# Annual Report 2017

**HEAD UK LTD.**
**ANNUAL REPORT FOR THE PERIOD ENDED DECEMBER 31, 2017**

## CONTENTS

## HEAD UK LTD. AND SUBSIDIARIES
## STRATEGIC REPORT

### STRATEGIC REPORT:

The financial statements of Head UK Ltd. and subsidiaries ("Head" or the "Company") are prepared for the year ending December 31, 2017.

### The Company:

The Company is a leading global manufacturer and marketer of branded sporting goods serving the skiing, tennis and diving markets. The Company has created, partly through acquisitions, a portfolio of brands – HEAD (principally alpine skis, ski bindings, ski boots, snowboard and protection products, tennis, racquetball, paddle and squash racquets, tennis balls and tennis footwear, sportswear and swimming products), Penn (tennis balls and racquetball balls), Tyrolia (ski bindings), Mares, SSI and rEvo (diving). The Company's key products have attained leading market positions based on sales and reputation and have gained high visibility through their use by many of today's top athletes.

Over the last decades, the Company has become one of the world's most widely recognised developers, manufacturers and marketers of innovative, high-quality and technologically advanced sporting equipment.

In 2017, the parent company of the Head group changed from Head Sales B.V. to Head UK Ltd.. For further information it is referred to Note 9.

### Sales and Distribution:

The Company's products are sold by its worldwide sales force, sales representatives and independent distributors to serve specialized markets and related distribution channels.

### Business development:

*Winter Sports*

After a very late start of the season last year, the 2017/2018 season started very good in most parts of the world. Europe, Japan and also most parts of North America, except the Western United States, have good snow conditions and retailers as well as resorts are reporting about a good start of the season.

*Racquet Sports*

Based on external market information and internal estimates, we believe that the global market, in particular the tennis racquet market, showed a further decline in 2017. Especially the US market dropped again compared to 2016 by close to 5% while the European and Asian markets showing only slight reductions.

*Diving*

Strong performance of all major categories and regions supported by worldwide economic growth, resulted in a record year for Head´s Diving division.

*Sportswear*

In Summer Sportswear we had a positive development compared to 2016 reflected by a 20% revenue increase. Supply chain management was greatly improved resulting in an excellent delivery situation. The lack of snow in the 2016/2017 season, however, negatively influenced the Winter Sportswear business.

## Profitability

### Income statement:

Total Net Revenues increased by €16.7 million, or 4.0%, to €428.1 million from €411.4 million in the comparable 2016 period. This increase was mainly due to higher sales in our Winter Sports and Diving divisions.

The Company reported a profit of €51.7 million in 2017 compared to a profit of €13.3 million in 2016.

### Key Performance Indicators:

The Company´s key financial performance indicators carefully monitored by the management team are:

| | For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | | 2017 | | 2016 |
| | | *(in thousands)* | | |
| Total net revenues | € | 428,061 | € | 411,405 |
| Gross profit | € | 185,410 | € | 176,549 |
| Operating profit | € | 39,532 | € | 29,082 |

### Financing:

Payments from the Company's customers are the principal source of liquidity. Additional sources of liquidity include its credit facility, financing under capital lease arrangements and vendor financing. The cash provided by these sources has a variety of uses. Most importantly, the Company must pay its employees and vendors for the services and materials they supply. Additional uses include capital expenditures, investments, development of new products, payment of interest, extension of credit to the Company's customers and other general funding of the Company's day-to-day operations. For further description of the risks arising from borrowings, it is referred to Note 3 of the consolidated financial statements.

## Capital Expenditures

A significant amount of the Company's annual capital expenditure is invested for the maintenance of current facilities including moulds, tools and equipment. In 2017, the Company spent approximately €13.0 million (2016: €11.0 million) on facilities and equipment maintenance (upkeep, replacement and/or improvement).

## Risk Report

Some of the risks are beyond the Company's control and cannot be quantified nor can the likelihood be expressed. Management seeks to keep the harm limited by following the strategy of diversification of products and geographic locations. For those risks assessable, management tends to define the Company's strategy by focus on risk minimization. When defining the Company's strategy management evaluates risks and balances this risk with the potential return. Management is willing to take calculable risks in reaching Company's objectives.

### Industry and business risks:

The sporting goods industry is highly competitive and includes many regional, national and international companies, some of which have achieved substantial market share. The Company mitigates these risks by employing experts in the industries in which it operates, constantly reviewing the behavior of the Company's competitors and customers and having dedicated proficient research and development teams designing consumer driven products.

The Company's production is dependent on the timely availability of certain raw materials whose prices are driven by the commodity price development on the world market.

Historically, the Company has generally not been able to pass on to the Company's customers all increases in costs resulting from raw material and energy prices, and has sought other means, particularly through the restructuring of the Company's production processes, to maintain operating margins. The Company maintains relations with at least two suppliers for each of the core raw materials.

The Company outsources a substantial portion of its manufacturing to third parties in Europe and in Asia. As a result of this outsourcing, the Company is dependent in part on the performance of third-party suppliers in order to deliver quality products in a timely manner. The Company is also increasingly subject to risks relating to the local economic and political conditions in those countries to which the Company outsources its manufacturing operations.

### Economic conditions, weather and other factors beyond the Company's control:

The Company and the sporting goods industry, in general, are dependent on the economies in which the products are sold, and in particular on levels of consumer spending. Economic conditions affect not only the ultimate consumer but also retailers, the Company's primary direct customers. Adverse weather also can cause a significant decline in the Company's sales. In addition, the occurrence of events that adversely affect economies or international tourism, such as terrorism, regional instability or natural disasters continue to adversely affect leisure travel and related discretionary consumer spending.

The Company has mitigated these risks where possible by having counter-seasonal products and by operating globally, so the results are not unduly influenced by the economy of one country.

### Legal risks:

Some of the Company's products are used in relatively high-risk recreational settings. The Company maintains product liability and general liability insurance coverage. No assurance 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.

## Financial risks:

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk) and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. For further description of the financial risks, it is referred to Note 3 of the consolidated financial statements.

## Circumstances affecting future turnover and profitability:

As a manufacturer and distributor of branded sporting goods, the Company's revenues are affected by the overall economic trends of the Company's principal geographic markets, mainly Europe, but also the United States and Japan, and related changes in consumer spending on leisure goods. Weather can also affect the Company's revenues.

*Factors Affecting Expenses*

The Company separates its 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, cost of third party manufacturers, payroll and energy expenses related to the manufacturing of the Company's products. Depreciation of the Company's manufacturing equipment and production sites, as well as research and development expenses associated with the development of the Company's 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.

The Company's expenses, as reported in Euro, are also affected by movements in the exchange rate of the Euro against the currencies of the countries in which the Company operates.

This report was approved by the Board of Directors on March 15, 2018.

| | |
|---|---|
| Johan Eliasch | Ralf Bernhart |
| Chief Executive Officer | Director |

## DIRECTORS' REPORT:

### Board of Directors

Our Board of Directors currently has two members, whose names and functions are set forth below.

| Name | Age | Title |
|---|---|---|
| Mr. Johan Eliasch | 56 | Chairman of the Board and Chief Executive Officer (appointed August 23, 2017) |
| Mr. Ralf Bernhart | 66 | Director (appointed August 2001) |

Mr. David Shaw and Mr. Klaus Hotter resigned as directors on August 23, 2017.

The members of the Board of Directors are collectively responsible for the management of the Company.

### Employees and Employment of Disabled Persons

As of December 31, 2017, the Company employed 2,499 people worldwide compared to 2,446 at the end of 2016. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. The Company does not discriminate between employees or potential employees on the grounds of colour, race, ethnic or national origin, sex, marital status or religious beliefs.

### Employee Involvement

The Company places considerable value on the involvement of its employees and keeps employees informed on matters relevant to them through regular meetings and internal media.

### Market value of land and buildings

In the opinion of the directors the current open market value of the Company´s interests held in land and buildings exceeds the book value.

### Dividends

In 2017 and 2016, the Company did not pay a dividend. The Board of Directors does not recommend the payment of a dividend.

## Research and Development

The Company incurred research and development costs amounting to €12.8 million and €12.2 million for the year ended December 31, 2017 and 2016, respectively.

## Subsequent Events

For information regarding the subsequent events, it is referred to Note 27 of the consolidated financial statements.

## Disclosure of Information in the Strategic Report

A description of the Company´s principal activities, a business review and disclosures regarding principal risks and uncertainties have been included in the Strategic Report.

## Directors' Responsibility Statement

The Board of Directors is responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Board of Directors to prepare financial statements for each financial year. Under that law the Board of Directors is required to prepare financial statements in accordance with applicable accounting standards. The Board of Directors has elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under Company law the Board of Directors must not approve the financial statements unless it is satisfied that they give a true and fair view of the state of affairs of the group and the company and the profit or loss of the group for that period.

In preparing these financial statements, the Board of Directors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent
- state that the group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Board of Directors is responsible for keeping adequate records that are sufficient to show and explain the Company´s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor

Each of the persons being a member of the Board of Directors at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the group and the Company´s auditor is unaware; and
- they have taken all steps that they ought to have taken as a member of the Board of Directors to make themselves aware of any relevant audit information and to establish that the group and the Company´s auditor is aware of that information.

This report was approved by the Board of Directors on March 15, 2018.

| | |
|---|---|
| Johan Eliasch | Ralf Bernhart |
| Chief Executive Officer | Director |

## Head UK Limited

## Independent Auditor's Report to the Members of Head UK Limited

## Year ended 31 December 2017

### Opinion

We have audited the consolidated financial statements of Head UK Limited (the "parent company") and its subsidiaries (the "group") for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, consolidated statement of financial position, company statement of financial position, consolidated statement of changes in equity, company statement of changes in equity, consolidated statement of cash flows, company statement of cash flows, and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the consolidated and company financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- the consolidated and company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006;
- the consolidated and company financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS regulation.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated and company financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the consolidated and company financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the consolidated and company financial statements is not appropriate; or
- the directors have not disclosed in the consolidated or company financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent's company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the consolidated and company financial statements are authorised for issue.

## Other Information

The other information comprises the information included in the annual report, other than the consolidated and company financial statements and our auditor’s report thereon.  The directors are responsible for the other information.  Our opinion on the consolidated and company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and company financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and company financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.  If we identify any such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the consolidated or company financial statements or a material misstatement of the other information.  If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on Other Matters Prescribed by the Companies Act 2006

- The information given in the strategic report and the directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- The strategic report and the directors’ report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company, and the group it heads, and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors’ report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and the returns; or

- certain disclosures of directors’ remuneration specified by law are not made; and

- we have not received all the information and explanations we require for our audit.

## Responsibilities of Directors

As explained more fully in the directors’ responsibilities statement, the directors are responsible for the preparation of the consolidated and company financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and company financial statements, the directors are responsible for assessing the group’s and the parent company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Consolidated and Company Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated and company financial statements as a whole are free from a material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users take on the basis of these consolidated and company financial statements.

A further description of our responsibilities for the audit of the consolidated and company financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Caroline Monk (Senior Statutory Auditor)

For and on behalf of
Beever and Struthers
Chartered accountant and statutory auditor

St George's House
215-219 Chester Road
Manchester
M15 4JE

15 March 2018

# HEAD UK LTD. AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS

**For the Year Ended December 31, 2017**

**BOARD OF DIRECTORS**

Johan Eliasch
Ralf Bernhart

# HEAD UK LTD. AND SUBSIDIARIES
# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As of December 31, 2017 | 2016 |
|---|---|---|---|
| | | *(in thousands)* | |
| **ASSETS:** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | € 54,751 | € 53,553 |
| Other intangible assets | 6 | 14,612 | 15,220 |
| Goodwill | 6 | 10,287 | 10,325 |
| Investments accounted for using the equity method | 19 | 217 | 244 |
| Deferred income tax assets | 18 | 62,075 | 44,023 |
| Trade receivables | 8, 13 | 1,659 | 2,416 |
| Other non-current assets | | 4,736 | 7,060 |
| Total non-current assets | | 148,337 | 132,841 |
| **Current assets** | | | |
| Inventories | 7 | 106,953 | 105,599 |
| Trade and other receivables | 8, 13 | 146,435 | 139,599 |
| Prepaid expense | | 3,051 | 3,218 |
| Available-for-sale financial assets | 13 | 4,274 | 1,146 |
| Cash and cash equivalents | 13, 25 | 198,702 | 110,887 |
| Total current assets | | 459,414 | 360,448 |
| Total assets | | € 607,751 | € 493,289 |
| **EQUITY:** | | | |
| Share capital | 9 | € 4,088 | € 616 |
| Other reserves | 9 | 85,838 | 85,329 |
| Retained earnings | | 151,186 | 99,475 |
| Fair Value and other reserves including cumulative translation adjustments (CTA) | 17 | (4,936) | 2,297 |
| Total equity | | 236,177 | 187,716 |
| **LIABILITIES:** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 12, 13 | 192,654 | 153,269 |
| Employee benefits | 15 | 21,449 | 21,506 |
| Provisions | 11 | 2,792 | 2,845 |
| Other long-term liabilities | 14 | 4,076 | 6,244 |
| Total non-current liabilities | | 220,971 | 183,864 |
| **Current liabilities** | | | |
| Trade and other payables | 10, 13 | 71,845 | 66,127 |
| Current income tax liabilities | | 1,366 | 1,633 |
| Borrowings | 12, 13 | 73,182 | 45,899 |
| Provisions | 11 | 4,211 | 8,050 |
| Total current liabilities | | 150,604 | 121,709 |
| Total liabilities | | 371,575 | 305,573 |
| Total liabilities and equity | | € 607,751 | € 493,289 |

The accompanying notes on pages 16 to 55 form an integral part of these consolidated financial statements.

