

HEAD NV

**TRANSCRIPT OF
THIRD QUARTER 2003
FINANCIAL RESULTS CALL**

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INTERCALL UK

Ralf Bernhart

Good afternoon everyone and thank you for joining us for Head's third quarter and first nine months 2003 conference call. By now everyone should have received a copy of the press release that was sent out this morning and have access to the Powerpoint presentation that is posted at our web site. Joining today is Johan Eliasch, Chairman and Chief Executive Officer. Clare Vincent, our Investor Relations Manager whom you are used to, is on maternity leave at the moment.

Before we get started I would like to inform you that statements made in this conference call may be "forward looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995. In connection with all such forward-looking statements, you should be aware that our actual results might vary materially from those projected in the forward looking statements. In addition, additional information concerning factors that could cause actual results to materially differ from those in the forward looking statements, is contained in our press release, dated November 13th, 2003, as well as our prior filings on Form 6K and our registration statements on Form F1 and F20, all of which are readily available.

If you would now like to turn to the Powerpoint presentation on our web site, www.head.com, Johan and I will present the quarter and nine month results, discuss the performance of each of our divisions, comment on our capital and resources, and give you our thoughts on the outlook for 2003. We will then take your questions. I will now turn it over to Johan.

Johan Eliasch

Thank you Ralf. If you would like to move to the third slide in the presentation which is entitled Summary. I am pleased to announce that our reported net revenues for the third quarter of 2003 have increased 12% compared to the same quarter in 2002. And our reported net revenues for the first nine months of 2003 are up 7% to \$269 million from net revenues in the first nine months of 2002 of \$252 million. Our nine months reported net revenues have of course been positively affected by the

strength of the euro against the US dollar in the first half of the year although this trend has started to reverse in the last three months.

For the third quarter of 2003 we recorded an operating profit of \$7.7 million compared to a profit of \$6.9 million in the same period of 2002. However, as we said in our second quarter conference call, we experienced some declines in local currencies in the first six months of the year, and also negative currency impact on our costs. Combined with a continuing erosion of some margins due to the current tough market conditions and the costs associated with a number of restructuring and reorganization projects, our nine-month operating results have deteriorated from an operating profit of \$1.8 million in 2002 to an operating loss of \$10.3 million in 2003.

Next slide, please. The business is seasonal and we normally generate about 27% to 28% of our sales in the third quarter. And as you can see, the majority of sales come from winter sports, where we begin to deliver orders taken earlier in the year. During the third quarter, the diving division is focused on filling its 2003-2004 season order book and stock building for the coming season. Compared to the third quarter of 2002, the proportion of winter sports sales have increased by 3% due to the relative buoyancy of our winter sports sales compared to the difficult racquet sports market.

If you now move to the next slide, you will find the breakdown of our sales by geography. And as you can see here, it shows an increase in the proportion of group sales generated in Europe to 58% and a decline in North America to 29%. The increase in Europe is because revenues in winter sports, our largest and fastest growing division in Q3, are growing faster in Europe than they are in North America or the rest of the world.

Next slide, please. Turning to slide six, Market Dynamics. Whilst market conditions have been slightly better in the third quarter, the overall year to date trend continues to be negative. We expect winter sports markets to be down slightly for

2003, same for racket sports. For example, in the US, while the latest TIA estimates are encouraging, suggesting that the racquet markets grew by 5.2% during the third quarter, the ball market was down, in fact, 7.2%. And for year to date, the racquet market is down 6.7% with the ball market down 6.3% for the same period. The market for diving equipment is still weak, although there are some signs of recovery in key dive markets.

Let's go to the next slide, winter sports. The third quarter sees the beginning of the main selling season in winter sports. Nearly 90% of our sales are made in the second half of the year. And that is just the way the market is structured. Our sales grew strongly during the third quarter of 2003 compared with 2002, registering just over 20% growth. And that has to do with a fantastic reception to our winter sport line-up across the board, compared to 2002 and continuing strong reorders that we have experienced, compared to last year, which are encouraging signs going forward into the next year. Combined with a strong first half, nine-month sales were up 30% from \$63.2 million in 2002 to \$82.4 million in 2003.

All our products reported a growth in sales. Skis, which represented 40% of our Q3 Winter Sports sales were up 16%, bindings were up 20%, boots 23% and snowboards 38%.

Based on these growth rates we believe that we are outperforming both the market and our key competitors and expect to gain some market share in a number of our key product categories and geographies.

In terms of actual quantities sold during the third quarter, skis were up from 178 thousand pairs in 2002 to 184 thousand pairs in 2003; bindings, including contract manufacturing, were up from 393 thousand pairs in 2002 to 449 thousand pairs in 2003; ski boots were up from 167 thousand pairs to 171 thousand pairs and snowboards were up from 64 thousand to 102 thousand units. These quantities are rounded to the nearest thousand.

