be adversely affected in the event we are required to shift the manufacturing of some of our products from one geographical location to another.

We are indirectly controlled by one shareholder whose interests may conflict with yours

Head Sports Holdings N.V., controlled 18,987,344 shares, or 47.7% of our issued shares as of March 31, 2004. Head Sports Holdings N.V., a Netherlands Antilles corporation, is controlled by Johan Eliasch and his family members. As of April 13, 2004 Johan Eliasch also owned 45,900 of Head N.V.'s shares directly. Our controlling shareholder, Head Sports Holdings N.V., has the power to approve the nominations of our executive officers, approve the proposed actions of the Supervisory and Management Boards, change our core business, cause us to engage in transactions with affiliated companies, cause or restrict the sale of our assets, control our dividend policy and make other fundamental corporate decisions.

The business of Head N.V. is carried out primarily by a Management Board, which appoints its executive officers, and is overseen by a Supervisory Board. Under Head N.V.'s articles of association, a Dutch foundation called the Stichting Head Option Plan has the power to nominate all members of the Management Board, appoint one-third of the Supervisory Board and nominate the remaining members of the Supervisory Board. The Board of the Stichting is Head Sports Holdings N.V., the entity controlled by Johan Eliasch and his family members. The special power of the Stichting ceases when Johan Eliasch or his affiliates or family members cease to control the Stichting or cease to beneficially hold any of Head N.V.'s shares. In general, a two-thirds majority of shareholders voting at a general meeting of shareholders may remove members of the Management and Supervisory Boards, and the articles of association, including the rights of the Stichting, also may be amended (at the proposal of the Management Board and with approval of the

Supervisory Board) by a two-thirds majority of shareholders. Therefore, as a result of his control over the Stichting, Johan Eliasch will retain the power to nominate and essentially control the election of the Management and Supervisory Board members and other executive officers so long as he holds any of Head N.V.'s shares until there is an amendment to the articles of association to remove the rights of the Stichting.

We are dependent on patents and trademarks and inadequate protection of patents and trademarks or patent or trademark litigation would adversely affect our business

We rely on a combination of patents, trademarks, trade secrets and confidentiality agreements to protect our proprietary technology, rights and know-how. We hold several hundred patents and trademarks, several of which are filed in multiple jurisdictions, including in Europe, the United States and Japan. Our major trademarks are registered in our key markets and numerous other countries. We believe our patents and trademarks to be among our most valuable marketing assets and generally seek protection for them, particularly the names *Head*, *Tyrolia*, *Penn* and *Mares* in countries where significant existing or potential markets for our products exist. We believe we have taken adequate measures to protect our proprietary information, trade names and trademarks in all our major markets, although not all our trade names and trademarks are proprietary to us for all of our products in all our markets. For example, we do not own the trademark "Liquidmetal" but rather license the name pursuant to an agreement we have with Liquidmetal Technologies, Inc. This agreement has an initial term of four years commencing January 1, 2003, and the parties have agreed to make best efforts to extend the agreement thereafter for a similar duration under similar terms.

We cannot assure you that the measures we (or our licensors from whom we license patents and trademarks) take to protect our intellectual property will afford us adequate protection against patent and trademark infringements, that pending patent and trademark applications will eventually be issued or that the claims allowed for any of our existing or future patents and trademarks will provide competitive advantages for our products or will not be successfully challenged or circumvented by competitors. In addition, we cannot assure you that we will be able to continue to license names for which we do not currently hold trademarks, such as "Liquidmetal", at all or under the same terms as our existing license agreements.

In the United States, patent applications are maintained in secrecy for a period after filing and the right to a patent is given to the first to invent, not the first to file, a patent application. We cannot be sure that our products or technologies do not infringe patents that may be granted in the future under pending patent applications, or that our products do not infringe any patents or proprietary rights of third parties. The validity and enforceability of third party claims could prevent us from selling our products or could require us to obtain licenses from the owners of these patents or to redesign our products to avoid infringements. We cannot assure you that we could accomplish any of these alternatives successfully, and our inability to do so if necessary could adversely affect our business. In addition, we cannot assure you that our employees and third parties with whom we have entered into confidentiality agreements will respect these obligations, or that our competitors will not use our trade secrets or proprietary information. In addition, the laws of some countries do not protect our products and intellectual property rights to the same extent as the laws of the United States or Europe. Litigation may be necessary to defend against claims of infringement, to enforce our patents or trademarks, or to protect trade secrets and could result in substantial costs to us. We cannot assure you that we would prevail in these types of litigation.

Environmental regulations by European Union, national and local regulatory bodies could adversely affect our business

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

We believe that the overall impact of complying with regulations and legislation protecting the environment will not have a material adverse effect on our future financial position or operating results. We cannot assure you, however, that this will be the case. Capital expenditures and expenses in 2003 attributable to compliance with environmental laws were not material.

We have product liability exposure resulting from the use of our products

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

ITEM 4: INFORMATION ON THE COMPANY

4.A. History and Development of the Company

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* (principally alpine skis, ski boots and snowboard products and tennis, racquetball and squash racquets), *Penn* (tennis balls and racquetball balls), *Tyrolia* (ski bindings) and *Mares* and *Dacor* (diving equipment). Our key products have attained leading market positions and have gained visibility through their use by many of today's top athletes.

With a broad product offering marketed mainly to middle to high price points, we supply sporting equipment and accessories to all major distribution channels in the skiing, tennis and diving markets, including pro shops, specialty sporting goods stores and mass merchants. Our products are sold through over 32,000 customers in over 80 countries and target sports enthusiasts of varying levels of ability and interest ranging from the novice to the professional athlete. Our strongest presence has traditionally been in Europe, and we have recently been successful in building market share in the United States, the next largest market for our products after Europe.

Our Head ski division traces its origins to 1950 when it was founded by Howard Head, the inventor of the metal ski. In 1970 and 1971, AMF Incorporated acquired the predecessors of our Head ski, Tyrolia bindings and Mares diving divisions, which collectively became known as AMF's Sport Product Group. In 1989, HTM Sports Holding B.V., a company formed by Freeman Spogli & Co. and a group of Japanese investors, acquired the companies that comprised the Sports Product Group in addition to the predecessor of our ski boot and trekking shoes division. In 1993, this company was sold to Austria Tabak, the then Austrian government-owned tobacco monopoly, which held them through what today is known as HTM Sport-und Freizeitgeräte AG, or "HTM". Following its purchase by Austria Tabak, HTM began experiencing financial difficulties. In January 1996, our intermediate holding company subsidiary, Head Holding Unternehmensbeteiligung GmbH, or "Head Holding", acquired HTM from Austria Tabak for ATS 10 million (\$0.8 million) pursuant to a Share Purchase Agreement dated September 20, 1995.

Over the last 54 years, we believe we have earned a reputation as a leading developer and manufacturer of innovative, high-quality and technologically advanced sporting equipment. Our focus continues to be on our core products of skiing, tennis and diving equipment. In order to expand market share and maximize profitability, we have increased our emphasis on marketing and new product development, leveraging further our brands, global distribution network and traditional strength in manufacturing. We have added complementary product lines and premier brands through acquisitions, including diving products company *Dacor* in 1998 for \$2.3 million and the tennis ball manufacturer *Penn* for \$40.6 million in 1999. In October 1999, we acquired the *Blax* and *Generics* snowboard business for \$0.7 million whose products we now market under the *Head* brand.

Head N.V. was incorporated as a holding company under the laws of The Netherlands on August 24, 1998 as a public company with limited liability (*naamloze vennootschap*) or an N.V. Our corporate seat is in Rotterdam, The Netherlands. We are registered under number 24286737 at the Commercial Register in Rotterdam, The Netherlands. Our executive offices are located at Rokin 55, 1012 KK Amsterdam, The Netherlands. Our telephone number is +31-20-625-1291. Our website address is www.head.com. Our agent in the United States is CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, NY 10011.

4.B. Business Overview

Industry Overview

Winter Sports Market

We define the winter sports market as the market for alpine skis, ski boots and bindings, and snowboard equipment. We estimate that there are 50 million skiers and 8 million snowboarders active worldwide and that the market for winter sports equipment in 2003 was approximately \$1.49 billion at the wholesale level, consisting of \$525 million of skis, \$195 million of bindings, \$360 million of boots and \$410 million of snowboard equipment. The ski market is split predominantly among Europe, the United States and Japan, with Europe in 2003 constituting approximately 60% of the world market, the United States approximately 17% and Japan approximately 14%. The snowboard market is led by North America, followed by Europe and then Japan.

Ski sales have traditionally been the primary component of the winter sports market, with ski sales patterns having a relational effect on the sales of bindings, ski boots and other ski accessories. The market for skis, however, has undergone a transformation in the past decade by declining from an estimated 6.5 million pairs sold per year worldwide in the late 1980's to approximately 4.2 million pairs sold per year in 2003. The reduction in ski sales resulted primarily from a shift in consumer preference from skiing to snowboarding in the early 1990's, an absence of significant product innovation prior to the introduction of the carving ski and the severe decline in the Japanese market, caused by the economic difficulties experienced there in recent years. In the last ten years, the snowboard market developed into a new form of winter sport, and the market has increased from 800,000 boards sold in 1995 to a peak of 1.6 million in 2000. In 2003, 1.4 million boards were sold.

Globally in 2002 the winter sports market experienced a decrease of approximately 5% caused by late snow in some important markets in Europe and the west of North America and the recessionary global economy. For 2003 the market remained stagnant at this level.

The decline in the market for skis has had a corollary effect on the market for bindings, ski boots and other accessories. The

bindings market declined from approximately 5.9 million pairs sold per year in the early 1990's to approximately 4.2 million pairs in 2003. The ski boots market suffered a significant decline from 3.9 million pairs sold in 2000 to 3.6 million pairs sold in 2003 with lower average prices in constant value. We believe this decline in price was due to oversupply resulting from late manufacturers' reaction to a slowing of the replacement cycle for ski boots.

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

Carving skis have proved popular with skiers. We estimate sales of carving skis increased to approximately \$525 million or 100% of total industry-wide ski sales at wholesale in 2003, from an estimated \$40 million in 1995. Carving is designed to capture the feel of snowboarding with greater control and allows for turns to be executed at high speed making skiing a more effortless and easier experience for skiers of all abilities. Based on our market knowledge and experience we expect that these features will make skiing more fashionable for all groups, that carving will continue to dominate the category at the expense of traditional skis and that some snowboarders will shift to carving skis. Industry observers also believe that growth in carving skis has helped to stabilize the overall ski market, thereby partially offsetting the declining industry trend.

In 2003, consolidation continued in the snowboard industry of the winter sports market. Traditional ski distributors and retailers replaced many of the snowboard specialists in the marketplace. We expect this trend to continue.

Racquet Sports Market

We define the racquet sports market as the market for tennis, squash and racquetball racquets and tennis balls and racquetball balls. We estimate that the market for tennis racquets in 2003 was approximately 9.1 million units, with a value of approximately \$347 million at the wholesale level. We believe the markets contracted by approximately 8% in revenue in 2003. The market is divided predominantly among the United States, Europe and Japan. The United States and Europe each represents more than 25% of the 2003 world market.

Measured in unit volume, the worldwide tennis racquet market has declined from its peak in the early 1990's, as a result of various factors, including reduced interest in the sport, particularly from younger people. The decline in interest is believed to be due to competing leisure activities, such as alternative sports, computer games and the Internet. In 2003 the tennis market was also impacted by consumer uncertainty about general economic activities and the deterioration of the labor market globally.

We estimate worldwide sales of tennis balls at approximately \$220 million at wholesale in 2003, with approximately 22.8 million dozen tennis balls sold. Of these sales, the US and Europe accounted for approximately 42% and 28% in units, respectively, representing the two largest markets for tennis balls. In 2003, the market for tennis balls was generally perceived to have a decline overall by approximately 2%.

Diving Market

We define the diving market as the market for diving equipment, wetsuits, drysuits and diving accessories. In 2003, the overall diving market was generally perceived to have declined by 3%, with the important US and Japanese markets showing, according to some estimates, a downturn in demand of up to respectively 1% and 20%. This overall decline was, we believe, principally due to the decrease in international travel to diving destinations and, to a lesser extent, the general worldwide economic slowdown. Only certain markets in areas such as South East Asia and Eastern Europe showed some improvement generally across the industry in 2002.

We estimate the market at the end of 2003 to have been approximately \$470 million based on new market estimations. We expect the diving market to recover when customers feel that the threat of terrorism is sufficiently contained. The popularity of the sport is becoming significant in many emerging countries like Russia, Poland, Croatia, Serbia, Ukraine, Thailand and South Africa with significant increase in sales especially as far as diving centers are concerned. The market can be divided into a lower segment sold through chain stores with lower average prices and an upper segment sold through specialty stores. The lower segment of the market consists primarily of equipment for snorkeling while the upper segment of the market consists of equipment for scuba diving.

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

Our Competitive Advantages

We have a leading market share in key product areas. We believe we hold leading market position in skiing, tennis and diving products.

- *Skis.* In 2003, we believe, based on our market knowledge and experience, that *Head* skis were the number two selling skis in Europe, the largest market for ski equipment in the world, and we believe we held the number three position globally or 13% of

the market based on units sold.

- *Bindings.* *Tyrolia* bindings also have long been a market leader, and we believe, based on our market knowledge and experience, that *Tyrolia* was the top selling brand of ski bindings in 2002, in terms of numbers of units sold. In the 2003 season, we believe we were the largest manufacturer of ski bindings worldwide in terms of numbers of units produced (including ski bindings manufactured for others).
- *Racquets* In tennis, we believe Head maintained the number one market position in Europe and the number two position globally in retail sales in 2003.
- *Balls* Penn is the world's leading manufacturer of tennis and racquetball balls in volume sold. In 2003, we estimate that Penn sold over half the tennis balls sold in the United States and held 30% of the tennis ball market worldwide in volume. In 2003, we estimate we held 75% of the racquetball ball market in the United States, which we believe accounted for 90% of the worldwide market.
- *Diving.* Mares is one of the largest producers and marketers of diving equipment in the world. We also own Dacor Corporation, a U.S.-based seller of a selected range of diving equipment. We believe that in 2003 Mares and Dacor together held 17% of the worldwide market in diving equipment.

We have a strong brand identity. Our principal brands — *Head*, *Penn*, *Tyrolia* and *Mares* — are among the most widely recognized names in their markets. We reinforce the strength of our brands through a program of endorsements with high profile athletes and sponsorship of major tournaments and other events.

- *Winter Sports.* Hannes Trinkl, the 2001 Downhill World champion, endorses *Head* skis as well as the up and coming star Maria Riesch, from Germany. In snowboarding, we have received endorsements from the German athlete, Jan Michaelis, who won the overall 2001/2002 world championship title in Halfpipe and his Finnish teammate, Jukka Erätuli, who won the 2001/2002 and 2002/2003 overall world championship title in the Big Air discipline.
- *Racquet Sports.* Andre Agassi endorses our Head tennis racquets and used our Head Liquidmetal racquet in the 2003 U.S. Open. Gustavo Kuerten and Goran Ivanisevic both won 2001 Grand Slam tournaments using a *Head Intelligence* racquet. *Penn* is the official tennis ball of many major tennis tournaments worldwide, including ATP Tour and WTA Tour events and the Tennis Masters Series and Tennis Masters Cup.
- *Diving.* We believe most free diving world records, including those set by Francisco "Pipin" Ferreras at 170 meters and Gianluca Genoni, have been set using *Mares* equipment.

This strong brand identity allows our products to command higher prices and fosters brand loyalty. We believe the strong identity and visibility of our brands have been instrumental in increasing licensing opportunities for apparel and other products, as well as enabling us to introduce new product lines and enter new markets more effectively.

We are at the forefront of product development and innovation. We have been and continue to be at the forefront of the development of innovative and technologically advanced sporting equipment.

- In 2003 we introduced Head Liquidmetal racquets, which *Fortune* magazine and *Business Week* recently declared to be one of the 25 best products of the year 2003. Three months after their introduction, 3 of our Head Liquidmetal lines of racquets were in the top four best-selling racquets in the U.S. Pro/Specialty channel of distribution. In addition, our Head Liquidmetal "*LM Radical*" racquet was the best selling racquet of all brands in Japan in the September to December 2003 sales period. In 2000, we introduced our *Head Intelligence* and *Head Intelligence X* racquets, which, along with *Head Titanium* racquets (launched in 1997), significantly increased our overall U.S. market share in terms of revenues from 9% in 1997 to 24% in 2003.
- In our *Head Intelligence* skis and snowboards, we have utilized the technology originally developed for our *Head Intelligence* line of tennis racquets. *Head Intelligence* skis and snowboards transfer the energy created by contact with surface of the snow through *Intellifibers* to absorb vibration and adjust the stiffness of the skis and snowboards based upon speed and snow conditions. Major ski magazines and trade journals have rated the skis highly and we gained added visibility when the skis were used at the 2002 Winter Olympics in Salt Lake City, Utah and in World Cup ski races 2002/2003. We have also been a leader in the development of carving skis, and we introduced the first bindings specifically designed for carving skis, which include carving plates and other features designed to improve performance.
- *Mares* is a leader in technological innovation in the diving market and holds several key patents on regulators, diving computers and other related products. Both the U.S. Navy and the European Union have certified many of these products.

We employ an integrated marketing program. We consider our marketing approach to be key to promoting and reinforcing the strength of our brands worldwide. Each of our products is supported by an integrated marketing program which is designed to be responsive to the demands of our targeted trade customers.

- Our marketing techniques include the hosting of training programs and clinics for in-store personnel, participation in trade fairs, preparation of in-store promotional materials and a strong advertising program, including print advertising and point-of-sale merchandising such as displays and samples. As a result, we believe that we have built a strong presence in specialized ski, tennis and diving retail outlets in a number of our key geographic markets.
- In addition, we operate a strong grassroots program, introducing our products to instructors, coaches and other professionals who are in a position to generate interest in a product and influence the decision of the ultimate consumer.
- We believe the breadth of products we offer in our chosen markets makes us more attractive to customers because it allows them to reduce their number of suppliers, as well as to end users because it simplifies their purchase decision.

We design and develop the manufacturing technology for our high-end products in-house. In addition to designing our products, we have made a strategic decision to design and develop the manufacturing technology for our high-end sports products at our own technologically advanced manufacturing plants. In this way, we protect the quality, image and workmanship associated with our products and ensure that we move new products quickly from development to the marketing and selling stages. By maintaining control throughout every facet of the development and manufacturing process of our high-end products, we also seek to protect our proprietary technology and thereby prevent imitations of our products. We believe that this manufacturing strategy provides us with a significant competitive advantage. When we do not believe that a product's quality or proprietary technology will be compromised, we outsource the product to third-party manufacturers in order to reduce costs and improve unit profitability.

Our Strategy

Our business strategy is to capitalize on our competitive strengths in order to increase revenues while improving cash flow and profitability through market share expansion, new product introductions and cost reductions.

Expand Market Share. We intend to expand our market share, particularly in the United States and Japan, by focusing on innovative products such as our Head Liquidmetal racquets and *Head Intelligence* skis and snowboards and strong-selling products such as *Penn* tennis balls.

- We intend to build market share in most European markets through continued product innovation and brand marketing.
- We intend to increase our penetration of the U.S. market for tennis racquets and other Head products through continued innovations in racquets and an exclusive endorsement agreement with the US Professional Tennis Association (racquets and balls) and a non-exclusive endorsement agreement with the Professional Tennis Registry (racquets only), the two largest teaching organizations globally. Our goal is to become the leading supplier of tennis products and add significantly to the presence of Head racquets in the United States.
- We intend to expand sales of our snowboard equipment by leveraging our sales, marketing and distribution networks.
- We intend to increase our penetration of the U.S. market for diving equipment by introducing new products into the *Mares* line.
- We intend to increase business in emerging markets such as Asia, Latin America and Eastern Europe through a combination of higher brand awareness, product innovations and increasing sales and marketing resources.

Rapidly Develop and Launch New Products. We intend to continue our tradition of product innovation and development by identifying new product opportunities and moving quickly to launch these products successfully. After we identify a new product opportunity, we rely on our in-house research and development department and the manufacturing facilities available to us to produce the desired product concept. Thereafter, through a combination of our integrated marketing program, high brand awareness and global distribution organization efficiency we are able to introduce the new products to the market rapidly. Recent examples of this are our *Head Intelligence* skis and snowboards and *Head Liquidmetal* tennis racquets. In 2003, 2002 and 2001, we incurred \$13.6 million, \$11.0 million and \$9.5 million, respectively, on engineering, research and development.

Reduce Costs. We are implementing the following cost reduction program, which we believe will result in cost savings and increased operating income:

- We have transferred all of our manufacturing operations of ski boots and fins in Tallinn, Estonia to a recently purchased plant in Litovel, Czech Republic. We expect lower overhead costs for these manufacturing operations as they will share administrative

and management resources with our existing infrastructure in Austria. We have already ceased production at our Estonia plant in preparation for its closing, currently scheduled for the end of 2004 with its subsequent sale.

- We have transferred some of our ski manufacturing from our plant in Kennelbach, Austria to our existing plant in Budejovice, Czech Republic where production costs are considerably lower. We also have transferred much of our racquet production in Kennelbach to Budejovice.
- We are in the process of closing our tennis ball production facility in Mullingar, Ireland and transferring these operations to our existing, under-utilized plant in Phoenix, Arizona.
- We are centralizing our European distribution organizations for Winter Sports and Racquet Sports products so that Head International GmbH will operate as a single distribution company for key markets. Head International invoices and ships products from one European distribution center in Klaus, Austria to our customers in Switzerland, Germany, Italy and Austria since January 1, 2004. From January 1, 2005, we intend for Head International to invoice products to our customers in France and the UK. As a result, all of our invoicing to the customers in these markets and to third-party distributors worldwide will occur from Head International. The former related European distribution companies will thereafter function only as sales agencies. We already completed the consolidation of our U.S. warehouses from three locations to one location and streamlining the management of our U.S. diving, winter and racquet sports businesses.

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

Our Products

Statements regarding our competitive position consist of estimates based on industry reports concerning market share, market position and industry data for our various lines of business compiled by industry analysts for our major markets, our knowledge of our sales and markets, and claims by other sporting goods products manufacturers.

Winter Sports

Winter Sports products accounted for 43.8% of our total revenues in 2003.

Head Ski

Our *Head* ski brand is one of the leading ski brands in the world. We estimated 13% market share of our skis in 2003. We sell a broad range of carving skis designed for all levels of skiers, from the novice to the professional racer. Our ski products represented 39.4% of our total Winter Sports revenues in 2003.

The following table sets forth our principal *Head* ski models:

<u>Line</u>	<u>Target Market</u>	<u>Number of Models</u>	<u>Features</u>
Racing Carver	Expert skiers and racers	4	Extreme stability and precision for racing and high performance skiing
Freeride	Advanced to expert skiers	6	Maximum lift in powder snow and maneuverability for off piste and extreme Skiing
Allround Carve	Intermediate to advanced skiers	9	Easy-turning and maneuverability for all types of terrain
New School	Advanced to expert skiers	3	Shock-absorbing reinforced construction for mogul, freestyle skiing and jumps
All-Mountain Cruise	Beginner to intermediate skiers	3	Shorter length and easy-turning suitable for learning and hobby skiers
Junior	Young skiers	7	Radical side cuts designed for easy handling for younger skiers of all Abilities
Rental	All skiers	6	Added durability
Accessories	All skiers	18	Includes ski poles, carrying bags and other items

Technology. We believe that we are an industry leader in the development of innovative and technologically advanced carving skis.

Our carving skis are not only different in appearance from conventional skis, but are also differentiated from various other carving skis by patented technical features and directional stability. In February 2002, we introduced a patented "ski management" system — *Head Intelligence* skis. This product line utilizes the technology we introduced in 2000 with our *Head Intelligence* line of tennis racquets and incorporates the piezoelectric *Intellifiber* and *Head Chipsystem*. *Head Intelligence* skis transfer the energy created by contact with surface of the snow through the Intellifibers to absorb vibration and adjust the stiffness of the skis based upon speed and snow conditions. This gives the skier more control with less effort. Major ski magazines and trade journals have rated the skis highly and we gained added visibility through the skis being used at the 2002 Winter Olympics in Salt Lake City, Utah and in World Cup ski races 2002/2003 and 2003/2004.

Market Share. We estimate that the global ski market was approximately \$525 million at wholesale in 2003. We believe, based on our market knowledge and experience, that in 2003, Head skis were the number two selling skis in Europe and that we held the number three position worldwide based on units sold. We estimate our market share for skis worldwide was 13% in 2003, an increase of approximately 60% from an estimated 8% in 1996.