# HEAD UK LTD. AND SUBSIDIARIES
# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | For the Years Ended December 31, 2017 | 2016 |
|---|---|---|---|
| | | *(in thousands)* | |
| Total net revenues | 21 | € 428,061 | € 411,405 |
| Cost of sales | 22 | 242,651 | 234,856 |
| **Gross profit** | | **185,410** | **176,549** |
| Selling and marketing expense | 22 | 121,239 | 120,308 |
| General and administrative expense | 22 | 27,467 | 27,049 |
| Other operating (income) expense, net | 13, 22 | (2,827) | 109 |
| **Operating profit** | | **39,532** | **29,082** |
| Interest and other finance expense | 13 | (7,786) | (7,798) |
| Interest and investment income | 13 | 2,503 | 1,589 |
| Share of (loss) profit of Joint Ventures | 19 | (0) | 24 |
| Other non-operating income, net | 13 | 2,080 | 38 |
| Profit before income taxes | | 36,329 | 22,936 |
| Income tax benefit (expense): | | | |
| Current | | (2,919) | (3,908) |
| Deferred | | 18,283 | (5,769) |
| Income tax benefit (expense) | 18 | 15,364 | (9,676) |
| **Profit for the year** | | **€ 51,693** | **€ 13,259** |
| **Other comprehensive income:** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Available-for-sale financial assets | 17 | (119) | (14) |
| Tax effect | 18 | 30 | 3 |
| Share of other comprehensive income of joint ventures accounted for using the equity method | 19 | (27) | (5) |
| Foreign currency translation adjustment on group companies | | (7,176) | 853 |
| | | (7,292) | 837 |
| **Items that will not be reclassified to profit or loss:** | | | |
| Remeasurements on Employee Benefits | 15, 17 | 79 | (1,451) |
| Tax effect | 18 | (21) | 383 |
| | | 58 | (1,068) |
| **Other comprehensive expense for the period, net of tax** | | **€ (7,234)** | **€ (230)** |
| **Total comprehensive income for the period** | | **€ 44,459** | **€ 13,029** |

The accompanying notes on pages 16 to 55 form an integral part of these consolidated financial statements.

## HEAD UK LTD. AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Attributable to equity holders of the Company | | | | | | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | | Ordinary Shares | | | | | | |
| | | Shares | Share Capital | Other Reserves | Treasury Shares | Retained Earnings | Fair Value and Other Reserves/ CTA[1] | |
| | | *(in thousands, except share data)* | | | | | | |
| Balance at December 31, 2015 | | 61,489,731 | € 617 | € 85,937 | € (683) | € 86,215 | € 2,528 | € 174,615 |
| Transactions with the owners of the Company: | | | | | | | | |
| Demerger | | (194,437) | (2) | (213) | -- | -- | -- | (215) |
| Sale of treasury shares | | 260,022 | -- | (396) | 683 | -- | -- | 287 |
| Profit for the year | | -- | -- | -- | -- | 13,259 | -- | 13,259 |
| Changes in fair value and other including CTA reserves | 15, 17 | -- | -- | -- | -- | -- | (230) | (230) |
| Total comprehensive income in 2016 | | -- | -- | -- | -- | -- | -- | 13,029 |
| Balance at December 31, 2016 | | 61,555,316 | € 616 | € 85,329 | € -- | € 99,475 | € 2,297 | € 187,716 |
| Transactions with the owners of the Company: | | | | | | | | |
| Change of parent company from Head Sales B.V. | 9 | (61,555,316) | (616) | -- | -- | -- | -- | (616) |
| to Head UK Ltd. | 9 | 3,413,984 | 4,087 | 615 | -- | -- | -- | 4,702 |
| Issuance of new shares | 9 | 1,000 | 1 | -- | -- | -- | -- | 1 |
| Deconsolidation of the Stichting | | -- | -- | (105) | -- | 19 | -- | (86) |
| Profit for the year | | -- | -- | -- | -- | 51,693 | -- | 51,693 |
| Changes in fair value and other including CTA reserves | 15, 17 | -- | -- | -- | -- | -- | (7,234) | (7,234) |
| Total comprehensive income in 2017 | | -- | -- | -- | -- | -- | -- | 44,459 |
| Balance at December 31, 2017 | | 3,414,984 | € 4,088 | € 85,838 | € -- | € 151,186 | € (4,936) | € 236,177 |

[1] see Note 17

The accompanying notes on pages 16 to 55 form an integral part of these consolidated financial statements.

# HEAD UK LTD. AND SUBSIDIARIES
# CONSOLIDATED STATEMENT OF CASH FLOWS

| | For the Years Ended December 31, 2017 | 2016 |
|---|---|---|
| | *(in thousands)* | |
| **OPERATING ACTIVITIES:** | | |
| Profit for the year | € 51,693 | € 13,259 |
| Adjustments to reconcile net profit to net cash provided by operating activities: | | |
| Depreciation and amortization | 10,569 | 10,449 |
| Amortization and write-off of debt issuance costs, bond discount and other deferred charges | 442 | 343 |
| Provision for leaving indemnity and pension benefits | 71 | 471 |
| (Gain) Loss on sale of property, plant and equipment | (79) | 109 |
| Deferred income | (638) | (639) |
| Finance costs | 7,427 | 6,367 |
| Interest income | (2,503) | (1,589) |
| Income tax expense | 2,919 | 3,908 |
| Deferred tax (benefit) expense | (18,283) | 5,769 |
| Non-cash-effect from sale of Head UK Ltd. | 711 | -- |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (11,422) | 134 |
| Inventories | (4,873) | 2,317 |
| Prepaid expense and other assets | 2,569 | (1,339) |
| Accounts payable, accrued expenses and other liabilities | 992 | (11,831) |
| Interest paid | (6,707) | (5,980) |
| Interest received | 3,714 | 1,168 |
| Income tax paid | (3,164) | (4,759) |
| Net cash provided by operating activities | 33,438 | 18,157 |
| **INVESTING ACTIVITIES:** | | |
| Purchase of property, plant and equipment | (13,019) | (10,978) |
| Proceeds from sale of property, plant and equipment | 1,668 | 64 |
| Cash paid for the acquisition of subsidiaries | -- | (1,081) |
| Cash and cash equivalents of the acquired subsidiaries | -- | 180 |
| Liquidation of Joint Venture | -- | 283 |
| Purchase of available-for-sale financial assets/loan | (3,246) | (1,159) |
| Deconsolidation of the Stichting | (21) | -- |
| Net cash used for investing activities | (14,618) | (12,691) |
| **FINANCING ACTIVITIES:** | | |
| Decrease in short-term borrowings | (23,388) | (1,386) |
| Proceeds from long-term debt | 108,298 | 68,500 |
| Payments on long-term debt | (13,670) | (6,723) |
| Payments of debt issuance costs | (630) | (481) |
| Demerger | -- | (215) |
| Payments to former shareholders | -- | (549) |
| Sale of Head UK Ltd. | 3,377 | -- |
| Change in restricted cash | (167) | (4) |
| Net cash provided by financing activities | 73,821 | 59,142 |
| Effect of exchange rate changes on cash and cash equivalents | (4,988) | 62 |
| Net increase in cash and cash equivalents | 87,652 | 64,670 |
| Cash and cash equivalents, unrestricted at beginning of period | 109,288 | 44,618 |
| Cash and cash equivalents, unrestricted at end of period | 196,939 | 109,288 |
| Cash and cash equivalents, restricted at end of period | 1,763 | 1,599 |
| Cash and cash equivalents, at end of period | € 198,702 | € 110,887 |

The accompanying notes on pages 16 to 55 form an integral part of these consolidated financial statements.

## Note 1 – General information

As of December 31, 2016, Head Sales B.V., a Dutch private Company with limited liability, was the parent company of the Head group.

In 2017, the parent company of the Head group changed from Head Sales B.V. to Head UK Ltd.. For further information it is referred to Note 9. This transaction was classified as a transaction occurring under common control following the predecessor method. In order to assume common control, it is necessary that there is one ultimate parent that controls the entities before and after the transactions. Under the predecessor method, existing book values are used to account for these transactions, with assets and liabilities not being restated to fair values.

The financial statements of Head UK Ltd. and subsidiaries ("Head" or the "Company") are prepared for the year ending December 31, 2017. All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand Euro unless otherwise stated.

Head UK Ltd. is a private company limited by shares, registered in England and Wales. The address of its registered office is 2 Beezon Road, Kendal, Cumbria, LA9 6BW.

The Company is a leading global manufacturer and marketer of branded sporting goods serving the skiing, tennis and diving markets. The Company has created, partly through acquisitions, a portfolio of brands – HEAD (principally alpine skis, ski bindings, ski boots, snowboard and protection products, tennis, racquetball, paddle and squash racquets, tennis balls and tennis footwear, sportswear and swimming products), Penn (tennis balls and racquetball balls), Tyrolia (ski bindings), Mares, SSI and rEvo (diving).

Head primarily conducts business in Europe (mainly in Austria, Italy, Germany, France, Switzerland, Benelux, Spain, the United Kingdom, Czech Republic and Poland), North America and Asia.

These consolidated financial statements are authorized for issuance by the Board of Directors as of March 15, 2018, and will be presented to the General Meeting of Shareholders.

All forecasts and estimates presented in this report are based on the management´s current judgement of the economic environment and the Company´s performance in that environment. The actual results may differ significantly.

## Note 2 - Summary of Significant Accounting Policies

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

*Basis of Presentation*

The Company and its subsidiaries maintain their accounting records in accordance with their local regulations and have made certain adjustments to these records to present the accompanying financial statements in conformity with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The consolidated financial statements have been prepared on a going concern basis, under the historical cost convention and fair value accounting for available-for-sale financial assets and financial assets and financial liabilities (including derivatives) at fair value through profit or loss.

Percentages and some amounts contained herein have been rounded for ease of presentation, and some amounts may not total due to this rounding.

**New standards, amendments and interpretations adopted by the Company**

*Amendments to IAS 7 – Disclosure Initiative (effective January 1, 2017; endorsement by the EU in November 2017):*

The new amendment requires entities to explain changes in their liabilities arising from financing activities. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities.

There are no other standards, amendments and interpretations which are effective for the first time for the financial year beginning on January 1, 2017, that are material to the Company.

**New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2017, and not early adopted**

*IFRS 9 "Financial instruments" (effective January 1, 2018; endorsed by the EU in November 2016):*
IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value.

The Company is not expecting the new standard to be material to the Company.

*IFRS 15 "Revenue from contracts with customers" (effective January 1, 2018; endorsed by the EU in September 2016):*
The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The Company is not expecting the new standard to be material to the Company.

*IFRS 16 "Leases" (effective January 1, 2019; endorsed by the EU in October 2017):*
IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The Company is yet to assess the full impact of IFRS 16.

There are no other IFRSs that are not yet effective that would be expected to have a material impact on the Company.

**Consolidation**

a) Subsidiaries

The consolidated financial statements of Head include the financial statements of all owned entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Entities are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Company is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Company's accounting policies.

b) Disposal of subsidiaries

When the Company ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

c) Joint arrangements

The Company applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations. The Company has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Company's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Company's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Company's net investment in the joint ventures), the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Company.

**Foreign Currency Translation**

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

b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. The effect of exchange rate changes on intercompany transactions of a long-term investment nature are recognised in other comprehensive income as a component of fair value and other reserves/CTA.