Next slide. The chart on the left shows the split of our Q3 winter sport sales by geography and clearly at 71% of sales, Europe dominates it. Gross margin has declined in both the third quarter and first nine months as compared to 2003. This is due to negative currency impacts as our manufacturing costs are predominantly incurred in Europe in this division; and also changes in the product mix and close out sales at the beginning of the year.

Our bookings for 2003 are currently ahead of the position at the same time last year, both in unit and value terms. This is largely due to the success of our Intelligence line of skies, snowboards and well-accepted products across all product lines as I said previously. Full year reported numbers will obviously be dependent on currency movements in the final quarter of the year.

Next slide. Racquet Sports: market was weak during third quarter and as I mentioned previously, we knew that our first half revenues were going to be poor in comparison to 2002, due to timing differences associated with the July launch of our new Liquid Metal technology. As expected we did see an increase in sales compared to 2002 in the third quarter with revenues up 3% and thus, an improvement in our latest 12 month revenue count, which is now down 4.4% compared to down 8.4% at the end of June 2003. To recap, we launched our first two Liquid Metal racquets in July and we have now added a further two racquets to the line up, which have received very positive response. The Liquid Metal 4 racquet has won the editor's choice award from US Tennis Magazine and the Liquid Metal Radical MP Tour racquet was a test winner in the September issue of German Tennis Magazine. In the US, the Liquid Metal racquets were placed number two, three, and four respectively in the pro-specialty September sales and as number one, two and three in their "Hot New Racquets" category. In terms of quantities sold in the third quarter and again these numbers are rounded to the nearest 1,000, tennis racquets, were up from 443,000 to 449,000 and balls were up slightly as well.

Next slide. Our racquet sport sales are spread more evenly by geography than for other divisions as you can see.

And I should also mention here that the small gross margin decline for the racquet sports in the third quarter is due to the timing of our Liquid Metal launch. Our racquet bookings for the year are currently almost in line with the levels achieved at the same time last year and our branded ball bookings are broadly in line also with the position a year ago.

Next slide. Moving to diving: sales compared to 2002 were up 4.5% and overall sales for the first nine months were up 3.4% compared to 2002; however, this is largely due to the effect of exchange rate impact on local currency sales, as we report in dollars. Mares represents 79% of our diving division sales and is by far our largest diving brand.

Next slide please. Our largest market is Europe at 59% of Q3 sales, and what we can also say is that our gross margin has declined compared to 2002, due to the decline in local currency sales and also currency impacts on costs. We have recently announced the retirement of Claudio Ferrantino the Managing Director of our Diving Division and the appointment of Stefano Di Martino to take over the position from Claudio. This change will take effect from the beginning of 2004 and whilst we are very sad to see Claudio leave and would like to thank him for all his hard work over the years. We are very excited about the future our Diving division, under Mr Di Martino, who comes from Nike, where he was European Sales Director, with great success.

Next slide. Licensing: revenues here grew by 39% in three months to September 30 compared to 2002, and by 20% in the nine-month period. The increase was predominantly due however to timing of licensing income receipts and revenues.

Now this covers all our divisions, I would now hand over to Ralf who will comment on the consolidated group results. Ralf, over to you.

Ralf Bernhart

Yes, thank you Johan. Next slide is the profit and loss summary. Generally our reported results for the third quarter of 2003 showed an improvement compared to the third quarter of 2002. Net revenues increased by 12.1% and our operating profit increased by \$800,000 from \$6.9 million to \$7.7 million. However, this was not enough to offset the larger loss in the first half of 2003 compared to 2002, so that for the first nine months, our operating profit decreased by \$12 million from a \$1.8 million profit to a \$10.3 million loss. I should however explain that in this amount and in this figure, there are about \$6 million of costs relating to a number of restructuring and reorganizing projects and other one time items included in our operating profits and we think that for the full year, this will in total amount to \$9 million. These projects have been implemented to reduce our cost base and improve our manufacturing flexibility.

Returning to our quarter three and nine-month P&L, in local currencies, savings have been made in SG&A and margins have moved only slightly. 2003 gross margins have declined against 2002 for both the third quarter and first nine months. This is a result of currency impacts, particularly from the weakening US dollar and Japanese yen, pressure on prices due to the tough market conditions and due to some lower sales in local currencies.

We have worked hard to control our costs and although selling & marketing and general & administrative expenses have increased in US dollars, it is almost entirely due to exchange rate effects.

Before moving on to discuss the balance sheet, I would just like to point out that in line with the provisions of Sarbanes Oxley, a reconciliation of our EBITDA numbers is provided at the end of the presentation.

As you'll see in the next slide, balance sheet highlights, our balance sheet has also been impacted by exchange rate movements, as European assets, working capital and the euro denominated high yield bond are increasing in dollar terms as a result of the strengthening of the euro. Working capital, and in particular inventory, has actually been reduced over the last 12 months, and at constant exchange rate is

now approximately \$6 million lower at 30 September 2003, than it was at 30 September 2002. As with EBITDA, I would like to make you aware that the reconciliation of our working capital is provided at the end of the presentation.