We believe that demand for carving skis will continue to increase and that carving ski sales represented 100% of total industry-wide ski sales in 2003. We expect to increase our market share through geographic expansion and focused product offerings. We plan to pursue market share growth in the United States and expect to have further opportunities in developing ski markets such as Eastern Europe and to a lesser extent, South America.

Positioning. We were the first ski manufacturer to introduce a fully integrated line of carving skis, boots and bindings. We believe that this integrated product offering is key to maintaining preferred relationships with trade customers and increasing our global market share. In addition, through this integrated offering, we achieve synergies in distribution and engage in joint product development among our internal product groups in the development of new carving products and other products.

Manufacturing. We manufacture *Head* skis at our manufacturing plants in Kennelbach, Austria and Budejovice, Czech Republic, where we use a computerized manufacturing system. As part of our efforts to reduce costs, we have transferred some of our ski manufacturing from our plant in Kennelbach, Austria to our plant in Budejovice, Czech Republic. We outsource the manufacture of some models of junior skis to a third party. Through factory automation, we have been able to greatly improve our labor productivity. We use some excess capacity to manufacture high performance and carving skis for other branded ski companies.

Bindings

We believe that *Tyrolia* was the top selling brand in the worldwide ski bindings market in 2003, based on units sold. Our bindings business represented 30.4% of our total Winter Sports revenues in 2003.

The following table sets forth the principal *Tyrolia* binding products:

<u>Line</u>	<u>Target Market</u>	<u>Number of Models</u>	<u>Features</u>
Racing	Expert and professional skiers	3	Innovative <i>Free Flex PLUS</i> Technology (patented)
Rail Flex	Beginners and advanced skiers	3	Integration system with double free-flex, boot center adjustment and tool free mounting
Light Diagonal	Carving skiers	3	Different systems featuring <i>Cyber Free Flex</i> Technology (patented) or Carve Flex Technology and different integrated stand heights
Super Light	All skiers	4	SL Super light and LD Light diagonal technology with different integrated stand height
Junior	Young skiers	4	Provides safety features for juniors and children
Rental	Rental market	8	Adjustable toe and heel parts with unique Single Code System. Chip technology for Sym Pro
Carving Plates	Carving skiers	4	Two-piece plates, pre-drilled for <i>Tyrolia</i> models, different stand heights and damping systems

Technology. We believe that the *Tyrolia* brand has consistently offered outstanding performance in safety and reliability while introducing technological innovations. In 1996, we were the first to introduce a carving binding line to complement the performance characteristics of the *Cyber* ski. *Free Flex* technology allows the heel of the skier to glide freely as the ski bends, optimizing edge grip

and ski contour, which facilitates a higher degree of angulations throughout a turn. In 2000, we introduced a new racing technology, *Free Flex PLUS*, which provides improved traction performance at high speed by eliminating the counterflex motion of the ski.

In 1999, we introduced the SL 100, a super lightweight binding (25% weight reduction compared to equivalent bindings) with a modern design for the middle and lower price point in different model variations. We believe that the SL 100 became the largest selling binding in the worldwide market and accounted for over one-third of our binding sales worldwide in units in 2003. The launch of the SL 100 bindings helped us gain what we believe to be a leading position in the worldwide bindings market.

In 2002, Tyrolia introduced *Rail Flex*, an integrated tool free binding system.

In our Rental line, we introduced the innovative chip system in 2001, targeted at the Rental business. It provides simplified and complete data integration together with special software, and precise and quick adjustment of the bindings, thus saving time and increasing the safety of our products. These bindings are now offered together with pre-mounted *Head Rental* skis and *Head Rental* boots, which also include the chip.

Market Share. We estimate that the market for bindings worldwide was approximately \$195 million at wholesale in 2003. We estimate our market share worldwide for bindings in units was approximately 32% in 2003 and believe that *Tyrolia* was the top selling brand in 2003, in terms of numbers of units sold.

We expect growing demand for integrated bindings systems, specific features for shaped skis as well as new plate technology. We intend to continue marketing our carving bindings as part of our unique, integrated Cyber line of carving skis, boots and bindings, as well as carving plates, to increase their brand appeal and market share. We also intend to respond to the growing demands for so-called "systems", by developing complete new and innovative solutions of integrated binding-ski systems to enhance the coordination of movement and forces of all products, as well as to offer convenient mounting technology for our dealers.

Manufacturing. All of our *Tyrolia* bindings are manufactured at our technologically advanced plants in Schwechat (production) and Neusiedl (assembly), Austria or under our supervision in the Czech Republic. *Tyrolia* bindings consist of over 100 separate components, many of which are made in-house and then assembled automatically with the assistance of robotics. Assembly not performed by robotics is outsourced to plants in the Czech Republic.

Ski Boots

We market our ski boots under the *Head* and *Munari* brand names. Our new and high price point ski boots are marketed under the *Head* brand name due to *Head's* high level of brand awareness. We also supply private label boots marketed to lower price points. Our ski boot business represented 20.9% of our total Winter Sports revenues in 2003.

The following table sets forth our principal categories of ski boots:

<u>Line</u>	<u>Target Market</u>	<u>Number of Models</u>	<u>Features</u>
<i>Head</i> Racing/Freeride	Racers, experts and freeriders professional skiers	11	Project introduced in 2001 with full bi- injection technology and high performance construction to maximize energy transmission. A totally new buckling system incorporates two innovative patented solution, to improve performance
All Mountain Performance	Experts to intermediate skiers	10	New range introduced in 2002, with a wide range of models targeted to the expert and advanced skier. Intended to provide an outstanding level of performance and comfort
New Concept	Extra comfort	4	New range targeted at the skier Looking for maximum comfort and ease of use featuring a completely new technology
Sport/Comfort	Intermediate and beginners	6	EZ-on shell, Double Power Buckle and Autoski Walk intended to create maximum ease of use and comfort
Junior	Young skiers (all segments)	5	Junior boots for racers to beginners
Rental	Rental	9	High comfort and reliability for intermediates and beginners

<i>Munari</i> Sport Comfort	Intermediate and beginners	4	Easy walk adjustment, light and user-friendly boots
Comfort	Beginners	4	Easy step-in and high comfort boots
Junior	Young skiers (all segments)	7	Junior boot line for good, intermediate and beginner skiers

Technology. In 2003, we introduced a new range, the E-Fit line, which we believe allowed us to increase the market share in the comfort segment.

The *Edge* and *EZON* boots have become our best-selling ski boots in terms of number of units sold. The *Edge* boot allowed us to increase the market share in the middle and higher price segment and this line was successfully sold at retail level.

Market Share. We estimate that the market for boots worldwide was approximately \$360 million in 2003. We believe, based on our market knowledge and experience, that the *Head* ski boots held the number three position worldwide in 2003 based on units sold. We estimate that our market share (*Head* and *Munari* together) in 2003 was approximately 14%, which was a positive trend in comparison to the 2002 season.

We aim to increase unit sales of our boots worldwide by leveraging our brand names and extending the top end product line described above. Our expectation for 2004 is a stable global market and a concentration of brands at dealer level, from which we should benefit.

Manufacturing. All of our ski boots will be manufactured at our recently purchased plant in Litovel, Czech Republic, starting with the 2004/2005 collection. Until 2003 ski boots were produced in our factory in Estonia (approx. 94%) and in Italy (6%). The new factory will allow us to improve our efficiency and service and reduce fixed costs as well.

Snowboards

We market our snowboard products under the *Head* brand. These products accounted for 9.4% of our total Winter Sports revenues in 2003.

The following table sets forth our principal categories of snowboarding products:

<u>Line</u>	<u>Target Market</u>	<u>Number of Models</u>	<u>Features</u>
Boards	Freestyle/Freeride	14	<i>Intelligence</i> Chip Technology and <i>Intellifiber</i> Technology, Dimensional concept: perfect boot-binding-board match <i>Free Flex</i> rail system: innovative binding fixation
Softboots	Freestyle/Freeride	8	<i>ThermoFit liners</i> : individually customizable fit Double Lasted Sole: integrated EVA midsole
Softbindings	Freestyle/Freeride	7	Powerframe concept: better board flex — better transmission Auto-Open straps: reentry improvement Auto-Lock highback: automatic fixation of highback to heelcup
Step in bindings & Boots	Freeride/Freestyle	1	Step-X4: 4 point fixation for best power transmission and control
Rental	Freeride/Freestyle		<i>Head</i> "Rent'n Ride in 58 Seconds Program" Dimensional concept: perfect boot-binding match Chip system: faster registration of rental equipment Powerbase toolfree: first toolfree stance & angle adjustable rental softbinding Step-X4 toolfree: first toolfree stance & angle adjustable step in rental binding

Technology. In 2003, we introduced *Head Intelligence* with *Head Chip System* in our snowboards and took advantage of the momentum already created in skis at dealers and media. We also introduced complete new lines of snowboard boots and snowboard

bindings featuring the "Dimensional Concept". This concept aims to perfectly match snowboarding boot size with board, avoiding toe and heeldrag, or low leverage. We believe no other snowboard company has dealt with this common problem in the systematic way Head does. In every product category, *Head* offers unique features, like *Free Flex* rails in the board line, *Powerframe* with bindings, ThermoFit liners and Double Lasted soles with boots. We believe that the *Head* "Rent'n Ride in 58 Seconds Program" is still the fastest and most versatile rental system offered to the market.

Market Share. We estimate that the global market of snowboard, bindings and boots was approximately 1.4 million units in 2003 and that our market share was approximately 5.9% worldwide.

Manufacturing. We source all of our products except the Step-X4 bindings that are manufactured by Tyrolia.

Racquet Sports

Racquet Sports products accounted for 38.6% of our total revenues in 2003. Under the Head brand name, we design, engineer and manufacture a broad offering of tennis, squash and racquetball racquets. We also sell tennis accessories under the Head brand and tennis balls and racquetball balls under the Penn brand name.

Head Racquets

We estimate that in 2003 our Head racquets were the number two brand worldwide, comprising 20% and 24% of the world retail market in units and revenue respectively. Revenues from racquets and accessories amounted to 61.5% of our total Racquet Sports revenues in 2003.

The following table sets forth the principal Head racquet product lines:

<u>Category</u>	<u>Line</u>	<u>Target Market</u>	<u>Number of Models</u>	<u>Features</u>
Tennis	Head Liquidmetal Series	Tennis enthusiasts at all level of Play	5	Performance racquets featuring Head Liquidmetal for perfect energy transfer
	<i>Intelligence</i> Series	All levels of play	9	Racquets featuring Intellifibers (piezoelectric material), Top model with Chip system (chip powered and electronically dampened racquets)
	<i>Titanium and Performance</i> racquets Junior Series	Entry level players Young players	16 9	Lightweight value products for short and medium swings Lightweight racquets for juniors from ages 6 to 14
Squash		All players	20	Racquets for all skill levels and price points
Racquetball		All players	11	Racquets for all skill levels and price points
Accessories		All players	*	Tennis bags, racquet strings and grips, racquetball gloves and other tennis accessories

* Not meaningful.

Technology. We have gained technological leadership in the tennis market with both the *Head Titanium* and the *Head Intelligence* Technology, which were launched in 1997 and 2000 respectively. In August 2003, we once more introduced innovative racquet technology with Head Liquidmetal. Leading global tennis publications such as "U.S. Tennis Magazine" and the German "Tennis Magazin" have thoroughly playtested our Head Liquidmetal racquets against relevant competitor products and rated the Head Liquidmetal racquets the highest. The *LM 4* and the *LM Instinct* were the U.S. Tennis Magazine's "editor's choice" racquets.

Market Share. We estimate that the market for tennis racquets worldwide was approximately 9.1 million units and \$347 million at wholesale level in 2003. We believe, based on our market knowledge and experience, that Head brand tennis racquets were number one

in Europe and number two on a worldwide level in 2003. We estimate that market share of overall revenues generated for 2003 was approximately 24% worldwide and that our European market share was 32%. Due to the first time availability of substantial third party quantitative market research data for Europe, market and market share information cannot be reconciled back to 2002 reporting and may vary substantially.

We believe that since the early 1990s, our worldwide unit market share of racquet products has grown substantially, despite a significant decline in the size of the market. Unit sales of Head tennis products increased from 0.8 million in 1993 to 1.8 million in 2003. We believe these market share gains occurred in all major markets around the world and were largely due to the introduction of proprietary premium technologies such as *Titanium* and *Intelligence* and their subsequent and successful use by some of the most popular athletes in tennis. On a long-term basis, due to our continued investment in research and development, global sales, marketing and distribution network and high level of market penetration, we expect to continue to grow our global market share for our tennis racquet products, with an increased presence in the U.S. and Japan and opportunities in developing markets such as Asia, South America and Eastern Europe, where a growing middle class is showing an increasing interest in tennis.

We believe that our significant global market share is partly a result of our strong presence on the professional tennis circuit. Based upon the December 2003 ATP Tour Entry-List Rankings, Head racquets were used by more than 30 of the top-rated 100 professional male players, including career grand slam champion and 2003 Australian Open winner Andre Agassi, 2001 French Open Champion Gustavo Kuerten, and 2001 Wimbledon Champion Goran Ivanisevic, making Head the number one racquet brand used on the ATP Tour. A number of tennis players on the WTA Tour, such as Anastasia Myskina, Patty Schnyder and Chanda Rubin and ATP Senior Tour players such as Björn Borg and highly reputed coaches including Bob Brett and Dennis van der Meer also use Head tennis products. In addition, we operate a strong grassroots program, introducing our products to leading instructors, coaches and other professionals who are in a position to generate interest in a product and influence ultimate customer decisions.

The Head Titanium, Head Intelligence and Head Intelligence X tennis racquets have, we believe, significantly increased our overall U.S. market share (in terms of revenues) from 9.0% in 1997 to 24% in 2003.

We cross-leveraged these technologies to create line extensions in *Head Squash and Racquetball* and the *Titanium and Intelligence* models which we believe improved our position in other racquet sports markets as well. In 2003, we estimate that we finished the year slightly down in the U.S. racquetball market share. However we estimate that we were the number two brand of the racquetball racquet market in 2003.

Manufacturing. As part of our cost-cutting program, we now only partially manufacture our high-end racquets in our facility in Kennelbach, Austria, because we have transferred the labor intensive racquet finishing production from Kennelbach to our facility in Budejovice, Czech Republic. All other racquets, accounting for approximately 75% of all racquets sold, are outsourced to manufacturers in China.

Penn

We believe that Penn is one of the world's leading manufacturers and marketers of tennis and racquetball balls. Revenues from our Penn division amounted to 37.8% of our total Racquet Sports revenues in 2003.

The following table sets forth the principal Penn product lines:

<u>Line</u>	<u>Target Market</u>	<u>Number of Models</u>	<u>Features</u>
<i>Tennis Balls</i>			
Championship	Frequent players	5	Models designed for specific courts Surfaces
Pro Penn USPTA	Teaching professionals	5	Highest quality felt/premium rubber balls made for specific court surfaces
Tennis Masters Series and ATP Tour	Top professionals and serious tournament players	6	Balls for tournament play made of long- wearing felt and rubber-coated for moisture/stain resistance; New balls: Prestige specifically for Germany and Marathon for International Markets
Stars	Beginners (sold to clubs and teaching pros)	2	Manufactured with less pressure
Titanium	Premium3	3	New in 1998; titanium enhanced core
Court One	Casual/Recreational	1	Non USTA approved
Private Label	Casual/Recreational	1	Special orders
<i>Racquetball Balls</i>			

Pro	Tournament players	1	Premium price/performance
Ultra-Blue	All players	1	Flagship brand
Titanium	All players	1	New in 1998; titanium enhanced core

Technology. Penn has introduced many innovations, including:

- “play related” tennis balls for different court surfaces and high altitude play;
- optical yellow tennis balls, which have become industry standard;
- the pull ring can with plastic lid;
- recyclable plastic tennis ball containers; and
- Smart Optic felt with 19% more visibility.

Market Share. We estimate that the market for tennis balls is approximately \$220 million worldwide, with approximately 22.8 million dozen tennis balls sold in 2003. We believe Penn was the market leader in 2003, with an estimated market share of 31% worldwide and of over 52% (based on volume) in the United States, the world’s largest market in 2003. Along with the general decline in the market we estimate that Penn sales have declined during recent years. Due to the first time availability of substantial third party quantitative market research data for Europe market and market share information cannot be reconciled back to 2002 reporting and may vary substantially.

We believe that Penn’s strong market position is a result of the superior quality of our products, economies of scale through the largest tennis plant globally in Phoenix/Arizona and close affiliation with the professional tennis circuit. Penn is the official ball used in many major tennis tournaments globally, including the Tennis Masters Cup and Tennis Masters Series events, ATP Tour and the WTA tour events, and some Davis Cup and Federation Cup ties. We are the exclusive tennis ball sponsor of the Masters Series tournaments, the highest profile tournaments in tennis outside the Grand Slam events. This exclusive sponsorship will provide live broadcast brand exposure globally during the season as well as merchandising opportunities.

The market for racquetball balls is concentrated mainly in the United States, which we estimate accounts for over 90% of the world market. In the United States, we estimate our market share was approximately 75% (based on volume) in 2003. Since the early 1990s, annual racquetball balls sales, including Penn racquetball balls sales, have been declining, and we expect this trend to continue.

Manufacturing. We currently manufacture our tennis balls and racquetball balls (with the exception of less than 5% of the low end products) at our facilities in Phoenix, Arizona and Mullingar, Ireland. In 2002, a key automation project was successfully implemented in both Phoenix and Mullingar. This resulted in some cost savings in 2002. As part of our cost-cutting program we are in the process of closing our tennis ball production facility in Ireland effective March 31st, 2004 and will transfer these operations to our existing, under-utilized plant in Arizona.

Several years ago, we entered into an agreement with a South American company, which manufactures and distributes Penn tennis balls in Argentina exclusively for the South American markets.

Mares and Dacor Diving

We believe, based on our market knowledge and experience, that our diving products had an estimated global market share of approximately 17% in 2003. The Mares and Dacor products cover the upper and middle market segments and include several models of air regulators, buoyancy compensator jackets, diving fins, diving masks, snorkels, exposure suits and diving computers.

Each of these brands has different product features and is aimed to cover the various international market needs, with Dacor being particularly strong in the United States. In addition, we offer a variety of air tanks and valves, diving boots and gloves, underwater flashlights, equipment bags, knives and various other accessories and diving instruments. Our diving business represented 15.4% of our total revenues in 2003.

The following table sets forth the principal Mares and Dacor products:

Line	Number of Models	Features
Regulators.....	20	Lightweight, durable; high performing
Air tanks.....	3	High resistance to impact and aging
Valve sets.....	2	Designed to guarantee optimal air flows at any pressure

Buoyancy compensator jackets....	19	Devices for airflow control and better buoyancy
Wetsuits	20	Designed to ensure warmth and comfort
Wetsuit accessories.....	9	Gloves, boots and socks
Fins	23	Designed to provide maximum power using minimum effort
Masks and goggles.....	35	Includes single, two and four lens models, with maximum visibility
Snorkels	24	Designed to provide easy and dry breathing
Computers.....	9	Designed to provide enhanced performance and safety
Other accessories	54	Knives, spearguns, flashlights, bags, etc.

Technology. Mares historically has been the industry's technological leader and has introduced many ground-breaking diving products ahead of the competition, including plastic fins, underwater guns and high-performance regulators. A large part of Mares' sales is dependent on patented technology, including air regulators, diving fins and diving masks and a new generation of buoyancy control vests (HUB) to provide maximum freedom during diving and, just recently, a new algorithm for decompression.

Market Share. We estimate that the market for diving equipment was approximately \$470 million in 2003 based on exchange rates at that time. We believe, based on our market knowledge and experience, that our Mares brand of diving equipment had one of the best market positions in Europe and worldwide in 2002 at wholesale. Our market share worldwide for the Mares and Dacor brands for 2003 is estimated at 17%.

We are working to expand our presence in key markets such as the United States, where, we believe, *Mares* and *Dacor* combined held a 12% market share, and in South Asia, where both brands combined had an estimated 7% market share in 2003. We also expect to grow our global market share through new product introductions and the addition of advanced technological features in our existing products. Many new patents have been introduced in 2002, thus strengthening our products offering. In addition, we expect the fragmented nature of the diving industry to provide increased opportunity for growth.

Manufacturing. We currently manufacture the majority of our diving products, including Dacor products, in Italy. Until recently, we also manufactured certain diving products in Tallinn, Estonia. We are in the process of transferring all of our diving production in Tallinn, Estonia to a recently purchased plant in Litovel, Czech Republic. We are focused on in-house production of our high-technology products, such as regulators and computers, and outsource the remainder of our products to manufacturers in countries such as Italy and Thailand. We have made a number of improvements to our manufacturing processes in the last three years to reduce cost and improve efficiency. In addition, we outsource the assembly of a number of products.

Licensing

In 1996, we formed a licensing division to capitalize on opportunities resulting from the worldwide brand recognition of the *Head* name, which has existed for over 50 years. We believe the *Head* brand name is associated with innovative, high quality, well-designed, high performance products. Licensing enables us to expand the *Head* name to additional product categories and we believe that some of our other brands such as *Penn* and *Mares* have licensing potential. Revenues from licensing amounted to 2.2% of our total revenues in 2003.

From the 1st of January 2002, the *Head* footwear business which used to be part of our Racquet Sports division became a licensed business and our UK bags business which was previously licensed out, has been brought in-house and is managed by our UK sales and distribution subsidiary.

Head Apparel contributes approximately two thirds of the total Royalty Income and is licensed in all important markets worldwide (e.g. Europe, UK, USA, Canada, Japan and China). We also grant rights to the Head brand for other product categories such as footwear, luggage, eyewear, watches, equipment, bikes and accessories. Licensing generated \$9.7 million of revenues in 2003 for the *Head*, *Mares* and *Penn* brands. Wholesale licensee revenues amounted to approximately \$130 million. We intend to explore other licensing opportunities for products suitable to the image of our brands. South America is a region which still offers potential.

We believe that substantial licensing growth opportunity exists by capitalizing on the success of our strong-selling products as well as through improved leveraging of our brand portfolio. We also intend to protect and maintain the premium image of our brands by licensing only high quality goods within compatible product lines.

Sales and Distribution

Our products are sold in approximately 80 countries to over 32,000 accounts. Our worldwide sales force comprised approximately 360 people as of December 31, 2003. In addition, we utilize sales representatives and independent distributors to serve specialized markets and related distribution channels.

Europe

Sales to customers within Europe accounted for 59.1% of our 2003 net sales. We are centralizing our European distribution organizations for Winter Sports and Racquet Sports products so that Head International GmbH, will operate as a single distribution company for several key markets. Head International invoices and ships products from one European distribution center in Klaus, Austria to our customers in Switzerland, Germany, Italy and Austria since January 1, 2004. From January 1, 2005, we intend for Head International to invoice products also to our customers in France and the UK. As a result, all of our invoicing to customers in these markets, and to third-party distributors worldwide, will occur from Head International. The related former European distribution companies thereafter function only as sales agencies.

North America

Sales to customers in North America accounted for 28.1% of our 2003 net sales. We distribute *Head, Tyrolia, Penn* and *Mares/Dacor* through the company-owned Head USA subsidiary. Under Head USA's leadership, Winter Sports, Racquet Sports and Diving have separate sales/marketing organizations and sales forces but share all administrative and logistical functions. A new U.S. distribution center was founded in Curtis Bay, Maryland and commences shipping all *Head, Tyrolia, Penn* and *Mares/Dacor* products in January of 2004. We expect the consolidation of the different warehouse locations into one to generate savings beginning in 2004. Our goal is to improve distribution to increase penetration in North America and reestablish *Head* and *Tyrolia* brand names in the U.S. winter sports market.

The success of our *Head Titanium* and *Intelligence* and Head Liquidmetal racquets has helped to significantly raise Head's profile as a tennis brand in North America. We hope to further heighten this profile through the endorsement by the US Professional Tennis Association, the world's largest association of tennis-teaching professionals, and other sales and marketing efforts.

Asia

Sales to customers in Asia accounted for 9.6% of our 2003 net sales. In Japan, our largest market in Asia, our Winter Sports products are distributed by our own subsidiary distribution unit, while our Racquet Sports and Diving products are distributed by third parties. The cooperation with World Commerce Corporation in Japan for the distribution of our Racquet Sports products as well as the successful launch of the *Head Titanium, Intelligence* and Liquidmetal racquets have increased our tennis market share in Japan from 3.6% to 10% in 2003. Our products are sold in the rest of Asia only to independent importers or distributors on a wholesale basis.