Foreign exchange gains and losses that result from financing and investing activities are presented in the income statement within "Other non-operating expense/income, net". All other foreign exchange gains and losses are presented in the income statement within "Other operating expense/income, net".

c) Group companies
The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates prevailing during the year.
- All resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

**Property, Plant and Equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Additions and improvements that extend the useful lives of the plant and equipment and replacements, major renewals, and betterments are capitalized and depreciated over the remaining useful life of the asset. The cost of maintenance, repair and minor renewals are expensed as incurred. When plant and equipment is retired or otherwise disposed, the cost and related accumulated depreciation and impairment losses are removed from the related accounts, and any gain or loss on disposition is recognised in the income statement. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The Company's buildings are depreciated over a period of 30-50 years, building improvements are depreciated over a period of 10-25 years and machinery, fixtures, furnitures and office equipment are depreciated over a period of 2-20 years. Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 5).

**Goodwill and Other Intangible Assets**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.
Other intangible assets comprise of trademarks and Intellectual Property with an indefinite useful life which are carried at cost less accumulated impairment losses and land use rights with a useful life of 50 years, which are carried at cost less accumulated amortization and impairment losses. Amortization of land use rights is calculated using the straight-line method.

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

**Impairment of Non-Financial Assets**

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

**Offsetting of Financial Instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

**Financial Assets**

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

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

b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets ("Other non-current assets"). Loans and receivables are classified as "trade and other receivables" and "cash and cash equivalents" in the balance sheet (see Note 8).

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

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

When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "Interest and investment income".

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

**Derivative Financial Instruments and Hedging Activities**

The Company records all derivatives on the balance sheet at fair value. The Company uses derivative instruments, specifically foreign exchange forward and option contracts, to hedge the foreign exchange risk related to forecasted foreign currency denominated cash flows. In addition, the Company uses interest rate swaps to reduce the interest rate risk. However, derivatives are not designated as hedging instruments as part of formal hedge relationship qualifying for hedge accounting under IAS 39.

The full fair value of a derivative instrument is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The Company enters into hedging relationships to limit the foreign exchange rate risk for periods generally not to exceed one year. The Company recognised all changes in the fair value of the instruments in the income statement ("Other non-operating expense/income, net").

In respect of interest rate swaps, the Company recognised all changes in the fair value of the instruments in the income statement ("Interest and other finance expense").

The Company does not utilize financial instruments for trading or speculative purposes.

**Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost being determined on a first-in first-out basis ("FIFO"). The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Borrowing costs are not included in the costs of finished goods and work in progress. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

**Trade and Other Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "Other operating expense/income, net" in the income statement.

Payment terms differ depending on the customer (large distributors, small shops), product line (winter sports is a very seasonal business, whereas racquet sports and diving products experience almost no seasonality), country (payment terms vary in accordance with local practices throughout the world) and past experiences with customers. It is the Company's normal procedure to agree terms of transactions, including payment terms (60 to 180 days), with customers in advance. In the rental business, the Company may have to agree to payment terms over one year and classifies those long-term trade receivables as non-current assets in the consolidated balance sheet.

**Cash and Cash Equivalents**

Cash and cash equivalents comprise of cash and short-term, highly liquid investments with an original maturity of three months or less. Bank overdrafts are shown within “Borrowings” in current liabilities on the balance sheet.

**Restricted Cash**

Restricted cash comprises of deposits pledged as collateral. The amounts are collateralized with several financial institutions and earn interest while in deposit.

**Share Capital**

Ordinary shares were classified as equity.

**Trade and other Payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**Current and Deferred Income Tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is also recognised in other comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted in the countries where the Company’s subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The Company utilizes the liability method of accounting for deferred income taxes whereby deferred tax assets and liabilities are recognised to reflect the future tax consequences attributable to temporary differences between the financial reporting bases of existing assets and liabilities and their respective tax bases. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxes are calculated by using the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realization of the related tax benefits through future taxable profits is probable.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**Employee Benefits**

(a) Retirement benefit obligations
The Company operates various pension and other employee benefits schemes. The schemes are partly funded and partly determined by periodic actuarial calculations. The Company has both defined benefit and defined contribution plans.

A defined contribution plan is a plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a plan that is not a defined contribution plan. Typically defined benefit plans define an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurements arising from experience adjustments and changes in actuarial assumptions in respect of pension and severance obligations are charged or credited to equity in other comprehensive income in the period in which they arise. Experience adjustments and changes in actuarial assumptions in respect of anniversary bonuses are charged or credited to the income statement. Past-service costs are recognised immediately in the income statement.

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

(b) Termination benefits
Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

**Provisions**

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

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

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

**Revenue Recognition**

The Company recognises revenue from the sale of goods, net of VAT, when significant risks and rewards of ownership of the goods are transferred to the buyer. These criteria are generally met when finished products are shipped to the customers and both title and the risks and rewards of ownership are transferred.

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

Provisions based on accumulated experience are recorded for estimated product returns at the time revenues are recognised.

**Sales deductions**

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

**Interest Income**

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

**Leases**

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

The Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

**Research and Development Costs**

Research costs are recognised as cost when incurred. Development costs for changes in design are short term and recognised as cost when they are incurred. Development costs for new products are capitalized if they meet the criteria for recognition as an intangible asset. The Company did not capitalize any development costs.

## Note 3 – Financial Risk Management

### Financial Risk Factors

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

a) Market Risk

*Foreign Exchange Risk*
The Company operates in a multi-currency environment in which a portion of its revenues and expenses are denominated in currencies other than the Euro. The Company is, as a result, subject to currency translation risk and, to a lesser extent, currency transaction risk. Currency translation risk arises because the Company measures and records the financial condition and results of operations of each of its subsidiaries in their functional currency and then translates these amounts into the reporting currency, the Euro. The Company incurs transaction risk when one of its subsidiaries enters into a transaction using a currency other than its functional currency, although the Company reduces this risk by seeking, when possible, to match its revenues and costs in each currency.

*Price Risk*
The Company is exposed to marketable securities price risk because of marketable securities held by the Company and classified on the consolidated balance sheet as available-for-sale.

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

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's main external financial source arises from its Bond and the "Schuldscheindarlehen". Borrowings issued at variable rates expose the Company to cash flow interest rate risk. The Company manages its cash flow interest rate risk by using interest rate swap contracts.

b) Liquidity Risk

The Company's liquidity needs arise principally from working capital requirements, capital expenditures and the interest payments on its long-term debt. Given the nature of Winter Sports, and to a lesser extent Racquet Sports and Diving, the Company's operating cash flow and working capital needs are highly seasonal. The Company's need for cash is greater in the third and fourth quarters when cash generated from operating activities, together with draw downs from the Company's bank lines, are invested in inventories and receivables.

Cash flow forecasting is performed in the operating entities of the Company and aggregated on group level. Such forecasting takes into consideration the Company's debt financing plans and covenant compliance.

The cash flow from operations together with credit lines will be adequate to meet the anticipated requirements for working capital, capital expenditures and scheduled interest payments.

**Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company monitors capital on the basis of the gearing ratio. The gearing ratio (net debt in relation to total capital) at year-end 2017 decreased compared to year-end 2016 mainly due to a substantial decrease of net debt and an increase of the total equity mainly as a result of a profit in 2017.

As of December 31, 2017 and 2016, the Company has complied with the financial covenants of its borrowing facilities.

**Fair value estimation**

The different fair value levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

## Note 4 – Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant of these estimates are impairments, impairments of trade receivables, product warranties and returns, inventory obsolescence, assumptions to determine employee benefit obligations and recognition of deferred tax assets. On an ongoing basis, management reviews its estimates based upon currently available information. Actual results could differ from those estimates.

*Estimated impairment of intangible assets and goodwill*

The Company tests annually whether intangible assets with an indefinite useful life and goodwill amounting to €24.3 million have suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. No impairment charge was booked in 2017.

If the estimated discount rate applied to the discounted cash flows had been 10% higher than management's estimates, the recoverable amount would be lower by €16.0 million, if the estimated discount rate had been 10% lower than management's estimates, the recoverable amount would be higher by €19.6 million. These assumptions still do not lead to an impairment.

*Impairment of trade receivables*

The Company recorded an impairment of trade receivables for incurred losses amounting to €2.1 million in 2017 resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provisions may be required. The Company specifically analyses accounts receivable and evaluates historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in the Company's customer payment terms when evaluating the adequacy of the impairment of trade receivables. These estimations are continually reviewed.

If estimations relating to the percentage of uncollected accounts receivable were increased by 10%, the Company would recognise an additional provision of €0.2 million.

*Impairment of Long Lived Assets*

Property, plant and equipment with a carrying amount of €54.8 million are initially stated at cost. Depreciation on property, plant and equipment is computed using the straight-line method over their estimated useful lives. The Company has determined useful lives of property, plant and equipment after consideration of historical results and anticipated results based on the Company's current plans. The estimated useful lives represent the period the asset remains in service assuming normal routine maintenance. The Company reviews the estimated useful lives assigned to property, plant and equipment when the business experience suggests that they do not properly reflect the consumption of the economic benefits embodied in the property, plant or equipment nor result in the appropriate matching of cost against revenue. Factors that lead to such a conclusion may include physical observation of asset usage, examination of realized gains and losses on asset disposals and consideration of market trends such as technological obsolescence or change in market demand.

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

*Provision for Product Warranties*

The Company provides for the estimated cost of product warranties and product returns at the time revenue is recognised. The warranty provision amounting to €4.3 million is established based on the Company's best estimates of the amounts necessary to settle future and existing claims on products sold as of the balance sheet date. Product return provisions are based on historical experiences. While the Company believes that its warranty and product return provisions are adequate and that the judgement applied is appropriate, such amounts estimated to be due and payable could differ materially from what will actually transpire in the future. The Company updates these estimated charges periodically. The actual product performance and/or field expense profiles may differ, and in those cases the Company adjusts its warranty reserves accordingly. Future warranty expenses may exceed the Company's estimates, which could lead to an increase in cost of sales. Significant differences from estimates did not occur in the past.

If revenues were to increase by 10%, the Company would have to recognise an additional provision of €0.4 million.

*Inventory Obsolescence*

The Company's chosen markets are competitive and subject to fluctuations in demand and technological obsolescence. The Company periodically reviews its inventory for obsolescence and declines in market value below cost. Estimated obsolescence or unmarketable inventory led to write-downs in 2017 amounting to €1.0 million of the Company's inventory to the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions were less favourable than those projected by the Company, additional inventory write-downs may be required.

*Employee Benefit Obligations*

The present value of Employee Benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions, including the discount rate. Any changes in these assumptions will impact the carrying amount of Employee Benefit obligations. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related obligation. Other key assumptions are based in part on current market conditions.

*Tax Loss Carry Forwards*

The Company recognises deferred tax assets on tax loss carry forwards amounting to €49.1 million for which it is probable that they will be realized. The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Company was to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. Changes in local income tax rates may also affect deferred tax assets.