Next slide. Capital end resources: the impact of the exchange is very clear to see when we look at the movement in the US dollar value of our high yield bond. Compared to 30 September 2002, it appears to have increased by \$12 million from \$64.7 to \$76.5 million, but in fact, in local currency terms, it remained unchanged at 65.7 million euros. Overall net debt has increased by 15% in US dollar terms, but on a constant currency basis has actually been reduced by 2%.

I would now like to hand back to Johan for him to finish our presentation with results on the outlook for 2003. Go ahead Johan.

Johan Eliasch

Thank you, Ralf. Thank you. Given the current market conditions, we still remain cautious about the full year financial results. We maintain the view given during our first quarter 2003 conference call that we believe our results would be below those achieved in 2002. And even though we have seen a good development in our winter sport division, the racket sports and diving markets remain difficult with price pressure and exchange rate pressure, which have been suppressing margins across all divisions. Overall, we expect revenues to be ahead of last year but including the \$9 million of the structuring and reorganization costs that Ralf talked about, we will have lower margins so that although the company would continue to record positive operating profits, these would be considerably below last year's level.

I would, however, like to add that, in terms of the very core of our business, we have excellent products in all our product categories. In tennis, Liquid Metal seems to be a success, the way it has sold through at retail level. And we are very hopeful about 2004 in respect of Liquid Metal. Our winter sport products, we are operating at, for instance, in bindings at max capacity, in skis we have an excellent product line. In boots, we have a very well accepted product line and the same with snow

boarding. So in terms of winter sport tradition, we think that our product is very well accepted and good. And I should also add here for diving, there are lots of new exciting product that is in the process of being launched or which will be launched early in 2004.

So this concludes the presentation and I would now like to open up the call to any questions that you may have.

Peter Bauernfried - Bank Austria

Hello. This is Peter Bauernfried from Bank Austria. Mr. Bernhard, just one question on the restructuring and reorganisation cost. Is it fully included in let's say other operating costs, or it is part of the gross margin?

Ralf Bernhard

They are partly in the margin, 0.9 million in the first nine months is in the one time charges. In the total year we think only 2 million of the total 9 million will be in one time charges. The others will be all different areas. We will have the invested amount, which is in the SG&A. We will have part in the cost of sales and we will have part in the manufacturing costs.

Peter Bauernfried

And which divisions are hit most severely?

Ralf Bernhard

I wouldn't say hit, because it is our intention to reduce the costs in these areas and this is mainly in the ski boots area where we move our production from Estonia to ?? in Czech, and it will be part in Italy where we have some diving parts will also been moved outside. And we had in the first nine, six, nine months, also extra costs for moving more of the production from Candlebach (?) to Budvis (?) .

Peter Bauernfried

So basically it was the winter sports situation that was impacted ...

Ralf Bernhard

Yes, clearly in the first item with ski boots but also tennis because it was a large part of the moving from Candlebach to Budvis was referring to racquets.

Peter Bauernfried

Right. And could you maybe give us an indication what you are expecting for the margins in each divisions for the year 2004, what do you think about the development there?

Johan Eliasch

That's a question I don't think we can answer unfortunately. We're not allowed to.

Peter Bauernfried

OK, thank you.

Operator

Thank you sir. Once again, ladies and gentlemen, if you would like to ask a question, * followed by 1 on your telephone keypad. I have no other questions waiting sir. Still no questions waiting sir.

Johan Eliasch

Very well, there are no more questions ...

Operator

We now have a question sir.

Shel Bansta(?) - Meditor(?)

It is Shel Bangsta, Meditor, hi. I've just got a question on balls, tennis balls, are you just going to sit and wait, wait it out or what's actually going on in the industry? What can you see there?

Johan Eliasch

There is price pressure and there are increased raw material factors. So that puts the onus on us to basically find ways to reduce cost, which we are working, we are continuously working on and where we see upside in terms of the market potential is clearly Europe and also Japan. But in the US we are increasing our market share, which is encouraging and we are well above 53% market share, which is a very good market share obviously. Does that answer your question Shel?

Shel Bansta

Am I on?

Johan Eliasch

Yes, you're on.

Shel Bansta

Well I don't know, it appears to me that sort of the players, not the tennis players, the manufactures are sort of ruining the market for each other and no one is really making any money. I just wondered whether we can see a truce building up at some point.

Johan Eliasch

Well you have three players. You have Wilson, Dunlop and Penn and what I would say here is that Dunlop, they will always be under pressure and Wilson as well are under pressure, because their quantities are well below ours. And people are competing at business through price.

Shel Bansta

OK. Thanks.

Ralf Bernhard

I just want to underline that we make money with the balls.

Operator

Thank you. We have no other questions waiting sir.

Ralf Bernhard

Johan, shall we conclude the call or..?

Johan Eliasch

If there are no more questions as this stage, we conclude the call.

Operator

No questions waiting.

Johan Eliasch

Thank you very much.

Ralf Bernhard

Thank you very much ladies and gentlemen.