Other Markets

Sales to customers in other markets accounted for 3.1% of our 2003 net sales. These markets mainly consist of Latin America, Eastern Europe and Australia. We believe the number of countries in these markets in which sales were made exceeded 50 in 2003. Sales of our products to these regions are made by independent importers/distributors. We intend to continue to pursue strategies to broaden our presence in these emerging markets.

Marketing

We consider the marketing function to be key to promoting our brand names worldwide. Our marketing strategy is centered around the *Head, Tyrolia, Penn* and *Mares* brands. We believe that there are significant opportunities to continue to build these brands and that increased coordination between our marketing and product development teams has greatly improved our ability to efficiently develop products consistent with consumer preferences. As a result, we have been able to increase the frequency and efficiency of our product innovations as well as the depth of our product lines in each of our key categories. Consumer research has become an integral part of product development and advertising campaigns. Each of our products is fully supported by a consistent, integrated marketing program, which is designed to be responsive to the demands of our target customers.

We attribute our consistently successful product launches to our strong emphasis on marketing in all of our divisions. We use marketing strategies directed at retailers, as well as the ultimate consumer, to increase demand. Our marketing strategy for retailers is aimed at educating them on the technical features of our products. We hold clinics for retailers and sales people to inform them about the various product lines. We provide retailers with videotapes, CD-ROMs and product brochures to further educate and assist the retail sales team.

We currently operate several websites including www.head.com, www.ridehead.com, www.tyrolia.com, www.pennracquet.com, www.mares.com and www.divedacor.com, which advertise our products and list our distributors. In recognition of the penetration of the internet and growth in e-commerce, we have set up a project to expand our usage and reliance on the internet. As part of this project, we:

- are re-designing our websites to generate more "hits" from search engines;
- have implemented an "Online Management System", allowing retailers to place and track orders and review credit status;
- are expanding website content to cover sports and related information. We expect that this project will improve brand recognition and generate incremental sales.

In addition, to create consumer interest, we use product promotions and point of sale advertising with sporting goods chains and through our dealers in each of our product categories. Our website (www.head.com) communication continues to take a more dominant role in our overall advertising.

- We devote significant marketing resources to our ski business, including training by an in-house winter sports specialist to educate retail salespersons so they can sell Head skis more effectively. We also coordinate with retailers to improve display of Head products and place in-store promotional materials such as consumer catalog, banners and posters. *Head* participates in a number of trade fairs annually in order to launch its new products and advertises its skis in leading specialty ski publications.
- In order to promote use of the carving ski, we host promotional activities such as *Cyber* promotional days, *Cyber* "demo" days and *Cyber* test sessions. With respect to the marketing of *Tyrolia* bindings, we utilize international advertising and promotional activities with a strong focus on brand awareness, new product presentations, dealer promotion tools (catalogs, racing folders, consumer leaflets), point of sale materials, product visibility and media advertising.
- Our snowboarding products are promoted through our sponsorship of top caliber riders, international snowboard camps, special interest media events, snowboarding videos and internet sites. We also have promotions in ski resorts in Europe in which potential customers can try our snowboarding equipment. Sales to end-users are supported by in-store training and point of sale materials.
- Our Racquet Sports division conducts a variety of marketing programs targeted to a broad range of players, including demonstration programs for consumers and, in coordination with retailers, in-store promotions and dealer incentive programs. We advertise our racquets in specialty tennis magazines and participate in advertising programs with specific sporting goods chains.
- We operate a strong grassroots program, introducing our tennis products to instructors, coaches and other opinion leaders who are in a position to generate interest and influence the decision of the ultimate customer. For example, through *Head* and *Penn*, we participate in the US "Tennis Welcome Center" program, sponsored by the Tennis Industry Association (TIA) and the United States Tennis Association (USTA), which is designed to introduce consumers to tennis through free coaching sessions, equipment and access to courts.
- Our Diving division advertises in a number of specialized publications worldwide and conducts promotions and media campaigns in stores, diving centers and tourist resorts. *Mares* and *Dacor* are getting high visibility on all major specialized magazines but also larger mass media thanks to focused partnership with diving resorts, aquariums and athletes. Special attention is dedicated to *Mares* website (www.mares.com) which is considered one of the best in the industry and is hosting over half a million visitors per year.

To complement our marketing strategies, we cultivate the endorsement and promotion of our products among athletes. These endorsements emphasize technical performance and increase brand awareness.

- In Winter Sports, we maintain a strong program of endorsements by high profile athletes, such as Hannes Trinkl, the 2001 Downhill World Champion, Maria Riesch, Florian Eckert, Franco Cavegn, Marco Büchel, Alain Baxter and former champions such as "legend" Franz Klammer, the 1976 Olympic Champion. We also have an endorsement arrangement with the Austrian national ski team. In snowboarding, we have received endorsements from the German athlete, Jan Michaelis, who won the overall 2002 world championship title in Halfpipe and his Finnish teammate, Jukka Erätuli, who won the 2001/2002 and 2002/2003 overall world championship title in the Big Air discipline.
- Our tennis racquet endorsement program is focused and highly selective. It includes current top level ATP players popular among the youth market such as Andre Agassi, Marat Safin, Rainer Schuettler, Sebastien Grosjean and Gustavo Kuerten, WTA players such as Patty Schnyder, Chanda Rubin and Anastasia Myskina, as well as players from the ATP Senior Tour popular among mature players, including "legends" Thomas Muster, Björn Borg, Guillermo Vilas and Ilie Nastase. In addition, since January 2003, we are the official tennis racquet of the US Professional Tennis Association with over 10,000 members. Over 3,000 of these members have already signed exclusive contracts with HEAD. For the previous 7 years, Wilson was the official racquet of this important organization. We are also the key racquet sponsor of the Professional Tennis Registry, the leading global teaching organization.

- *Penn* is the official tennis ball for many major tennis tournaments worldwide, including ATP tour and WTA Tour events, the Tennis Masters Series and Tennis Masters Cup. *Penn* is the exclusive sponsor/supplier of the US Professional Tennis Association as well.
- Most free diving world records, including those set by Francisco "Pipin" Ferreras and Gianluca Genoni, have been set using Mares equipment. The last record set by Gianluca Genoni in Liguria was of 132 meters, variable ballast, with a very large, worldwide recognition. In 2002, "Tauchen" magazine awarded Mares the first prize for the best Buoyancy Compensator line of the year at the Düsseldorf Boat Show. "Dive-Oz", Australia's biggest online scuba resource, awarded Mares the "Golden Star Award" for the X-Vision mask. Also, in 2002 Dacor signed a sponsorship agreement with the underwater explorer and shipwreck hunter Barry Clifford, to heavily promote Dacor products in his new US television series, "Adventure, Inc", which is broadcasted nationwide on all major national TVs. We signed a sponsorship agreement in 2002 with Paramount to use Mares/Dacor equipment in the movie Tomb Raider II, which was released in 2003.

Research and Development

We believe that we are an industry leader in the development of innovative and technologically advanced sports equipment. Our research and development groups identify consumer needs and shifts in consumer preferences in order to develop new product ideas and concepts to satisfy such needs or preferences. To ensure quality and precision, the majority of our products are designed on our own computer-aided design and manufacturing (CAD/CAM) systems.

We believe that our high level of expertise is evident in all our product lines. Since Howard Head developed the first metal ski in 1950, we have consistently introduced new materials and processes into the manufacture of skis, including fiberglass, graphite, aluminum and titanium and led the industry with the introduction of a complete line of carving skis. We utilize sophisticated manufacturing processes to integrate torsion rib systems in all *Head* skis in order to produce a torsionally stiff ski without losing softer flexing properties. We have also developed an exponential dampening system for skis and traction plates to promote top performance for all types of skiers. In 2002, we successfully adapted the piezoelectric *Head Intellifiber* and *Head Chip System* to skis and launched *Head Intelligence* skis and *Head Intelligence* Snowboards in 2003.

Head ski boots has well established research and development resources and is one of the leading innovators, with a long history in ski boot manufacturing. In the area of bindings, we continually introduce new technical features for improved performance, safety and comfort such as new *Free Flex* systems, the unique safety "ABS" anti-friction toeplates, new and lighter designs of our unique Diagonal safety feature, new integrative solutions with new mounting processes (*Railflex* System), innovative light-weight constructions, as well as changes in styling and appearance in each two- to three-year product cycle.

Our expertise in tennis racquet design resulted in the 1997 launching of the *Head Titanium* Tennis series and in 2000 the *Head Intelligence* racquet technology. Some of these racquets feature a Microchip design, which converts mechanical energy into electrical energy and the result is the first chip-powered, electronically dampened tennis racquet. In 2002 we launched *Head Intelligence X*, further advancing the performance benefits of the proprietary *Head Intelligence* technology. In 2003 we introduced the *Head Liquidmetal* technology in our racquets, which "Fortune" magazine and "Business Week" recently declared to be one of the best 25 products of the year 2003. Tennis magazines in the United States and Germany also have recognized the state-of-the-art design of this proprietary technology.

Penn has long been a major source of innovation in the tennis ball market, improving tennis balls through such innovations as the introduction of "play related" tennis balls for different court surfaces and altitudes; optical yellow tennis balls, which have become industry standard; and recyclable plastic tennis ball containers with pull ring and plastic lid.

Mares has a 53 year history of product innovation and we believe is one of the most advanced R&D centers in the industry. In 2002, *Mares* invented the new airtrim system for BCs which eliminates the old style inflators. By doing so, *Mares* has renewed some key elements in the area of diving. A new series of minimal weight regulators with performance is now under testing by the US Navy Seals for heavy conditions use. In addition, the new state-of-the-art watch computer "Nemo" is achieving considerable interest. We expect to release it on the market in 2004.

Customers

We sell our products to approximately 32,000 specialty sporting goods stores, chain stores and department stores in over 80 countries. Our customers vary depending on where our products are sold. Our largest customers include Price Costco, The Sports Authority and Wal Mart in the United States; Victoria, Alpen and Xebio in Japan; Intersport International, a voluntary buying group which distributes our products predominantly in Europe; and Decathlon in France and other European countries. No single customer accounted for more than 4% of our 2003 net sales.

Competition

The sporting goods industry is highly competitive. We compete primarily on the basis of product features, brand recognition, quality and price. We compete with numerous international and national companies that manufacture and distribute sporting goods and related equipment. We are generally in a favorable position as the sports equipment market consolidates across all of our product lines.

We compete in individual market segments against various competitors.

- The main competitors to our *Head* ski brand, are Rossignol, which is owned by Rossignol S.A.; Salomon, which is owned by Salomon AG; Atomic, which is owned by Amer Group Plc; Fischer, which is owned by Fischer GmbH; K2, which is owned by K2 Inc., and a number of smaller ski manufacturers. Our *Tyrolia* bindings division competes primarily with Salomon, Marker and Atomic. With respect to *Head* ski boots, our main competitors are Salomon; Nordica, Technica and Dolomite, all of which are owned by the Technica-Lowa-Dolomite Group; and Lange and Rossignol, part of Rossignol S.A.
- The principal competitors of the *Head* tennis racquet division are Wilson Sporting Goods Co., which is owned by Amer Group Plc, and Prince Sports Group Inc., which is owned by a partnership of the Prince Senior Management and the Lincolnshire Equity Fund II, L.P.
- The principal competitors of *Penn* tennis balls are Wilson Sporting Goods Co., and Dunlop Slazenger International. In racquetball balls, our principal competitor is Ektelon which is owned by Prince Sports Group, Inc.
- Competitors of the *Mares* and *Dacor* diving division include Scubapro, Uwatec (computers only), Aqualung Group which includes the U.S. Divers and Sea Quest brands, and Cressi.

Some of our competitors, notably Salomon, which is part of adidas-Salomon AG, are larger and have greater financial and other resources than we do. For the most part, we compete on a product-by-product basis, and are retaining market share as against our larger competitors and acquiring market share from smaller companies as the sporting goods industry consolidates.

Seasonality

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 typically begin shipment of skis, boots, bindings and snowboard equipment 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. During the first six months of any calendar year, we typically generate more than half of our Racquet Sports and Diving product revenues, but only about 10% of our Winter Sports revenues. In preparation for the second-half increase in winter product revenues, we incur most of our winter product costs in the first half of the year.

Materials

We source our raw materials from multiple suppliers under purchase orders, and where appropriate, we negotiate contracts for up to one year forward at fixed rates to hedge our production cost. Our primary raw materials are plastics, rubber, steel and felt. We have not experienced extreme volatility of raw material prices.

Patents and Trademarks

Our major trademarks are registered in the United States, throughout the European Union and in several other countries, and we consider trademark protection to be very important to our business. Significant trademarks include *Head*, *Tyrolia*, *Penn*, *Mares* and *Dacor*. We believe that these trademarks are important in identifying our products and the trademarks are often incorporated prominently in product designs. Other trademarks include *Sporasub*, *Munari*, *Cyber* and *San Marco*. We do not own the trademark "Liquidmetal" but rather license the name pursuant to an agreement we have with Liquidmetal Technologies, Inc. This agreement has an initial term of four years commencing January 1, 2003, and the parties have agreed to make best efforts to extend the agreement thereafter for a similar duration under similar terms.

We utilize some proprietary or patented technologies in the formulation or manufacturing of a number of our products, including *Free Flex* technology in the manufacture of our precision bindings, *Dimple* and *Shock Stop* technology in the manufacture of our tennis racquets, *Autowalk* and *Double Power* buckles in the manufacture of *Head* ski boots and various other proprietary technologies used in the manufacture of our diving products. We also use patents in connection with our *Head Titanium* tennis racquets and with *Head*

Intelligence technology, particularly the *Chip System* technology. We believe our proprietary information to be among our most important and valuable assets, and generally seek patent protection for our products in countries where significant existing or potential markets for our products exist. We believe we have taken adequate measures to protect our proprietary information in all of our major markets. We consider our proprietary technology and patent protection to be important to our business.

However, we are not dependent on any one patent or set of patents. Some of our recently introduced products like *Titanium*, *Intelligence* and Liquidmetal tennis racquets, the *Mares* and *Dacor* HUB system and *Tyrolia* "Super Light" bindings have patents that have many years to run.

4.C. Organizational Structure

We were formed as a public company with limited liability in 1998 and hold 100% of the issued and outstanding share capital of Head Holding, our intermediate holding company. Our primary operating subsidiary is HTM Sport-und Freizeitgeräte AG, which in turn owns all of our worldwide operating and distribution subsidiaries and is the issuer of our senior notes.

The following is a list of Head N.V.'s significant (direct and indirect) subsidiaries and their country of incorporation:

<u>Significant Subsidiary</u>	<u>Domicile</u>	<u>Proportion of Issued Capital Held</u>
HTM Sport- und Freizeitgeräte AG	Austria	100%
Head Holding Unternehmensbeteiligung GmbH	Austria	100%
Head International GmbH	Austria	100%
Head Sport AG	Austria	100%
Head Tyrolia GmbH.....	Austria	100%
Head Technology GmbH.....	Austria	100%
Tyrolia Technology GmbH	Austria	100%
Head/Tyrolia Sports Canada Inc	Canada	100%
Head Sport s.r.o.....	Czech Republic	100%
OÜ HTM Sport Eesti.....	Estonia	100%
Head Tyrolia Sports S.A	France	100%
Head Germany GmbH (formerly HTM Deutschland GmbH).....	Germany	100%
Head UK Ltd	Great Britain	100%
Penn Racquet Sports Co.....	Ireland	100%
HTM Sport S.p.A	Italy	100%
HTM Sports Japan KK.....	Japan	99.6%
HTM Head Tyrolia Mares Iberica S.L	Spain	100%
Head Switzerland (formerly HTM Sports Corp.).....	Switzerland	100%
HTM USA Holdings Inc	USA	100%
Head USA Inc	USA	100%
Penn Racquet Sports Inc.....	USA	100%

4.D. Property, Plant and Equipment

The following table sets forth information as of December 31, 2003 with respect to the manufacturing, production, warehousing and office facilities used by us in our business:

<u>Location</u>	<u>Description</u>	<u>Owned/ Leased</u>	<u>Area (in square meters)</u>
Kennelbach, Austria.....	Ski and tennis manufacturing	Leased	13,139
	Administration, marketing, research and development	Leased	4,186
Klaus, Austria	Warehousing	Leased	8,710
	Binding manufacturing	Leased	12,709
Schwechat, Austria	Warehousing	Leased	5,510
	Administration, marketing, research and development	Leased	1,472
	Binding assembly and warehousing	Leased	2,973
Maser, Italy	Ski boot manufacturing, research and development	Leased	6,490
Tallinn, Estonia.....	Former ski boot and diving products manufacturing	Owned	29,574
Litovel, Czech Republic.....	Ski boots and diving products	Owned	11,700

Budejovice, Czech Republic ...	manufacturing Tennis racquets assembly and ski	Owned	7,375
Rapallo, Italy.....	manufacturing Manufacturing	Owned	1,200
Casarza, Italy	Warehousing, administration, research and development	Owned	4,800
Phoenix, Arizona	Warehousing	Owned	7,300
Mullingar, Ireland	Manufacturing and warehousing	Owned	7,708
	Tennis and racquetball ball administration, manufacturing, research and development	Owned	13,009
	Tennis ball manufacturing, warehouse	Owned	3,094
	Administration	Owned	386
	Warehouse	Leased	1,747

In addition, to the facilities described above, we own and lease additional facilities in various areas throughout the world. Our leased facilities have remaining terms generally ranging from one to four years.

Substantially all leases contain renewal options pursuant to which we may extend the lease terms in increments of one to four years. We do not anticipate any difficulty in renewing our leases as they expire.

Management considers our facilities to be well maintained and satisfactory for our operations, and believes that our facilities provide sufficient capacity for our current and expected production requirements.

Environmental Matters

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

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

ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.A. Operating Results

Overview

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

After a slow beginning of the 2002/03 season due to a lack of snow in certain areas of Europe and Eastern North America and the difficult economic environment in the two important markets of Germany and Japan, the overall market for skis showed some recovery at the end of the 2002/03 season as well as during the beginning of the 2003/04 season. The worldwide market in tennis has shown a decline as a result of various factors, including customer reaction to a slowing economy and reduced interest in the sport. However, the introduction of the *Head* Liquidmetal racquets in August 2003 resulted in some reversal of this trend starting in the third quarter of 2003, primarily in the United States and Japan. The market for tennis balls is generally perceived to have declined. The overall market for diving equipment also generally is perceived to have declined primarily due to fewer people traveling worldwide to dive centers and resorts and making corresponding purchases of equipment. Industry observers expect the diving market to recover when customers feel that the threat of terrorism is sufficiently contained. We are successfully introducing diving products in new geographical areas such as Eastern Europe and Southeast Asia and focusing on reducing the number of offered products in order to have a simpler and more efficient line that continues to fulfill divers' needs.

We operate in a multi-currency environment and are subject to currency translation risk and, to a lesser extent, currency transaction risk, principally between the euro and U.S. dollar. Currency translation risk arises because we measure and record the financial condition and results of operations of each of our subsidiaries in their functional currency and then translate these amounts into U.S. dollars, our reporting currency. Of our revenues 28% is generated in U.S. dollars whereas 59% of our consolidated revenues are generated in Euros. The functional currency of our European operations is the euro. Fluctuations in the value of the euro with respect to the U.S. dollar have had, and may continue to have, a significant impact on our financial condition and results of operations. We are subject to currency transaction risk whenever one of our subsidiaries enters into a transaction using a currency other than its functional currency. We reduce this risk, however, by seeking to match our revenues and costs, as well as assets and liabilities, in each currency.

Factors Affecting Revenues

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

Most of our revenues are denominated in euro. As our historical consolidated financial statements are reported in U.S. dollars, they are affected by movements in the exchange rate of the U.S. dollar against the euro. Our revenues are also affected by fluctuations in the value of the currency in which the products are sold relative to the value of the currencies of the countries from which the products were shipped. For example, appreciation of the euro against the U.S. dollar may adversely affect the revenues or margins from our products manufactured on an euro-cost basis and sold in the United States as our products become less price competitive on a U.S. dollar basis or sell for lower prices on a euro basis, which reduces our margins.

Factors Affecting Expenses

We separate our principal expenses into:

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

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

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

Approximately 70% of our annual capital expenditures are for maintenance of our facilities and equipment, including molds and tools. Some product lines change annually as new products are introduced, while others are in use for several years.

In connection with ordinary share options granted to officers we have incurred a non-cash compensation expense of approximately \$1.6 million and \$0.7 million in the 2002 and 2003 fiscal years, respectively. As of December 31, 2003, deferred non-cash compensation relating to previously granted stock options amounted to approximately \$1.7 million. This amount will be recognized as an expense over the remaining vesting terms of the options. Any further stock option grants will result in additional non-cash compensation expense being recognized.

Our expenses, as reported in U.S., dollars are also affected by movements in the exchange rate of the U.S. dollars against the currencies of the countries in which we operate and sell our goods. Of our cost of goods sold and other operating expenses 35% is generated in U.S. dollars whereas 48% is generated in euros. Because a portion of our U.S. dollar revenues are generated from products manufactured on an euro-cost basis, the appreciation of the euro against the U.S. dollar has increased our expenses when translated into U.S. dollar and adversely affected our margins.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements required us to make estimates and assumptions that affected reported amounts of assets and liabilities and the results during the reporting period. On an on-going basis, we evaluate our estimates and judgements, including those related to product returns, bad debts, inventories, tangible and intangible long-lived assets, income taxes and warranty obligations. The estimates and judgements are based on historical experiences and on various other factors that are believed to be reasonable under the circumstances.

Allowance For Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. We specifically analyze accounts receivables and evaluate historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. These estimations are continually reviewed. In 2003, we recorded one significant additional provision due to a sudden decline in the customer's credit worthiness. Recoveries related to changes in reserves did not occur during 2003.

Impairment Of Long Lived Assets

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

When events or changes in circumstances indicate that the carrying amount may not be recoverable, property, plant and equipment are reviewed for impairment. When such assets' carrying value is greater than the undiscounted cash flows estimated to be generated by those assets, an impairment loss is recognized equal to the difference between the fair value of the assets and their carrying value. Factors we consider important, which could trigger an impairment review, include the following:

- significant underperformance relative to historical or projected future results;
- significant changes in the manner of our use of the acquired assets or the strategy for the related business; and
- significant negative industry or economic trends.

The assessment of tangible and intangible long-lived assets for possible impairment requires certain judgements and estimates to be made by us, primarily related to our projected cash flows. Our projected cash flows reflect a number of assumptions including sales volume, prices, and terminal values of tangible long-lived assets, which are based on the expected life of products and forecasted life cycle. While we believe that our assumptions are appropriate, such estimates could differ materially from what will actually occur in the future.

In 2003, the Company decided to shutdown its Penn tennis ball plant in Ireland at the end of March 2004 due to the high cost of production in an euro country versus a market of falling average prices compared to the Company's competitors producing in the Far East and transferring these operations to its existing, under-utilized plant in Phoenix, Arizona. Some plant equipment will be shipped to Phoenix. Future cash flows for the remaining three months of production in Ireland, sales proceeds of plant equipment and land and building less dismantling costs resulted in an amount lower than the book value of the plant and equipment as of December 31, 2003 and made an impairment of \$2.6 to fair value million necessary. The actual cash flows could differ from the amounts included in our estimate.

In accordance with SFAS 142, we also perform impairment reviews of our goodwill and trademarks at least annually. We test goodwill for impairment using the two-step process prescribed in SFAS 142. The first step is a screen for potential impairment, while the second step measures the amount of impairment, if any. Our trademark impairment test involves comparing the fair value of the trademark to its carrying value.

This review is based upon our projections of anticipated future cash flows. The most significant variables in determining cash flows are discount rates, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. While we believe that our assumptions are appropriate, such amounts estimated could differ materially from what will actually occur in the future.

Liabilities For Product Warranties

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

Inventory Obsolescence

Our chosen markets are competitive and subject to fluctuations in demand and technological obsolescence. We periodically review our inventory for obsolescence and declines in market value below cost. Estimated obsolescence or unmarketable inventory led to write-downs of our inventory to the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favourable than those projected by us, additional inventory write-downs may be required. No significant write downs were recognized in 2003.

Realizability Of Tax Loss Carryforwards

We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. Changes in local income tax rates may also effect deferred tax assets.

As of December 31, 2003, we had approximately \$394.5 million (net of restricted portion due to the EC decision) of net operating tax loss carry forwards, primarily in Austria. Austria allows an unlimited carryover of net operating losses. Accordingly, we believe it is more likely than not that we will utilize \$371.1 million of net operating loss carryforwards to lower cash taxes on future taxable income (see Note 18 to the consolidated financial statements). The realization of operating loss carry forwards is ultimately dependent upon our ability to generate future earnings in the respective jurisdictions. There can be no guarantee that we will generate future earnings.