## Note 5 – Property, Plant and Equipment

| | | Land | | Buildings | | Machinery, plant & equipment | | Fixtures, furnitures & office equipment | | Total property, plant & equipment |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *(in thousands)* | | | | |
| **As of January 1, 2016** | | | | | | | | | | |
| Cost | € | 3,461 | € | 41,436 | € | 131,885 | € | 41,259 | € | 218,041 |
| Accumulated depreciation | | -- | | (23,870) | | (106,613) | | (34,286) | | (164,769) |
| Net book value | € | 3,461 | € | 17,566 | € | 25,272 | € | 6,973 | € | 53,272 |
| **Year ended December 31, 2016** | | | | | | | | | | |
| Opening net book value | € | 3,461 | € | 17,566 | € | 25,272 | € | 6,973 | € | 53,272 |
| Acquisitions | | -- | | -- | | 13 | | 18 | | 32 |
| Additions | | 236 | | 685 | | 6,705 | | 3,352 | | 10,978 |
| Disposals | | -- | | -- | | (143) | | (29) | | (172) |
| Transfers | | -- | | 1 | | 48 | | (49) | | -- |
| Exchange difference | | 81 | | (66) | | (160) | | 21 | | (124) |
| Depreciation | | -- | | (1,204) | | (6,875) | | (2,352) | | (10,431) |
| Closing net book value | € | 3,778 | € | 16,982 | € | 24,860 | € | 7,934 | € | 53,553 |
| **As of December 31, 2016** | | | | | | | | | | |
| Cost | € | 3,778 | € | 42,094 | € | 134,755 | € | 43,330 | € | 223,956 |
| Accumulated depreciation | | -- | | (25,112) | | (109,895) | | (35,396) | | (170,403) |
| Net book value | € | 3,778 | € | 16,982 | € | 24,860 | € | 7,934 | € | 53,553 |
| **Year ended December 31, 2017** | | | | | | | | | | |
| Opening net book value | € | 3,778 | € | 16,982 | € | 24,860 | € | 7,934 | € | 53,553 |
| Additions | | 223 | | 1,128 | | 8,376 | | 3,292 | | 13,019 |
| Disposals | | (925) | | (178) | | (424) | | (63) | | (1,590) |
| Transfers | | -- | | -- | | -- | | 4 | | 4 |
| Exchange difference | | (115) | | 261 | | 250 | | (79) | | 317 |
| Depreciation | | -- | | (1,182) | | (6,634) | | (2,736) | | (10,552) |
| Closing net book value | € | 2,961 | € | 17,011 | € | 26,428 | € | 8,351 | € | 54,751 |
| **As of December 31, 2017** | | | | | | | | | | |
| Cost | € | 2,961 | € | 42,772 | € | 135,685 | € | 45,004 | € | 226,421 |
| Accumulated depreciation | | -- | | (25,761) | | (109,257) | | (36,653) | | (171,670) |
| Net book value | € | 2,961 | € | 17,011 | € | 26,428 | € | 8,351 | € | 54,751 |

Land and buildings with a carrying value of €6.3 million and €11.5 million as of December 31, 2017 and 2016, respectively, are used to secure loans.

## Note 6 – Goodwill and Intangible Assets

| | Goodwill | Other Intangible Assets | | | |
|---|---|---|---|---|---|
| | | Trademarks | Intellectual Property | Other | Total |
| | *(in thousands)* | *(in thousands)* | | | |
| **As of January 1, 2016** | | | | | |
| Gross | € 8,259 | € 13,071 | € 1,789 | € 906 | € 15,766 |
| Accumulated amortization and impairment | -- | (467) | -- | (181) | (649) |
| Net book value | € 8,259 | € 12,603 | € 1,789 | € 725 | € 15,116 |
| **Year ended December 31, 2016** | | | | | |
| Opening net book value | € 8,259 | € 12,603 | € 1,789 | € 725 | € 15,116 |
| Acquisitions | 2,211 | -- | -- | 4 | 4 |
| Exchange difference | (145) | 143 | -- | (26) | 117 |
| Amortisation | -- | -- | -- | (17) | (17) |
| Closing net book value | € 10,325 | € 12,746 | € 1,789 | € 686 | € 15,220 |
| **As of December 31, 2016** | | | | | |
| Gross | € 10,325 | € 12,975 | € 1,789 | € 880 | € 15,644 |
| Accumulated amortization and impairment | -- | (229) | -- | (194) | (423) |
| Net book value | € 10,325 | € 12,746 | € 1,789 | € 686 | € 15,220 |
| **Year ended December 31, 2017** | | | | | |
| Opening net book value | € 10,325 | € 12,746 | € 1,789 | € 686 | € 15,220 |
| Exchange difference | (37) | (546) | -- | (42) | (588) |
| Transfers | -- | -- | -- | (4) | (4) |
| Amortisation | -- | -- | -- | (17) | (17) |
| Closing net book value | € 10,287 | € 12,200 | € 1,789 | € 623 | € 14,612 |
| **As of December 31, 2017** | | | | | |
| Gross | € 10,287 | € 12,401 | € 1,789 | € 821 | € 15,011 |
| Accumulated amortization and impairment | -- | (201) | -- | (197) | (398) |
| Net book value | € 10,287 | € 12,200 | € 1,789 | € 623 | € 14,612 |

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

## Note 7 – Inventories

Inventories consist of the following:

| | As of December 31, 2017 | As of December 31, 2016 |
|---|---|---|
| | *(in thousands)* | |
| Raw materials and supplies | € 23,672 | € 22,356 |
| Work in progress | 6,950 | 7,090 |
| Finished goods | 87,534 | 89,030 |
| Provisions | (11,203) | (12,876) |
| Total inventories, net | € 106,953 | € 105,599 |

## Note 8 – Trade and Other Receivables

Accounts receivable consist of the following:

| | As of December 31, 2017 | As of December 31, 2016 |
|---|---|---|
| | *(in thousands)* | |
| Trade debtors | € 139,998 | € 136,634 |
| Other receivables | 13,752 | 11,330 |
| Allowance for doubtful accounts | (5,656) | (5,949) |
| Total accounts receivable, net | € 148,094 | € 142,015 |
| Less: long-term portion | (1,659) | (2,416) |
| Short-term portion | € 146,435 | € 139,599 |

| As of December 31, 2017 | gross | reserve | net |
|---|---|---|---|
| | | *(in thousands)* | |
| Accounts Receivable Trade not overdue, not impaired | € 121,116 | € -- | € 121,116 |
| Accounts Receivable Trade overdue, not impaired | € 9,451 | € -- | € 9,451 |
| Accounts Receivable Trade impaired | € 9,431 | € 5,656 | € 3,775 |
| Accounts Receivable Trade total | € 139,998 | € 5,656 | € 134,342 |

| As of December 31, 2016 | gross | reserve | net |
|---|---|---|---|
| | | *(in thousands)* | |
| Accounts Receivable Trade not overdue, not impaired | € 118,017 | € -- | € 118,017 |
| Accounts Receivable Trade overdue, not impaired | € 9,049 | € -- | € 9,049 |
| Accounts Receivable Trade impaired | € 9,569 | € 5,949 | € 3,620 |
| Accounts Receivable Trade total | € 136,634 | € 5,949 | € 130,685 |

The following table shows trade receivables, gross by currency:

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | *(in thousands)* | |
| EUR | € 77,790 | € 72,672 |
| USD | 33,460 | 36,372 |
| JPY | 13,229 | 12,801 |
| CAD | 5,465 | 5,999 |
| CHF | 3,593 | 3,769 |
| GBP | 2,202 | 1,508 |
| Other | 4,259 | 3,513 |
| Trade debtors | 139,998 | 136,634 |
| Allowance for doubtful accounts | (5,656) | (5,949) |
| | € 134,342 | € 130,685 |

## Note 9 – Equity

As of December 31, 2016, Head Sales B.V., a Dutch private Company with limited liability, was the parent company of the Head group.

During 2017, an internal group restructuring was concluded, and as a result, as of December 31, 2017, Head UK Ltd. was the parent company of the Head group.

This transaction was classified as a transaction occurring under common control following the predecessor method. In order to assume common control, it is necessary that there is one ultimate parent that controls the entities before and after the transactions. Under the predecessor method, existing book values are used to account for these transactions, with assets and liabilities not being restated to fair values.

Head UK Ltd. is a private company limited by shares. Other reserves of the Company include additional paid-in capital as well as amounts resulting from various transactions booked directly to equity.

As at December 31, 2017, the nominal value of each of the 3,414,984 ordinary shares issued was GBP 1.00, all fully paid (translated to €4.1 million using the historical exchange rate).

| | As of December 31, 2017 |
|---|---|
| | *(in thousands)* |
| Shares issued less treasury shares as of December 31, 2015 | 61,490 |
| Sale of treasury shares | 260 |
| Demerger | (194) |
| Shares issued as of December 31, 2016 | 61,555 |
| Change of parent company from | |
| Head Sales B.V. | (61,555) |
| to Head UK Ltd. | 3,414 |
| Issuance of new shares | 1 |
| Shares issued as of December 31, 2017 | 3,415 |

*Dividends*

In 2017 and 2016, the Company did not pay a dividend.

*Majority Shareholder*

Head UK Ltd. is a wholly owned subsidiary of Head Group Ltd., a BVI registered entity. The shares of this company are held within a foundation, established in Liechtenstein, controlled by the foundation council, consisting of two board members.

## Note 10 – Trade and Other Payables

| | | As of December 31, | | |
|---|---|---|---|---|
| | | 2017 | | 2016 |
| | | *(in thousands)* | | |
| Trade payables | € | 28,444 | € | 23,417 |
| Allowances | | 4,802 | | 4,972 |
| Commissions | | 3,108 | | 2,991 |
| Personnel expenses | | 11,482 | | 10,710 |
| Deferred Income | | 1,779 | | 1,504 |
| Interest | | 2,034 | | 1,280 |
| Legal, Audit, Consulting | | 2,203 | | 2,376 |
| Fiscal Authorities | | 3,933 | | 3,712 |
| Advertising | | 3,530 | | 3,848 |
| Social Institution | | 2,070 | | 1,977 |
| Freight & duties | | 1,748 | | 2,016 |
| Payable for cancelled ordinary shares | | 101 | | 101 |
| Other | | 6,611 | | 7,223 |
| Total | € | 71,845 | € | 66,127 |

All trade and other payables are current as the settlement is expected within 12 months.

## Note 11 – Provisions

| | Warranty | Product Liability | Litigation | Other | Total |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Net book value as of January 1, 2016 | € 4,427 | € 73 | € 5,592 | € 2,195 | € 12,286 |
| Current year provision booked to expense | 1,464 | -- | -- | 1,288 | 2,752 |
| Amount paid (use of provision) | (1,630) | (4) | (442) | (1,205) | (3,281) |
| Reversal booked to income (unused amount) | -- | (9) | (917) | -- | (926) |
| Exchange difference | -- | 2 | -- | 61 | 63 |
| Net book value as of December 31, 2016 | € 4,261 | € 62 | € 4,233 | € 2,339 | € 10,895 |
| Current year provision booked to expense | 1,591 | 23 | 40 | 1,251 | 2,904 |
| Amount paid (use of provision) | (1,566) | (5) | (1,493) | (1,268) | (4,333) |
| Reversal booked to income (unused amount) | (24) | (7) | (2,335) | -- | (2,366) |
| Exchange difference | (5) | -- | -- | (92) | (97) |
| Net book value as of December 31, 2017 | € 4,256 | € 72 | € 445 | € 2,230 | € 7,003 |

Based on the nature of our business and the liabilities involved, most of our provisions are materially considered current, based on the criteria in IAS 1.69. The cash outflow for the current portion is expected to occur within 12 months.

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

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

*Other*
The Company's requirements in respect of product return risk in various markets depend on the relationship with the customers and is based on a constructive obligation (IAS 37.10) deriving from a long-term co-operation. Although each and every individual product return is not considered probable, such product return provision is not based on individual

considerations, but based on a large population of items, in line with the requirements of providing for warranties and in accordance with the requirements of IAS 37.39. Considering the constructive obligation for product return and the element of a large population of items this does result in a probable outflow of resources. Historically, the actual use of this provision supports the existence of a liability.

## Note 12 – Borrowings

| | As of December 31, 2017 (at amortized costs) | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | After 5 years |
| | | | (in thousands) | | |
| Lines of credit | € 12,895 | € 12,895 | € -- | € -- | € -- |
| Bond | 59,882 | 59,882 | -- | -- | -- |
| Schuldscheindarlehen | 175,176 | -- | 34,669 | 114,007 | 26,500 |
| Other borrowings, non-current | 17,881 | 405 | 17,396 | 81 | -- |
| | € 265,835 | € 73,182 | € 52,065 | € 114,088 | € 26,500 |

| | As of December 31, 2016 (at amortized costs) | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | After 5 years |
| | | | (in thousands) | | |
| Lines of credit | € 36,760 | € 36,760 | € -- | € -- | € -- |
| Bond | 59,733 | -- | 59,733 | -- | -- |
| Schuldscheindarlehen | 68,500 | -- | -- | 57,000 | 11,500 |
| Sale-leaseback transaction | 8,280 | 8,280 | -- | -- | -- |
| Mortgages | 400 | 400 | -- | -- | -- |
| Other borrowings, non-current | 25,495 | 459 | 840 | 24,195 | -- |
| | € 199,168 | € 45,899 | € 60,573 | € 81,195 | € 11,500 |

Amendments to IAS 7 require additional disclosure of changes in liabilities arising from financing activities:

| | As of December 31, 2016 | Cash flows inflow (outflow) | Foreign exchange adjustments expense (income) | Other non-cash movements expense (income) | Re-classification | As of December 31, 2017 |
|---|---|---|---|---|---|---|
| Non-current borrowings | € 153,269 | 103,735 | (4,213) | 149 | (60,286) | 192,654 |
| Current borrowings | 45,899 | (32,495) | (509) | -- | 60,286 | 73,182 |
| Total borrowings | € 199,168 | 71,240 | (4,721) | 149 | -- | 265,835 |
| Interest rate swaps liability | € 733 | (415) | 4 | (43) | -- | 278 |

Borrowings are denominated in the following currencies:

| | As of December 31, 2017 | As of December 31, 2016 |
|---|---|---|
| | (in thousands) | |
| EUR | € 226,590 | € 166,696 |
| USD | 33,352 | 24,117 |
| JPY | 5,893 | 7,312 |
| CNY | -- | 1,044 |
| Total Borrowings | € 265,835 | € 199,168 |

As of December 31, 2017, the contractually agreed (undiscounted) interest payments for the financial liabilities for 2018 amount to €6.7 million, 2019 and 2020 €6.9 million in total, 2021 and 2022 €3.0 million in total and thereafter €0.5 million.