Recent Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. SFAS 143 is effective for financial statements for fiscal years beginning after June 15, 2002. The adoption of SFAS 143 had no impact on the Company's financial position and results of consolidated operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. This standard has been adopted from January 1, 2003 and applied for exit and disposal activities entered into in 2003.

In January 2003, the Emerging Issues Task Force (EITF) issued EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables". EITF 00-21 addresses the issues of (1) how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting; and (2) how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. EITF 00-21 does not change otherwise applicable revenue recognition criteria. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. EITF 00-21 had no impact on our financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires a liability to be recognized at the time a company issues a guarantee for the fair value of the obligations assumed under certain guarantee agreements, such as certain indemnity provisions and guarantees of third party debt. The provisions for initial recognition and measurement of guarantee agreements are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. Management has adopted FIN 45 and there was no impact on our financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46) "Consolidation of Variable Interest Entities, an interpretation of ARB 51". FIN 46 addresses the consolidation of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIE") by clarifying the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements" to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 provides guidance on how to determine when and which business enterprise (the "primary beneficiary") should consolidate the VIE. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The disclosure provisions of FIN 46 are effective in all financial statements initially issued after January 31, 2003. FIN 46 is required to be immediately applied by all entities with a variable interest in a VIE created after January 31, 2003. A public entity with a variable interest in a VIE created before February 1, 2003 is required to apply FIN 46 to that entity no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003.

In December 2003, the FASB revised FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) and codified certain FASB Staff Positions (FSPs) previously issued for FIN 46 in FASB Interpretation No. 46, Revised (FIN 46R). FIN 46 as originally issued and as revised by FIN 46R, establishes consolidation criteria for entities for which control is not easily discernable under ARB 51. The adoption of FIN 46 and FIN 46R in 2003 did not have a material impact on our financial position or result of operations.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS 149 amends SFAS No. 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires that contracts with similar characteristics be accounted for on a comparable basis. The provisions of SFAS 149 are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. Management has assessed the impact of the adoption of SFAS 149 and concluded that there was no material impact on our results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards on the classification and measurement of certain financial instruments with characteristics of both liability and equity. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and to all other instruments that exist as of the beginning of the first interim period beginning after June 15, 2003. Management has assessed the impact and concluded that there was no impact on the adoption of SFAS No. 150.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits". This Statement establishes standards on additional disclosures to those in the original Statement 132 about the assets, obligations, cash flows, and net periodic costs of defined benefit pension plans and other defined postretirement plans separately for pension plans and other postretirement benefit plans. SFAS No. 132 (revised 2003) is effective for financial statements with fiscal years ending after December 15, 2003. The standard has been adopted.

Results of Operations

Year Ended December 31, 2002 Compared to Year Ended December 31, 2003

The following table sets forth each line item of our consolidated statement of operations as a percentage of total revenues for the periods shown:

For the Years Ended
December 31,

	2002		2003		Change
	\$	%	\$	%	\$
<i>(in thousands, except percentages)</i>					
Total revenues.....	387,487	100.0%	431,208	100.0%	43,722
Cost of sales.....	233,402	60.2%	266,023	61.7%	32,621
Gross profit.....	154,084	39.8%	165,186	38.3%	11,101
Selling and marketing expense.....	102,619	26.5%	117,071	27.1%	14,452
General and administrative expense (excluding non-cash compensation expense).....	32,081	8.3%	38,847	9.0%	6,767
Non-cash compensation expense.....	1,632	0.4%	654	0.2%	(978)
Restructuring costs.....	--	--	8,368	1.9%	8,368
Operating income.....	17,753	4.6%	245	0.1%	(17,508)
Interest expense.....	(11,677)	(3.0%)	(13,999)	(3.2%)	(2,322)
Interest income.....	940	0.2%	1,050	0.2%	110
Foreign exchange loss.....	(7,387)	(1.9%)	(1,103)	(0.3%)	6,284
Other income (expense), net.....	387	0.1%	(18)	(0.0%)	(405)
Income (loss) from operations before income taxes.....	15	0.0%	(13,825)	(3.2%)	(13,840)
Income tax expense.....	(2,630)	(0.7%)	(832)	(0.2%)	1,798
Net Loss.....	(2,615)	(0.7%)	(14,657)	(3.4%)	(12,043)

Total Revenues. For the twelve months ended December 31, 2003, total revenues increased by \$43.7 million, or 11.3%, due to higher sales volumes of winter sports products and a positive impact from the strengthening of the euro against the U.S. dollar, partially offset by lower sales volumes of racquet sports and diving products.

The following table sets forth revenues for each of our product categories for each of the years ended December 31, 2002 and 2003:

Product Category	For the Years Ended December 31,		
	2002	2003	% Change
<i>(in thousands, except percentages)</i>			
Winter Sports	\$ 144,667	\$ 188,768	30.5%
Racquet Sports	168,822	166,417	(1.4)%
Diving	65,600	66,322	1.1%
Licensing.....	8,398	9,701	15.5%
Total revenues.....	<u>\$ 387,487</u>	<u>\$ 431,208</u>	<u>11.3%</u>

Winter Sports revenues increased by \$44.1 million, or 30.5%, due to higher sales volumes across all product lines and the strengthening of the euro against the US dollar.

Racquet Sports revenues decreased by \$2.4 million, or 1.4%, mainly because of lower sales volumes and average selling prices of tennis racquets and balls. The tennis industry as a whole suffered a decline in 2002 and 2003, due to consumer reaction to a slowing economy. During the fourth quarter 2003 we saw some recovery in sales volumes relative to each of the previous three quarters.

Diving product revenues increased by \$0.7 million, or 1.1%, due to the strengthening of the euro against the U.S. dollar, partially offset by a decrease in sales volumes. We believe that the diving market is suffering from both consumer reaction to the perceived threat of terrorism and the general downturn in the economy, which has resulted in fewer people traveling worldwide to dive centers and resorts and making corresponding purchases of equipment.

Licensing revenues increased by \$1.3 million, or 15.5%, due to the strengthening of the euro against the U.S. dollar.

Gross Profit. Gross profit increased by \$11.1 million to \$165.2 million in 2003 from \$154.1 million in 2002. Gross margin decreased to 38.3% in 2003 from 39.8% in 2002 due to lower average prices, the inclusion of costs associated with various reorganization programs, and the strengthening of the euro against the U.S. dollar which adversely affected our euro-denominated cost. To lower our expenses, we initiated a cost reduction program in 2003 that, in part, involved migrating certain operations out of higher-

cost countries. Please see “Item 4.B Business Overview – Our Strategy – Reduce Costs” for a description of our cost reduction program.

In 2003, we have transferred all of our manufacturing operations in Tallinn, Estonia, which manufacture ski boots and certain diving products, to a recently purchased plant in Litovel, Czech Republic. We expect lower overhead costs for these manufacturing operations as they will share administrative and management resources with our existing infrastructure in Austria. We have also transferred some of our ski manufacturing from our plant in Kennelbach, Austria to our existing plant in Budejovice, Czech Republic where production costs are considerably lower. For these activities we recognized \$1.6 million of additional costs primarily related to inventory disposals and additional preproduction costs which increased our cost of sales and \$0.6 million restructuring costs (see below).

Selling and Marketing Expense. Selling and marketing expense increased by \$14.5 million, or 14.1%, due to exchange rate effects on these predominantly euro-denominated costs and an increase of the allowances for bad debts amounting to \$1.9 million as a result of the illiquidity of an Italian customer.

General and Administrative Expense. General and administrative expense increased by \$6.8 million, or 21.1%, mainly due to exchange rate effects on these predominantly euro-denominated costs, as well as \$1.4 million termination costs and other reorganization costs.

Non-Cash Compensation Expense. Non-cash compensation expense is due to the grant of stock options under our stock option plans of 1998 and 2001, and the resulting amortization expense. We record 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. No new option grants occurred in 2002 and 2003 due to the declining performance of our stocks and the Management and Supervisory Boards’ focus on improving our cost structure.

Restructuring. We announced a restructuring program in the United States, Ireland and Estonia which is expected to resulting \$10.5 million, of which \$8.4 million was incurred in 2003. Please see “Item 4.B Business Overview – Our Strategy – Reduce Costs” for a description of our cost reduction program. The most significant component of this program is aimed at increasing the utilization of our tennis ball production capabilities in the United States. Accordingly, we are in the process of closing our tennis ball production facility in Mullingar, Ireland and transferring these operations to the existing, under-utilized plant in Phoenix, Arizona. We recognized restructuring costs totaling \$7.0 million relating to this program consisting of an impairment of \$2.6 million and employee severance costs of \$4.4 million. The continual decline in the tennis ball market has adversely affected our ability to efficiently operate two facilities. We expect our decision to consolidate our facilities to have a favorable impact on the cost to produce tennis balls. The full benefit of this plan is expected to begin as early as the second half of 2004.

In order to increase utilization our U.S. warehouse facilities and to centralize U.S. headquarter functions, we recorded restructuring costs of \$0.4 million consisting of termination benefits incurred for the movement of our U.S. winter sports organization to our U.S. headquarters, the shutdown of current warehouse facilities, the closing of the related office, and other costs associated with the restructuring program. Additionally, we shut down our U.S. warehouse for diving products. Upon discontinuing use of the facility we expensed \$0.4 million for excess rent. In 2003 we have realized \$2.1 million as a benefit from this program.

Our production of ski boots and certain diving products in Estonia has been transferred to our new Litovel, Czech Republic facility. In 2003, we incurred \$0.6 million related to excess rent and other exit costs.

Operating Income. As a result of the foregoing factors, including the costs of the restructuring program as well as the strengthening of the euro against the U.S. dollar which adversely affected our euro-denominated costs, operating income for the twelve months ended December 31, 2003 decreased by \$17.5 million, or 98.6%.

Interest Expense. Interest expense increased by \$2.3 million or 19.9% to \$14.0 million in 2003 from \$11.7 million in 2002. The increase was due to the strength of the euro against the U.S. dollar, in particular with respect to interest on our euro-denominated 10.75% senior notes. In January 2004, one of our subsidiaries sold €135.0 million of 8.5% unsecured Senior Notes due 2014 and, with the proceeds, redeemed the outstanding 10.75% senior notes as well as certain short-term loans. As a result of this new Senior Notes issuance interest costs are expected to increase in 2004. The Company’s interest expenses are mostly in euro.

Interest Income. Interest income increased by \$0.1 million, or 11.7%, due to higher cash on hand during this period.

Foreign Exchange Loss. We recorded a foreign currency exchange loss of \$1.1 million, compared to a loss of \$7.4 million in 2002. This reduction was primarily due to the reclassification of non-euro denominated intercompany accounts receivable at one of our euro based subsidiaries to permanently-invested intercompany receivables. We made this decision in 2003 because of our focus to use cash flows to fund the subsidiary’s operations and future growth.

Other Income (Expense), net. Other income, net, decreased by \$0.4 million to a net expense of \$0.02 million in 2003 from a net income of \$0.4 million in 2002.

Income Tax Expense. In 2003, income tax expense decreased by \$1.8 million to \$0.8 million in 2003 from \$2.6 million in 2002. The change in tax expense is mainly attributed to an increase of deferred tax assets, primarily in Germany and Austria due to current year losses under local tax law.

Net Income (Loss). As a result of the foregoing factors, we had a net loss of \$14.7 million in 2003, compared to a net loss of \$2.6 million in 2002.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2002

The following table sets forth each line item of our consolidated statement of operations as a percentage of total revenues for the periods shown:

	For the Years Ended				Change
	December 31,				
	2001		2002		
	\$	%	\$	%	\$
<i>(in thousands, except percentages)</i>					
Total revenues.....	392,021	100.0%	387,487	100.0%	(4,534)
Cost of sales.....	233,971	60.4%	233,402	60.2%	(569)
Gross profit.....	158,050	40.8%	154,084	39.8%	(3,966)
Selling and marketing expense.....	102,094	26.3%	102,619	26.5%	525
General and administrative expense (excluding non-cash compensation expense).....	33,972	8.8%	32,081	8.3%	(1,891)
Non-cash compensation expense.....	2,025	0.5%	1,632	0.4%	(393)
Restructuring costs.....	838	--	--	--	--
Earnings per share-diluted	19,959	5.2%	17,753	4.6%	(2,206)
Interest expense.....	(11,275)	(2.9%)	(11,677)	(3.0%)	(402)
Interest income.....	892	0.2%	940	0.2%	48
Foreign exchange gain (loss).....	5,828	1.5%	(7,387)	(1.9%)	(13,215)
Other income (expense), net.....	7	0.0%	387	0.1%	380
Income from operations before income taxes.....	15,411	4.0%	15	0.0%	(15,396)
Income tax expense.....	(4,032)	(1.0%)	(2,630)	(0.7%)	1,402
Share of loss from equity investment, net of tax.....	(1,117)	(0.3%)	--	--	1,117
Net income (loss).....	10,262	2.6%	(2,615)	(0.7%)	(12,877)

Total Revenues. For the twelve months ended December 31, 2002, total revenues decreased by \$4.5 million, or 1.2%. This was caused by significantly lower sales of racquet sports, due primarily to conversion of our footwear business into a licensing agreement, and lower sales of diving equipment, partially offset by the strengthening of the euro against the U.S. dollar.

The following table sets forth revenues for each of our product categories for each of the years ended December 31, 2001 and 2002:

Product Category	For the Years Ended December 31,		
	2001	2002	% Change
	<i>(in thousands, except percentages)</i>		
Winter Sports	\$135,421	\$144,667	6.8%
Racquet Sports	180,108	168,822	(6.3)
Diving	68,480	65,600	(4.2)
Licensing.....	8,012	8,398	4.8
Total revenues.....	<u>\$ 392,021</u>	<u>\$ 387,487</u>	<u>(1.2)%</u>

Winter Sports revenues increased by \$9.2 million, or 6.8%. The main reason for the increase in sales was the strengthening of the euro against the US dollar and increased sales volumes of our snowboard equipment.

Racquet Sports revenues decreased by \$11.3 million, or 6.3%. This decrease in revenues was primarily due to conversion of our footwear business into a licensing agreement from the beginning of 2002, partially offset by the strengthening of the euro against the U.S. dollar. To a lesser extent, it also resulted from lower sales volumes and average selling prices, due to a decline in the number of recreational players, poor weather conditions in certain regions during the peak selling season and consumer reaction to a slowing economy, which caused the racquet industry as a whole to suffer a decline in 2001 and 2002.

Diving product revenues decreased by \$2.9 million, or 4.2%. We believe that the diving market has suffered from U.S. consumer reaction to the event of September 11, 2001 and the general downturn in the global economy, which has resulted in fewer people traveling worldwide to dive centers and resorts and making corresponding purchases of equipment. This decline in sales volumes was partially offset the strengthening of the euro against the U.S. dollar.

Licensing revenues increased by \$0.4 million, or 4.8%. This increase was due to additional revenues from the licensing of footwear products, offset in part by the sales by our UK subsidiary of sports bags, which previously were licensed. Both of these changes took place at beginning of 2002.

Gross Profit. Gross profit decreased by \$4.0 million to \$154.1 million from \$158.0 million in 2001. Gross margin decreased to 39.8% in 2002 from 40.3% in 2001. The decline in gross profit reflected lower volumes and lower average prices across our Racquet Sports and Diving products, and by unfavorable currency impacts on our Winter Sports revenues. The decline in gross margin reflected higher material and energy costs, lower average prices as well as unfavorable currency impacts.

Selling and Marketing Expense. Selling and marketing expense increased by \$0.5 million, or 0.5%. This decrease was due primarily to unexpectedly high success-based endorsement fees in 2001. This impact was partly offset by planned increased departmental selling expense in connection with our new distribution unit in the United Kingdom.

General and Administrative Expense. General and administrative expense decreased by \$2.7 million, or 7.8%, to \$32.1 million in 2002 from \$34.8 million in 2001. In 2001, amortization of goodwill and trademarks of \$1.0 million was recorded. In accordance with SFAS 142, in 2002, goodwill and trademarks were no longer amortized. The further decrease was due to additional cost cutting measures, including head count reductions, which was offset by the strength of the euro against the U.S. dollar as our general and administrative expenses are mostly in euro.

Non-Cash Compensation Expense. We also recorded \$2.0 million and \$1.6 million for the year ended December 31, 2001 and 2002, respectively, as non-cash compensation expense due to the grant of stock options under our stock option plans 1998 and 2001 and the resulting amortization expense.

Restructuring. In 2001, we also recorded a charge of \$0.8 million in connection with an employee termination.

Operating Income. As a result of the foregoing factors, operating income decreased by \$1.4 million, or 7.2%, to \$17.8 million in 2002 from \$ 19.1 million in 2001.

Interest Expense. Interest expense increased by \$0.4 million or 3.6%. The increase was due to the strength of the euro against the U.S. dollar. Our interest expenses are mostly in euro.

Interest Income. Interest income remained broadly unchanged at \$0.9 million for each of 2002 and 2001.

Foreign Exchange Gain (Loss). We recorded a foreign currency exchange loss of \$7.4 million in 2002, compared to a gain of \$5.8 million in 2001. The loss was primarily associated with our U.S. dollar denominated receivables of our European subsidiaries as the euro strengthened against the U.S. dollar during the year. We operate in a multi-currency environment and are subject to the effects of fluctuation in exchange rates.

Other Income (Expense), net. Other income, net increased by \$0.4 million due to a gain on sales of various small assets.

Income Tax Benefit (Expense). Income tax expense decreased by \$1.4 million. The decrease in tax expense was mainly attributed to lower pretax income, offset by an increase of current income tax expense primarily in Austria and Italy.

Share of loss from equity investment, net of tax. This represented our share of loss from an equity investment in a distribution company purchased at the end of 2000. Our share of loss from this equity investment was \$1.1 million. On December 14, 2001, we withdrew our investment and since then we have had no further involvement.

Net Income (Loss). As a result of the foregoing factors, we had a net loss of \$2.6 million in 2002 compared to net income of \$9.4 million in 2001.

5.B. Liquidity and Capital Resources

Our liquidity needs arise principally from working capital requirements, capital expenditures and asset acquisitions. Given the nature of winter sports, and to a lesser extent racquet sports, our operating cash flow and working capital needs are highly seasonal. See “Factors Affecting Revenues”. Our need for cash is greater in the third and fourth quarters when cash generated from operating activities, together with draw downs from our bank lines, are invested in inventories and receivables. Historically, our primary sources of liquidity have been cash provided from operating activities, proceeds from the issuance of debt and equity securities and borrowings under various credit facilities.

Net cash provided by from operating activities decreased from \$23.3 million in 2002 to \$17.3 million in 2003. This decrease is a result of lower net income and a higher level of accounts receivable partially offset by a greater reduction of inventories. The cash flows from operating activities were primarily used to purchase property, plant and equipment of \$16.9 million and to repurchase treasury stock of \$1.2 million.

As of December 31, 2003, we had \$41.3 million in unrestricted cash and cash equivalents and aggregate undrawn credit facilities of \$8.7 million under operating credit lines, Austrian bank loans, and other lines of credit. In addition, \$15.0 million was available under the U.S. loan agreement.

In 2002, net cash provided by operating activities decreased to \$23.3 million from \$35.9 million in 2001. This decrease was primarily the result of a net loss of \$2.6 million in 2002 compared to a net income of \$9.4 million in 2001 and a lower level of accounts payable, partially offset by a lower level of receivables. The cash flows from operating activities and proceeds from sale of property were used to pay a dividend of \$5.2 million to our shareholders and to purchase property, plant and equipment of \$20.7 million.

For the year ended December 31, 2003, net cash used for financing activities was \$2.0 million, resulting from a repayment of long-term debt of \$1.2 million, a repurchase of treasury stock of \$1.2 million and an increase in restricted cash of \$2.7 million partially offset by a change in short-term borrowings, net of \$1.4 million and proceeds from long-term debt of \$1.6 million.

Net cash provided by financing activities for the year ended December 31, 2002 of \$2,000 resulted from an increase in long-term debt of \$16.6 million, which included proceeds of \$11.0 million from a sale leaseback of our property in Schwechat, Austria and Neusiedl/Zaya, Austria and proceeds of \$4.8 million from a mortgage on our Penn Phoenix property. Cash was used to pay a dividend of \$5.2 million to our shareholders, repay long-term debt of \$4.3 million (including \$3.5 million of the existing 10.75% Senior Notes due 2006), to purchase treasury stock of \$3.0 million and repay \$2.9 million of short-term borrowings.

As described above, we operate in a multi-currency environment and are subject to currency translation risk and, to a lesser extent, currency transaction risk. We incur transaction risk whenever one of our subsidiaries enters into a transaction using a currency other than its functional currency. In order to reduce this risk, we seek to match our revenues and costs in each currency. We also hedge part of our firm commitments for sales to Japan, Switzerland and Canada through forward contracts and options with Austrian banks. As of December 31, 2003, we had eight forward contracts on Japanese yen totaling \$9.4 million, four Canadian dollar option contracts totaling \$2.6 million, and one Japanese yen option contract totaling \$1.9 million. We recorded a foreign exchange gain of \$5.8 million in 2001 and foreign exchange losses of \$7.4 and \$1.1 million in 2002 and 2003, respectively. See “Quantitative and Qualitative Disclosures About Market Risk”.

We finance our operations through short- and long-term borrowings under agreements available to us and our subsidiaries as well as other debt. We intend and have the ability to repay approximately \$31.8 million of our short-term loans from the proceeds of our newly issued 8.5% Senior Notes. Therefore, this amount has been reclassified to long-term debts in the balance sheet as of December 31, 2003. The following discussion does not give any effect to this reclassification.

Total debt as of December 31, 2003, was \$184.8 million, consisting of short-term borrowings of \$69.3 million, other long-term debt of \$32.6 million and 10.75% Senior Notes of \$82.9 million.

Based upon current operations and our historical results, we believe that our cash flow from operations will be adequate to meet our anticipated requirements for working capital, capital expenditures and scheduled interest payments. In January 2004, we sold €135 million of 8.5% senior notes. With the proceeds of this sale, we redeemed all of our outstanding 10.75% senior notes, paid back certain other debts and retained the remaining funds for working capital and general corporate purposes. As a result of the repayment of certain debt, our available credit facilities will be reduced. Additional financing may be required to fund unanticipated capital and working capital expenditures. Although we believe that we will have enough money available to fund our planned working capital and capital expenditures for the next several years, we cannot assure you that we will not require additional financing for our operations.

Treatment of Bank Waivers Under SFAS No. 15

SFAS No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings, establishes standards for reporting information about bank waivers received in connection with a debt restructuring. SFAS No. 15 requires that a debtor account for the effects of a restructuring prospectively from the time of the restructuring, and not change the carrying amount of the payable unless the carrying amount exceeds future cash payments (interest and face amounts) specified by the new terms. If total cash payments are less than the carrying amount of the payable at the date of the restructuring, the carrying amount of the payable shall be reduced to an amount equal to the sum of the future interest and principal cash payments, and a gain equal to the amount of the reduction shall be recognized. Thereafter, all cash payments shall be accounted for as a reduction of the carrying amount of the payable and no interest expense shall be recognized for any period between the restructuring and maturity of the payable. As a result of the application of SFAS No. 15, we recognized an extraordinary gain of approximately \$58.2 million (net of debt restructuring expenses of approximately \$3.6 million) for the year ended December 31, 1998 and \$3.0 million (net of \$1.6 million in taxes) for the year ended December 31, 2000.

Loan Agreements

The following discussion does not give any effect to the repayment of our short-term loans from the proceeds of our 8.5% Senior Notes issued in January 2004.

Sale-Leaseback. We entered into an agreement on June 28, 2002, whereby we sold land and building to an unrelated bank and leased it back over a 15 year term. The proceeds of this sale were €10.6 million. We have the obligation to purchase the property back after 15 years for €8.2 million. We may also repurchase the property at our option from the first until the tenth year of the arrangement for the present value of the future lease payments and the remaining residual value. We are also required to pay the bank a monthly deposit of €0.01 million, which will be repaid to us, plus interest of 6.7%, at the time of repurchase. Because of our continuing involvement, this transaction has been accounted for as a financing such that we have recorded €10.6 million of cash and long-term borrowings. As of December 31, 2003, we had outstanding debt under the sale-leaseback agreement of \$13.2 million.

Operating Credit Lines. As of December 31, 2003, we had outstanding debt of \$2.3 million with various Austrian banks and undrawn credit facilities of \$7.9 million. The weighted average interest rate on outstanding loans was 3.6% at December 31, 2003.

Oesterreichische Kontrollbank Aktiengesellschaft. As of December 31, 2003, we had outstanding borrowings under this line of credit of \$18.9 million with Austrian banks in the context of Austrian export promotion programs administered by Oesterreichische Kontrollbank Aktiengesellschaft. The weighted average interest rate on this indebtedness was 2.15% at December 31, 2003. These loans had been made in form of credits for specific exports. The amounts owed are secured by bills of exchange and by all Austrian trade receivables. No more credit facilities are available under these terms of commitment.

Senior Notes

In July 1999, our subsidiary Head Holding issued €100.0 million of 10.75% senior notes due 2006. Proceeds from the offering of these senior notes were used to repay existing debt and for general corporate purposes. In October 2000, we repurchased €30.9 million (approximately \$32.4 million) of these senior notes in a series of transactions using part of the proceeds of our initial public offering. In July 2002, we repurchased another €3.6 million (approximately \$3.5 million) of our senior notes. As of December 31, 2003, €65.7 million (\$82.9 million) aggregate principal amount of these senior notes was outstanding.

In January 2004, one of our subsidiaries sold €135.0 million (approximately \$167.2 million) of 8.5% senior notes due 2014, guaranteed by Head N.V. and certain of its subsidiaries. We have applied to list the notes on the Luxembourg Stock Exchange. With the proceeds from the sale, all of our outstanding 10.75% senior notes due 2006 were redeemed. The total redemption payment was €70.1 (approximately \$86.8 million) million of which €3.5 million represented the redemption premium and €0.9 million interest.

U.S. Loan Agreement

In April 2000, our subsidiaries, Head USA, Inc., Mares America Corporation, Penn Racquet Sports, Inc. and Dacor Corporation, entered into a \$20 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 was secured by substantially all accounts receivable and inventory of Head USA, Inc., Mares America Corporation, Penn Racquet Sports, Inc. and Dacor Corporation and the Penn trademarks and patents (collectively the "collateral"). Subsequently the loan amount was reduced to \$15.0 million. At December 31, 2003, \$0.2 million was restricted under this agreement. No funds were used under this line of credit as of December 31, 2003.

Mortgage Agreement

One of our subsidiaries entered into a mortgage agreement secured by the Penn property in Phoenix with an unrelated financial institution of \$4.8 million over a 15 year term at an interest rate of 7.33%. At December 31, 2003, the amount owed under this agreement was \$4.5 million.

Other Long-Term Debt

As of December 31, 2003, we had an aggregate amount of approximately \$0.4 million long-term debt owed to several Austrian government agencies. This debt is denominated in euro and had a weighted average interest rate on outstanding borrowings of

approximately 4.3% at December 31, 2003. This long-term debt is payable over several years, with the final payments scheduled in 2005.

As of December 31, 2003, we had outstanding amounts of other long-term debt of \$14.5 million with several Italian banks and one bank in each of the Czech Republic and Estonia, of which \$7.0 million was secured. The weighted average interest rate on borrowings outstanding under the loans was 2.8% at December 31, 2003. These loans terminate between January 2005 and 2009.

Italian Bank Loans

As of December 31, 2003, HTM Sport S.p.A., our Italian subsidiary, had drawn an aggregate amount of approximately \$19.2 million with various Italian banks. The weighted average interest rates on these credit lines was 4.3% at December 31, 2003.

Japanese Bank Loans

As of December 31, 2003, HTM Sports Japan KK, one of our Japanese subsidiaries, had short-term credit lines with Sumitomo Bank of approximately \$18.5 million that are renewed annually. We guarantee the payments to Sumitomo Bank in the amount of the outstanding debt. The weighted average interest rate on these loans was 3.0% at December 31, 2003.

Other Lines of Credit

As of December 31, 2003, we had outstanding amounts of approximately \$10.3 million under other operating lines of credit in France and Canada. The weighted average interest rate on these loans was 3.4% at December 31, 2003.

Capital Expenditures; Research and Development

We expect to spend approximately \$55 million on investment in property, plant and equipment and \$36 million on research and development in the 2004 to 2006 period, primarily for the design and manufacturing of products that are scheduled to be introduced and existing products which we expect to continue selling during the period.

5.C. Research and Development, Patents and Licenses

We believe that we are an industry leader in the development of innovative and technologically advanced sports equipment. Our research and development groups identify consumer needs and shifts in consumer preferences in order to develop new product ideas and concepts. In addition, we encourage cross-fertilization of ideas among divisions, which has led to further product innovations. In 2003, 2002 and 2001, we spent approximately \$13.6 million, \$11.0 million and \$9.5 million, respectively, on engineering, research and development and \$0.7 million, \$1.0 million and \$0.6 million, respectively, for patents and licenses. To ensure quality and precision, the majority of our products are designed on our own computer-aided design and manufacturing (CAD/CAM) systems.

5.D. Trend Information

We operate in mature markets that in 2002/2003 had shown a market decline. The industry trend has been toward consolidation, which has benefited us because we are a leading company in our core sectors.

The slowdown in the U.S. economy in 2002 and 2003 has had an effect on consumer spending worldwide. In light of the current political and economic situation, we expect sales in 2004 to be in line or slightly below those achieved in 2003. Having said this, our products are targeted towards sports enthusiasts who, based on available market data, tend to have comparatively high disposable income. We believe that the purchase of new sports equipment among this group tends to be influenced more by product innovation than by economic conditions.

Revenues Growth and Currency Fluctuations

While we report our results in U.S. dollars, close to 59% of our revenues are in euros and the majority of our manufacturing is on a euro cost basis. As a consequence, currency fluctuations have an effect upon our reported results. Within a given period, the appreciation of the euro against the dollar will be reflected in higher revenues and costs on a translation basis, and conversely, when it depreciates, we would expect to show lower revenues and costs. Given the current order flow, we expect revenue in 2004 to be in line or slightly below those achieved in 2003.

Currency fluctuations can also affect gross margins. This is especially true in Winter Sports, where we incur a majority of our costs in the first six months and receive a majority of our revenues in the last six months of the year, and both costs and revenues are primarily euro-based. Accordingly, a strong euro in the first six months, when we incur costs, or a weak euro in the last six months, when we receive revenues, will adversely affect our reported margins on a U.S. dollar basis.

Product Outlook

In Winter Sports, we see a significant trend in Europe towards integrated, better coordinated ski-binding-boot systems, high performance, higher priced equipment, based on an increase in average selling prices. In 2003, re-orders were comparable to previous

years. For 2004, we will be concentrating on improving product mix, especially on extending our high end product line, as we expect the consumer preference for high performance sports products to continue. We will extend our integrated line of ski products and concentrate on improving the ski product mix. For those products for which there is high demand, such as our best-selling SL 100 bindings, we will focus on increased profitability. We continually introduce new technical features for improved performance, safety and comfort such as new *Free Flex* systems, the unique safety "ABS" anti-friction toeplates, new and lighter designs of our unique *Diagonal* safety feature, new integrative solutions with new totally integrated tool free systems (*Railflex* System), innovative light-weight constructions, as well as changes in styling and appearance in each two- to three-year product cycle.

In snowboards, where we have recently introduced the *Intelligence* technology, we are still outsourcing our products with focus on cost efficiency and high quality in manufacturing.

In ski boots, where we have renewed our high end range during 2004, we will maintain our cost efficiency in means of production and concentrate on improving our product mix.

In Racquet Sports, we have experienced a decline in the overall market which we partially compensated with the launch of the Liquidmetal series. A deterioration of the product mix in tennis racquets in the overall market as well as heavy competition for tennis ball sales unfavorably impacted our revenues in racquets and balls respectively, offset by a favorable currency impact from the US dollar. In the fourth quarter 2003, we saw some signs of recovery in the market, particularly, in racquets, and we expect this to continue in the foreseeable future.

In Diving, we are successfully introducing our products in new geographical areas such as Eastern European countries and Southern Asia. During the last season attention was given to reducing the number of offered products in order to have a simpler and more efficient line still able to fulfill all divers' needs.

5.E. Off-Balance Sheet Arrangements

We have no off-balance sheet entities or off-balance sheet arrangements that are reasonably likely to have a material impact on our financial position and results of consolidated operations.

5.F. Disclosures of Contractual Obligations

Obligations to make future payments under contracts for the periods indicated are as follows as of December 31, 2003 (in thousands).

Contractual Obligations	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years	Total
Sale-Leaseback	\$ 138	305	349	12,438	\$ 13,230
Mortgage	197	440	506	3,395	4,538
10.75% Senior Notes due 2006	--	82,925	--	--	82,925
Other Long-Term Debt	3,058	5,122	4,571	2,124	14,875
Operating Leases	4,700	7,360	5,480	596	18,136

In connection with our benefit plans we are required to meet certain funding requirements, which could require us to make certain cash payments in the future.

In January 2004, one of our subsidiaries sold €135.0 million of 8.5% unsecured senior notes due 2014. With the proceeds from the sale, all of our outstanding 10.75% senior notes due 2006 were redeemed.

ITEM 6: DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors and Senior Management

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 four members, whose names and biographies are set forth below along with those of our executive officers. See "Summary of Material Provisions of our Articles of Association and Other Matters – Management Board".

The following table sets forth information with respect to our Management Board and other key executive officers in and managers to our consolidated group.

<u>Name</u>	<u>Age</u>	<u>Title</u>
Johan Eliasch	42	Chairman of the Management Board, and Chief Executive Officer
Ralf Bernhart	52	Member of the Management Board and Chief Financial Officer
George F. Nicolai	51	Member of the Management Board
Robert van de Voort ...	48	Member of the Management Board
Klaus Hotter.....	48	Executive Vice President, Ski Division (Managing Director of Head Sport AG)
Georg Kröll.....	55	Executive Vice President, Licensing Division (Managing Director of Head Sport AG)
Robert Marte.....	50	Executive Vice President, Racquet Sports Division (Managing Director of Head Sport AG)
Stefano di Martino	38	Managing Director, Diving Division (Managing Director of HTM Sport S.p.A.)
Edgar Pöllmann	59	Executive Vice President, Operations (Managing Director of HTM Sport- und Freizeitgeräte AG)
Jacques Altimani.....	57	Vice President, European Distribution (Managing Director of Head International GmbH)
David Haggerty.....	46	President, Penn Racquet Sports Inc.
Kevin Kempin	45	Vice President, Sales/Marketing Racquet Sports U.S. and Penn Worldwide
Gerald Skrobanek	38	Vice President, Operations Division (Managing Director of Head Sport AG)
Clare Vincent.....	35	Head of Corporate Finance

Mr. Johan Eliasch has served as Chairman of the Management Board of Head N.V. and Group Chief Executive Officer since September 1995 and has been, along with family members, the ultimate beneficial owner of Head N.V.'s controlling shareholder, Head Sports Holdings N.V. or predecessors, since January 1996. He has been Managing Director of Head Holding Unternehmensbeteiligung GmbH since September 10, 1998 and a member of the Supervisory Board of HTM since 2000. Since 1991, he has been Chairman of Equity Partners Limited. Mr. Eliasch also serves as a Special Advisor to the Shadow Foreign Secretary and is deputy chairman of the Conservative Foundation. Mr. Eliasch is a member of the advisory board of the International Peace Foundation, the sports advisory board of the Shimon Peres Peace Foundation, the advisory board of BrazilInvest and the board of the Special Olympics Committee.

Mr. Ralf Bernhart has served as the Chief Financial Officer of the Head group of companies since March 1996. He was a member of the HTM Supervisory Board in 1995 prior to becoming a member of the HTM Management Board in 1996. He has been a Managing Director of Head Holding Unternehmensbeteiligung GmbH since July 19, 1999 and in October 2000, he became a member of the Management Board of Head N.V. Prior to joining Head N.V., from 1990 to 1995, Mr. Bernhart was a member of the Executive Board of Hafslund Nycomed Pharma AG, Austria, a leading pharmaceutical company.

Mr. George F. Nicolai, born in 1953, has been a member of the management team of MeesPierson Trust B.V. from 1989 until 2003, and will continue as a non-executive director of the latter. After finishing his law degree at the University of Utrecht, he joined Pierson Holding & Pierson (now Fortis Bank) serving in a variety of executive positions, both in the Netherlands and abroad. He currently also serves as a member of the board of several Dutch subsidiaries of international companies such as Valentino, Rothschilds, Volvo, National Grid and Pirelli and as chairman of several foundations.

Mr. Robert van de Voort is a lawyer and is the co-founder and managing director of the TMF Group of companies. This group is active in a wide range of financial services including corporate and structured finance. Mr. van de Voort has a number of other board directorships and is a member of the supervisory board of Bank of America.

Mr. Klaus Hotter has served as Vice President of Head Sport AG since 1986 and managed our Winter Sports Division. In November 2002, he was appointed Managing Director of Head Sport AG and assumed full responsibility for the Winter Sports Division. He managed European distribution at Blizzard from 1981 to 1986.

Mr. Georg Kröll has served as Vice President of Head Sport AG since 1990 and was appointed Managing Director of Head Sport AG in November 2002. In 1996, he became the Division Manager for Licensing. From 1990 to 1995, he was the Division Manager for the Footwear Division of HTM. Prior to joining Head in 1981 where he managed distribution for Head in Germany, Austria and International Trade, he served as General Manager for Kneissl of America.

Mr. Robert Marte has served as Vice President of Head Sport AG since 1987. He manages our Racquet Sports Division and was appointed Managing Director of Head Sport AG in November 2002. He began with HTM in 1980 as a product manager.

Mr. Stefano di Martino, has served as Managing Director of the Diving Division of HTM Sport S.p.A since January 2, 2004. After having had a successful experience as professional runner, Mr. Martino joined Nike Italy in 1989 and spent his professional experience in Nike in various management positions including Director of Footwear Sales for Nike Europe. Prior to joining HTM Sport S.p.A. he was European Footwear Sales Director and Energy/Trend General Manager for Nike Europe, Middle East, Africa.

Mr. Edgar Pöllmann has served as General Manager of the Tyrolia bindings division of HTM since 1996. In November 2002, he was appointed Managing Director of Global Operations. From 1995 to 1996, he was an industrial consultant for HTM responsible for the restructuring and turn-around program of the Tyrolia binding division of HTM. Prior to joining HTM, he served as Managing Director of Steyr Auto GesmbH (the national importer and distributor of Fiat, Lancia and Alfa Romeo automobiles) from 1981 to 1993 and as industrial consultant for various companies from 1994 to 1995.

Mr. Jacques Altmani joined our group in 1975 and was responsible for building up our French subsidiary, now Head Tyrolia Sports S.A. In addition to acting as Managing Director of our French subsidiary, he took over the responsibility for our European Distribution and was appointed Managing Director of Head International GmbH in 2002. Prior to joining us, Mr. Altmani worked as area manager for the North American market for Hart skis, Ramy skis, bindings and ski poles.

Mr. David Haggerty was named President of Head/Penn Racquet Sports in January 2001. In November 2002, he was appointed as Chief Executive Officer of Head N.V.'s business in the USA. From January 1999 until taking this position, he was chief operating officer of Head USA, and Vice President/ General Manager of Head USA Racquet Sports from August 1998 until January 1999. Mr. Haggerty was President of Dunlop Sports from August 1996 to August 1998 and President of Dunlop Slazenger Racquet Sports from October 1994 to August 1996. From 1980 to 1993, he held various management positions with Prince Sports Products, Inc.

Mr. Kevin Kempin joined the Head Group in 1993 as Vice President of Key Accounts in our U.S. Racquet Sport business. Before joining Head, Mr. Kempin was Director of Tennis at the University of Utah in 1983-84, and thereafter served for six years as a key sales manager and then vice president at Prince Sports. Mr. Kempin is currently Vice President of Sales and Marketing for our U.S. Racquet Sports business and for Penn Worldwide.

Mr. Gerald Skrobanek joined Head Sport AG in September 2000. After having managed IT and Global Supply Chain Management for more than two years, Mr. Skrobanek took over the responsibility for Head Sport AG's global operations. Prior to joining Head, Mr. Skrobanek served as Chief Information Officer for Vianova Resins, an international chemical company and Wienerberger, a leading building material producer.

Mrs. Clare Vincent joined the Head Group in 1999, became Head of Corporate Finance in 2002 and has been a member of the Executive Committee since 2003. Her role includes investor relations and corporate development. Prior to joining us, Mrs. Vincent was in Corporate Development at Rexam PLC. Clare is a chartered accountant and trained at PricewaterhouseCoopers.

In November 2002, an Executive Committee was established. This Committee includes Johan Eliasch, Ralf Bernhart, Klaus Hotter, Robert Marte, Edgar Pöllmann, Stefano di Martino, Georg Kröll, Gerald Skrobanek and Clare Vincent. It is the highest consultative body and it was formed to ensure that business issues and practices are shared across Head N.V. and to define and implement common policies.

Supervisory Board

The Supervisory Board is responsible for overseeing Head N.V.'s Management Board and the general course of affairs of Head N.V.'s business. Head N.V.'s Supervisory Board currently has four members, whose names and biographies are set forth below.

The following table sets forth information with respect to Head N.V.'s Supervisory Board.

<u>Name</u>	<u>Age</u>	<u>Title</u>
Karel Vuursteen	62	Chairman of the Supervisory Board
William S. Cohen	63	Member of the Supervisory Board
Jurgen Hintz	61	Member of the Supervisory Board
Viktor Klima	56	Member of the Supervisory Board

Mr. Karel Vuursteen was the Chairman of the Executive Board of Heineken N.V. from 1993 until his resignation in 2002. Mr. Vuursteen joined Heineken N.V. in 1991. Prior to this, he worked for Philips for 23 years, serving in a variety of executive positions. Mr. Vuursteen is Chairman of the Supervisory Board of Royal Ahold N.V. and of Randstad N.V. He also serves on the Supervisory Boards of Gucci N.V., Electrolux AB, Sweden, ING N.V., Akzo Nobel N.V. and Heineken Holding N.V. He is Chairman of the World Wildlife Fund in the Netherlands and of the Stichting Het Concertgebouw Fonds, Netherlands.

Mr. William S. Cohen has been a Member of the Supervisory Board of Head N.V. since May 2001. He is currently the Chairman

and CEO of The Cohen Group, an international strategic business consulting firm based in Washington, DC. He is also a co-director at Empower America, a prominent public policy advocacy group and chairman of the William S. Cohen Center for International Policy and Commerce at the University of Maine. Secretary Cohen has other directorships with NASDAQ and IDT and serves on the advisory boards of large multinational firms including Intel, Barrick Gold International and BrazilInvest. He is a former U.S. Secretary of Defense and has served in both the U.S. Senate and House of Representatives.

Mr. Jurgen Hintz has been a Member of the Supervisory Board of Head N.V. since May 2003. He is the Group Chief Executive Officer of Novar plc, an international group with core activities in Intelligent Building Systems, Aluminum Extrusion Solutions, and Security Printing Services with an annual turnover of £1.5 billion. Prior to this he was President and Chief Executive of Carnaud/Metalbox until October 1995, Executive Vice-President and member of the main Board of Procter & Gamble Company and non-Executive Director of Inchcape plc and Apple Computers Inc.

Mr. Viktor Klima served as Chancellor of the Republic of Austria from January 1997 until his resignation February 2000. In this capacity Mr. Klima held the Presidency of the European Union in the second half of 1998. Prior to serving as Chancellor, he served as Minister of Finance 1996-97 and Minister of Economy 1992-96. Prior to his political career, he was a member of the management board of the OMV oil company, responsible for finance, capital markets and acquisitions. Prior to this position he held various management positions within OMV. Mr. Klima took up a senior management position with Volkswagen in October 2000.

6.B. Compensation

The table below shows the compensation of the directors for the year ended December 31, 2003 (in thousands):

	Paid	Accrued for future payments
Directors' Board		
Johan Eliasch.....	\$ 644	\$ --
Ralf Bernhart.....	541	39
George Nicolai.....	11	--
Robert van de Voort.....	11	--
	<u>\$ 1,207</u>	<u>\$ 39</u>
Supervisory Board		
Karel Vursteen.....	\$ 10	\$ --
Viktor Klima.....	10	--
William S. Cohen.....	10	--
Jürgen Hintz.....	10	--
	<u>\$ 40</u>	<u>\$ --</u>

For the year ended December 31, 2003, the aggregate compensation paid by us to our executive officers, excluding the members of the Directors' Board, was \$3.8 million. The expense for accrued compensation was \$0.3 million. Under the Head Tyrolia Mares Group Executive Stock Option Plan 1998 described below under "Stock Option Plans," we have issued options to purchase an aggregate of 1,699,392 depositary receipts representing ordinary shares to some of our executive officers and Supervisory Board members. Stock-based compensation amounted to \$0.3 million for the year ended December 31, 2003. Options vest over a period of four years and are subject to the Company meeting specified earnings performance targets during this period. These options were exercisable beginning on January 1, 2002, but the shares were subject to a lock-up until October 3, 2002. Each option may be exercised for a nominal price.

Under the Head N.V. Executive Stock Option Plan 2001 described below under "Stock Option Plans", we have issued options to purchase an aggregate of 3,275,486 depositary receipts representing ordinary shares to some of our executive officers and Supervisory Board members. For the year ended December 31, 2003, stock-based compensation amounted to \$0.2 million. The exercise price for all stock options granted under the 2001 Plan was fixed at inception of the Plan. The vesting period varies from 0 to 6 years.

The table below shows the details of both Executive Option Plans for current and former Directors' and Supervisory Board members:

			Exercise price at the issuance	Number of non-exercised shares at beginning of the year	Number of written shares	Number of exercised shares	Exercise price	Number of non-exercised shares at the end of the year
Option Plan 1998								
	Ralf Bernhart.....		--	175,714	--	--	--	175,714
	Christoph Henkel.....		--	3,636	--	--	--	3,636
	René Jäggi.....		--	3,636	--	--	--	3,636
Option Plan 2001								
	Johan Eliasch.....		4.31	1,426,470	--	--	--	1,426,470
	Karel Vursteen.....		4.31	40,002	15,000	--	--	55,002
	Christoph Henkel.....		4.31	40,002	15,000	--	--	55,002
	Viktor Klima.....		4.31	40,002	15,000	--	--	55,002
	William S. Cohen.....		4.31	40,002	15,000	--	--	55,002
	René Jäggi.....		4.31	40,002	--	--	--	40,002
	Jürgen Hintz.....		4.31	--	25,002	--	--	25,002

The total amount accrued by the Company and its subsidiaries to provide pension, retirement or similar benefits was \$1.6 million for the year ended December 31, 2003.

6.C. Board Practices

Prior to the adoption of the US Sarbanes-Oxley Act of 2002, we maintained formal and informal procedures that were designed to ensure that we complied with our various disclosure obligations. In response to the Sarbanes-Oxley Act, we continued to use such procedures but also evaluated and, where necessary, formalized them in order to ensure that we are in compliance with the current and proposed US SEC and NYSE regulations, Dutch Law and the rules set out by the Vienna Stock Exchange and to facilitate improvement of the internal control framework. Such procedures were and are intended to assist the Board of Management by ensuring that the disclosure in all filed reports is accurate, complete, timely, understandable and that it fairly presents the condition of the group.

As a Dutch company listed on both the Vienna Stock exchange and the NYSE, we must consider different corporate governance systems. On December 9, 2003 a corporate governance code ("Dutch CGC") was presented which will become effective to Dutch listed companies as per the financial year beginning on or after January 1, 2004. The Dutch CGC specifically states that a company may choose to not comply with certain of its provisions if the deviation is explained to and approved by the general meeting of shareholders. In Austria a voluntary self-regulatory Code of Corporate Governance was drafted in October 2002, which shall provide corporations with a framework for the management and control of enterprises. This Code of Corporate Governance recommends Austrian stock listed companies to voluntarily adhere to such Code or parts of it. We are listed on the Vienna Stock Exchange, but as a Dutch company we are not subject to such Code's recommendations. Since we are not listed in the Netherlands and have much stronger connections to the US, it seems appropriate to focus on specifically the NYSE and SEC rules on corporate governance. Therefore, we believe that it would be appropriate to ask the shareholders at our next annual general meeting to approve that we will apply the NYSE and SEC rules of corporate governance and not specifically the rules of the Dutch CGC. We believe that by complying with the NYSE and SEC rules, and our current internal Code of Conduct setting out general standards for ethical behaviour, we should also meet many of the requirements of the Austrian Code of Corporate Governance.

None of our directors have service contracts that provide for benefits upon termination of employment.