***Borrowings, current***

The Company´s subsidiaries entered into various financing agreements providing lines of credit. As of December 31, 2017, the Company used lines of credit amounting to €12.9 million (2016: €36.8 million).

The weighted average interest rate on outstanding short-term borrowings was 2.24% and 2.19% as of December 31, 2017 and 2016, respectively.

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

In case entities within the group default on their loan agreement, the relevant bank has the right to receive the cash flows from the financial assets serving as collateral at the time of default.

***Borrowings, non-current***

**Bond**

In September 2013, the Company issued an €60 million Bond. The securities are Euro denominated, carry a fixed coupon of 5.25% and have a term of 5 years with maturity on September 26, 2018. The Bond is listed on the SIX Swiss Exchange (SIX).

**Schuldscheindarlehen**

In March 2016, the Company finalised its process of placing a “Schuldscheindarlehen”. The issue volume amounted to €68.5 million with terms of 5 and 7 years. The Company is required to achieve certain yearly financial covenants.

| term | | volume *(in thousands)* | interest rate |
|---|---|---|---|
| 5 years | € | 44,500 | variable: 6-months-EURIBOR + 1.70% |
| 5 years | € | 12,500 | fixed: 1.75% |
| 7 years | € | 9,000 | variable: 6-months-EURIBOR + 1.95% |
| 7 years | € | 2,500 | fixed: 2.21% |
| Total | € | 68,500 | |

In April 2017, the Company finalised its process of placing a new “Schuldscheindarlehen”. The issue volume amounted to €90 million and USD 20 million with terms of 3, 5 and 7 years. The Company is required to achieve certain yearly financial covenants.

| term | | volume *(in thousands)* | interest rate |
|---|---|---|---|
| 3 years | € | 16,000 | variable: 6-months-EURIBOR + 1.25% |
| 3 years | € | 14,500 | fixed: 1.25% |
| 5 years | € | 28,500 | variable: 6-months-EURIBOR + 1.60% |
| 5 years | € | 16,000 | fixed: 1.83% |
| 7 years | € | 15,000 | fixed: 2.33% |
| Total | € | 90,000 | |
| | | | |
| 3 years | USD | 5,000 | variable: 3-months-LIBOR + 1.80% |
| 5 years | USD | 15,000 | variable: 3-months-LIBOR + 2.25% |
| Total | USD | 20,000 | |

**Sale-Leaseback Transaction**

One of the Company’s subsidiaries entered into an agreement in 2002, whereby it sold land and building to an unrelated bank and leased it back over a 15 year term. The proceeds of this sale were €10.6 million. The Company has the obligation to purchase the property back after 15 years for €8.2 million.

Because of the Company’s continuing involvement, this transaction has been accounted for as a finance lease such that the Company has recorded €10.6 million of cash and long-term borrowings at the inception date of this agreement. At December 31, 2016, the remaining obligation under the financing agreement was €8.3 million.

In 2017, the Company purchased the property back.

**Other long-term debt**

In 2016, a long term agreement with a Japanese bank was renewed and extended until 2021. At December 31, 2017, the outstanding balance of the loan was €1.1 million (2016: €1.6m) at a fixed interest rate of 3.75%.

In September 2011, one of the Company´s subsidiaries entered into an asset backed revolving credit agreement with an US-bank providing a maximum of USD 40.0 million dependent on the level, and secured by, eligible US inventories and receivables. The original agreement covered five years, the interest rate is variable and the Company is required to achieve certain yearly financial covenants. In 2015, this credit agreement was extended until March 2020. At December 31, 2017, the Company used USD 20.0 million (€16.7 million) of this facility at an interest rate of 3.00%. At December 31, 2016, the Company used USD 25.0 million (€23.7 million) of this facility at an interest rate of 2.38%.

The weighted average interest rate on other long-term debt was 3.05% as of December 31, 2017 and 2.47% as of December 31, 2016. Borrowings mature at various dates through 2021.

In case entities within the group default on their loan agreement, the relevant bank has the right to receive the cash flows from the financial assets serving as collateral at the time of default.

## Note 13 – Additional Disclosures on Financial Instruments

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

| | Category in accordance with IAS 39 | Carrying amount Dec. 31, 2017 | Amounts recognized in balance sheet according to IAS 39 | | | Fair value Dec. 31, 2017 |
|---|---|---|---|---|---|---|
| | | | Amortized cost | Fair value recognized in equity | Fair value recognized in profit or loss | |
| | | | | (in thousands) | | |
| **Assets** | | | | | | |
| Cash at banks | LaR | € 103,527 | € 103,527 | € -- | € -- | € 103,527 |
| Cash equivalents | LaR | 95,175 | 95,175 | -- | -- | 95,175 |
| Trade receivables | LaR | 134,342 | 134,342 | -- | -- | 134,342 |
| Other receivables | LaR | 6,957 | 6,957 | -- | -- | 6,957 |
| Derivative financial assets | FVtPL | 552 | -- | -- | 552 | 552 |
| Available-for-sale financial assets | AfS | 4,274 | -- | 4,274 | -- | 4,274 |
| | | € 344,826 | € 340,001 | € 4,274 | € 552 | € 344,826 |
| **Liabilities** | | | | | | |
| Trade payables | FLaC | € 28,444 | € 28,444 | € -- | € -- | € 28,444 |
| Other payables | FLaC | 24,137 | 24,137 | -- | -- | 24,137 |
| Derivative financial liabilities | FVtPL | 619 | -- | -- | 619 | 619 |
| Lines of credit | FLaC | 12,895 | 12,895 | -- | -- | 12,895 |
| Bond | FLaC | 59,882 | 59,882 | -- | -- | 61,500 |
| Schuldscheindarlehen | FLaC | 175,176 | 175,176 | -- | -- | 175,176 |
| Other borrowings, non-current | FLaC | 17,881 | 17,881 | -- | -- | 17,881 |
| Contingent consideration | FVtPL | 2,185 | -- | -- | 2,185 | 2,185 |
| | | € 321,220 | € 318,416 | € -- | € 2,804 | € 322,838 |
| Aggregated by category in accordance with IAS 39: | | | | | | |
| Loans and receivables | LaR | € 340,001 | € 340,001 | € -- | € -- | € 340,001 |
| Available-for-sale financial assets | AfS | 4,274 | -- | 4,274 | -- | 4,274 |
| Financial liabilities at amortized cost | FLaC | 318,416 | 318,416 | -- | -- | 320,034 |
| At fair value through profit or loss | FVtPL | 3,356 | -- | -- | 3,356 | 3,356 |

Derivative financial assets and liabilities include the fair values (level 2) of foreign exchange forward/option contracts and interest rate swap contracts. In 2017, the Company continued to purchase parts of its Bond (see Note 12) and these available-for-sale financial assets are carried at fair value (level 1) and amount to €4.3 million as of December 31, 2017. As of December 31, 2017, the Company only categorizes contingent considerations in respect of business combinations as level 3 financial instruments carried at fair value.

| | Category in accordance with IAS 39 | Carrying amount Dec. 31, 2016 | Amounts recognized in balance sheet according to IAS 39 | | | Fair value Dec. 31, 2016 |
|---|---|---|---|---|---|---|
| | | | Amortized cost | Fair value recognized in equity | Fair value recognized in profit or loss | |
| | | | | *(in thousands)* | | |
| **Assets** | | | | | | |
| Cash at banks | LaR | € 60,887 | € 60,887 | € -- | € -- | € 60,887 |
| Cash equivalents | LaR | 50,000 | 50,000 | -- | -- | 50,000 |
| Trade receivables | LaR | 130,685 | 130,685 | -- | -- | 130,685 |
| Other receivables | LaR | 9,965 | 9,965 | -- | -- | 9,965 |
| Derivative financial assets | FVtPL | 201 | -- | -- | 201 | 201 |
| Available-for-sale financial assets | AfS | 1,146 | -- | 1,146 | -- | 1,146 |
| | | € 252,884 | € 251,537 | € 1,146 | € 201 | € 252,884 |
| **Liabilities** | | | | | | |
| Trade payables | FLaC | € 23,417 | € 23,417 | € -- | € -- | € 23,417 |
| Other payables | FLaC | 24,807 | 24,807 | -- | -- | 24,807 |
| Derivative financial liabilities | FVtPL | 791 | -- | -- | 791 | 791 |
| Lines of credit | FLaC | 36,760 | 36,760 | -- | -- | 36,760 |
| Bond | FLaC | 59,733 | 59,733 | -- | -- | 62,400 |
| Schuldscheindarlehen | FLaC | 68,500 | 68,500 | -- | -- | 68,500 |
| Sale-Leaseback | FLaC | 8,280 | 8,280 | -- | -- | 8,322 |
| Mortgages | FLaC | 400 | 400 | -- | -- | 402 |
| Other borrowings, non-current | FLaC | 25,495 | 25,495 | -- | -- | 25,495 |
| Contingent consideration | FVtPL | 2,165 | -- | -- | 2,165 | 2,165 |
| | | € 250,348 | € 247,392 | € -- | € 2,956 | € 253,059 |
| Aggregated by category in accordance with IAS 39: | | | | | | |
| Loans and receivables | LaR | € 251,537 | € 251,537 | € -- | € -- | € 251,537 |
| Available-for-sale financial assets | AfS | 1,146 | -- | 1,146 | -- | 1,146 |
| Financial liabilities at amortized cost | FLaC | 247,392 | 247,392 | -- | -- | 250,103 |
| At fair value through profit or loss | FVtPL | 3,157 | -- | -- | 3,157 | 3,157 |

The tables below show net gain (loss) by category for 2017 and 2016:

| | For the Year Ended December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | | From Subsequent Measurement | | | | |
| | Interest Income/ (Expense) | Fair Value Gain/ (Loss) | Foreign Exchange Gain/ (Loss) | Impair-ment | Gain (Loss) on Disposal | Net Gain/ (Loss) |
| | *(in thousands)* | | | | | |
| Loans and receivables (LaR)............................ | € 2,507 | € 75 | € (113) | € (827) | € 286 | € 1,928 |
| At fair value through profit or loss (FVtPL)......... | (446) | 648 | 499 | -- | -- | 701 |
| Available-for-sale financial assets (AfS)............. | -- | -- | -- | -- | -- | -- |
| Financial liabilities at amortized cost (FLaC)............................. | (6,981) | (408) | 2,280 | -- | -- | (5,109) |
| | € (4,920) | € 314 | € 2,666 | € (827) | € 286 | € (2,481) |

| | For the Year Ended December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | From Subsequent Measurement | | | | |
| | Interest Income/ (Expense) | Fair Value Gain/ (Loss) | Foreign Exchange Gain/ (Loss) | Impair-ment | Gain (Loss) on Disposal | Net Gain/ (Loss) |
| | *(in thousands)* | | | | | |
| Loans and receivables (LaR)............................ | € 1,645 | € 126 | € 234 | € (378) | € 38 | € 1,665 |
| At fair value through profit or loss (FVtPL)......... | (342) | 13 | (397) | -- | -- | (726) |
| Available-for-sale financial assets (AfS)............. | -- | -- | -- | -- | -- | -- |
| Financial liabilities at amortized cost (FLaC)............................. | (6,080) | (1,064) | (173) | -- | -- | (7,317) |
| | € (4,777) | € (925) | € (336) | € (378) | € 38 | € (6,378) |

The Company recognised all components of net gain/loss in "Interest and investment income", "Interest and other finance expense", "Other operating income/expense, net" and "Other non-operating income/expense, net". Impairment of trade receivables is reported under "Selling and marketing expense".