6.D. Employees

The table below shows the number of employees by geographic location at the years ended December 31, 2001, 2002 and 2003:

	For the Years ended December 31,		
	2001	2002	2003
Austria.....	919	871	861
Italy.....	454	444	357
Other (Europe).....	1,007	921	681
North America.....	454	411	357
Other.....	42	44	45
Total.....	2,876	2,691	2,301

6.E. Share Ownership

Head Sports Holdings N.V., a Netherlands Antilles corporation, is controlled by Johan Eliasch and his family members. Head Sports Holdings N.V. held 18,987,344, or 47.7%, of Head N.V.'s issued shares as of March 31, 2004. Mr. Eliasch also owned 45,900 of Head N.V.'s shares directly as of this date and is eligible to receive all options issued under the 1998 Plan that do not vest to current participants in the 1998 Plan. None of the remaining officers and directors own or hold options under which the underlying shares amount to one percent or more of the Company's share capital.

The exercise price for all stock options granted under the 1998 Plan was fixed at inception of the Plan and increases at the rate of 10% per annum until the options are exercised. As of December 31, 2003, the exercise price was \$0.32. 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 1998 Plan were not exercisable prior to the end of the two year lock-up period following the initial public offering completed on October 3, 2000. Options have a maximum term of 10 years. The weighted average remaining contractual life of the outstanding stock option is 5.6 years, and options representing 664,412 shares have been exercised. As of December 31, 2003, options representing 770,528 shares are vested and exercisable.

The exercise price for all stock options granted under the 2001 Plan was fixed at inception of the Plan at \$4.31. The vesting period varies from 0 to 6 years. Johan Eliasch, our Chairman and Chief Executive Officer, received 1,426,470 options under this grant, which vested immediately. Options have a maximum term of 10 years. The weighted average remaining contractual life of the outstanding stock option is 8.8 years, and 1,701,480 options are exercisable under the 2001 Plan.

As of December 31, 2003, no other shares were available for grant under the 2001 Plan.

Stock Option Plans

The Stichting Head Option Plans

We have established a Dutch foundation, the Stichting Head Option Plan (the "Stichting"), the Board of which is controlled by Head Sports Holdings N.V., an entity that is ultimately beneficially owned and controlled by Johan Eliasch and his family members, that holds certain of our ordinary shares and issues depositary receipts to our employees and other third parties. The Stichting is the shareholder and therefore votes, collects dividends on behalf of the holders of depositary receipts and may also buy and sell shares in its own name and for its own account. Holders of the depositary receipts issued by the Stichting have no voting rights. The Stichting's sole corporate body is its Board; it does not have any members or shareholders. The named Administrator, Head Sports Holdings N.V., decides on the composition of the board and has the sole power to appoint any successor administrator.

Options are granted by means of an agreement between the participant, the Stichting and us. Upon the exercise of an option, the option price is paid to us, and we issue the shares or transfer to the Stichting listed shares that we have purchased, which issues the same number of depositary receipts to the participant. Holders of depositary receipts are entitled to proceeds of the sales of their shares upon request to the Stichting. However, a lockup on such shares was in effect for two years following the initial public offering on October 3, 2000.

As of December 31, 2003, the Stichting had rights to acquire 4,219,162 ordinary shares at the exercise price, to enable the Stichting to issue depositary receipts representing ordinary shares upon the exercise of options. Through December 31, 2003, 2,041,300 shares have been acquired by the Stichting. As of December 31, 2003, 664,412 were exercised so that the Stichting held 1,376,888 shares.

1998 Stock Option Plan

In November 1998, our Management Board approved the Head Tyrolia Mares Group Executive Stock Option Plan. The 1998 Plan calls for the grant of options to officers and key employees to purchase for a nominal fee depositary receipts representing ordinary shares of Head N.V. The 1998 Plan provides for the issuance of a maximum aggregate number of options equal to 10% of the then outstanding shares of Head N.V., on a fully-diluted basis, subject to adjustments upon the occurrence of a stock split or dividend or in

the event of a merger, reorganization or other similar event.

Upon exercise of the options, option holders receive depositary receipts rather than shares in the Company. Depositary receipts issued under the 1998 Plan will be administered by the Stichting. Holders of depositary receipts may, upon request, receive from the Stichting the proceeds from the sale of their shares. However, a lock-up period was in effect for two years following the initial public offering on October 3, 2000.

Options granted under the Plan vest over a four-year period, each year being a "performance period", and may each be exercised at a nominal price within a period of 10 years from the date of grant. With respect to each "performance period", the options vest depending on the participant's performance, expressed as the "overall performance percentage" (as defined in the 1998 Plan). For purposes of determining such overall performance percentage, the administrator of the 1998 Plan has determined, for each participant and for each performance period, performance targets which comprise a minimum target, a maximum target and a relative target weight. The exercise period for options which vest prior to January 1, 2002, began on January 1, 2002. The exercise period for options which vest after January 1, 2002, began at the date of vesting.

Under the 1998 Plan, options to purchase 2,278,394 depositary receipts have been granted including options to purchase 14,544 depositary receipts to members of our Supervisory Board. No further options will be granted by the Company to the Stichting, under the 1998 Plan.

2000 Stock Option Plan

In August 2000, our Management Board adopted the Head N.V. Executive Stock Option Plan 2000, but that plan has not been implemented.

2001 Stock Option Plan

In September 2001, we adopted the Head N.V. Executive Stock Option Plan 2001 (the "2001 Plan"). The 2001 Plan provides for grants of stock options to officers and employees of Head N.V. and its subsidiaries to purchase for \$4.31 depositary receipts representing ordinary shares of Head N.V. On September 28, 2001, a total of 3,982,068 options were granted under the terms of the 2001 Plan. Upon exercise of the options, option holders receive depositary receipts rather than our shares. Depositary receipts issued under the 2001 Plan will be administered by the Stichting. Holders of depositary receipts may, upon request, receive from the Stichting the proceeds from the sale of their shares.

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

ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. Major Shareholders

Head Sports Holdings N.V., a Netherlands Antilles corporation, is controlled by Johan Eliasch and his family members. Prior to the initial public offering on October 3, 2000 Head Sports Holdings N.V. held 96.0% of our issued and outstanding shares. Head Sports Holdings N.V. held 18,987,344, or 47.7%, of Head N.V.'s issued shares as of April 13, 2004. Mr. Eliasch also owned 45,900 of Head N.V.'s shares directly as of this date. Berno, Gambal & Barbee, Inc. held 2,252,800, or 6.0%, of Head N.V.'s issued shares as of April 13, 2004. Neither Head Sports Holdings N.V. nor Berno, Gambal & Barbee, Inc. have different voting rights than other shareholders. As of April 13, 2004 no other person is known to us to hold 5% or more of our issued shares.

7.B. Related Party Transactions

On June 15, 1999, entities controlled by our principal shareholder, chairman and chief executive officer contributed all of the outstanding share capital of London Films Ltd., valued at the date of contribution at \$20.5 million, to us. The transaction was accounted for on an "as if pooling" basis and, accordingly, the combined financial statements were presented for all periods in which common control existed. We issued 4,227,820 shares against this contribution in kind. London Films Ltd., 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.

In August 2000, we granted an option to receive all outstanding shares of London Films Ltd. as a shareholder distribution to Head Sports Holdings N.V., an entity beneficially owned by Johan Eliasch and his family members. On October 31, 2000, London Films Ltd. was distributed in accordance with this option. London Films had net assets of \$0.6 million at the time the shares were distributed. As a result, London Films is presented as a discontinued operation in our financial statements for the years ending December 31, 1999 and 2000.

In September 2000, we concluded a management agreement with Mr. Johan Eliasch, our Chairman and Chief Executive Officer, with respect to the management activities carried out by Mr. Johan Eliasch for the benefit of our company. In accordance with this management agreement, Mr. Johan Eliasch will receive an annual compensation of €545,000 and a reimbursement of all reasonable business expenses.

We receive administrative services from a corporation which is ultimately owned by the majority shareholder of the Company. Administrative expenses paid to this entity amounted to approximately \$1.2 million, \$1.2 million and \$3.5 million for the years ended December 31, 2001, 2002 and 2003.

In 2002 and 2003, one of our subsidiaries leased its office building from its general manager. Rental expenses amounted to approximately \$0.1 and \$0.04 million for the year ended December 31, 2002 and 2003.

7.C. Interest of Experts and Counsel

Not applicable.

ITEM 8: FINANCIAL INFORMATION

8.A. Consolidated Statements and Other Financial Information

- 8.A.1** See Item 18.
- 8.A.2** See Item 18.
- 8.A.3** See Report of Independent Auditors, page F-1.
- 8.A.4** Not applicable.
- 8.A.5** Not applicable.
- 8.A.6** See Note 24 to the Financial Statements.
- 8.A.7** **Legal or Arbitration Proceedings**

From time to time, we are party to lawsuits and proceedings in the normal course of our business. We cannot predict the outcome of these lawsuits. Nevertheless, we do not believe that we are currently party to any lawsuits or proceedings that will have a material effect on our financial condition or results of operations.

8.A.8. Dividend Policy

Under Netherlands law, we may only pay dividends on our shares if we maintain minimum paid-up share capital and reserves. If dividends on our ordinary shares are paid in cash, we expect to pay these dividends in euros.

While we currently intend to retain future earnings to finance operations, we will evaluate our dividend policy annually in light of results. Pursuant to our articles of association, the Management Board may decide which part of the free distributable profits shall be reserved. It should be noted that if preference shares are issued (which is presently not the case) this authority shall be applicable to the remainder of the profit after the preferred dividend to the holders of preference shares have been paid. Because of the fact that pursuant to the articles of association the part of the profit which is not reserved by the Management Board is distributed to the holders of ordinary shares, the Management Board effectively decides which part of the profit (after possible satisfaction of the preferred dividend of holders of preference shares) shall be distributed to the holders of ordinary shares.

Cash dividends payable to holders of ordinary shares listed on the New York Stock Exchange will be paid to The Bank of New York which will convert the dividends into U.S. dollars at the rate of exchange applicable on the date such dividends are paid, for disbursement to such holders. Cash dividends payable to holders of ordinary shares listed on the Vienna Stock Exchange will be paid to Bank Austria Creditanstalt AG in euros for disbursement to holders. Any dividend payments would be subject to Netherlands statutory withholding taxes.

8.B. Significant Changes

No significant change has occurred since the date of the annual financial statements included in this document.

ITEM 9: THE OFFER AND LISTING

9.A. Offer and Listing Details

The total nominal value of our issued share capital is €7,964,135.40 and consists of 39,820,677 ordinary shares of €0.20 each.

Our shares were listed on the New York Stock Exchange and the Vienna Stock Exchange on September 28, 2000 in connection

with our initial public offering.

The chart below shows the high and low market prices of our ordinary shares on each exchange for the financial periods indicated:

Years Ended	<u>NYSE</u> <i>(amounts in dollars)</i>		<u>Vienna Stock Exchange</u> <i>(amounts in euros)</i>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
December, 2000	8.25000	4.2500	11.2000	5.2000
December, 2001	5.9900	3.1100	5.3200	3.1500
December, 2002	3.5400	1.8500	3.8800	1.8000
December, 2003	2.9000	1.4500	2.5200	1.3600
Quarters Ended				
December, 2000	7.8750	4.2500	9.8700	5.2000
March 2001	5.9900	3.8200	6.4500	4.5100
June 2001	4.6500	3.7900	5.3200	4.3200
September, 2001	4.6700	3.3000	5.2000	3.6000
December, 2001	3.6000	3.1100	4.2000	3.1500
March, 2002	3.5400	3.2000	3.8800	3.5200
June, 2002	3.5000	2.9500	3.6800	3.0500
September, 2002	3.1700	2.0700	3.2900	2.0600
December, 2002	2.3500	1.8500	2.3000	1.8000
March, 2003	2.1700	1.4500	2.0100	1.4000
June, 2003	2.3600	1.5100	1.1900	1.3600
September, 2003	2.9000	2.0000	2.5200	1.7000
December, 2003	2.8000	2.1100	2.3000	1.8300
March 2004	3.5400	2.4500	3.1000	1.8200
Months Ended				
October, 2003	2.8000	2.2500	2.3000	2.0600
November, 2003	2.7600	2.2500	2.2500	2.0800
December, 2003	2.6500	2.1100	2.2000	1.8300
January, 2004	3.5400	2.4500	3.1000	1.8200
February, 2004	3.3800	2.9700	2.8000	2.5000
March, 2004	3.3900	3.0200	2.7500	2.5500

9.B. Plan of Distribution

Not applicable.

9.C. Markets

The ordinary shares were listed on the New York Stock Exchange on September 29, 2000 and are available in registered form only. Our shareholders register is maintained in New York, by The Bank of New York, our U.S. transfer agent and registrar. All of the New York Stock Exchange shares are represented by a single global share certificate held through the Depository Trust Company and registered with our transfer agent and registrar in the name of Cede & Co., the nominee of DTC.

Ordinary shares are available on the Vienna Stock Exchange in bearer form only and represented by a single global share certificate, which we have deposited with Oesterreichische Kontrollbank Aktiengesellschaft ("OeKB"), as custodian. The ordinary shares in bearer form can only be transferred in book-entry form. All ordinary shares are listed on the Vienna Stock Exchange; however, only the Vienna Stock Exchange shares may be traded on that market.

The Vienna Stock Exchange is operated by a stock corporation, the Wiener Börse AG, based on a license issued by the Federal Ministry of Finance. Members of the Exchange include banks and investment firms. The supervising authorities are the Federal Securities Authority (Finanzmarktaufsicht) and the Federal Ministry of Finance. The latter supervises the legality of the Vienna Stock Exchange's resolutions and of its organization primarily by way of an authorized exchange commissioner appointed by the Ministry. The Federal Securities Authority monitors the prevention of insider trading, fairness in trading and market-related aspects.

9.D. Selling Shareholders

Not applicable.

9.E. Dilution

Not applicable.

9.F. Expenses of the Issue

Not applicable.

ITEM 10: ADDITIONAL INFORMATION

10.A. Share Capital

Not applicable.

10.B. Articles of Association

Corporate Purpose

Article 3 of our amended articles of association provides that we may perform all acts and do all things (as long as these are not prohibited by law), such as operate all kinds of businesses, hold, participate in, manage and finance other enterprises and companies, borrow money and provide security there for and provide security for the debts of others and do all that is connected with the foregoing or may be conducive thereto including owning, leasing or obtaining licenses for real and intellectual properties, all which is to be interpreted in the widest sense. The Company's file number is 24286737 in Rotterdam at Kamer van Koophandel, Rotterdam.

Ordinary Shares

Form. All our ordinary shares may be either in registered or bearer form. All our ordinary shares are listed both on the New York Stock Exchange and the Vienna Stock Exchange. However, ordinary shares are available on the Vienna Stock Exchange only in bearer form and on the New York Stock Exchange only in registered form.

Our ordinary shares in bearer form are represented by a single global bearer share certificate, which we will deposit with "OeKB" as custodian. Ordinary shares in bearer form can only be transferred in book entry form. Other than the single global share certificate, no separate share certificates representing our ordinary shares in bearer form will be issued. Our ordinary shares listed on the New York Stock Exchange are held through The Depository Trust Company ("DTC") and be registered in the name of Cede & Co, the nominee for DTC.

Holders of registered ordinary shares are entered in our shareholders register. At the request of a shareholder a share certificate (consisting of a "mantel" main part only) may be issued for registered ordinary shares. At such request, we will, without a fee, issue a non-negotiable extract from the shareholders' register in the name of the holder unless a certificate has been issued for such holder's registered ordinary share. A deed of transfer together with our acknowledgement in writing (or service on us of this deed) is required to transfer registered ordinary shares.

Voting Rights. Each ordinary share represents the right to participate and to cast one vote at a general meeting.

Dividends. Each ordinary share is entitled to the same amount of dividend if one is declared.

Liquidation Rights. Upon liquidation, each holder of ordinary shares shall be entitled to the balance remaining after satisfaction of all our debts and, to the extent that preference shares have been issued, after an amount equal to any previously declared but unpaid dividend and the paid-up amount of such preference shares has been distributed to the holders of preference shares, in proportion to the total number of ordinary shares held by each of them. Any dissolution or liquidation is subject to applicable provisions of Dutch law.

Preemptive Rights. Unless restricted or limited and except for issues of ordinary shares in return for non-cash consideration and ordinary shares issued to our employees or employees of any of our group companies, holders of ordinary shares generally will have preemptive rights to subscribe for their pro-rata amount of all new ordinary share issuances. However, pursuant to the amended articles of association, all authorized but unissued ordinary shares may be issued by the Management Board and the preemptive rights associated with all currently authorized capital may be limited or excluded by the Management Board. This authority has been extended by resolution of the shareholders and will end on May 20, 2008, unless further extended by an amendment of the articles of association or by a resolution of the shareholders for a period of not more than five years in each instance. When extending the authority of our Management Board to issue shares and to limit or exclude preemptive rights, the general meeting of shareholders shall determine the number of shares which may be issued or affected as well as the date when this authorization shall expire.

Preference Shares

Preference shares may be issued as a preventive measure against unfriendly takeover bids. The minimum amount required to be paid on the preference shares upon issuance is 25% of the nominal amount issued. In the event of a hostile takeover bid, preference shares may be issued to a legal entity charged with caring for our interests and preventing influences that may threaten our continuity, independence or identity. Holders of preference shares do not share in our reserves and such shares are not listed. The preference shares will be registered shares and share certificates will not be issued. Preference shares can be issued in the same way as ordinary shares, but carry no preemptive rights. Preference shares and ordinary shares have equal voting rights at a general meeting of shareholders. Holders of preference shares will be paid a cumulative annual dividend calculated on the basis of the deposit interest rate of the European Central Bank to the paid up part of their nominal value. To the extent there are distributable profits, the preferential dividend shall be paid first. An allocation of profits to the reserves or the payment of a dividend to holders of ordinary shares may only be effected from the remaining distributable profits.

Authorized but unissued preference shares may be issued by the Management Board, which is also authorized to grant rights to subscribe for such shares. Unless extended by the amendment of our articles of association or by resolution of the shareholders for a period of five years in each instance, these authorizations will end on May 28, 2007, five years after the date of the last Annual General Meeting of the Company when the authority of the Management Board was extended by resolution of the shareholders.

Voting and other rights. Persons who are not DTC participants may beneficially own ordinary shares held by DTC only through direct or indirect participants in DTC. So long as Cede & Co., as the nominee of DTC, is the registered owner of ordinary shares, DTC for all purposes will be considered the holder of such shares. Accordingly, any person owning a beneficial interest in New York Stock Exchange shares held through DTC must rely on the procedures of DTC and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a shareholder. We understand that, under existing industry practice, in the event that an owner of a beneficial interest in New York Stock Exchange shares held through DTC desires to take any action that DTC, as the registered shareholder, is entitled to take, DTC would authorize the participants to take such action, and the participants would authorize beneficial owners holding interests through such participants to take such action or would otherwise act upon the instructions of beneficial owners holding interests through them.

Acquisition of Our Own Shares

We may acquire our own shares subject to the provisions of Dutch law. Provided they are fully paid up, we may acquire our own shares for consideration if:

- our shareholders' equity less the payment required to acquire the shares does not fall below the sum of the paid-up and called portion of our share capital and any statutory reserves; and
- we and our subsidiaries would thereafter not hold, or hold in pledge, shares with an aggregate nominal value exceeding 10% of our issued share capital.

Shares held by us in our own capital as treasury stock may not be voted or counted for quorum purposes at shareholders' meetings.

Obligations to Disclose Holdings

Pursuant to the Dutch Act on Disclosure of Holdings in Listed Companies 1996 (*Wet melding zeggenschap in ter beurze genoteerde vennootschappen 1996*), the members of the management board and supervisory board that hold our ordinary shares must disclose the number of shares and options and the number of voting rights to the Netherlands Authority for the Financial markets (*Autoriteit Financiële markten*). Furthermore, they are required to immediately report to the Netherlands Authority for the Financial markets any changes in the number of shares and options. Also, anyone acquiring or transferring our ordinary shares after they are admitted to listing on the Vienna Stock Exchange that causes the holder's percentage of our issued capital or voting control to fall into one of the following ranges or changes from one range to another must notify us and the Netherlands Authority for the Financial markets. The ranges are:

- 0 to 5%,
- 5 to 10%,
- 10 to 25%,
- 25 to 50%,
- 50 to 66 2/3%, and
- 66 2/3% or more.

The Netherlands Authority for the Financial markets discloses information to the public by publication in a newspaper

distributed throughout The Netherlands. If disclosure is required, failure to disclose one's shareholding is an offense that may result in civil sanctions, including suspension of voting rights and criminal and administrative sanctions, including the imposition of fines.

The Dutch 1995 Act on the Supervision of the Securities Trade (*Wet toezicht effectenverkeer 1995*) provides for an additional notification duty for shareholders holding a direct or indirect interest in more than 25% of the capital in a listed company. These shareholders are obliged to notify the Netherlands Authority for the Financial markets of any and all transactions they enter into with respect to our securities. If a shareholder with a greater than a 25% interest is a legal entity and not an individual, the obligation is extended to the managing directors and supervisory directors of the legal entity.

The Stichting Head Option Plan

The Stichting has the power to nominate all members of the Management Board, appoint one-third of the Supervisory Board and nominate the remaining members of the Supervisory Board. The existence of the Stichting is perpetual, and control of the Stichting's Board of Directors may be passed to Mr. Eliasch's affiliates or family members but may not otherwise be transferred. The aforementioned rights of the Stichting shall cease and shall revert to the Supervisory Board in the case of a change of control of the Stichting, which is defined in our articles of association as an event following which Mr. Eliasch or his affiliates or family members fail to possess the power to direct management and policies of the Stichting, whether through the ownership of voting securities or by contract or otherwise, or in the event Mr. Eliasch or his affiliates or family members fail to beneficially own any shares in the company. Upon a change of control of the Stichting and when Mr. Eliasch fails to beneficially own any shares in the company, all members of the Supervisory Board are appointed by our shareholders.

Management Board

As a public company with limited liability organized under the laws of The Netherlands, our business is carried out primarily by a Management Board and by executive officers appointed by our Management Board. Members of the Management Board are appointed by our shareholders at a general shareholders' meeting from a list of nominees drawn up by the Stichting. Our shareholders may however decide at a general shareholders' meeting, by a resolution adopted by a two-thirds majority vote, that a given list of nominees drawn up by the Stichting will not be binding. In the event the Stichting makes a non-binding nomination, our shareholders may at a general shareholders' meeting elect persons to the Management Board not nominated by the Stichting by a resolution adopted by the affirmative vote of two-thirds of the votes cast. Any member of the Management Board may be suspended or removed from the Management Board at any time by a majority vote of our shareholders at a general meeting of shareholders. However, any suspension or removal not proposed by the Stichting may only be decided at a general shareholders' meeting by a resolution adopted by a two-thirds majority vote. The Management Board is authorized to represent us, as is the Chairman of the Management Board acting alone. Our articles of association state that our Management Board shall consist of one or more members. The aforementioned rights of the Stichting shall cease as described above. Decisions of the Management Board are adopted by a simple majority of votes cast.

Supervisory Board

Our Management Board is overseen by a Supervisory Board consisting of at least three members, which also oversees the more general course of our business. Up to one-third of the members of the Supervisory Board are appointed by the Stichting. The other members of the Supervisory Board are appointed by our shareholders at a general shareholders' meeting from a list of nominees drawn up by the Stichting. Our shareholders may however decide at a general shareholders' meeting, by a resolution adopted by a two-thirds majority vote, that a given list of nominees drawn up by the Stichting will not be binding. In the event the Stichting makes a non-binding nomination, our shareholders may at a general shareholders' meeting elect persons to the Supervisory Board not nominated by the Stichting by a resolution adopted by the affirmative vote of two-thirds of the votes cast. Any member of the Supervisory Board appointed by the Stichting may be suspended or removed from the Supervisory Board by the Stichting at any time. Members of the Supervisory Board appointed by the general shareholders' meeting may be suspended or removed from the Supervisory Board at any time by a majority vote of our shareholders at a general meeting of shareholders. However, any suspension or removal not proposed by the Stichting may only be decided at a general shareholders' meeting by a resolution adopted by a two-thirds majority vote. The aforementioned rights of the Stichting shall cease as described above. Our Supervisory Board may agree, with the approval of the Management Board, that specific Management Board resolutions be subject to the Supervisory Board's approval. No resolutions are specified in our articles of association that require Supervisory Board approval.

Indemnification of Management Board and Supervisory Board Members

Our articles of association require that we indemnify any person who is or was a member of our Management Board or Supervisory Board and who was, is or is threatened to be made a party to, any action, suit or similar proceeding, by reason of the fact that he or she is or was a Management Board or Supervisory Board member. This indemnification generally covers all expenses, attorneys fees, judgements, fines and amounts paid in settlement actually and reasonably incurred by the indemnified person in connection with the relevant action, suit or proceeding, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to our best interests. Whether the indemnified person acted in such a manner may be determined by us.

Shareholders' Meetings

We are required to hold a general shareholders' meeting annually. Shareholders' meetings will also be called if convened by our

Supervisory Board or Management Board. Unless otherwise required by law or our amended articles of association, decisions of our general meeting of shareholders may be adopted by a majority of the votes cast. However, except that resolutions regarding extraordinary transactions, including amendment of our articles of association, legal merger or split-up of our company can only be adopted upon a proposal of the Management Board, after approval of the Supervisory Board, and requires a special majority as described herein. A resolution to dissolve our company can only be adopted upon a proposal of the Management Board, after approval of the Supervisory Board, and requires an affirmative vote of three quarters of the votes cast.

Shareholders meetings will be held in The Hague, Amsterdam, Rotterdam or Haarlemmermeer (Schiphol Airport) and chaired by the Chairman of our Supervisory Board. A holder of registered shares or his attorney wishing to attend a general meeting of shareholders should notify the Management Board in writing of his intention. Such notice must be received by the Management Board not later than on the date mentioned in the notice of the meeting. The 2004 Shareholders meeting will be held on May 26, 2004.

For holders of bearer shares, attendance and exercise of voting rights are subject to certain conditions. In particular, only those shareholders who register in time and deposit their bearer shares until the end of the general meeting with the depositary bank nominated by us or any other credit institution specified in the notice of the general meeting are entitled to attend and cast votes in a general meeting. Bearer shares are equally deemed to have been properly deposited if with the consent of the depositary bank, they are deposited in safe custody until the end of the general meeting. Our articles of association provide that shareholders must be allowed to file such acknowledgement of deposit at least 15 days after convening the general meeting, not counting the day of publication. The acknowledgement of deposit must be deposited to allow at least five working days between the day of the deposit and the day of the general meeting.

Adoption of Annual Accounts

Within five months following the end of each fiscal year, our Management Board must prepare annual accounts accompanied by an annual report. This period may be extended by our general meeting of shareholders on account of special circumstances for up to six months. Within this period, the annual accounts and annual report must then be submitted to the Supervisory Board, which will present a report on it to the general meeting of shareholders. Our annual accounts and the annual report will be available to our shareholders within the period referred to in this paragraph. Our annual accounts must be adopted by our general meeting of shareholders.

Dividends

We may not pay dividends if the dividend payment would reduce our shareholders' equity below the sum of our paid-up capital and any reserves required by Dutch law or by our amended articles of association. Pursuant to our amended articles of association, the preference shares have preferential dividend rights. Our Management Board shall determine how much of any remaining profit shall be allocated to our reserves before dividends are paid on the ordinary shares. Our general meeting of shareholders may resolve, upon a proposal of our Management Board, that some or all of any dividends declared on ordinary shares will be paid in ordinary shares in our share capital or securities in any other entity's share capital rather than in cash. Our Management Board may, subject to various statutory provisions, distribute one or more interim dividends. A claim for the payment of a dividend (including an interim dividend) lapses five years after the first calendar day following the day on which shareholders were first permitted to make a claim for payment of the dividend.

Capital Reduction

Upon the proposal of our Management Board, our general meeting of shareholders may resolve to reduce our issued share capital by canceling shares or reducing the nominal value of our shares, subject to statutory provisions and the provisions of our amended articles of association.

Amendment of the Amended Articles of Association; Dissolution; Legal Merger; Split-up

A resolution of our general meeting of shareholders to amend our articles of association, or enter into a legal merger or split-up of our company can only be adopted upon a proposal of our Management Board, after approval of the Supervisory Board, and requires the affirmative vote of two-thirds of the votes cast, except that a change of the authorized capital requires an absolute majority. A resolution to dissolve our company can only be adopted upon a proposal of our Management Board, after approval of the Supervisory Board, and requires the affirmative vote of three quarters of the votes cast.

10.C. Material Contracts

We have no material contracts outside the ordinary course of business, with the exception of the indenture entered into by one of our subsidiaries with respect to its 8.5% Senior Notes. See "Item 5: Operating and Finance Review and Prospects—Liquidity and Capital Resources—Loan Agreements."

10.D. Exchange Controls

Not applicable.

10.E. Taxation

This taxation summary solely addresses the material Netherlands, U.S. and Austrian tax consequences to shareholders in connection with the ownership and disposition of the ordinary shares. This summary does not discuss every aspect of taxation that may be relevant to a particular taxpayer under special circumstances or who is subject to special treatment under applicable law and is not intended to be applicable in all respects to all categories of investors. This summary also assumes that our business will be conducted in the manner outlined in this annual report. Changes in our organizational structure or the manner in which we conduct our business may invalidate this summary. The laws upon which this summary is based are subject to change, perhaps with retroactive effect. A change to these laws may invalidate the contents of this summary, which will not be updated to reflect changes in laws. **Shareholders should consult their tax advisors regarding their particular personal tax consequences of owning and disposing of ordinary shares.**

Netherlands Tax Consequences for Holders of Ordinary Shares

This summary does not purport to be a comprehensive description of all Netherlands tax consequences of an investment in our shares. Each investor should consult a professional tax advisor with respect to the tax consequences of an investment in our shares. The discussion of certain Netherlands taxes set forth below is included for general information only and does not address every potential tax consequence of an investment in our shares under the laws of the Netherlands. The following summary of Netherlands tax considerations is limited to the tax implications for an individual or corporate owner of our shares who, directly or indirectly, owns less than 10% of the voting power of the Company (a “holder of shares”).

The following summary is based on the tax legislation, published case law, treaties, rules and other regulations as applicable for the calendar year 2003.

Withholding Tax

Dividends distributed by the Company are generally subject to a Netherlands withholding tax imposed at a rate of 25%. The expression “dividends distributed by the Company” as used herein includes, but is not limited to, distributions in cash or in kind, deemed and constructive distributions and repayments of paid-in capital not recognised as capital for Netherlands dividend withholding tax purposes.

If a holder of shares is resident in a country other than the Netherlands and if a double taxation treaty is in effect between the Netherlands and such country, such holder of shares may, depending on the terms of such double taxation treaty, be eligible for a full or partial exemption from, or refund of, Netherlands dividend withholding tax.

Residents of the United States that qualify for, and comply with the procedures for claiming, benefits under the income tax treaty between the Netherlands and the United States (the “U.S.-NL Treaty”), generally are eligible for a reduction of the Netherlands withholding tax on dividend income to 15%. A holder of shares will qualify for benefits under the U.S.-NL Treaty (subject to compliance with the procedures for claiming benefits described below) if the holder is a resident of the United States and (i) is the beneficial owner of the dividends paid thereon; (ii) is an individual, an exempt pension trust or exempt organisation (as defined for purposes of the US-NL Treaty), an estate or trust whose income is subject to US taxation as the income of a resident, either in its hands or in the hands of its beneficiaries or a corporation that is entitled to benefits under the limitation on benefits provision of the U.S.-NL Treaty; (iii) is not also resident in another jurisdiction; and (iv) does not hold the shares in connection with the conduct of business through a permanent establishment or the performance of services from a fixed base, in the Netherlands. The U.S.-NL Treaty provides for a complete exemption from withholding tax on dividends paid to exempt pension trusts and exempt organisations, as defined therein. Except in the case of exempt pension trusts and exempt organisations, the reduced dividend withholding tax rate can be applied at source upon payment of the dividends, provided that the proper forms have been filed in advance of the payment.

A holder of shares (other than an exempt organisation) generally may claim the benefits of a reduced withholding tax rate or an exemption from withholding tax pursuant to the U.S.-NL Treaty by submitting a duly signed Form IB 92 USA, which form includes a banker’s affidavit stating that the shares are in the bank’s custody in the name of the applicant, or that the shares have been exhibited to the bank as being the property of the applicant. If the Form IB 92 USA is submitted prior to the dividend payment date, the Company can apply the reduced withholding tax rate to the dividend payment. A holder of shares unable to claim withholding tax relief in this manner can obtain a refund of excess tax withheld by filing a Form IB 92 USA and describing the circumstances that prevented claiming withholding tax relief at source.

Qualifying U.S.-exempt organizations must seek a full refund of the tax withheld by using the Form IB 95 USA, which form also includes a banker’s affidavit.

Taxes on Income and Capital Gains

A holder of shares will not be subject to any Netherlands taxes on income or capital gains in respect of dividends distributed by the Company or in respect of any gain realised on the disposal of shares (other than the withholding tax described above), provided that:

(i) such holder is neither resident nor deemed to be resident of the Netherlands for Netherlands tax purposes (nor has opted to be taxed as a resident of the Netherlands);

(ii) such holder does not have an enterprise or an interest in an enterprise that is carried on through a permanent establishment or a permanent representative in the Netherlands and to which Netherlands permanent establishment or permanent representative the shares are attributable;

(iii) such holder does not have a substantial interest or a deemed substantial interest in the Company or, in the event that such holder does have or is deemed to have such interest, it forms part of the assets of a Netherlands enterprise;

(iv) such holder is not entitled to a share in the profits of an enterprise that is effectively managed in the Netherlands other than by way of securities or through an employment contract, the shares being attributable to such enterprise; and

(v) such holder does not perform activities in the Netherlands in respect of the shares that exceed "regular, active portfolio management".

Shares will generally not form part of a substantial interest if the holder of such shares, alone or together with his spouse, certain other relatives (including foster children) and/or certain persons sharing his or her household, does not hold, whether directly or indirectly, ownership of, or have certain rights over: (a) at least five percent of the issued share capital of any class of shares of the Company; (b) option rights to acquire shares in the Company representing at least five percent of the issued share capital of any class of shares of the Company; or (c) profit participating certificates entitling the holder to at least five percent of the annual profit of the Company, or entitling the holder to at least five percent of the liquidation proceeds upon liquidation of the Company. A deemed substantial interest is present if part of a substantial interest has been disposed of, or is deemed to have been disposed of, on a non-recognition basis.

Anti-Dividend Stripping Legislation

In the Netherlands legislation exists that affects the eligibility for an exemption, reduction, refund or credit of dividend withholding tax. A recipient of a distribution on the shares will not be entitled to an exemption, reduction, (partial) refund or credit of Netherlands dividend withholding tax if such recipient is not considered the beneficial owner of such distribution. This is the case if:

(i) the recipient of the distribution, in connection with the receipt of the distribution has incurred an obligation, as part of one or more related transactions, as a result of which the distribution in whole or in part has accrued or will accrue to the benefit of a person that is to a lesser extent entitled to an exemption, reduction, (partial) refund or credit of Netherlands dividend withholding tax than the recipient of the distribution is entitled to; and

(ii) such person, other than the recipient of the distribution, retains or acquires, directly or indirectly, a comparable interest in the shares or any other shares in the Company on which the distribution is paid, as such person had before the related transaction was or related transactions were entered into.

Distribution tax

The Company is subject to a temporary special distribution tax at a rate of 20 per cent to the extent that any "excessive" distributions are made on shares or on the shares in the period from 1 January 2001 up to and including 31 December 2005. This distribution tax is a corporate income tax, not a (creditable or refundable) withholding tax. For purposes of this distribution tax, distributions are considered to be "excessive" when during a particular calendar year, the total amount of distributions exceeds the highest of the following three amounts:

(i) four per cent of the market capitalisation of the Company at the beginning of the relevant calendar year;

(ii) twice the amount of the average annual dividends (exclusive of extraordinary dividends) by reference to the three calendar years immediately preceding 1 January 2001; or

(iii) the adjusted statutory result of the Company for the preceding book year.

The temporary special distribution tax is not levied to the extent that the aggregate amount of dividend distributions made during the period from 1 January 2001 up to and including 31 December 2005, is in excess of the balance of the fair market value of the net assets at the end of the book year that ended prior to 1 January 2001 reduced by the paid-in capital recognised for Netherlands tax purposes.

The distribution tax due is reduced pro rata to the extent that shares in the Company or the shares were held, at the time of the dividend distribution, during an uninterrupted period of three years by individuals or entities (other than investment institutions as defined in the Corporate Income Tax Act 1969) holding at least five per cent of the Company's nominal paid-in capital or five per cent of the issued shares.

Gift, Estate and Inheritance Taxes

No gift, estate or inheritance taxes will arise in the Netherlands with respect to an acquisition of shares by way of a gift by, or on the death of, a holder of shares who is neither resident nor deemed to be resident in the Netherlands, unless:

(i) such holder at the time of the gift has or at the time of his death had a Netherlands enterprise or an interest in a Netherlands enterprise that is or was, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands and to which Netherlands enterprise the shares are or were attributable; or

(ii) in the case of a gift of shares by an individual who at the time of the gift was neither resident nor deemed to be resident in the Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in the Netherlands; or

(iii) the shares are or were attributable to the assets of an enterprise that is effectively managed in the Netherlands and the donor is or the deceased was entitled, other than by way of securities or through an employment contract, to a share in the profits of that enterprise, at the time of the gift or, as applicable, at the time of his or her death.

For purposes of Netherlands gift, estate and inheritance tax, an individual who holds the Netherlands nationality is deemed to be resident in the Netherlands if he or she has been resident in the Netherlands at any time during the ten years preceding the date of the gift or death.

For purposes of Netherlands gift tax, an individual not holding the Netherlands nationality is deemed to be resident in the Netherlands if he or she has been resident in the Netherlands at any time during the twelve months preceding the date of the gift. Applicable tax treaties may override this deemed residence.

Other Taxes and Duties

No Netherlands VAT, registration tax, transfer tax, stamp duty or any other similar documentary tax or duty other than court fees will be payable in the Netherlands in respect of or in connection with the subscription, issue, placement, allotment or delivery of the shares.

United States Federal Income Tax Consequences for Holders of Ordinary Shares

The following is a general summary of the material U.S. federal income tax consequences of the ownership and disposition of our ordinary shares. This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), existing temporary and proposed Treasury Regulations, revenue rulings, administrative pronouncements and judicial decisions, all as currently in effect and all of which are subject to change or changes in interpretation, possibly with retroactive effect. This summary deals only with ordinary shares held as capital assets within the meaning of Section 1221 of the Code. This summary does not discuss all of the tax consequences that may apply to holders that are subject to special tax rules, including:

- persons subject to the imposition of the U.S. federal alternative minimum tax;
- persons who hold the ordinary shares through partnerships or other pass through entities;
- U.S. expatriates;
- insurance companies;
- tax-exempt entities;

- banks; financial institutions; regulated investment companies; securities broker-dealers;
- persons who hold ordinary shares as part of a hedging, straddle, constructive sale or conversion transaction;
- traders in securities who elect to apply a mark-to-market method of accounting;
- persons who acquired the ordinary shares pursuant to the exercise of employee stock options or otherwise as compensation;
- persons whose functional currency is not the U.S. dollar; and
- U.S. persons owning directly, indirectly, or by attribution, 10% or more of the voting power of the Company.

For purposes of this discussion a "U.S. shareholder" is a beneficial owner of ordinary shares that is:

- an individual who is a citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or of any state thereof (including the District of Columbia);
- an estate the income of which is subject to U.S. federal income taxation regardless of source; or
- a trust if both a U.S. court is able to exercise primary supervision over the administration of the trust, and one or more U.S. persons have the authority to control all substantial decisions of the trust.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) holds ordinary shares, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. If a U.S. shareholder is a partner in a partnership that holds our ordinary shares the shareholder is urged to consider its own tax advisor regarding the ownership and disposition of ordinary shares.

Taxes on Distributions

The gross amount of any distribution, including Netherlands withholding tax thereon, actually or constructively received by a U.S. shareholder with respect to ordinary shares will be a dividend includible in the gross income of the U.S. shareholder as ordinary income to the extent paid out of our current and accumulated earnings and profits as determined under U.S. federal income tax principles. A distribution in excess of our current or accumulated earnings and profits will be treated first as a tax-free return of basis to the extent of such U.S. shareholder's adjusted tax basis in its ordinary shares, and then, to the extent in excess of such adjusted basis, will be taxable as capital gain from a sale or exchange of ordinary shares. Dividends paid on ordinary shares generally will constitute income from sources outside the United States and will not be eligible for the dividends received deduction otherwise allowed to corporate U.S. shareholders in respect of dividends received from U.S. corporations.

The amount of any distribution paid in euros based on the spot rate in effect will be the U.S. dollar value of the euros on the date of distribution, regardless of whether the U.S. shareholder or the Bank of New York, on behalf of such shareholders, converts the payment into U.S. dollars at that time. Gain or loss, if any, recognized by a U.S. shareholder on the subsequent sale, conversion or other disposition of euros will be U.S. source ordinary income or loss. If euros received in a distribution are converted into U.S. dollars on the date received by U.S. shareholders or the Bank of New York on behalf of such U.S. shareholders, as the case may be, U.S. shareholders generally should not be required to recognize any exchange gain or loss on such conversion.

Subject to various conditions and limitations, and subject to the discussion in the next paragraph, tax withheld in the Netherlands in accordance with the U.S.-NL Treaty will be treated as a foreign tax that U.S. shareholders may elect either to deduct in computing their U.S. federal taxable income or credit against their U.S. federal income tax liability. Dividends on ordinary shares generally will be treated as "passive income" or, in the case of certain holders, "financial services income" for purposes of calculating the amount of the foreign tax credit available to a U.S. shareholder. Additional withholding tax, if any, in excess of the rate applicable under the U.S.-NL Treaty generally will not be eligible for credit against the U.S. shareholder's U.S. federal income tax liability. However, a U.S. shareholder should be able to obtain a refund of such excess amount by filing the appropriate forms with the Netherlands Tax Administration requesting such refund and providing the required information.

Under various circumstances, we will be allowed to reduce the amount of dividend withholding tax imposed on U.S. shareholders that is paid over to the Netherlands Tax Administration by crediting withholding tax imposed on various dividends paid to us. In such event, the Netherlands withholding tax imposed on dividends paid to a U.S. shareholder may not be fully creditable against the U.S. shareholder's U.S. federal income tax liability.

We did not pay dividends in 2003. If we were to pay dividends in the future, we will endeavor to provide to U.S. shareholders the information they will need to calculate their foreign tax credit.

The rules governing the foreign tax credit are complex. U.S. shareholders are urged to consult their own tax advisors regarding the availability of the foreign tax credit in their particular circumstances.

Recent U.S. Tax Law Changes Applicable to Individuals

Under 2003 U.S. tax legislation, certain U.S. shareholders (including individuals) are eligible for reduced rates of U.S. federal income tax (currently a maximum of 15%) in respect of "qualified dividend income" received in taxable years beginning after December 31, 2002 and beginning before January 1, 2009. For this purpose, qualified dividend income generally includes dividends paid by non-U.S. corporations if, amongst other things, certain minimum holding periods are met and either (i) the ordinary shares with respect to which the dividend has been paid are readily tradable on an established securities markets in the United States, or (ii) the non-U.S. corporation is eligible for the benefits of a comprehensive U.S. income tax treaty (such as the U.S.-NL Treaty) which provides for the exchange of information. We currently believe that dividends paid with respect to our ordinary shares will constitute qualified dividend income for U.S. federal income tax purposes, provided the individual U.S. shareholders of our ordinary shares meet certain requirements. Some of the eligibility requirements for non-U.S. corporations are not entirely certain, however, and further guidance from the Internal Revenue Service is anticipated. In addition, the Internal Revenue Service is expected to issue certification procedures in 2004 whereby a non-U.S. corporation will be required to certify as to the eligibility of its dividends for the reduced U.S. federal income tax rates.

Sale or Other Disposition of the Ordinary Shares

Upon the sale or other disposition of ordinary shares, a U.S. shareholder generally will recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized from such sale or other disposition and the U.S. shareholder's tax basis (determined in U.S. dollar) for such ordinary shares. Such gain or loss will be U.S. source gain or loss and will be treated as long-term capital gain if the ordinary shares were held for more than one year. The deductibility of capital losses is subject to limitations. In the case of a U.S. shareholder who is an individual, long-term capital gain generally will be subject to preferential rates. If a U.S. shareholder receives euros upon a sale or other disposition of ordinary shares, gain or loss, if any, recognized on the subsequent sale, conversion or disposition of the euros will be U.S. source ordinary income or loss. However, if such euros are converted into U.S. dollars on the date received by the U.S. shareholder, the U.S. shareholder generally should not be required to recognize any gain or loss on the conversion.

Passive Foreign Investment Company Status

If during any taxable year 75% or more of our gross income consists of various types of "passive income," such as dividends, interest, rents or royalties (other than rents or royalties derived in the active conduct of a trade or business and received from a unrelated person), or gains from disposition of certain minority interests), or if the average value during a taxable year of "passive assets", is 50% or more of the average value of all of our assets, we will be treated as a "passive foreign investment company," or "PFIC" for such year and in succeeding years. Passive assets are, generally, assets that generate passive income. If we were treated as a PFIC in any taxable year (which conclusion is a factual determination that must be made as of the close of the taxable year), upon receipt of a distribution on, or a sale of, ordinary shares, a U.S. shareholder generally will be required to allocate to each day in its holding period with respect to the ordinary shares a pro rata portion of any distributions received on the ordinary shares which are treated as an "excess distribution." Any amount of an excess distribution, which term includes gain on the sale of stock, treated as allocable to a prior taxable year is subject to federal income tax at the highest applicable rate of the year in question, plus an interest charge on the amount of tax deemed to be deferred. Furthermore, dividends paid by us would not be "qualified dividend income" and would be taxed at the higher rates applicable to other items of ordinary income. We currently believe that we did not qualify as a PFIC for the 2003 taxable year, and it is our intention to conduct our investment activities in a manner to avoid PFIC status in the future. However, because PFIC status is a factual matter that must be determined annually, there are no assurances in this regard.

In the event that we were a PFIC in a subsequent taxable year, the foregoing rules with respect to distributions and dispositions may be ameliorated if a U.S. shareholder were eligible for and timely made either:

- a valid "QEF" or Qualified Electing Fund election, in which case the U.S. shareholder generally would be required to include in income on a current basis its pro rata share of our ordinary income and net capital gains; or
- a valid "mark-to-market" election, in which case, subject to various limitations, the U.S. shareholder would essentially be required to take into account the difference, if any, between the fair market value and the adjusted tax basis of its ordinary shares, at the end of a taxable year, in calculating its income for such year.

A U.S. shareholder who decided not to make any of the above elections at any time during the period in which the shareholder held our

ordinary shares while we were a PFIC nevertheless may elect to make a “deemed sale election” pursuant to which the shareholder would be treated as having sold its ordinary shares on the last day of the last taxable year in which we qualified as a PFIC.

For U.S. shareholders to qualify for treatment under a QEF election, we would be required to provide various information to the U.S. shareholders. Although we have not definitively decided whether we would provide such information, we currently do not intend to do so. U.S. shareholders are urged to consult their own tax advisors regarding the application of the PFIC rules to their ownership of our ordinary shares.

Foreign Personal Holding Company Status

A foreign corporation will be a foreign personal holding company, referred to as a FPHC, in any taxable year if it meets both an ownership test and an income test. The ownership test requires that more than 50% of the voting power of the corporation be owned, directly, indirectly or by attribution pursuant to constructive ownership rules by five or fewer individuals who are U.S. citizens or residents. The income test requires that 60% or more (50% or more in years after the first year of qualification as a FPHC) of the gross income of the corporation consist of "FPHC income" such as rents, royalties, annuities, proceeds from the sale of stock or securities, proceeds from the sale of commodities, income from personal services and dividends and interest other than various dividends and interest paid by a qualifying related company that is incorporated in the same country as the recipient corporation. If a foreign corporation qualifies as a FPHC, each U.S. person that owns shares in the FPHC must include in taxable income a deemed dividend equal to the owner's share of the corporation's total "undistributed FPHC income." In general, undistributed FPHC income in any given year is the corporation's total taxable income for such year, such as gross income less deductions such as ordinary and necessary business expenses, with various adjustments, less dividends paid by the corporation in such year. This type of deemed dividend is required to be included in taxable income by each U.S. person that is a shareholder in a FPHC with undistributed FPHC income, regardless of such person's income percentage in the corporation and regardless of whether the shareholder actually received a dividend from the corporation.

We do not believe that we or any of our subsidiaries currently is a FPHC. However, it is possible that the ownership test could be met in subsequent periods as a result of the applicable constructive ownership rules in the event that one or more of some of our indirect shareholders were to become U.S. citizens or residents. Thus, depending upon the composition of our income during such period, we may constitute a FPHC. U.S. shareholders therefore should consult their own tax advisors regarding the possible applicability of the FPHC rules to our company and our subsidiaries and the consequences to such shareholder of FPHC status for our company.