## Note 14 – Other Long-Term Liabilities

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | *(in thousands)* | |
| Deferred income, non-current................................................ | € 652 | € 1,478 |
| Capitalized Lease Obligations................................................. | 1,171 | 1,795 |
| Contingent Consideration...................................................... | 1,755 | 2,165 |
| Other.......................................................................... | 497 | 806 |
| Total other long-term liabilities.......................................... | € 4,076 | € 6,244 |

## Note 15 – Employee Benefits

The Company funds pension and other employee benefit plans (including severance obligations and anniversary bonuses) paid to employees at some Austrian, other European and Japanese locations. The indemnities are based upon years of service and compensation levels and are generally payable upon retirement or dismissal in some circumstances, after a predetermined number of years of service. For the year ended December 31, 2017 and 2016, the only plan that includes plan assets is the French pension plan. The Company maintains sufficient assets to meet the minimum funding requirements set forth by the regulations in each country. The discount rate is based on the return of high quality corporate bonds at the reporting date.

Pension and other employee benefit plans have developed as follows:

| | | As of December 31, | | |
|---|---|---|---|---|
| | | 2017 | | 2016 |
| | | *(in thousands)* | | |
| Beginning of the year | € | 21,506 | € | 19,551 |
| Charge to income | | 995 | | 1,421 |
| Remeasurements loss (gain) | | (79) | | 1,451 |
| Payments | | (925) | | (950) |
| Translation adjustment | | (48) | | 33 |
| End of the year | € | 21,449 | € | 21,506 |

The table below outlines where the Company´s pension and other employee benefit amounts are included in the financial statements:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| **Balance Sheet obligations for:** | | | | |
| Pension Benefits | € | 7,451 | € | 7,450 |
| Other Benefits | | 13,998 | | 14,057 |
| Total | € | 21,449 | € | 21,506 |
| **Income Statement charge for:** | | | | |
| Pension Benefits | € | 281 | € | 292 |
| Other Benefits | | 714 | | 1,129 |
| Total | € | 995 | € | 1,421 |
| **Remeasurements loss (gain) for:** | | | | |
| Pension Benefits | € | (56) | € | 853 |
| Other Benefits | | (23) | | 598 |
| Total | € | (79) | € | 1,451 |

The defined benefit obligation for pension and other employee benefit plans and plan assets are composed by country as follows:

| | Pension and Other Benefits 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | Austria | | Germany | | Other |
| | | *(in thousands)* | | | | |
| Present Value of Obligation | € | 12,802 | € | 5,503 | € | 3,559 |
| Fair Value of Plan Assets | | -- | | -- | | (359) |
| **Total** | **€** | **12,802** | **€** | **5,503** | **€** | **3,200** |

| | Pension and Other Benefits 2017 | | | | | |
|---|---|---|---|---|---|---|
| | | Austria | | Germany | | Other |
| | | *(in thousands)* | | | | |
| Present Value of Obligation | € | 12,967 | € | 5,476 | € | 3,372 |
| Fair Value of Plan Assets | | -- | | -- | | (365) |
| **Total** | **€** | **12,967** | **€** | **5,476** | **€** | **3,007** |

The significant actuarial assumptions were as follows (expressed as weighted averages):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Discount rate | 1.8% | 1.8% | 1.8% | 1.8% |
| Rate of compensation increase | 2.4% | 2.4% | 2.9% | 2.9% |
| Rate of pension increase | 0.8% | 0.8% | -- | -- |
| Inflation | 2.0% | 2.0% | 1.9% | 1.9% |

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory.

If the discount rate applied for pension benefits had been 0.5% higher, the present value of the obligation for pension benefits would be lower by €0.6 million, if the discount rate applied for pension benefits had been 0.5% lower, the present value of the obligation for pension benefits would be higher by €0.6 million. If the discount rate applied for other benefits had been 0.5% higher, the present value of the obligation for other benefits would be lower by €0.5 million, if the discount rate applied for other benefits had been 0.5% lower, the present value of the obligation for other benefits would be higher by €0.6 million. Changes in the other actuarial assumptions are not believed to have a material impact.

The contribution for defined contribution plans for the year ended December 31, 2017, amounted to €1.3 million (2016: €1.2 million).

For pension benefits, the Company expects current service costs of €0.2 million, interest expenses of €0.1 million and payments of €0.1 million for the year ending December 31, 2018. For other benefits, the Company expects current service costs of €0.5 million, interest expenses of €0.2 million and payments of €0.6 million for the year ending December 31, 2018.

## Note 16 – Operating Lease Commitments

The Company leases certain office space, warehouse facilities, transportation and office equipment under operating leases which largely expire at various dates through 2024. Rent expense was €5.9 million and €5.3 million for the years ended December 31, 2017 and 2016, respectively.

The future aggregate minimum payments under non-cancellable operating leases are as follows as of December 31, 2017:

| | | As of December 31, 2017 |
|---|---|---|
| | | *(in thousands)* |
| 2018 | € | 5,555 |
| 2019 | | 3,278 |
| 2020 | | 1,623 |
| 2021 | | 946 |
| 2022 | | 373 |
| Thereafter | | 96 |
| | € | 11,871 |

As of December 31, 2017, the Company had no material contingent liabilities and assets and no material capital commitments outside the course of the normal business.

## Note 17 – Fair Value and Other Reserves Including Cumulative Translation Adjustment

The following table shows the components of fair value and other reserves/CTA:

| | | Foreign Currency Translation Adjustment | Foreign Exchange Loss on Invested Intercompany Receivables | AfS-Securities | Remeasurements Loss on Employee Benefits | Fair Value and Other Reserves/ CTA |
|---|---|---|---|---|---|---|
| | | | | *(in thousands)* | | |
| Balance at January 1, 2016 | € | 12,313 | (5,791) | -- | (3,994) | 2,528 |
| Current period changes, net of tax | | -- | -- | (10) | (1,068) | (1,078) |
| Translation Adjustments | | 848 | -- | -- | -- | 848 |
| Balance at December 31, 2016 | € | 13,161 | (5,791) | (10) | (5,062) | 2,297 |
| Current period changes, net of tax | | -- | -- | (89) | 58 | (31) |
| Translation Adjustments | | (7,203) | -- | -- | -- | (7,203) |
| Balance at December 31, 2017 | € | 5,958 | (5,791) | (99) | (5,004) | (4,936) |

## Note 18 – Income Taxes

The following table summarizes the significant differences between the applicable UK corporation tax rate (2017) / Dutch federal statutory tax rate (2016) and the Company's effective tax rate for financial statement purposes.

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| UK (2017) / Dutch (2016) statutory tax rate | 19.0% | 25.0% |
| Tax rate differential | 5.7 | 0.7 |
| Other taxes | 1.5 | 0.9 |
| Prior year adjustments | (0.1) | 5.5 |
| Non taxable income | (69.7) | (2.1) |
| Changes in tax rates | 1.5 | (0.0) |
| Effect on non-recognized tax losses | (0.1) | 12.1 |
| Effective tax rate | (42.3)% | 42.2% |

In 2017, the Company recognised a significant amount of deferred tax benefit (€18.3 million). A change of the assessment of temporary differences for investments as a result of structural changes within the group led to a substantial release of deferred tax liabilities (see also tables below), which is the main reason for the difference between the statutory tax rate and the effective tax rate in 2017. In 2016, the Company´s effective tax rate differed from the statutory tax rate mainly due to not recognised tax losses and to higher taxes as a result of tax audits in two of the Company´s operating countries.

The total tax benefit (expense) includes the following positions:

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | *(in thousands)* | |
| Current income tax expense | € (2,736) | € (2,803) |
| Current income tax expense of prior period adjustments | (183) | (1,105) |
| Deferred tax benefit (expense) relating to the origination and reversal of temporary differences and relating to the recognition of tax losses | 23,578 | (1,059) |
| Deferred tax expense relating to the use of tax losses | (4,759) | (4,711) |
| Deferred tax (expense) benefit relating to changes in tax rates | (536) | 2 |
| | € 15,364 | € (9,676) |

In 2017, the total tax benefit of €15.4 million consists of current income tax expense of €2.9 million and deferred tax benefit of €18.3 million. Deferred tax benefit was mainly due to a reversal of temporary differences (see above), partly offset by deferred tax expense as a result of the use of tax losses in some of the Company´s operating countries. In 2016, the total tax expense of €9.7 million consists of current income tax expense amounting to €3.9 million and deferred tax expense amounting to €5.8 million. Current income tax expense in 2016 includes income taxes of €1.3 million as a result of tax audits in two of the Company´s operating countries. Deferred tax expense was mainly due to the use of tax losses in some of the Company´s operating countries and to temporary differences.

The movements in deferred tax assets and liabilities during the year ended December 31, 2017 are as follows:

| | December 31, 2017 | (Charged) /credited to income | (Charged) /credited to OCI | Exchange differences | December 31, 2016 |
|---|---|---|---|---|---|
| | | | *(in thousands)* | | |
| *Short-term:* | | | | | |
| Deferred tax asset: | | | | | |
| Tax loss carried forward | € 3,246 | € (841) | € -- | € -- | € 4,087 |
| Impairment of inventory | 4,866 | (889) | -- | (118) | 5,872 |
| Impairment of accounts receivable | 974 | (55) | -- | (66) | 1,094 |
| Provisions | 1,033 | 28 | -- | (31) | 1,037 |
| Other | 448 | (2,177) | -- | (32) | 2,657 |
| Total short-term deferred tax assets | € 10,568 | € (3,933) | € -- | € (247) | € 14,748 |
| Deferred tax liabilities: | | | | | |
| Liabilities | € (253) | € (18) | € -- | € 3 | € (237) |
| Other | (306) | (23) | 30 | 3 | (315) |
| Total short-term deferred tax liability | € (558) | € (41) | € 30 | € 5 | € (552) |
| Total short-term deferred tax asset, net | € 10,010 | € (3,974) | € 30 | € (241) | € 14,195 |
| *Long-term:* | | | | | |
| Deferred tax asset: | | | | | |
| Tax loss carried forward | € 45,892 | € (3,943) | € -- | € (105) | € 49,940 |
| Fixed assets | 2,227 | 1,334 | -- | (84) | 977 |
| Other intangible assets | 12 | 1 | -- | (1) | 11 |
| Provisions | 683 | (43) | -- | (0) | 726 |
| Employee benefits | 2,398 | (18) | (21) | (17) | 2,453 |
| Investments | 3,536 | 2,582 | -- | 43 | 911 |
| Other | 208 | (303) | -- | 7 | 504 |
| Total long-term deferred tax assets | € 54,955 | € (390) | € (21) | € (157) | € 55,523 |
| Deferred tax liabilities: | | | | | |
| Fixed assets | € (387) | € 484 | € -- | € (14) | € (856) |
| Investments | -- | 22,131 | -- | -- | (22,131) |
| Bond | (406) | (339) | -- | -- | (67) |
| Other | (2,098) | 370 | -- | 174 | (2,642) |
| Total long-term deferred tax liability | € (2,890) | € 22,646 | € -- | € 159 | € (25,696) |
| Total long-term deferred tax asset, net | € 52,065 | € 22,257 | € (21) | € 2 | € 29,827 |
| Total deferred tax asset, net | € 62,075 | € 18,283 | € 9 | € (239) | € 44,023 |

The movements in deferred tax assets and liabilities during the year ended December 31, 2016 are as follows:

| | December 31, 2016 | (Charged) /credited to income | (Charged) /credited to OCI | Exchange differences | December 31, 2015 |
|---|---|---|---|---|---|
| | | | *(in thousands)* | | |
| *Short-term:* | | | | | |
| Deferred tax asset: | | | | | |
| Tax loss carried forward | € 4,087 | € 389 | € -- | € -- | € 3,698 |
| Impairment of inventory | 5,872 | 144 | -- | 44 | 5,685 |
| Impairment of accounts receivable | 1,094 | (292) | -- | 34 | 1,352 |
| Provisions | 1,037 | (15) | -- | 20 | 1,032 |
| Other | 2,657 | 1,645 | -- | 8 | 1,004 |
| Total short-term deferred tax assets | € 14,748 | € 1,870 | € -- | € 106 | € 12,772 |
| Deferred tax liabilities: | | | | | |
| Liabilities | € (237) | € 32 | € -- | € (0) | € (269) |
| Other | (315) | 45 | 3 | -- | (364) |
| Total short-term deferred tax liability | € (552) | € 77 | € 3 | € (0) | € (633) |
| Total short-term deferred tax asset, net | € 14,195 | € 1,947 | € 3 | € 106 | € 12,139 |
| *Long-term:* | | | | | |
| Deferred tax asset: | | | | | |
| Tax loss carried forward | € 49,940 | € (5,105) | € -- | € 67 | € 54,978 |
| Fixed assets | 977 | 21 | -- | 7 | 948 |
| Other intangible assets | 11 | (1) | -- | 1 | 11 |
| Provisions | 726 | (25) | -- | (0) | 751 |
| Employee benefits | 2,453 | 48 | 383 | 11 | 2,011 |
| Investments | 911 | 6 | -- | 0 | 905 |
| Lease obligations | -- | (2,070) | -- | -- | 2,070 |
| Other | 504 | 3 | -- | 0 | 501 |
| Total long-term deferred tax assets | € 55,523 | € (7,121) | € 383 | € 86 | € 62,175 |
| Deferred tax liabilities: | | | | | |
| Fixed assets | € (856) | € (26) | € -- | € (0) | € (830) |
| Investments | (22,131) | (629) | -- | -- | (21,503) |
| Bond | (67) | 35 | -- | -- | (102) |
| Other | (2,642) | 24 | -- | (53) | (2,612) |
| Total long-term deferred tax liability | € (25,696) | € (595) | € -- | € (54) | € (25,047) |
| Total long-term deferred tax asset, net | € 29,827 | € (7,716) | € 383 | € 32 | € 37,128 |
| Total deferred tax asset, net | € 44,023 | € (5,769) | € 387 | € 138 | € 49,267 |

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realization of the related tax benefits through the future taxable profits is probable.