U.S. Information Reporting and Backup Withholding

Dividend payments with respect to ordinary shares and proceeds from the sale, exchange or other disposition of ordinary shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply to a shareholder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. U.S. persons who are required to establish their exempt status generally must provide such certification on a properly completed Internal Revenue Service Form W-9 (Request for Taxpayer Identification Number and Certification). Non-U.S. holders generally will not be subject to U.S. information reporting or backup withholding. However, such holders may be required to provide certification of non-U.S. status (generally on Internal Revenue Service Form W-8BEN) in connection with payments received in the United States or through certain U.S.-related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a shareholder's U.S. federal income tax liability, and a shareholder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

Austrian Tax Consequences for Holders of Ordinary Shares

General

The following is a summary of the principal Austrian tax consequences of purchase, possession, ownership and disposal of the ordinary shares. This summary is based on current law, including but not limited to the double taxation convention between Austria and the Netherlands and practice as to matters of Austrian taxation. It does not purport to be a complete analysis of all potential tax effects relevant to a decision to invest in the ordinary shares. Prospective investors who are in any doubt as to their tax position should seek independent advice.

An Austrian shareholder of ordinary shares is an individual who is resident in Austria or who ordinarily resides in Austria, or corporations with Austrian place of management or registered office in Austria.

Dividend withholding tax

Pursuant to Netherlands income taxation provisions, dividends of Netherlands corporations are subject to withholding tax amounting to 25%.

According to the double tax treaty, the right to impose tax in the Netherlands is limited to 15% of the gross amount of the dividends. In order to obtain relief from tax obligations exceeding the 15% withholding tax for dividends in the Netherlands, Austrian shareholders may apply for tax relief. In order to obtain this reduced rate of withholding tax, a two-stage procedure must be followed: applications are filed by using the printed form entitled "*Inkomstenbelasting nr. 92 Ost*," which can be obtained from the appropriate Austrian federal tax authority (*Finanzlandesdirektion*), which is then to be submitted in duplicate to either the tax office responsible for individuals (*Wohnsitzfinanzamt*) or corporations (*Sitzfinanzamt*). The respective tax office will then confirm on one copy of the application form that the shareholder resides in Austria. As soon as the dividends are distributed, the Austrian shareholder must submit this certified copy to the bank dealing with the distribution of the dividends; this bank shall effect the relief at source at 15% of gross dividends.

In case an Austrian shareholder does not obtain such relief at source, he may apply to the competent Netherlands tax authorities for reimbursement by the end of the third calendar year of such wrongful retention.

Gross dividend distributions to Austrian individual shareholders are considered income as defined by the Income Tax Act. Such income is generally subject to a special tax rate of 25 %. According to the double taxation convention, Austrian individual shareholders may have the 15% withholding tax on the gross dividends credited against their Austrian income tax. The maximum amount to be credited may not exceed the tax amount calculated prior to the credit allotted to income gained in the Netherlands.

With respect to dividends paid to corporations resident in Austria, relief concerning the amount exceeding the 15% withholding tax levied in the Netherlands is possible, as outlined above for Austrian private investors. For qualifying shareholdings of at least 25% held by Austrian corporations a reduction to 5% is available. Provided the dividends of the company are paid to a parent company resident in Austria, pursuant to Article 2 of directive Nr. 90/435 of the European Community (*EWG*) by the European Council dated July 23, 1990 ("Parent/Subsidiary Directive") and which holds an interest of at least 25% (10% as of January 1, 2004 in case of reciprocity) of the shares of the company for a period of at least two consecutive years (one consecutive year as of January 1, 2004) , no Netherlands tax is levied at source. The gross dividends to Austrian corporations not qualifying for the benefits under the participation exemption according to Section 10 Corporate Income Tax Act are subject to corporate income tax at a rate of 34%. Corporations may, as Austrian private investors, claim a credit of the actual paid Dutch withholding tax against the Austrian corporate income tax.

Capital Gains

Capital gains from the alienation of ordinary shares shall be taxable in Austria only if the alienator is resident in Austria. This does not apply if the alienator within five years before the alienation of the ordinary shares has been resident in the Netherlands. In such case, capital gains from the alienation of ordinary shares shall be taxable also in the Netherlands.

In Austria, capital gains realised from the sale of ordinary shares by individuals are subject to tax at marginal tax rates (up to 50%) if the one-year-holding period is not met. After expiry of the holding period sales of substantial shares (i.e., if the shareholder has owned a share of at least 1% at any time within the five years period prior to the sale), and sales of shares representing part of a domestic business property are subject to income tax only. The capital gain is subject to half the average tax rate if the substantial share does not represent part of a domestic business property and the one-year-holding period is met.

In General, corporations subject to unlimited tax liability in Austria are subject to corporate income tax on any capital gains realised from any sale of ordinary shares. For corporations, which have been established after December 31, 2000, no tax is generally levied on capital gains resulting from the sale of an interest of at least 10% in a non-resident company provided the one-year holding period is met. On the other hand, for these corporations capital losses realised from the sale of such interest are not tax deductible. However, these corporations have the option to treat both, capital gains and capital losses taxable. For Corporations, which have been established before January 1, 2001 the above rules will become applicable from 2006 (assessment period) onwards.

Departure Tax

Measures of shareholders which lead to a loss of taxation power of Austria in relation to other countries are treated as a sale at fair market value in the case of substantial shareholdings (i.e. if at least 1% of the share capital is held at any time within five years prior to the sale).

Tax Upon Liquidation

In case of liquidation of the company, a shareholder is subject to tax on the difference between the proceeds from the liquidation and the acquisition cost of the shares in the case of an individual shareholder or the book value in the case of a corporate shareholder, irrespective of the extent of the shareholding. However, an exemption exists for gains derived by an Austrian corporate shareholder from the liquidation of a non-resident company if its share exceeds 10% and the one-year holding period is met.

Share Transfer Tax

The share transfer tax was abolished with effect as of October 1, 2000.

Inheritance and Gift Tax

Share transfers due to death or donation by residents of Austria or by Austrian citizens who have not resided outside of Austria for more than two years are subject to Austrian Inheritance and Gift Tax (exemptions exist for transfers of shares of less than 1% due to death). This also applies to transfers by non-resident shareholders or non-Austrian citizens to beneficiaries who are Austrian residents or citizens as defined above.

Shares held by non-resident shareholders are not subject to Austrian inheritance and gift tax on a transfer on another non-resident of Austria by reason of death or donation. Non-resident shareholders are Austrian non-citizens not resident in Austria or Austrian citizens not having been resident in Austria for more than two years.

For reasons of double taxation, special reference is made to double taxation conventions entered into by the Republic of Austria. If no double taxation convention has been concluded, foreign inheritance and gift taxes can be allowed as credit against the Austrian inheritance and gift tax by the Austrian Federal Ministry of Finance in case of reciprocity. Reciprocity is assumed if the foreign country does not levy inheritance and gift tax on assets situated in Austria or if the foreign country allows Austrian inheritance and gift tax as credit against its own inheritance and gift tax. Application for credit must be filed with the Austrian Federal Ministry of Finance.

10.F. Dividends and Paying Agents

Not applicable.

10.G. Statement by Experts

Not applicable.

10.H. Documents on Display

The documents referred to in this report can be read at the U.S. Securities and Exchange Commission's public reference facilities at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549.

The public may obtain information on the operation of the Commission's public reference facilities by calling the Commission in the United States at 1-800-SEC-0330. Copies of reports, proxy statements and other information concerning us are also available for inspection at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

10.I. Subsidiary Information

Not applicable.

ITEM 11: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures About Market Risk

In the ordinary course of business, our primary market risk exposures are changes in interest rates and fluctuations in foreign currency exchange rates. To meet our objective of minimizing our exposure to fluctuations in foreign currency exchange rates, we use forward currency contracts. Such instruments are entered into purely to meet our objective and not for speculative purposes.

Our foreign currency risks have not changed materially over the last years. However, with respect to interest rates, we have less exposure to interest rate changes because we refinanced some of our floating rate debt with the proceeds from our fixed rate senior notes issued in July 1999 and repaid another portion of the floating rate debt with the proceeds from our initial public offering in October 2000.

Interest Rate Exposures

The table below provides information about our financial instruments that are sensitive to interest rates, primarily our debt obligations. For such obligations the table presents the repayment schedule of amounts outstanding on December 31, 2003, based on the contractual maturity dates of our bank and other debt facilities and the related weighted average interest rates by expected maturity date. Variable rates are based on rates as of December 31, 2003.

The carrying value of our 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.

	Interest-Rate Risk Management										
	Principal (Nominal) Amount by Expected Maturity Interest Rate										
	Year Ended December 31, 2003							Year Ended December 31, 2002			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>	<u>Total</u>	<u>Fair Value</u>	
	<i>(in thousands except percentages)</i>										
Debt including current portion											
Fixed rate (EUR)	138	147	83,083	169	180	12,438	96,155	96,155	79,943	79,943	
Weighted avg. Interest rate (fixed).....	6.70%	6.70%	10.74%	6.70%	6.70%	6.70%	10.19%				
Fixed rate (USD)	197	212	228	245	261	3,395	4,538	4,538	4,721	4,721	
Weighted avg. Interest rate (fixed).....	7.33%	7.33%	7.33%	7.33%	7.33%	7.33%	7.33%				
Variable rate (Italy)	2,395	2,401	1,985	2,028	1,942	1,921	12,672	12,672	9,481	9,481	
Weighted avg. Interest rate	2.62%	2.62%	2.62%	2.62%	2.62%	2.62%	2.62%				
Variable rate, mix of currencies primarily Czech crone.....	663	391	345	331	271	203	2,203	2,203	1,976	1,976	
Weighted avg. Interest rate.....	4.18%	3.61%	3.42%	3.36%	3.04%	3.04%	3.59%				

Foreign Currency Exchange Rate Exposures

The table below provides information about our forward foreign exchange contracts and foreign exchange options contracts which we use to manage our fluctuations in foreign currency exchange rates:

	Contract Amount Sell U.S. Dollar Equivalent	Average Option Strike Price	Fair Value December 31, 2003
	<i>(in thousands, except for the option strike price)</i>		
Currency Pairs:			
Foreign Currency Forward Contracts			
<i>Euro</i>			
Japanese Yen	\$ 9,352	124.9025	\$ 628
Canadian Dollar	\$ 2,645	1.5288	\$ 183
Foreign Currency Options			
<i>Euro</i>			
Japanese Yen	\$ 1,870	128.8	\$ 86

The fair values of the foreign currency contracts represent the amount the Company would receive or pay to terminate the contracts, considering first, quoted market prices of comparable agreements, or in the absence of quoted market prices, such factors as interest rates, currency exchange rates and remaining maturity. The foreign currency forward contracts and foreign currency options have a term of less than one year.

ITEM 12: DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

ITEM 13: DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14: MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

PART III**ITEM 15: CONTROLS AND PROCEDURES**

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Form 20-F, have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that material information relating to our company was made known to them by others within the company.

There were no changes to our internal control over financial reporting that occurred during the period covered by this Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16: [RESERVED]**16.A. AUDIT COMMITTEE FINANCIAL EXPERT**

While the whole Supervisory Board in 2003 in principle served as audit committee, Head N.V. expects, in line with Section 407 of the Sarbanes-Oxley Act of 2002 to establish an audit committee in due time. On the Supervisory Board, at least two members qualify as audit committee financial experts under the Sarbanes-Oxley Act of 2002. The Supervisory Board has not yet formally nominated a “financial expert” as that term is strictly defined in the rules promulgated under the Sarbanes-Oxley Act of 2002.

16.B. CODE OF ETHICS

We adopted a code of ethics that applies to all of our employees, including our Chief Executive officer and principal financial officer. A copy of this code of ethics has been filed as Exhibit 11.

16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

PricewaterhouseCoopers (PwC) has served as our independent public auditors for each of the years ended in the three-year period ended December 31, 2003. The following table presents the aggregate fees for professional audit services and other services rendered by PricewaterhouseCoopers in 2003 and 2002 (in thousands):

	Year ended December 31,	
	2002	2003
Audit Fees	\$ 690	\$ 747
Audit-Related Fees	160	175
Tax Fees	286	215
All Other Fees	143	174
Total	\$ <u>1,279</u>	\$ <u>1,311</u>

Audit Fees primarily relate to the audit of Head N.V.’s annual financial statements set forth in our Annual Report on Form 20-F and other services normally provided in connection with statutory and regulatory filings, which mainly include the statutory audits of financial statements of our subsidiaries and the assistance with review of documents filed with the SEC.

Audit-Related Fees mainly represent fees for the review of the Company’s quarterly financial statements, accounting issues research and technical assistance.

Tax Fees were comprised solely of tax services permitted under the Sarbanes-Oxley Act of 2002. Tax services rendered in connection with the audit of financial statements have been included in the caption Audit Fees.

All Other Fees represent professional services provided for services not directly supporting financial statement audits.

For 2003 the Supervisory Board pre-approved tax services to be rendered by member firms of PwC up to an aggregate amount of USD 250.000, such services to be provided to Head NV and any of its subsidiaries or affiliated companies. Tax services included solely tax services permitted under the Sarbanes-Oxley Act of 2002 and any rules and regulations issued in respect to the Sarbanes-Oxley Act.

Pre-Approval Policies and Procedures

Our Supervisory Board is responsible for the oversight of our independent auditor's work. Our Supervisory Board pre-approves all audit and non-audit services provided by PwC. These services may include audit services, audit-related services, tax services and other services, as described above.

ITEM 17: FINANCIAL STATEMENTS

Not applicable.

ITEM 18: FINANCIAL STATEMENTS

The following financial statements are filed as part of this Annual Report on Form 20-F.

ITEM 19: EXHIBITS

- 1.1 Memorandum and Articles of Association of the Company (previously filed with Form F-1 on September 27, 2000).
- 2.1 Indenture between HTM Sport- und Freizeigeräte AG, Head N.V., Head Holding Unternehmensbeteiligung GmbH, Head Sport AG, Head International GmbH, HTM Sport S.p.A., Head USA Inc., Penn Racquet Sports Inc., Head/Tyroliia Sports Canada Inc., The Bank of New York, As Trustee, Registrar, Transfer Agent And Principal Paying Agent and The Bank of New York (Luxembourg) S.A., As Paying Agent And Transfer Agent dated January 29, 2004
- 4.1 Loan Agreement between Head USA, Inc., Mares America Corp., Penn Racquet Sport, Inc and Fleet Capital Corporation as Agent dated April 5, 2000 (previously filed with Form F-1 on September 27, 2000).
- 6. A statement explaining in reasonable detail how earnings per share information were calculated (included in Note 2 to the Financial Statements).
- 8. See "Item 4.C Organizational Structure"
- 11. Code of Ethics
- 12.1 Certification of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13 Certification of the CEO and CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 13, 2004

Head N.V.
Registrant

By: /s/Johan Eliasch

Name: Johan Eliasch
Title: Chief Executive Officer,
Chairman of the Management Board

HEAD N.V:

Schedule II – Valuation and Qualifying Accounts

	Balance at beginning of period	Additions	Deductions (⁽¹⁾)	Translation effects	Balance at end of period
<i>(in millions)</i>					
<i>Description:</i>					
Year ended					
December 31, 2003:					
Provision for doubtful receivables	\$ 11.8	\$ 6.4	\$ 3.8	\$ 1.4	\$ 15.8
Provision for inventories	15.1	4.5	5.4	2.0	16.2
Allowances for deferred taxes	11.6	9.5	--	2.2	23.4
Year ended					
December 31, 2002:					
Provision for doubtful receivables	\$ 10.8	\$ 3.4	\$ 3.3	\$ 0.9	\$ 11.8
Provision for inventories	14.0	4.7	5.2	1.6	15.1
Allowances for deferred taxes	13.0	1.1	3.2	0.9	11.6
Year ended					
December 31, 2001:					
Provision for doubtful receivables	\$ 10.5	\$ 3.9	\$ 3.2	\$ (0.4)	\$ 10.8
Provision for inventories	11.5	6.9	3.9	(0.5)	14.0
Allowances for deferred taxes	23.8	--	9.9	(1.1)	13.0

⁽¹⁾ Represents amounts used for the purposes for which the accounts were created and reversal of amounts no longer required

EXHIBIT INDEX

Description	Sequentially numbered page
1.1 Memorandum and Articles of Association of the Company (previously filed with Form F-1 on September 27, 2000).....	
2.1 Indenture between HTM Sport- und Freizeigeräte AG, Head N.V., Head Holding Unternehmensbeteiligung GmbH, Head Sport AG, Head International GmbH, HTM Sport S.p.A., Head USA Inc., Penn Racquet Sports Inc., Head/Tyrolia Sports Canada Inc., The Bank of New York, As Trustee, Registrar, Transfer Agent And Principal Paying Agent and The Bank of New York (Luxembourg) S.A., As Paying Agent And Transfer Agent dated January 29, 2004	
4.1 Loan Agreement between Head USA, Inc., Mares America Corporation, Penn Racquet Sport, Inc. and Fleet Capital Corporation as Agent dated April 5, 2000 (previously filed with Form F-1 on September 27,2000).	
6. A statement explaining in reasonable detail how earnings per share information were calculated (included in Note 2 to the Financial Statements).	
8. A list of the Company’s significant subsidiaries, indicating their country of incorporation and the names under which they do business.	
11. Code of Ethics.	
12.1 Certification of the CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
12.2 Certification of the CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
13. Certification of the CEO and CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	

Code of Ethics

APPLICABILITY

This policy applies to all employees, officers and managing directors throughout all of the subsidiaries and divisions of Head N.V. (“HEAD” or “Company”).

POLICY

HEAD has issued separate internal policy guidelines with regard to compliance with insider trading rules. The Management Board and the managers of each subsidiary are responsible for the distribution of such relevant information, for informing their employees of the internal guidelines in an appropriate manner as well as to take organisational measures (define classified units, appoint a compliance officer) in cooperation with the compliance officers of Head.

Bribery, violations of antitrust laws and other illegal activities are forbidden. It is emphasized that HEAD’S policy of good faith compliance with the law is not limited to laws pertaining to political contributions and bribery or to antitrust laws but is broad in scope and prohibits all forms of unlawful activities. Employees who authorize or participate in unlawful activities will be subject to disciplinary action including dismissal.

There are certain areas where the outsider activities of an employee or director of HEAD or its subsidiaries may give rise to conflicts of interest. These include, but are not limited to, investment or participation in a business other than HEAD, employment outside of HEAD or its subsidiaries’ working hours by another business and the receiving of payment or loans from outside interests. Any such conflict of interest is contrary to corporate policy.

Without limiting the generality of the foregoing, certain guidelines may appropriately be set forth as follows:

**HONEST AND ETHICAL CONDUCT
CONFLICT OF INTEREST**

1. The use of funds or assets of the Company or any subsidiary for any unlawful purpose or payments, gifts or favors to government officials or employees, is prohibited. This prohibition does not preclude gifts or favors in those countries which meet all of the following requirements: (1) the gifts or favors are made for a legitimate business purpose and not to obtain benefits not permitted by local laws nor to escape obligations imposed by local laws, (2) the gifts or favors are modest in amount and are made in accordance with prevailing local custom and are not considered to be in the nature of bribery or be otherwise in violation of local laws as interpreted and applied, (3) disclosure of the gifts or favors would not embarrass the Company nor result in any material adverse action against the Company and (4) the gifts or favors are authorized by the Business Unit Manager of the subsidiary making them. If, in the judgment of the Business Unit Manager, the amount may not be construed as modest in amount, the Manager shall seek guidance from higher authority.
2. An employee or director of HEAD or a subsidiary should not become an investor, stockholder or partner in the business of a customer or supplier, if such employee is in a position to make or influence decisions of sale or purchase in either business. Any employee who already has an interest in such a business should immediately inform his superior and Managing Director.
3. An employee or director of HEAD or a subsidiary should not, either directly or indirectly, acquire an interest in a business which is being considered for merger or acquisition if such employee has become aware of the proposed acquisition or merger. If already holding an interest in such a business, his position should be fully disclosed to the Management Board..
4. An employee of HEAD or a subsidiary should not accept part-time employment from competitors, suppliers or customers of HEAD or a subsidiary.
5. An employee of HEAD or a subsidiary should not accept a loan or remuneration in any form (including commissions, refunds or gratuities) which arises out of the sale of goods or services to or by HEAD or

its subsidiaries.

FULL, FAIR, ACCURATE, TIMELY AND UNDERSTANDABLE DISCLOSURE

6. Compliance is mandatory under the local and international accounting principles under which HEAD and its subsidiaries in their individual locations are governed in the preparation of their financial statements.
7. All assets, liabilities, revenues, expenses and financial transactions shall be accurately recorded on the books of each company.
8. No false, misleading, inaccurate, or artificial entries shall be made in the books and records of the Company or of any subsidiary:
9. The disclosure in all reports or documents the Company or any of its subsidiaries files with or submits to the SEC and other financial authorities or in other public communications shall be full, fair, accurate, timely and understandable.
10. No payment on behalf of the Company or any of its subsidiaries shall be approved or made with the intention or understanding that any part of such payment is to be used for a purpose other than that described by the document supporting the payment.
11. All fees paid to agents, attorneys, consultants, or others performing services shall be supported by documentation which clearly shows the nature of the services rendered for the payments.

COMPLIANCE WITH ALL LAWS

12. It is the policy of HEAD to comply in good faith with all applicable laws and regulations, including insider trading rules, in every jurisdiction where any company of HEAD engages in any activity.

ACCEPTANCE OF GIFTS

13. No gifts, trips nor special events of any significance should be accepted by any employee of HEAD or its subsidiaries at Christmas or at other times, from vendors or others doing business with the company. If a gift of significance is received, it should be returned respectfully to the donor and offers of trips or special events should be politely refused.
14. There is no objection to the receipt of modest, inexpensive remembrances at appropriate times of an eatable or potable nature or desk type items provided each is of a nominal value.

Similarly, there is no objection to essential business meals, business events or occasional and infrequent social, sports or entertainment events of a nominal and accepted nature provided they in no way compromise the business decisions that must be made or place HEAD in any position of obligation to those extending the invitation.

In any event, good judgement must prevail and if any question concerning the acceptance of a gift, trip or special event arise, the next person in authority to the recipient should be consulted.

REPORTING OF VIOLATIONS / ACCOUNTABILITY

15. Any employee who is presently in a situation or contemplates an activity or has knowledge of an activity which appears to be contrary to this Code should immediately make all pertinent facts known to his superior and to one of the Managing Directors. Any such report will be treated confidentially and the Company will not tolerate retaliation in any form against any person for complaints or reports made in good faith. Any violation will lead to disciplinary action, up to and including termination of employment and any further legal actions. The Code of Business Conduct will be regularly monitored by the Disclosure Committee.

CORPORATE OPPORTUNITIES

16. Employees, officers and directors are prohibited from a) taking for themselves personally opportunities that are property within the scope of the Company's activities, b) using corporate property, information or position for personal gain, and c) competing with the Company. Employees, officers and directors owe a duty to the Company to advance its legitimate interests to the best of their ability.

CONFIDENTIALITY

17. Employees, officers and directors should maintain the confidentiality of information entrusted to them by the Company, its subsidiaries or their customers. Confidential information includes all non-public information that might be of use to competitors, or harmful to the Company, its subsidiaries or its customers, if disclosed. The obligation to safeguard confidential information continues after employment with the Company or its subsidiaries ends.
18. The obligation to maintain the confidentiality of information may be subject to legal or regulatory requirements to disclose that information. In such cases, the Disclosure Committee will assist in determining what disclosure is required.

FAIR DEALING

19. Each employee, officer and director should deal fairly with customers, suppliers, competitors and employees. No person may take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair-dealing practice.

PROTECTION AND PROPER USE OF COMPANY ASSETS

20. All employees, officers and directors should protect the Company's and subsidiaries assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the Company's profitability. All of the Company's and subsidiaries assets should be used for legitimate business purposes.

CERTIFICATIONS

I, Johan Eliasch, certify that:

1. I have reviewed this annual report on Form 20-F of Head N.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d -15(e)) for the company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 13, 2004

By: _____

Johan Eliasch
Chairman of the Management Board and
Chief Executive Officer

I, Ralf Bernhart, certify that:

1. I have reviewed this annual report on Form 20-F of Head N.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e)) for the company and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 13, 2004

By: _____

Ralf Bernhart
Member of the Management Board and
Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Annual Report on Form 20-F of Head N.V. (the "Company") for the period ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 13, 2004

By: _____
Johan Eliasch
Chief Executive Officer,
Chairman of the Management Board

Date: April 13, 2004

By: _____
Ralf Bernhart
Chief Financial Officer,
Member of the Management Board