As of December 31, 2017, the Company did not recognise deferred income tax assets of €9.0 million in respect of losses amounting to €35.9 million. €8.9 million deferred income tax assets were not recognised as it is legally not permitted to carry forward or there are a number of anti-abuse provisions which limit the carry forward of losses in specific circumstances, €0.1 million deferred income tax assets were not recognised as it is not probable to be used. This portion of not recognised deferred income tax assets will expire until 2036 at the very latest.

As of December 31, 2016, the Company did not recognise deferred income tax assets of €17.8 million in respect of losses amounting to €70.6 million. €17.5 million deferred income tax assets were not recognised as it is legally not permitted to carry forward or there are a number of anti-abuse provisions which limit the carry forward of losses in specific circumstances, €0.3 million deferred income tax assets were not recognised as it is not probable to be used.

Remaining net operating losses at each year end were experienced in the following jurisdictions:

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | *(in thousands)* | |
| Austria | € 215,287 | € 229,833 |
| Germany | 10,384 | 11,384 |
| North America | 3,470 | 6,049 |
| Other | 2,071 | 36,798 |
| | € 231,213 | € 284,064 |

As of December 31, 2017 and 2016, the carry forward of net operating losses of €35.4 million and €69.8 million, respectively, is legally not permitted or limited through a number of anti-abuse provisions.

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

The table below shows income before income taxes by geographic region:

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | *(in thousands)* | |
| Austria | € 26,332 | € 20,739 |
| Non-Austria | 9,997 | 2,196 |
| Total income before income taxes | € 36,329 | € 22,936 |

## Note 19 - Related Party Transactions

As of December 31, 2017, Head UK Ltd. recorded payables against group companies of GBP 3.2 million (2016: GBP 2.1 million).

In 2012, certain Austrian subsidiaries of the Company entered into a loan agreement with an Austrian Bank providing a maximum of €15.0 million. A related party granted a guarantee to ensure the fulfillment of the obligations under the loan.

In respect of a cash deposit agreement a guarantee was issued by a related party.

In the second quarter of 2013, the Company signed an agreement to set up a distribution company for diving products in the Philippines in which it holds 40%. The investment has been classified as a joint venture under IFRS 11 and therefore the equity method of accounting has been used in the consolidated financial statements. The investment of €0.22 million was recognised in "Investments accounted for using the equity method".

The table below shows key managements' compensation:

| | For the Years Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | *(in thousands)* | |
| Salaries and other short-term employee benefits | € 3,024 | € 3,053 |
| Post-employment benefit | 115 | 155 |
| Total | € 3,139 | € 3,209 |

## Note 20 – Average Number of Employees

| | For the Years Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Salaried employees | 930 | 930 |
| Hourly paid employees | 1,554 | 1,545 |
| Total | 2,484 | 2,475 |

## Note 21 – Revenues

Total Net Revenues increased by €16.7 million, or 4.0%, to €428.1 million from €411.4 million in the comparable 2016 period.

| | For the Years Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | *(in thousands)* | |
| Sports Equipment | € 430,322 | € 413,809 |
| Licensing | 8,323 | 7,758 |
| Sales Deductions | (10,584) | (10,161) |
| Total Net Revenues | € 428,061 | € 411,405 |

## Note 22 – Expenses by Nature

| | For the Years Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | *(in thousands)* | |
| Depreciation, amortization and impairment charges | € 10,569 | € 10,449 |
| Employee benefit expenses | 98,052 | 94,844 |
| Changes in inventory | 2,265 | 1,375 |
| Raw material and merchandise | 164,779 | 160,387 |
| Shipment cost | 7,971 | 7,808 |
| Commissions | 11,236 | 10,931 |
| Advertising expenses | 50,121 | 50,048 |
| Legal, Audit, Consulting, Outside services, Other expenses | 43,537 | 46,480 |
| Total cost of sales, selling and marketing expense, general and administrative expense, and other operating income/expense | € 388,529 | € 382,323 |

The Company incurred research and development costs amounting to €12.8 million and €12.2 million for the year ended December 31, 2017 and 2016, respectively.

For the year ended December 31, 2017, foreign exchange gains amounting to €2.8 million have been recorded in the consolidated statement of comprehensive income (2016: foreign exchange losses of €0.3 million).

## Note 23 – Employee benefit expense

| | For the Years ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | *(in thousands)* | |
| Salaries and wages | € 75,567 | € 72,512 |
| Social security and other benefits | 21,490 | 20,911 |
| Pension benefits | 281 | 292 |
| Other benefits | 714 | 1,129 |
| Total | € 98,052 | € 94,844 |

## Note 24 – List of (direct and indirect) Participations as of December 31, 2017

| | Domicile | Proportion of Issued capital held |
|---|---|---|
| Head Holding Unternehmensbeteiligung GmbH | Austria | 100.0% |
| HTM Sport GmbH | Austria | 100.0% |
| Head Sport GmbH | Austria | 100.0% |
| Head International GmbH | Austria | 100.0% |
| Head International Holding GmbH | Austria | 100.0% |
| Head Technology GmbH | Austria | 100.0% |
| Tyrolia Technology GmbH | Austria | 100.0% |
| Head Austria GmbH | Austria | 100.0% |
| Head Canada Inc. | Canada | 100.0% |
| Head Sport s.r.o. | Czech Republic | 100.0% |
| HTM Sport s.r.o. | Czech Republic | 100.0% |
| HTM Bulgaria EOOD | Bulgaria | 100.0% |
| REVO BVBA | Belgium | 100.0% |
| Head France S.A.S. | France | 100.0% |
| Head Germany GmbH | Germany | 100.0% |
| SSI International GmbH | Germany | 100.0% |
| Head Sales B.V. | The Netherlands | 100.0% |
| Mares S.p.A. | Italy | 100.0% |
| Head Japan Co., Ltd. | Japan | 100.0% |
| Head Spain S.A. | Spain | 100.0% |
| Head Switzerland AG | Switzerland | 100.0% |
| Head Poland sp.z o.o. | Poland | 100.0% |
| HTM USA Holdings Inc. | USA | 100.0% |
| Head USA Inc. | USA | 100.0% |
| Penn Racquet Sports Inc. | USA | 100.0% |
| Concept Systems Inc. | USA | 100.0% |
| Mares Asia Pacific Ltd. | Hong Kong | 100.0% |
| Mares Oceania PTY Ltd. | Australia | 100.0% |
| Power Ahead Holding Ltd. | British Virgin Islands | 100.0% |
| Head Sports (Hui Zhou) Corp. | China | 100.0% |
| SSI (Daya Bay) Diving Ltd. | China | 100.0% |
| SSI International (HK) Ltd. | Hong Kong | 100.0% |
| Mares Philippines, Inc. | Philippines | 40.0% |

## Note 25 – Cash and cash equivalents

As at December 31, 2017 and 2016, cash and cash equivalents contain cash of €196.9 million and €109.3 million, respectively, and restricted cash of €1.8 million and €1.6 million, respectively, representing deposits pledged as collateral.

## Note 26 – Accountant Fees and Services

Beever and Struthers (a member of HLB) has served as the Company's principal statutory independent public auditor for the year ended December 31, 2017. The audit fees for the audit of the consolidated financial statements of the Company amounted to TGBP 35 (no other fees payable). Lamont Pridmore has served as the principal statutory independent public auditor of Head UK Ltd. for the year ended December 31, 2016. The audit fees for the audit of the company financial statements of Head UK Ltd. amounted to TGBP 16 (tax fees TGBP 2).

HLB Van Daal & Partners N.V. has served as the principal independent public auditor of Head Sales B.V. for the year ended December 31, 2016. The audit fees for the audit of the consolidated financial statements of Head Sales B.V. amounted to TEUR 46 (other fees TEUR 8).

In addition, the Company received statutory and regulatory year-end audit services in various countries from other audit firms and incurred fees amounting to €0.3 million and €0.5 million for the years ended December 31, 2017 and 2016, respectively.

## Note 27 – Subsequent Events

In January 2018, a cross-border merger between Head UK Ltd. and Head Sales B.V. was completed. As a result, Head Sales B.V. ceased to exist. This transaction did not have a material impact on the consolidated financial statements.

# HEAD UK LTD.

## FINANCIAL STATEMENTS

## For the Year Ended December 31, 2017

# HEAD UK LTD.
# COMPANY STATEMENT OF FINANCIAL POSITION

| | Note | | As of December 31, 2017 | | 2016 |
|---|---|---|---|---|---|
| | | | *(in thousands)* | | |
| **ASSETS:** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 5 | GBP | 27 | GBP | 30 |
| Goodwill | 6 | | 980 | | 980 |
| Investments | 7 | | 59,741 | | -- |
| Total non-current assets | | | 60,748 | | 1,009 |
| **Current assets** | | | | | |
| Inventories | 8 | | 2,356 | | 1,802 |
| Trade and other receivables | 9, 13 | | 1,769 | | 1,129 |
| Prepaid expense | | | 207 | | 51 |
| Cash and cash equivalents | 10, 13 | | 306 | | 261 |
| Total current assets | | | 4,639 | | 3,242 |
| Total assets | | GBP | 65,386 | GBP | 4,251 |
| **EQUITY:** | | | | | |
| Share capital | 11 | GBP | 3,415 | GBP | 3,414 |
| Share premium reserve | 11 | | 59,740 | | -- |
| Retained earnings | | | (1,967) | | (2,050) |
| Total equity | | | 61,188 | | 1,364 |
| **LIABILITIES:** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 12, 13 | | 954 | | 761 |
| Current income tax liabilities | | | 17 | | 20 |
| Amounts owed to related companies | 14 | | 3,228 | | 2,106 |
| Total current liabilities | | | 4,198 | | 2,888 |
| Total liabilities | | | 4,198 | | 2,888 |
| Total liabilities and equity | | GBP | 65,386 | GBP | 4,251 |

These financial statements were approved by the Board of Directors on March 15, 2018:

Johan Eliasch
Chief Executive Officer

Ralf Bernhart
Director

Company Registration Number: 04279892

The accompanying notes on pages 60 to 66 form an integral part of these company financial statements.

## HEAD UK LTD.
## COMPANY STATEMENT OF CHANGES IN EQUITY

| | Note | Attributable to equity holders of the company | | | | | | | | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Ordinary Shares | | | | | | | | |
| | | Shares | | Share Capital | | Share Premium Reserve | | Retained Earnings | | |
| | | (in thousands, except share data) | | | | | | | | |
| Balance at December 31, 2015.................. | | 3,413,984 | GBP | 3,414 | GBP | -- | GBP | (2,222) | GBP | 1,192 |
| Profit for the year and total comprehensive income.................. | | -- | | -- | | -- | | 172 | | 172 |
| Balance at December 31, 2016.................. | | 3,413,984 | GBP | 3,414 | GBP | -- | GBP | (2,050) | GBP | 1,364 |
| Release of liability and issuance of new shares.......................... | 7, 11 | 1,000 | | 1 | | 59,740 | | -- | | 59,741 |
| Profit for the year and total comprehensive income.................. | | -- | | -- | | -- | | 83 | | 83 |
| Balance at December 31, 2017.................. | | 3,414,984 | GBP | 3,415 | GBP | 59,740 | GBP | (1,967) | GBP | 61,188 |

For further information regarding the change in the share premium reserve it is referred to Note 11.

The accompanying notes on pages 60 to 66 form an integral part of these company financial statements.

# HEAD UK LTD.
# COMPANY STATEMENT OF CASH FLOWS

| | For the Years Ended December 31, | | | |
|---|---|---|---|---|
| | | 2017 | | 2016 |
| | | *(in thousands)* | | |
| **OPERATING ACTIVITIES:** | | | | |
| Profit for the year | GBP | 83 | GBP | 172 |
| Adjustments to reconcile net profit to net cash provided by operating activities: | | | | |
| Depreciation and amortization | | 21 | | 17 |
| Loss on sale of property, plant and equipment | | 0 | | -- |
| Finance costs | | 6 | | 15 |
| Interest income | | (0) | | -- |
| Income tax expense | | 22 | | 5 |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | | (641) | | 171 |
| Inventories | | (554) | | (96) |
| Prepaid expense and other assets | | (156) | | (33) |
| Accounts payable, accrued expenses and other liabilities | | 192 | | 147 |
| Interest paid | | (6) | | (15) |
| Income tax paid | | (25) | | (65) |
| Net cash (used for) provided by operating activities | | (1,057) | | 319 |
| **INVESTING ACTIVITIES:** | | | | |
| Purchase of property, plant and equipment | | (19) | | (14) |
| Net cash used for investing activities | | (19) | | (14) |
| Net change related companies | | 1,121 | | 103 |
| **FINANCING ACTIVITIES:** | | | | |
| Decrease in short-term borrowings | | -- | | (147) |
| Net cash used for financing activities | | -- | | (147) |
| Net increase in cash and cash equivalents | | 46 | | 260 |
| Cash and cash equivalents, unrestricted at beginning of period | | 261 | | 0 |
| Cash and cash equivalents, unrestricted at end of period | GBP | 306 | GBP | 261 |

For further information regarding the investment in subsidiary it is referred to Note 11.

The accompanying notes on pages 60 to 66 form an integral part of these company financial statements.

## Note 1 – General information

Head UK Ltd. is a private company limited by shares, registered in England and Wales. The address of its registered office is 2 Beezon Road, Kendal, Cumbria, LA9 6BW.

A company statement of comprehensive income is not provided for the parent company as permitted by section 408 of the Companies Act 2006. The profit of the parent company for the financial year ending December 31, 2017, was TGBP 83 (2016: TGBP 172).

## Note 2 - Summary of Significant Accounting Policies

These accompanying company financial statements have been prepared in conformity with International Financial Reporting Standards as adopted by the European Union ("IFRS"). For a description of the accounting policies, it is referred to Note 2 in the consolidated financial statements for the year ended December 31, 2017.

These financial statements for the year ended December 31, 2017, are the first the company has prepared in accordance with IFRS. For the periods up to and including December 31, 2016, the company prepared its financial statements under previous UK GAAP. Accordingly, the company has prepared financial statements which comply with IFRS applicable for the year ended December 31, 2017, together with the comparative period data as at and for the year ended December 31, 2016. An explanation of how the transition to IFRS has affected the reported financial position is provided in Note 4.

The investment in subsidiary is stated at acquisition cost which is the fair value at the date of acquisition. If an investment in subsidiaries is impaired, it is measured at its impaired value; any write-offs are recognised in the income statement.

## Note 3 - Financial risk management and critical accounting estimates and judgements

The company manages its financial risks for the group as a whole. For a detailed description of financial risk management and critical accounting estimates and judgements, it is referred to Note 3 and 4 of the consolidated financial statements.

## Note 4 – Transition to IFRS

These are the first financial statements that comply with IFRS. The company transitioned to IFRS on January 1, 2016.

Reconciliation of equity:

| | As of January 1, 2016 | | |
|---|---|---|---|
| | as previously stated | effect of transition | IFRS (as restated) |
| | | *(in thousands GBP)* | |
| **Non-current assets** | 33 | 980 | 1,012 |
| **Current assets** | 3,319 | (295) | 3,024 |
| **Current liabilities** | 3,074 | (229) | 2,845 |
| **Net assets, equity** | 277 | 914 | 1,192 |

| | As of December 31, 2016 | | |
|---|---|---|---|
| | as previously stated | effect of transition | IFRS (as restated) |
| | | *(in thousands GBP)* | |
| **Non-current assets** | 30 | 980 | 1,009 |
| **Current assets** | 3,242 | -- | 3,242 |
| **Current liabilities** | 2,915 | (28) | 2,888 |
| **Net assets, equity** | 356 | 1,007 | 1,364 |

The TGBP 980 represent a goodwill posted under IFRS back in 2001 as a result of the acquisition of a distribution business. According to IFRS, the company has tested the goodwill for impairment on a yearly basis. No impairment loss has been posted as of December 31, 2017.

The transition from UK GAAP to IFRS has not had a material impact on the company statement of cash flows.

## Note 5 – Property, Plant and Equipment

| | | Fixtures, furnitures & office equipment |
|---|---|---|
| | | *(in thousands)* |
| **As of January 1, 2016** | | |
| Cost | GBP | 220 |
| Accumulated depreciation | | (187) |
| Net book value | GBP | 33 |
| **Year ended December 31, 2016** | | |
| Opening net book value | GBP | 33 |
| Additions | | 14 |
| Depreciation | | (17) |
| Closing net book value | GBP | 30 |
| **As of December 31, 2016** | | |
| Cost | GBP | 234 |
| Accumulated depreciation | | (204) |
| Net book value | GBP | 30 |
| **Year ended December 31, 2017** | | |
| Opening net book value | GBP | 30 |
| Additions | | 19 |
| Depreciation | | (21) |
| Closing net book value | GBP | 27 |
| **As of December 31, 2017** | | |
| Cost | GBP | 247 |
| Accumulated depreciation | | (219) |
| Net book value | GBP | 27 |

## Note 6 – Goodwill

The goodwill was posted back in 2001 as a result of the acquisition of a distribution business. According to IFRS, the company has tested the goodwill for impairment on a yearly basis. No impairment loss has been posted as of December 31, 2017.

## Note 7 – Investment in Subsidiary

In 2017, Head UK Ltd. acquired 100% of Head Sales B.V., a public limited liability company incorporated under the laws of The Netherlands (see Note 11).

No impairment loss on this investment has been recorded.

## Note 8 – Inventories

Inventories mainly consist of finished goods.

## Note 9 – Trade and Other Receivables

Trade and other receivables, net, amounted to GBP 1.8 million as of December 31, 2017 (2016: GBP 1.1 million).

## Note 10 – Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and in hand as of December 31, 2017 and 2016, respectively.

## Note 11 – Share Capital and Share Premium Reserve

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | *(in thousands)* | |
| Shares issued as of January 1 | 3,414 | 3,414 |
| Issuance of new shares | 1 | -- |
| Shares issued as of December 31 | 3,415 | 3,414 |

As at December 31, 2017, the nominal value of each of the 3,414,984 ordinary shares issued was GBP 1.00, all fully paid.

The increase in the share premium reserve is a result of the acquisition of Head Sales B.V. in 2017 (see Note 7). The purchase price for the acquisition was agreed at €67.9 million and Head UK Ltd. was subsequently released from this liability in consideration for an issue of shares.

## Note 12 – Trade and other payables

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | *(in thousands)* | |
| Trade payables | GBP 43 | GBP 94 |
| Allowances | 162 | 154 |
| Commissions | 67 | 35 |
| Personnel expenses | 134 | 94 |
| Legal, Audit, Consulting | 69 | 30 |
| Fiscal Authorities | 294 | 195 |
| Freight & duties | 19 | 11 |
| Rents | 153 | 150 |
| Other | 13 | -- |
| Total | GBP 954 | GBP 761 |

All trade and other payables are current as the settlement is expected within 12 months.

## Note 13 – Additional Disclosures on Financial Instruments

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

| | Category in accordance with IAS 39 | Carrying amount Dec. 31, 2017 | **Amounts recognized in balance sheet according to IAS 39** | | | Fair value Dec. 31, 2017 |
|---|---|---|---|---|---|---|
| | | | Amortized cost | Fair value recognized in equity | Fair value recognized in profit or loss | |
| | | | | *(in thousands)* | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | LaR | GBP 306 | GBP 306 | GBP -- | GBP -- | GBP 306 |
| Trade and other receivables | LaR | 1,769 | 1,769 | -- | -- | 1,769 |
| | | GBP 2,076 | GBP 2,076 | GBP -- | GBP -- | GBP 2,076 |
| **Liabilities** | | | | | | |
| Trade payables | FLaC | GBP 43 | GBP 43 | GBP -- | GBP -- | GBP 43 |
| Other payables | FLaC | 330 | 330 | -- | -- | 330 |
| | | GBP 373 | GBP 373 | GBP -- | GBP -- | GBP 373 |
| Aggregated by category in accordance with IAS 39: | | | | | | |
| Loans and receivables | LaR | GBP 2,076 | GBP 2,076 | GBP -- | GBP -- | GBP 2,076 |
| Financial liabilities at amortized cost | FLaC | GBP 373 | GBP 373 | GBP -- | GBP -- | GBP 373 |

| | Category in accordance with IAS 39 | | Carrying amount Dec. 31, 2016 | | Amounts recognized in balance sheet: Amortized cost | | Fair value recognized in equity | | Fair value recognized in profit or loss | | Fair value Dec. 31, 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | *(in thousands)* | | | | |
| **Assets** | | | | | | | | | | | |
| Cash and cash equivalents....................... | LaR | GBP | 261 | GBP | 261 | GBP | -- | GBP | -- | GBP | 261 |
| Trade and other receivables..................... | LaR | | 1,129 | | 1,129 | | -- | | -- | | 1,129 |
| | | GBP | 1,389 | GBP | 1,389 | GBP | -- | GBP | -- | GBP | 1,389 |
| **Liabilities** | | | | | | | | | | | |
| Trade payables....................................... | FLaC | GBP | 94 | GBP | 94 | GBP | -- | GBP | -- | GBP | 94 |
| Other payables....................................... | FLaC | | 229 | | 229 | | -- | | -- | | 229 |
| | | GBP | 322 | GBP | 322 | GBP | -- | GBP | -- | GBP | 322 |
| Aggregated by category in accordance with IAS 39: | | | | | | | | | | | |
| Loans and receivables............................ | LaR | GBP | 1,389 | GBP | 1,389 | GBP | -- | GBP | -- | GBP | 1,389 |
| Financial liabilities at amortized cost........ | FLaC | GBP | 322 | GBP | 322 | GBP | -- | GBP | -- | GBP | 322 |

## Note 14 – Amounts owed to related companies

Amounts owed to related companies are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

As of December 31, 2017, Head UK Ltd. recorded payables against group companies of GBP 3.2 million (2016: GBP 2.1 million).

## Note 15 – Average Number of Employees

The average number of persons employed by the company during the year 2017 amounted to 33 (2016: 23).

## Note 16 – Directors’ remuneration

The directors’ remuneration amounted to TGBP 75 and TGBP 108 for the years ended December 31, 2017 and 2016, respectively.

## Note 17 – Operating Lease Commitments

The future aggregate minimum payments under non-cancellable operating leases are as follows as of December 31, 2017 and 2016:

| | | As of December 31, 2017 | | As of December 31, 2016 |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| Not later than 1 year | GBP | 313 | GBP | 34 |
| Later than 1 year and not later than 5 years | | 346 | | 35 |
| Total | GBP | 659 | GBP | 69 |

## Note 18 – Related Party Transactions

For information regarding the key managements' compensation it is referred to Note 16.

## Note 19 – Controlling Party

Head UK Ltd. is a wholly owned subsidiary of Head Group Ltd., a BVI registered entity. The shares of this company are held within a foundation, established in Liechtenstein, controlled by the foundation council, consisting of two board members.

## Note 20 – Subsequent Events

In January 2018, a cross-border merger between Head UK Ltd. and Head Sales B.V. was completed. As a result, Head Sales B.V. ceased to exist. This transaction will increase the net assets of Head UK Ltd..

March 15, 2018

Johan Eliasch
Chief Executive Officer

Ralf Bernhart
Director

## HEAD UK LTD.
## OTHER INFORMATION

*Auditor’s Report*

The report of the auditor, Beever and Struthers, is presented on page 8 of this report.

*Subsequent Events*

For information regarding the subsequent events, it is referred to Note 27 of the consolidated financial statements.

*Appropriation of Result*

The appropriation of results is at the disposal of the Board of Directors.

*Appropriation of Result*

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